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By the end of the fourth year of war Canada had organized her economy so that half her gross national product was being devoted to the war effort. This accomplishment was implemented half by borrowing from institutions and individuals and half by taxing them, and has had ramifications throughout the nation's entire financial system. As a result of this change from the normal procedures of peacetime, the economic position of institutions and individuals has been profoundly altered. Some effects of these changes are already discernible after four years of war, and they suggest emerging financial problems, although it is too early to state what the ultimate effects will be.

On the Bank of Canada

The most pronounced effect of the war on the Bank of Canada has been its rapid growth — in assets and liabilities, personnel, and responsibilities. On the asset side, increased holdings of government securities dominate the picture; they have grown from 38 percent to 95 percent of total central bank assets as a consequence of the sale of gold and foreign exchange to the FECB and of the acquisition of government securities in the open market. On the liability side, the biggest increase has been in notes in circulation. The chief development of the balance sheet items is shown in Table 14.

Chartered bank deposits with the Bank of Canada have fluctuated

TABLE 14 — PRINCIPAL BALANCE SHEET ITEMS OF THE BANK OF CANADA, AUGUST 31, 1939 AND 1943
(dollar figures in millions)

Item	*August 31, 1939* Amount	*August 31, 1939* % Distribution	*August 31, 1943* Amount	*August 31, 1943* % Distribution	*Change* Amount	*Change* Percent
Reserves	$263	60.7%	$38	3.2%	$ − 225	− 86%
Dominion-Provincial securities	163	37.6	1,140	94.5	977	599
TOTAL ASSETS	433		1,206		773	179
Notes in circulation	180	41.6	797	66.1	617	343
Government deposits	31	7.2	60	5.3	29	94
Chartered bank deposits	201	46.4	309	25.6	108	54

Source: Bank of Canada, *Monthly Statements* (August 31, 1939 and 1943).

between $195 million and $315 million, with a rising trend over the war period. Both the fluctuations and the general increase result from the central bank policy of assisting chartered banks to meet varying demands for credit, without disturbing the customary reserve ratio. Increases in these deposits usually reflect bank subscriptions to special war issues, or seasonal increases in the demand for agricultural credit. Government deposits with the Bank of Canada have fluctuated between $25 million and $243 million, but in the main they have exceeded $60 million only for short periods immediately following the sale of new issues of government obligations.

The staff of the Bank has more than trebled during the war. This expansion reflects the growing responsibilities of the Bank, and is accounted for mainly by the Bank's assistance in issuing and servicing war bonds.

Exchange control makes decisions concerning rediscount and open market policy somewhat less dependent on short-term movements in the balance of payments than they were under the gold standard, and regulation of foreign exchange transactions is not likely to be abandoned as soon as the war is over. The administrative advantages of separating foreign exchange control from other aspects of central bank operations have been clearly demonstrated by wartime experience, and it seems highly probable that the present division of functions between the Bank of Canada and the Foreign Exchange Control Board will continue after the war.

In the Speech from the Throne opening the 1944 Session of Parliament, the Prime Minister foreshadowed another new task for the Bank of Canada as a result of wartime developments. The government feels that reconversion of war plants and expansion of small and medium-size enterprises will require "new credit facilities for both fixed and working capital" in the postwar period. Accordingly, it proposes to set up an Industrial Development Bank, as a subsidiary of the Bank of Canada. The proposed new Bank will have capital of $25 million subscribed by the Bank of Canada, and power to borrow $75 million more. It will make loans only to concerns unable to obtain adequate funds from the chartered banks or other sources, but unlike the American Reconstruction Finance Corporation, it will not attempt to rescue firms in distress. Its policies will be guided by a board of fifteen, with the Governor of the Bank of Canada as president.

On the Chartered Banks

In the balance sheets of chartered banks, holdings of government bonds have increased on the one side and deposits on the other. Government securities have grown from 33 to 46 percent of total assets, while Canadian loans have fallen from 28 to 22 percent of the total.

