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REVIEW OF FOREIGN DEVELOPMENTS

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Appreciation of the Swedish Krona

R.W.B.

On July 12, one week after the precedent set by Canada, the Swedish Riksbank lowered its official selling price for the United States dollar from 4.20 to 3.60 kronor, and for the pound sterling from 16.95 to 14.50 kronor, or approximately 14 per cent in each case. The article which follows, entitled "Will Sweden Raise the Exchange Value of the Krona?", was prepared in advance of the announcement and so could not give consideration to the actual rates established.

The Riksbank's right of note issue, which is partly determined by the market value of the Bank's gold stock, will be reduced from 3,162 million to 2,877 million kronor, on the basis of June 15 figures.1/ Actual note circulation on that date was only 2,345 million, and the average annual increase since 1939 has been about 200 million kronor. The Bank's gold reserves remain sufficient, therefore, to meet the legal requirements. But whereas the amount of gold legally available for international transactions was previously 817 million kronor (about 195 million dollars at the old rate), it has now been reduced to 532 million kronor (about 148 million dollars at the new rate), again on the basis of June 15 figures.

The demand for Sweden's exports is today fairly inelastic, and any balance-of-payments difficulties occasioned by the new exchange rate are more likely to fall on countries like Britain and Norway, which require Swedish goods, than on Sweden herself. Britain and Norway have borrowed heavily from both Canada and Sweden, and repayment will now be more difficult. It should be noted also that many of the commodities exported by Sweden are also exported by Canada (particularly woodpulp and paper), and together they will probably force up world prices for such products.

1/ Although the right of note issue is based partly on the market value of the Bank's gold, the new market price will not necessarily affect the rate at which gold is valued on the Bank's balance sheet, which prior to July 12 was little more than half its market value.

Will Sweden Raise the Exchange Value of the Krona?

Robert W. Bean

Several days prior to the Canadian announcement, rumors circulated in Stockholm that the exchange value of the krona would be raised on July 1, the day after the demise of OPA. That the rumors did not materialize may have been because they were unwarranted, or it may have been because of the continued uncertainty as to the future of price control in this country. Large forward sales of dollars to the Swedish Riksbank caused the Bank on July 10 temporarily to cease buying all foreign currencies, and this, following upon Canada's action, has strengthened expectations that the Riksbank will soon lower its price for dollars. Although the case for appreciation of the krona is less strong than was the case for appreciation of the Canadian dollar, ample reason might be found if United States prices and wages spiral upward.

