

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Canada's Financial System in War

Volume Author/Editor: Benjamin H. Higgins

Volume Publisher: UMI

Volume ISBN: 0-87014-334-4

Volume URL: <http://www.nber.org/books/higg44-1>

Publication Date: 1944

Chapter Title: Introductory pages to "Canada's Financial System in War", including preface by Ralph A. Young

Chapter Author: Benjamin H. Higgins

Chapter URL: <http://www.nber.org/chapters/c0656>

Chapter pages in book: (p. -5 - 0)

# Canada's Financial System in War

BENJAMIN H. HIGGINS

*OUR ECONOMY IN WAR*

Occasional Paper 19: April 1944

FINANCIAL RESEARCH PROGRAM

NATIONAL BUREAU OF ECONOMIC RESEARCH

1819 Broadway, New York 23, N. Y.

COPYRIGHT, 1944 BY NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

1819 BROADWAY, NEW YORK, N. Y. - ALL RIGHTS RESERVED

MANUFACTURED IN THE UNITED STATES OF AMERICA BY  
THE JOHN B. WATKINS COMPANY, NEW YORK

## Preface

THE CLOSE RELATIONSHIP between the Canadian and American economies makes a study of Canada's financial system in war particularly timely. Against a background of wartime industrial and price controls, and fiscal policy, the study shows how Canada has mobilized its financial system for war. The wartime functioning of different financial institutions is described, and the effects of war finance measures on such institutions are traced. Finally, Canadian war financing methods in the two World Wars are compared, and the lessons relevant to war finance and postwar reconstruction problems are suggested.

An adequate history of wartime financial developments cannot be prepared until some years after the war is won. Organization and presentation of available facts at this time can nevertheless serve a useful purpose; the problems growing out of wartime finance need thoughtful study now if intelligent policies are to be formulated to deal with them.

This study by Dr. Benjamin H. Higgins is one of a series published under the Financial Research Program's War Financing Project. Research in this area is made possible by grants from the Association of Reserve City Bankers and private foundations. None of these supporting sources is to be understood as approving, by virtue of its grant, any observations made or conclusions reached by the author.

Dr. Higgins is obligated to many readers of the preliminary draft for constructive criticism and suggestion. His debt is especially great to the various Canadian and American government officials who have provided him with materials and discussed their implications. Readers in the financial community have also been generous in their help. Responsibility for use of materials and suggestions from these sources is necessarily the author's own.

Dr. Higgins is Bronfman Professor of Economics at McGill University and a member of the National Bureau's Financial Research Staff. The study was edited by Donald Dunham, and guided through the press by Renée S. Courtney. The charts were drawn by Helen Morphy.

RALPH A. YOUNG  
*Director, Financial Research Program*

April 1944.

## Contents

THE FINANCIAL SYSTEM AND THE WAR — A GENERAL STATEMENT	1
<i>Canada Mobilizes Its Financial System</i>	4
<i>War Expenditures</i>	6
<i>Taxation</i>	8
<i>Control of Prices and Production</i>	14
WARTIME FUNCTIONING OF THE FINANCIAL SYSTEM	19
<i>The Department of Finance</i>	19
<i>The National War Finance Committee</i>	25
<i>Bank of Canada</i>	28
<i>Foreign Exchange Control Board</i>	31
<i>The Chartered Banks</i>	35
<i>Role of Life Insurance Companies</i>	39
<i>Role of Other Business Concerns</i>	41
<i>Individuals</i>	42
<i>Government Accounts</i>	43
<i>Summary</i>	43
EFFECTS OF WAR FINANCING ON THE FINANCIAL SYSTEM	45
<i>On the Bank of Canada</i>	45
<i>On the Chartered Banks</i>	47
<i>On the Supply of Money</i>	51
<i>On Business</i>	53
<i>On Life Insurance Companies</i>	56
<i>On Retail Finance Companies</i>	60
<i>On Provincial and Municipal Governments</i>	61
LESSONS OF CANADIAN FINANCE IN TWO WORLD WARS	63
<i>The Financial System in World War I</i>	64
<i>Lessons for War Finance</i>	67
<i>Lessons for Postwar Reconstruction</i>	75
GENERAL CONCLUSIONS	79

## Tables

1. CANADIAN WAR FINANCE, 1939-43	5
2. GOVERNMENT REVENUES OF CANADA AND THE UNITED STATES, 1939-44	9
3. GOVERNMENT LOANS TO WAR INDUSTRY TO DECEMBER 31, 1942	20
4. BORROWING OPERATIONS OF THE CANADIAN GOVERNMENT, WAR YEARS 1940-43	21
5. SIZE AND FEATURES OF CANADIAN WAR LOANS	23
6. EFFECT OF CENTRAL BANK POLICY ON CHARTERED BANK RESERVES, WAR YEARS 1940-43	29
7. FINANCING OF STERLING AREA'S DEFICIENCY OF CANADIAN DOLLARS TO AUGUST 31, 1943	33
8. CAPITAL IMPORTS AND BORROWING OF FOREIGN EXCHANGE CONTROL BOARD, WAR YEARS 1940-43	34
9. CHANGES IN PRINCIPAL ASSETS OF CHARTERED BANKS, WAR YEARS 1940-43	35
10. INCREASES IN CANADIAN GOVERNMENT DEBT (PAYABLE IN CANADA) AND BANK HOLDINGS OF GOVERNMENT SECURITIES, WAR YEARS 1940-43	36
11. ESTIMATED RESALES OF GOVERNMENT OBLIGATIONS PURCHASED BY THE PUBLIC TO THE BANKING SYSTEM, WAR YEARS 1940-43	37
12. RECEIPTS AND SUBSCRIPTIONS OF LIFE INSURANCE COMPANIES TO WAR LOANS, 1939-42	40
13. PERCENTAGE DISTRIBUTION OF CASH SUBSCRIPTIONS OF VARIOUS GROUPS TO VICTORY LOANS	44
14. PRINCIPAL BALANCE SHEET ITEMS OF THE BANK OF CANADA, AUGUST 31, 1939 and 1943	45

15. CLASSIFICATION OF CHARTERED BANK LOANS, OCTOBER 21, 1938-42	47
16. NUMBER OF ACCOUNTS AND AMOUNT OF DEPOSITS OF CHARTERED BANKS, OCTOBER 31, 1939 AND 1943	49
17. PROFITS OF CHARTERED BANKS, 1939-42	50
18. PROFIT STATISTICS FOR 628 CANADIAN COMPANIES, 1936-42	55
19. SELECTED CURRENT ITEMS FOR 135 CANADIAN INDUSTRIAL COMPANIES	56
20. PORTFOLIOS OF CANADIAN LIFE INSURANCE COMPANIES, 1939 AND 1942	57
21. EARNINGS AND ASSETS OF CANADIAN LIFE INSURANCE COMPANIES, 1937 AND 1939-42	58
22. DEVELOPMENT OF CONSUMER CREDIT, 1941-43	60
23. PROVINCIAL AND MUNICIPAL FINANCE	61

## Charts

1. CANADIAN COST OF LIVING RISES LESS IN WAR II	3
2. TAXES TAKE INCREASING SHARE OF CANADIAN INCOMES	11
3. IN MIDDLE BRACKETS, CANADIAN TAX RATES ARE HIGHEST	12
4. YIELDS FALLING ON SHORT- AND LONG-TERMS, RISING ON MEDIUM-TERMS	25
5. CANADIAN MONEY SUPPLY RISES 77%, AMERICAN 104%	52