The course of bank lending in Canada has not been uniform for all types of borrowers, as Table 15 shows. It is particularly interesting to note that despite the heavy borrowing by the government, loans to individuals against securities, far from increasing, have actually fallen. Dull stock markets have led to a reduced volume of other types of financial loans, while improved tax collections and relatively stable expenditures have diminished the dependence of provincial and municipal governments upon the banks. Merchandising loans rose considerably up to 1941, but in 1942 limitations

TABLE 15 — CLASSIFICATION OF CHARTERED BANK LOANS, OCTOBER 21, 1938-42
(dollar figures in millions)

Year	*All Loans*	*Prov. and Local Gov'ts*	*Agriculture*	*Financial* Against Securities	*Financial* Other	*Manufacturers*	*Merchandising*	*Construction*
				DOLLAR VOLUME				
1938	$1,059	$137	$149	$121	$129	$214	$134	$39
1939	1,144	131	268	109	111	193	134	46
1940	1,185	114	289	102	105	244	139	52
1941	1,275	87	340	108	106	289	156	50
1942	1,106	71	340	84	64	256	123	49
1943	1,078	53	296	100	67	303	100	45
				PERCENTAGE DISTRIBUTION				
1938	100%	12.9%	14.1%	11.4%	12.2%	20.2%	12.7%	3.7%
1939	100	11.5	23.4	9.5	9.7	16.9	11.7	4.0
1940	100	9.6	24.4	8.6	8.9	20.6	11.7	4.4
1941	100	6.8	26.7	8.5	8.3	22.7	12.2	3.9
1942	100	6.4	30.7	7.6	5.8	23.1	11.1	4.4
1943	100	4.9	27.5	9.3	6.2	28.1	9.3	4.2

Source: Bank of Canada, *Statistical Summary* (December 1942-January 1943 and December 1943-January 1944).

on consumption reduced them below their prewar level. During the early part of the war, plant construction raised the demand for construction loans, and during the last three years shown, these, too, began to contract. Manufacturing shows some increase in borrowing, especially in 1940 and 1943.

By far the biggest increase has been in agricultural credit. This development comes almost entirely from the increase in wheat carryover, which rose from 103 million bushels on August 1, 1939 to 424 million bushels on August 1, 1942 and 601 million bushels on August 1, 1943, and then fell to 355 million by the end of the year. However, the facts that many agricultural products do not come under the ceiling and that agricultural prices have risen more than the average may have made the volume of agricultural credit somewhat higher than it would have been if these conditions had not obtained.

The total number of deposit accounts and their distribution by size has been fairly stable during the war, but the number of deposits above $100,000 shows much the greatest growth (Table 16). On the other hand, there has been a distinct shift in the distribution of the total volume of deposits by size class. Deposits above $100,000 show the biggest increase in both absolute and percentage terms. The percentage growth within the $1,000 and under, and the $25,000-100,000, brackets has been much the same, while the value of accounts between $1,000 and $25,000 shows little change. The growth in number of accounts has been mainly in notice deposits, but the growth in volume has been mainly in demand deposits.

Since checks may be written against Canadian "notice" deposits within reasonable limits, few individuals require demand deposits for their personal affairs. It is a fair assumption that demand deposits above $5,000 are mainly business deposits, and that demand deposits above $100,000 are almost certainly of this category. Thus it appears that the rise in deposits consists to a large extent of working balances and to a more limited extent of special cash reserves of business firms. Recent surveys by the Board of Governors of the Federal Reserve System suggest similar developments in the United States although the American statistics on ownership of deposits by size are not so complete. Since deposits above $100,000 have increased more than total bank loans, it is obvious that growth of these cash balances has resulted from government war finance rather than

TABLE 16 – NUMBER OF ACCOUNTS AND AMOUNT OF DEPOSITS OF CHARTERED BANKS, OCTOBER 31, 1939 AND 1943[a]

Size Class[b]	*Number of Accounts* (in thousands)		*Percentage Change over 4 War Years*	*Amount of Deposits* (in millions)		*Percentage Change over 4 War Years*
	1939	1943		1939	1943	
$1,000 and under	4,442	4,892	10%	$544	$750	38%
1,000-5,000	343	437	27	697	873	25
5,000-25,000	53	61	15	481	561	17
25,000-100,000	6	7	17	265	346	31
Over 100,000	2	3	50	531	1,234	132
TOTAL	4,846	5,400	11%	$2,518	$3,764	49%

Source: Bank of Canada, *Statistical Summary* (December 1943-January 1944).

[a] Demand and notice combined. About one-seventh are demand deposits. In Canada, notice deposits carry a limited checking privilege.
[b] Includes upper limit, excludes lower limit.

from bank loans to business. Bank debits have more than kept pace with volume of deposits, and the velocity of circulation shows a 10 to 15 percent rise during the war.[38]

Despite the growth of assets, the increasing concentration in government bonds together with higher taxes has resulted in a decline in total profits of banks, as illustrated in Table 17. While the war

TABLE 17 – PROFITS OF CHARTERED BANKS, 1939-42[a]
(in thousands)

Item	*1939*	*1940*	*1941*	*1942*
Profit before taxes	$21,858	$24,627	$25,644	$26,271
Dominion and Provincial taxes	5,168	8,086	9,121	10,455[b]
Profit after taxes	16,690	16,541	16,523	15,816
Other charges	3,258	3,526	3,535	3,556
Applicable to stock	13,432	13,015	12,988	12,260

Source: Bank of Canada.