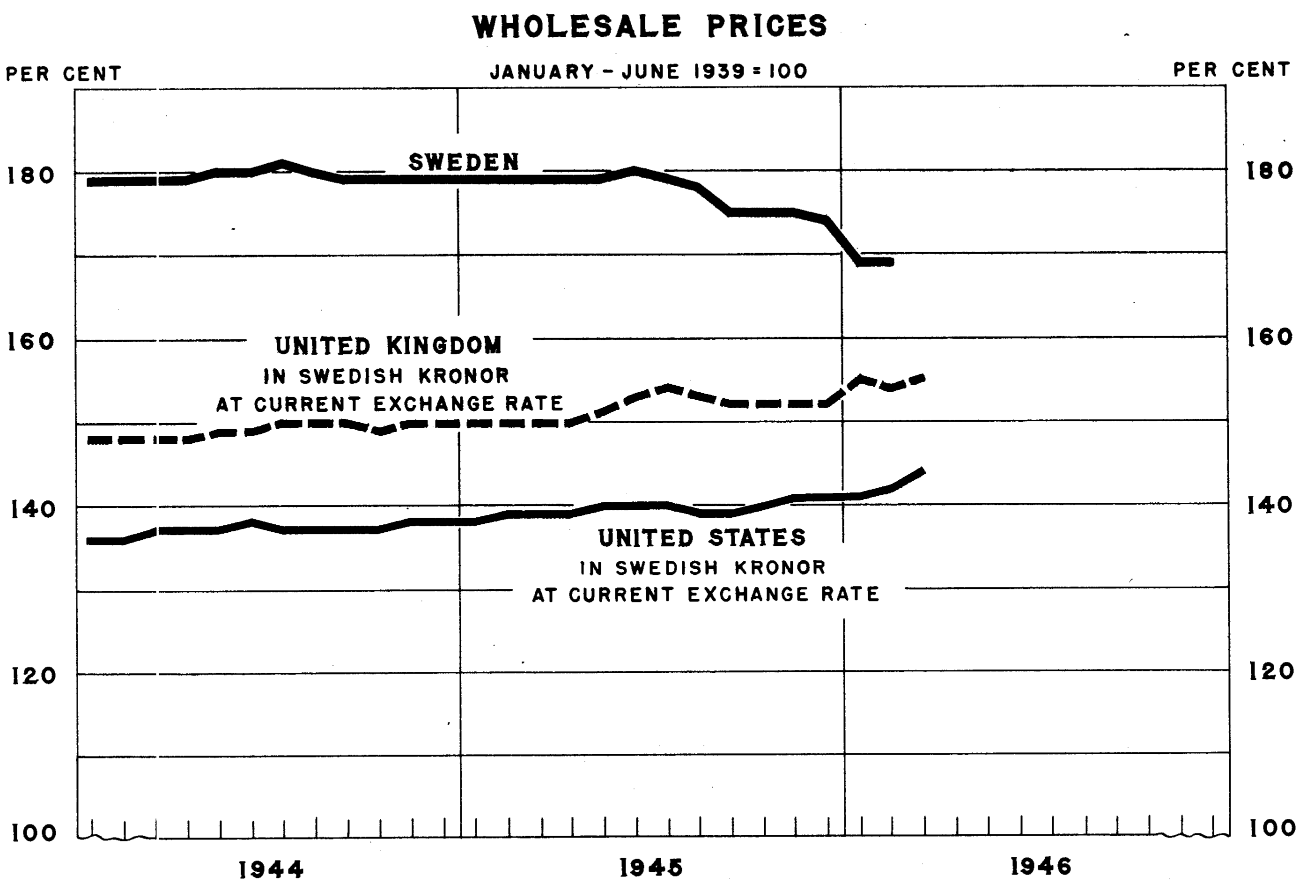
Sweden's balance-of-payments position is strong. Although still a net-importing country--only during the second half of 1945 did exports exceed imports--the trade deficit is easily met by returns on investments and shipping receipts, which also provide a surplus for financing a large portion of exports on credit. This is not a temporary condition. Swedish industry is thoroughly modern, and greater production and greater exports wait chiefly on the arrival of adequate coal supplies. Appreciation of the exchange value of the krona would therefore not cause balance-of-payment difficulties. It would, for a time at least, lower the cost to Swedish importers of goods from the United States.

Like Canada, Sweden is an important international lender. Exchange appreciation of her currency would mean that debtor countries would have to provide a greater volume of goods and services to repay their debts. Prospective borrowers would have to borrow more than originally planned in order to secure the same volume of goods and services from Sweden. Conceivably, Sweden has found that she has already lent abroad too great a portion of her national income (about one-seventh) in view of the continued shortage of raw materials and fuel supplies, and may wish to reduce the effects by discouraging exports. But having negotiated certain lending agreements at the current rate of exchange, the presumption is that she is willing to provide the quantity of exports involved. Thus, the recent agreement with Britain, which provides that Sweden will consent to hold up to an additional 15 million pounds sterling during the year ending April 30, 1947, also provides that this amount may be increased to 16 million should the market turn more in Sweden's favor. This provision would appear to include either a rise of prices for Swedish goods in Britain or an appreciation of the exchange value of the krona. There is nothing in the basic agreement (which was drawn up in 1945 to run for five years) which prevents Sweden from altering the exchange rate. Although the rate is fixed by the agreement, it may be changed by either party provided the other is given "as much notice as may be practicable". If Sweden were to make such a change, quite possibly the provision for increased acceptance of sterling would be invoked, or an even larger amount be arranged by re-negotiation.

Sweden's largest debtor is Norway. Substantial appreciation of the krona would add considerably to Norway's foreign-exchange difficulties, and might give Norway also cause to raise the value of her currency. But Norway's balance-of-payments position is less favorable than Sweden's, and it is doubtful that she would be able to take the loss in dollar revenues, particularly in shipping receipts. To the extent that the adjustment only compensated for, and did not anticipate, a rise in United States prices, Norway too might benefit by a cheaper rate for dollars.

Sweden's principal object in changing the rate would be to counteract the influence of higher United States prices on her own internal economy. At present, indexes show a greater increase in Swedish than in United States wholesale prices since the first half of 1939. But 1939 was probably not a period of equilibrium, and it has been suggested that the general level of costs in the United States in that year was already 10 to 20 per cent too high compared with European countries.1/ This would mean that indexes based on that period exaggerate the present disparity between United States and European prices. The extent of this disparity, as indicated by percentage increases since the first half of 1939, is shown in the chart, which takes account of exchange-rate alterations since that period. Taken by itself, the chart suggests that the Swedish krona is presently overvalued in dollars.

