

Section 4.—Foreign Exchange

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 World War I. During the first 11 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 to 1914, 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 World War I, the United Kingdom and Canada suspended the gold standard, and their currencies fell to a discount at 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', the British pound went as low as \$3.18 and the Canadian dollar as low as 82 cents at 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 as did Canada on July 1, 1926. Until 1928, the exchanges were within the gold points but in 1929 the Canadian dollar again fell to a moderate discount at 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. Immediately on the outbreak of World War II in September 1939, the United Kingdom and other sterling countries introduced foreign exchange control, involving fixed buying and selling rates which were \$4.02½ and \$4.03½, respectively, in terms of the U.S. dollar. Meanwhile, the Canadian dollar declined gradually until Sept. 16, 1939, when the Government established the Foreign Exchange Control Board.* Fixed buying and selling rates were provided for United States funds and sterling at the outset, being \$1.10 and \$1.11, and \$4.43 and \$4.47, respectively. The former rates fixed the value of the Canadian dollar at 90.09 cents to 90.91 cents in terms of the U.S. dollar; this was approximately the market rate to which the Canadian dollar had fallen just prior to exchange control and, in terms of devaluation, represented a level midway between the U.S. dollar and sterling.

Apart from a minor adjustment on Oct. 15, 1945, when selling rates for U.S. dollars and sterling were lowered to \$1.10½ and \$4.45, respectively, the Foreign Exchange Control Board's official rates remained unaltered until July 5, 1946. At this time, the rate on the U.S. dollar was restored to par with buying and selling rates for U.S. dollars at \$1.00 and \$1.00½ and sterling, \$4.02 and \$4.04. These rates continued in effect until Sept. 19, 1949, when, following a 30.5 p.c. reduction by the United Kingdom in the value of sterling to \$2.80 U.S. (which action was paralleled in varying degrees by numerous other currencies), Canada returned to the former official rates of \$1.10 and \$1.10½ for United States funds; sterling was quoted at new rates of \$3.07¼ and \$3.08¼, based on the New York cross rate.

* The operations of the Foreign Exchange Control Board from the time of its establishment to the termination of exchange control in December 1951 are reviewed in previous editions of the Year Book.