

Section 7.—Foreign Exchange

Subsection 1.—Exchange Rates

The Canadian dollar, adopted as Canada's currency in 1857, was equivalent to 15/73 of the pound sterling; in other words, the pound was equal to \$4.866 in Canadian currency at par, and remained so, with minor variations between the import and export gold points representing the cost of shipping gold in either direction, until the outbreak of the First World War. During the first eleven years after Confederation, the Canadian dollar was at a premium in the United States, as the United States dollar was not, after the Civil War, redeemable in gold until 1878. From the latter date, the dollar in the two countries was equivalent at par, and variation was only between the import and export gold points or under \$2 per \$1,000.

At the outbreak of the First World War, both the pound sterling and the Canadian dollar were removed from the gold standard, and fell to a discount in New York. However, this discount was 'pegged' or kept at a moderate percentage by sales of United States securities previously held in the United Kingdom, by borrowing in the United States and, after the United States entered the War, by arrangement with the United States Government. After the War, when the exchanges were 'unpegged' about November, 1920, the British pound went as low as \$3.18 and the Canadian dollar as low as 82 cents in New York. In the course of the next year or two, exchange returned practically to par, and the United Kingdom resumed gold payments in April, 1925, and Canada on July 1, 1926. From then until 1928 the exchanges were within the gold points, but in 1929 the Canadian dollar again fell to a moderate discount in New York. The dislocation of exchange persisted, with the exception of a few months in the latter half of 1930, into 1931. Dollar rates were below the gold export points, however, only for a few scattered intervals.

The 1942 Year Book at pp. 829-830 deals with the pre-war position of Canadian exchange from September, 1931, to the outbreak of war.

At the beginning of the Second World War sterling and Canadian funds, like those of the other initial belligerents, fell to a discount at New York. The pegged official rates remained unchanged throughout the War. On July 5, 1946, the Canadian Government devalued the United States dollar in relation to the Canadian dollar bringing it to parity with the former. A corresponding adjustment was made to sterling, the rate being established at \$4.02 to the pound. This relationship remained unchanged at the beginning of 1948.

Subsection 2.—The Foreign Exchange Control Board*

Wartime controls exercised by the Foreign Exchange Control Board are dealt with at pp. 833-835 of the 1941 Year Book and at pp. 830-833 of the 1942 edition. In March, 1946, the Board published a report covering the main aspects of the operations from September, 1939, to the end of 1945, a summary of which may be found at pp. 981-983 of the 1946 Year Book. In April, 1947, the Board published a report of its operations in 1946, a summary of which may be found at pp. 1044-1047 of the 1947 Year Book. The following paragraphs are based on the Board's report for 1947, published in April, 1948.

* Prepared by R. H. Tarr, Secretary, Foreign Exchange Control Board, Ottawa.