1/ Dr. Per Jacobsson, Economic Adviser of the Bank for International Settlements, in Skandinaviska Banken Quarterly Review, April 1946.



But, for the reasons already indicated, and because of the direction of the movement of prices in the United States, the apparent price disparity has little significance. The chart does suggest, however, that Sweden is unlikely to raise the value of the krona before substantial price rises in the United States have occurred or appear inevitable.

The krona is presently valued in dollars at 0.23852, or approximately one per cent less than during the first half of 1939. The current krona-sterling rate is Kr. 16.95 per pound, which represents an increased value for the krona in sterling of about 13 per cent relative to the first half of 1939.

Currency and Banking in Austria

J. Herbert Furth

Recent confidential reports of the Austrian financial authorities permit for the first time since liberation an accurate survey of the country's current monetary situation. In March 1946, the conversion of reichsmarks and large Allied military notes into Austrian schilling bank notes[1] was completed by the exchange of German notes of small denomination. A sum of 7,661 million reichsmarks and 999 million military schillings was deposited, making a total currency circulation before conversion equal to 8,660 million schillings. According to Austrian estimates, about 3,000 million reichsmarks out of that sum had not been in circulation in Austria at the time of liberation, but were smuggled in under the Allied occupation. At the time of the German annexation (March 1938), currency circulation was approximately 1,100 million schillings.

On April 30, 1946, the circulation of new Austrian bank notes totaled 4,287 million schillings; to that amount should be added 170 million of subsidiary currency in Allied military notes, to be exchanged for coins in the near future. Of the new bank notes, an amount of 1,980 million was issued to the Allied authorities, and 2,307 million to the native population. The number of occupation troops has been estimated at about 200,000, while the population numbers about 7 million; the average currency holding is therefore about 10,000 schillings per Allied soldier, and about 330 schillings per head of the native population. Since the beginning of March, total circulation, and especially the amount issued to the Allied authorities, has remained virtually unchanged, thanks to the insistence of the United States representative on the Allied Commission in Vienna upon a reduction in the Russian demands for Austrian currency.

Deposits with the Austrian National Bank amounted to 7,611 million schillings, of which 3,432 million was blocked. Virtually the entire amount consisted of deposits of other credit institutions and Government agencies. Deposits with commercial banks, savings banks, private bankers, and mortgage banks (excluding interbank deposits) amounted to 4,383 million in checking and 6,524 million in savings deposits.

1/ See Review of Foreign Developments, January 1, 1946, p. 3.

Estimates of deposits with the postal checking service and credit co-operatives increased the total to approximately 5,700 million of checking and 9,300 million of savings deposits. Approximately 45 per cent of the checking accounts and 60 per cent of the savings accounts were blocked. These figures compare with about 1,000 million of checking and 3,000 million of savings deposits before the annexation. Total means of payment (currency and free checking deposits) increased between the beginning of 1938 and April 1936 from approximately 2,100 million to approximately 7,400 million schillings; in terms of United States dollars, however, the expansion is from an equivalent of 400 million dollars to an equivalent of 740 million dollars.

All banks are troubled by the problem of their claims against German debtors, including their holdings of German Government bonds. Commercial banks have such claims totaling 2,151 million schillings out of total assets of 6,394 million; savings banks 3,270 million out of total assets of 7,890 million; private bankers 33 million out of total assets of 264 million; mortgage banks 298 million out of a total of 1,215 million; and credit cooperatives 713 million out of a total of 2,856 million schillings. Altogether, such claims amount to 6,465 million or more than 30 per cent of all assets of these credit institutions, totaling 18,615 million schillings. Moreover, virtually all assets of the Austrian National Bank and the postal savings and checking service probably fall into this category. Since many credit institutions have large balances with other credit institutions which in turn have claims against German debtors, the total impact of the problem on non-bank depositors is even greater than the figures indicate. It may be solved either by invalidating 80 per cent of all blocked deposits--an amount approximately equal to that of the claims in question--or by the Austrian Government taking over the claims, or by a combination of these two methods. The problem is closely related to that of the treatment of Austrian reparation and restitution claims against Germany, and no solution is to be expected before that larger question is settled.

The Automatic Fund Again

Alice Bourneuf

Ever since the early discussions based on the original Keynes and White plans, one of the main issues between the American and British experts has been the extent to which the international monetary organization should operate in an automatic rather than a discretionary fashion. Although the original Keynes plan contained certain limitations on the use to be made of the Clearing Union and specific provisions under which use of more than 50 per cent of a member's quota depended on the acceptance of certain recommendations of the international organization, the British have consistently favored "automatic" operation of the Fund, on the ground that the quotas and total resources of the Fund are very much smaller than the quotas and total resources of the proposed Clearing Union. The British believe member countries should be assured that they can use their full quotas without interference by the Fund except in very extreme cases.

The compromise provisions of the Joint Statement of April 1944 were agreed on after long hours of discussion between the Americans and the British and were incorporated almost without change in the Articles of Agreement of the International Monetary Fund as drawn up at Bretton Woods. Since Bretton Woods the issue of the automatic versus the non-automatic fund has become a matter of great public concern, especially in the United States. The Fund Agreement probably would not have been accepted by Congress without the assurance of administration experts that the Fund would not work in an automatic manner, that it could continuously exercise discretion and refuse access to the resources of the Fund for certain purposes. At Savannah the issue of the automatic versus the non-automatic fund was behind the whole controversy on whether the Executive Directors should be full-time or part-time. The American position that the Directors should be full-time was based fundamentally on the idea that the Directors would be constantly watching monetary and economic developments in member countries and constantly supervising the use made of the Fund by member countries. The compromise reached was essentially a victory for the American position since it was decided that the Fund should have a full-time Board of Directors. Although neither the Directors nor the Alternates need be full-time, either the Director or the Alternate must be readily available at all times at the main office of the Fund.

The issue of the automatic or non-automatic Fund undoubtedly will continue to be of major importance. The Fund is expected to begin exchange operations around the end of 1946 and the Directors must agree on procedures and operating rules before that time. Probably a series of operating rules and procedural regulations will be submitted to the Board of Governors of the Fund at its next meeting in September. One of the most important questions to be settled is the procedure to be followed when a member requests the Fund to provide it with foreign currencies in exchange for its own currency. The degree of automatism in the Fund's operations will clearly be reflected in the procedures adopted.

The British may be expected to take the position that each request should be referred immediately to an operating division of the Fund and that the foreign currencies requested will be turned over to the member country unless the Fund has previously declared the country ineligible to use the Fund. In other words, the British may well argue that the only paragraph in the Agreement under which the Fund can refuse a request for foreign currencies is paragraph (iv) of Article V, Section 3. This paragraph refers to four sections of the Agreement under which the Fund may declare a country ineligible to use the Fund. These sections say the Fund may declare a member ineligible if the member has made an unauthorized change in its exchange rate, if it has failed to fulfill any of its obligations under the Agreement, if it is and has been using the Fund to meet a large or sustained outflow of capital, or if it has been using the Fund's resources "in a manner contrary to the purposes of the Fund." In the last two cases a member must be warned ahead of time and requested to alter its ways before it may be declared ineligible. In these four situations, then, either there have been serious breaches of obligations or continued misuse of the Fund after the Fund's position on the matter has been made clear to the member. All four are therefore cases of rather drastic disciplinary action by the Fund.

The Americans, on the other hand, may be expected to stress paragraph (i) of Article V, Section 3, which says that a member wishing to purchase a foreign currency must represent that it is presently needed "for making in that currency payments which are consistent with the provisions of this Agreement." In the April 1944 Joint Statement of Principles, the reference was to "the purposes" rather than to "the provisions" of the Agreement. This sentence was the subject of long discussions between the British and American experts and the Americans attached considerable importance to it. There are a number of sections and provisions in the Agreement which refer to what use may be made of the Fund and use in accordance with the purposes of the Fund. The actual statement of purposes refers to use of the Fund by members to provide them with "opportunity to correct maladjustments in their balances of payments." The article on transitional arrangements says the Fund is not intended to finance relief or reconstruction needs or to settle obligations arising out of the war. The article on capital transactions says the Fund is not to be used to finance a large or sustained outflow of capital. The section on initial determination of par values says the Fund may postpone exchange transactions with any member "if its circumstances are such that, in the opinion of the Fund, they would lead to use of the resources of the Fund in a manner contrary to the purposes." The ineligibility provision, Article V, Section 5, also refers to use "in accordance with the purposes of the Fund."

The Americans believe that the reference to the "provisions of the Agreement" in Article V, Section 3 (a)(i), means that all those provisions should be considered when the Fund is deciding whether or not to grant a particular request for foreign currencies. Not only must the member represent that it needs foreign currencies for payments consistent with these provisions, but the Fund must be satisfied that the representation is accurate.

The American position, therefore, presumably will be that each time a member requests foreign currencies that particular request should be studied by the Fund to determine whether it is in accordance with the purposes or provisions of the Fund Agreement. The Americans will undoubtedly argue that any request can be refused if it is not in accordance with the purposes of the Fund, irrespective of whether or not the member has already been using the Fund in a manner contrary to its purposes. Use of the ineligibility clauses requires the Fund to show past misuse of the Fund but it seems only fitting that the Fund should also be in a position to prevent misuse from occurring, irrespective of the past behavior of a member. In the American view instead of immediate referral of each request to some operating division there should be a period of time during which the Fund will decide whether to grant that particular request. And requests could be turned down without written reports and formal declarations of ineligibility.

The importance of the controversy as to whether a member can be refused access under Section 3 (a)(i) rather than under Section 3 (a)(iv) would be less if it were certain that each request for foreign currency would be quite small compared to a member's annual drawing privilege. In this case, even though each individual request was granted more or less automatically, the Fund could prevent substantial abuse of its resources even though it used the time-consuming procedure of the ineligibility provision. But member countries may put in large requests, in rare cases perhaps even for the full amount of their annual drawing privileges. It is much more important, therefore, that the Fund should be in a position to refuse any individual request irrespective of past abuse of the Fund by that member and whether or not the Fund has already gone through the process of declaring the member ineligible.

Whether such requests are small or not, it would seem to augur badly for the success of the Fund if its only discretionary power had to be exercised through issuing a report to a member saying that it has already acted contrary to the purposes of the Fund or failed to live up to its obligations under the Agreement. It would be preferable if the relations between the member and the Fund could be handled in a less formal fashion. If officials of the Fund tell a member informally that a particular request has been refused or is likely to be refused and discuss the whole problem with the member, it should be possible for the Fund and the member to reach a workable understanding of the Fund's policies. The Fund should be able to control the use of its resources by other means than formal accusations of bad faith on the part of a member.

Netherlands "National Budget"

J. Herbert Furth

In June 1945 the Netherlands Government established the Central Planning Bureau as an advisory body charged with submitting proposals for coordination of the country's social, economic, and financial policies with particular reference to reconstruction and the promotion of national welfare. In connection with the Government budget for 1946, the Bureau has presented a "National Budget" including estimates of receipts and expenditures of households and enterprises as well as of transactions in the fields of public finance, capital markets, and international economic relations. Although the technique adopted by the Bureau differs fundamentally from that used in the United States, it is possible to reassemble the various data in a form which makes them comparable to the estimates of gross national product, national income, and income payments to individuals, regularly published by the Department of Commerce. A summary of such a regrouping is presented in the following table:

Netherlands National Budget, 1946
(In billions of guilders)

Consumer expenditures	6.2
Personal taxes	1.2
Personal savings	1.2
Payments to individuals	8.6
Minus transfer payments	-1.0
Plus business savings	0.6
National income	8.2
Business taxes	1.3
Depreciation	0.9
Gross national product	10.4

Government expenditures	3.3
Private gross capital formation	2.7
Consumer goods	6.2
Minus net imports	-1.8
Gross national product	10.4

In the period from 1938 to 1946, the estimated national income increased, in terms of Netherlands currency, by 60 per cent from 5.1 billion to 8.2 billion guilders and, in terms of United States currency, by 10 per cent from 2.8 billion to 3.1 billion dollars. In terms of actual purchasing power, however, based upon the wholesale price index for April 1946, the national income declined by 35 per cent from 5.1 billion to 3.3 billion guilders of 1938 purchasing power. As a result, the Netherlands, which was one of the richest countries of the world, is now to be reckoned among the poor ones: the ratio of real per-capita income in the Netherlands to that in the United States decreased from about 75 per cent in 1938 to about 18 per cent in 1946. The decline, resulting from the terrific war damage suffered by the nation, was greater than in any other Western European country: in France, real national income for 1946 has been estimated at only 18 per cent below 1938, and in Belgium, it reached as early as in 1945 a level only 20 per cent below 1938.

For lack of sufficient data, the breakdown of the gross national product cannot be compared with previous years. It may, however, be compared with corresponding estimates for the United States. The absolute figures are very different, but percentage ratios show that taxation and savings, and correspondingly Government expenditures and capital formation, play a far greater role in the Netherlands than in the United States. In spite of the lower national income, consumption represents a far lower fraction of the total. A summary of the comparative breakdown of national product available for domestic use (i.e., gross national product minus net exports, or plus net imports, respectively), gross national product, and income payments to individuals is presented in the following table:

National Income in the Netherlands and
the United States, 1946
(In per cent of totals)

	Netherlands	United States
National Product Available for Domestic Use		
Government expenditures	27.1	20.0
Private capital formation	22.1	11.8
Consumer goods	50.8	68.2
	100.0	100.0
Gross National Product		
Personal and business taxes	24.0	20.5
Personal and business savings	26.0	17.0
All other uses	50.0	62.5
	100.0	100.0
Income Payments to Individuals		
Personal taxes	14.0	10.9
Personal savings	14.0	9.0
Consumption	72.0	80.1
	100.0	100.0

This comparison suggests that the Netherlands is fully aware of the magnitude of its reconstruction tasks, and is resolved to attack them in its traditional spirit of austerity and stubborn determination.

Appreciation of the Canadian Dollar

C. R. Harley

On July 5 the Canadian Government increased the official exchange value of the Canadian dollar by approximately 10 per cent to restore that currency to full parity with the United States dollar for the first time since September 1939. There is ample evidence that the Canadian action was precipitated by the expiration of price control authority in this country. Finance Minister Ilsley, in announcing the action to the Canadian House of Commons, said:

> "Perhaps the greatest threat to the stability of prices in Canada comes from the rise in prices in the United States and, to a lesser extent, in other countries. The present position with respect to the future of price control in the United States is confused and uncertain. Without presuming to forecast what will happen in the legislative sphere, recent developments would seem to suggest that further increases in prices in that country are likely to occur."

Though the appreciation of the Canadian dollar was undoubtedly hastened by the course of events in this country, there is no reason for assuming that the action itself was either hasty or ill-considered. The size of the Canadian reserves of gold and foreign exchange, the degree of success which that country has already attained in reconverting the domestic economy from production for war to production for peace, the excellent record which the Canadian Government has made in maintaining price stability, and the strong position which Canada will occupy in the field of foreign trade, at least for several years, all indicate that the new value of the Canadian dollar can be successfully defended. The action is not, however, devoid of risks. A considerable loss of liquid reserves may be expected, and continued efforts to mitigate internal inflationary pressures will be required. Because of the nature of the Canadian balance of payments which is characterized by current account surpluses with most major trading countries other than the United States and by a substantial deficit with this country, pressure on the new Canadian dollar rate may be expected to arise almost exclusively from transactions with the United States. Emphasis will accordingly be placed on Canadian-American relationships in the following paragraphs.

In the report of the Foreign Exchange Control Board, issued in March of this year, the history of the Canadian exchange position from the beginning of the war in September 1939 to the end of 1945 is recorded in detail. The table on the following page is reproduced from that report.

Canada's Holdings of Gold and United States Dollars
(In millions of United States dollars)

	F.E.C.B. (and Bank of Canada)	Dominion Government	Private 1/	Total
Sept. 15, 1939	238.7	22.4	132	393.1
Dec. 31, 1939	272.8	33.4	98	404.2
Dec. 31, 1940	309.3	20.8	2	332.1
Dec. 31, 1941	164.1	23.5	-	187.6
Dec. 31, 1942	242.9	75.6	-	318.5
Dec. 31, 1943	373.2	76.4	-	649.6
Dec. 31, 1944	800.1	102.1	-	902.2
Dec. 31, 1945	1,275.9	232.1	-	1,508.0

1/ Exclusive of working balances.

The present article is not concerned with detailed analysis of the changes revealed in the foregoing table. It will be sufficient for our purposes to call attention to the fact that the net gain in liquid reserves of 1,115 million dollars is almost matched by an increase in Canadian capital indebtedness to the United States of approximately 1,100 million dollars during the period.1/ Canadian officials have frequently pointed out that for this reason the increase in liquid reserves cannot be regarded as a net gain in the balance sheet position of Canada vis-a-vis the United States, and have in the past cited this fact in denying repeated rumors of pending currency appreciation. Such statements generally implied that withdrawals of United States capital might rapidly deplete Canadian reserves.

While it is true that a portion of the recent inflow of United States capital may have represented a purely speculative movement in anticipation of Canadian currency appreciation, closer examination of the data, together with a study of Canadian exchange control regulations, shows that withdrawal of American capital on a damaging scale is not to be expected. The three principal items composing the 1,100 million dollar increase in Canada's net debtor position with the United States are: Canadian sales of United States and other foreign securities to United States residents - 368 million dollars; United States purchases of Canadian securities - 484 million dollars; and undistributed profits of branches and subsidiaries of American companies in Canada - 230 million dollars.

1/ The Canadian deficit on merchandise account with the United States totaled 1,500 million dollars in the six years 1940-1945. Approximately 500 million dollars of this was met by transfer to the United States of gold and dollars received from the sterling area; Canadian gold production during the period was valued at 865 million dollars and roughly comparable gold sales to the United States may be assumed. The balance of the trade and current services deficit was presumably offset by receipts from dollar sales to non-sterling area countries other than the United States and from heavy United States military expenditures in Canada on the Alaska Highway, the Canal project, etc.

The increase of some 735 million dollars in capital claims of United States residents against Canada is, of course, only a small part of total American investment in Canada; according to the Dominion Bureau of Statistics, total United States direct and portfolio investment in Canada in 1939 was 4,190 million Canadian dollars. However, any withdrawal of capital from pre-war investments is fairly rigidly restricted under regulations of the Foreign Exchange Control Board.[1] The greater part of the war-time increase, on the other hand, can be withdrawn, but only in Canadian currency. Undistributed profits of American subsidiaries can be withdrawn in Canadian dollars while the bulk of United States security holdings acquired between January 1940 and January 1946[2] may be liquidated through sales in Canada and the proceeds withdrawn in Canadian currency. Including registered purchases of stocks and shares in the first half of 1946, it may be estimated that some 600 million dollars of American capital could be promptly withdrawn if the owners so wished. There is, however, little reason to believe that any such substantial withdrawals will be made. Any attempt at hurried conversion of Canadian securities into cash would cause a decline in Canadian quotations while large-scale disposal on the free exchange market in this country of the Canadian currency realized would tend to depress the price received and deprive the seller of the full potential gain which the Canadian appreciation promises. Moreover, unless subsequent depreciation of the Canadian dollar is expected, the American investor's gain as a result of revaluation is as fully "realized" in Canada as it would be after conversion into domestic currency, and dividends payable in Canadian currency (which can be converted into United States dollars at the official rate) will yield an additional 10 per cent to American holders as a result of the appreciation.

Since capital withdrawals can only be made in Canadian currency, repatriation of capital by United States residents would not involve depletion of official Canadian reserves; such withdrawals would rather be reflected in weakness of Canadian currency on the free exchange market in New York. Defense of the new official rate will accordingly depend primarily upon developments in the Canadian gold mining industry and on the structure of Canada's balance of payments on current account.

The immediate effect of appreciation on gold mining activity in the Dominion is the reduction in the government's buying price for gold from 38.50 Canadian dollars to 35.00 Canadian dollars per ounce.[3]

1/ Exchange control operations were conducted during the war under the War Measures Act. In December 1945, the National Emergency Transitional Powers Act, 1945, authorized the continuance of exchange controls (and other war-time measures) subject to legislative veto of executive regulations promulgated subsequently. On June 17, 1946, the Canadian Government introduced Bill #195 to make statutory provision for continued peace-time application of exchange controls.

2/ United States residents purchasing securities outright between those dates were permitted to register the transaction with the F.E.C.B. and subsequent sale of such securities to Canadian residents was permitted. Since January 1946, this privilege has not been granted for purchases of Canadian bonds and debentures (as distinct from stocks and shares). Approximately 390 million dollars worth of securities purchased during the war and held at the end of 1945 were "registered."

3/ A sharp reaction in the market for gold mining shares in Canada as early as July 4 suggests that the prospect of Canadian appreciation may have been foreseen following the discontinuance of price control authority in this country.

A sharp cut in gold mining profits will, of course, result if no offsetting action is taken by the government and alarmist reports have emanated from Canada regarding the curtailment of production which will result from the closing of high-cost mines. Attention is called to the steady decline in gold production from a value of 187 million dollars in 1941 to 93 million dollars in 1945 without mention of the fact that accumulated shortages of equipment and labor and governmental curtailment of new mining ventures during the war were far more responsible for this trend than was any lack of profitability. In fact the trend of production in the last six months has turned upward. Before the recent appreciation, Canadian papers carried frequent reports of new mining ventures based upon ore discoveries during the period of forced curtailment of operations. Early in the present year, moreover, the government removed sales taxes varying from 4-1/2 to 8 per cent on equipment for shaft-sinking, drifting, and milling,--taxes which had existed since before the war. Since a large share of Canadian mining machinery is imported from this country, the recent removal of the 10 per cent premium on the United States dollar will make possible a further reduction in costs on the assumption that prices here do not rise to a comparable extent.

As will be clear from a discussion of the pattern of Canada's balance of trade in the near future, however, the Canadian Government will be interested not only in maintaining but also in expanding gold production. No forecast of the degree to which the government may assist the industry will be attempted, but the following suggestions presented by a member of the Canadian Senate in October show that assistance might be granted in a number of ways. The member proposed: 1) that the excess profits tax (then at 60 per cent) be cancelled; 2) that the corporation tax on gold mining ventures be reduced to the pre-war rate of 20 per cent; 3) that depletion allowances be increased from the existing 30 per cent to 50 per cent; 4) that mint charges for gold refining be reduced from the 35 cents per ounce charged by the Canadian Government to somewhere near the 13 cents per ounce charge which he quoted for the United States; and 5) that the former three-year exemption from income taxes be restored to new mining ventures.

Dependence of the Canadian economy upon gold for balancing its international accounts will be particularly great in the next several years during which a substantial portion of Canada's export excess with countries other than the United States will be financed by Canadian foreign lending and accordingly will not result in the acquisition of gold or foreign exchange for use in meeting the large deficit on current account which characterizes Canadian trade with this country. In addition to the loan of 1,250 million dollars to the United Kingdom, the Canadian Government has made loans (or committed itself to lend) some 645 million dollars to non-Empire nations.

Although Canadian exports have declined sharply from the high point reached in 1944 when shipments for the year totaled more than 3.4 billion dollars, trade data for the first four months of 1946 reveal that exports are currently moving at an annual rate of nearly 2.1 billion dollars. On the basis of the same four months, the annual rate of imports is about 1.7 billion dollars and the indicated favorable balance for the year is around 400 million dollars. A similar rough projection of the present level of trade between Canada and the United States, however, indicates an import balance for the former of about the same amount, or 400 million dollars. But whereas the import balance in trade with the United States must be met by gold and dollar payments, the indicated export balance of some 800 million dollars with other countries will provide only a moderate income in gold and foreign exchange in view of the credits granted by Canada. Although these projections are extremely crude and ignore various service transactions which will affect the Canadian balance of payments, it is clear that Canada's gold and dollar balances may be drawn upon to a considerable extent to pay for excess purchases in the United States.

Since appreciation of their currency will lower the price of American and other foreign products to Canadian purchasers, it is possible that Canadian imports may rise above the present high level. To the extent that an increase in imports represents acceptance of goods from countries now utilizing Canadian credit, both the additional imports and the easing of foreign requirements for Canadian loans would doubtless be welcomed and no defensive action on the part of the authorities would be expected. Should imports from the United States increase sharply, however,--as might happen if price controls are successfully reimposed in this country--the Canadian Government might feel called upon to institute or reimpose direct trade or exchange controls which would curtail purchases from or expenditures in the United States.1/ Such action, however, would be damaging to existing efforts to restore greater freedom of multilateral trade and would be taken only as a last resort by Canadian officials.

Appreciation also means that Canadian products will cost more in foreign currencies than formerly. Canadian exports will not be seriously affected by this development for several reasons. In so far as exports are financed by Canadian loans, the physical volume of goods which foreign purchasers will be able to obtain with a given credit will not be changed. Theoretically future repayment will require the debtor to furnish a greater volume of goods and services than he would have had to supply if the rate had remained unchanged, but this will be a weak deterrent for purchasers in view of the fact that subsequent shifts in price and exchange relationships may alter the picture again before repayment takes place. Secondly, the existence of world shortages gives assurance that international demand for Canadian foodstuffs, raw materials, metals, and finished manufactures will not be appreciably diminished by the moderate price increase involved in the revaluation of the Canadian dollar. Thirdly, the Canadian wholesale price level converted into foreign currencies at the newly established rate is probably no higher than that of any other country supplying similar products. A comparison

1/ Measures which Canada used during the war to conserve United States dollars included the War Exchange Conservation Act which prohibited certain civilian imports, a 10 per cent War Exchange Tax on a second large group of commodities, and restrictions on the amount of currency Canadians could acquire for travel in the United States. These restrictions have since been withdrawn.

of official wholesale price indexes for Canada, the United States, and the United Kingdom is shown below:

Wholesale Price Indexes
(Jan.-June 1939 = 100)

	Canada	United States	United Kingdom
1942	130	129	164
1943	136	135	167
1944	140	136	171
1945	141	139	174
March 1946	143	143	177

Inflationary pressures continue to exist in all nations, but relative stability for the Canadian price level appears assured in view of the excellent past record of the country's control efforts and the moderate deflationary effect which may be expected from the recent appreciation.

All of the evidence indicates that the Canadian action was well justified and well-timed. Such risks as are involved are the result of a generous international lending policy through which Canada hopes to ease not only its own transition from war to peace but that of its traditional trading partners as well. The improvement in Canada's terms of trade is deserved and both Canadian prestige and Canadian-United States' convenience is served by the restored parity between the dollars of the two countries.