[a] No figures available for Barclays Bank.

[b] Of which $312,000 is refundable.

lasts, the banks will be called upon to invest still more in new issues of government obligations. After the war, individuals and nonfinancial corporations may wish to convert their holdings of war loans into cash. If this conversion should reach large proportions, and if the government feels that it cannot allow the market value of its obligations to be undermined, the banking system may be obliged to buy government obligations in sufficient quantities to maintain market values. Under these circumstances, the proportion of total bank assets represented by holdings of Dominion securities would rise still further. The ratio of bank earnings to total assets would tend to fall until it approximated the average yield on government obligations of maturities commonly held by banks. Of course, given continued growth of total assets, profits on stockholders' investment might still increase.

The costs of bank operations have been rising, and should they

[38] Official DBS figures for velocity of circulation of bank deposits (*Bank Debits to Individual Accounts and Equation of Exchange*) are as follows:

	First 8 Months				
	1939	1940	1941	1942	1943
Velocity:	8.95	9.09	9.49	10.21	9.94

go up more rapidly than earnings, the banks may have to choose among various possible changes in practice, such as revoking the privilege of writing checks against notice deposits, lowering the rate of interest paid on notice deposits, increasing bank service charges, and cutting salaries and dividends. Most banks cut dividends on 1942 earnings.

During the war, Treasury finance has become an increasingly important source of bank income. A growing share of banks' revenues consists of interest on government securities, and of commissions for handling foreign exchange, for delivering war bonds and for costs incurred in "coupon banking" in connection with rationing.[39] In fact, the coordination of banking operations with government finance is even more noticeable in this war than it was in World War I, and it will be remembered that this close relationship did not entirely disappear after the last war was over.[40]

On the Supply of Money

During the first four years of war, the total supply of money in Canada increased at an average monthly rate of 1.1 percent, as opposed to 1.4 percent in the United States.[41] However, since notice deposits carry a limited checking privilege in Canada, they are essentially a part of the circulating medium and are about equal in volume to demand deposits. Accordingly, the relative strength of inflationary tendencies is more accurately shown by a comparison of total Canadian money supply with the circulating medium in the United States.[42] The growth of money supply in both countries is illustrated in Chart V, and it will be noted that the average monthly

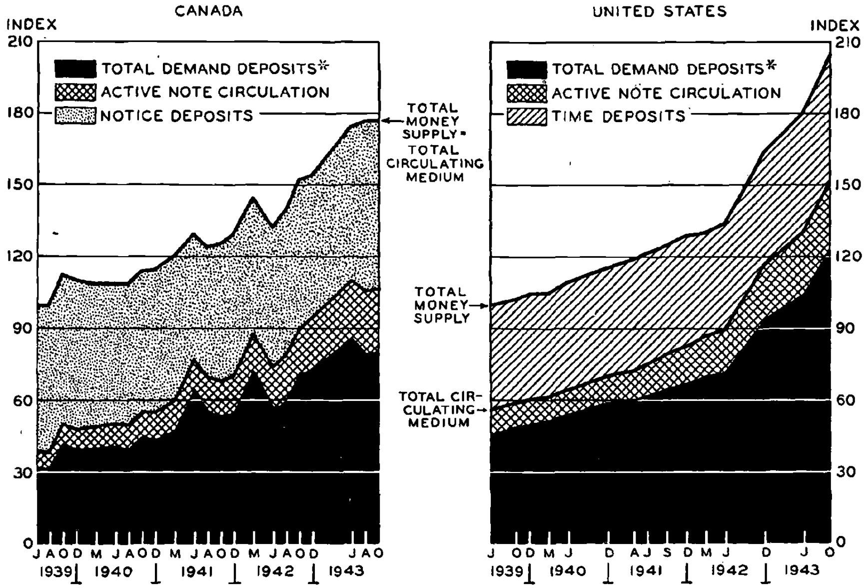
39 House of Commons *Debates* (March 24, 1943) p. 1526.

40 Some readers may be inclined to ask what bearing war finance has had on the question of complete nationalization of the banking system, especially since the growing Cooperative Commonwealth Federation party includes nationalization of the banks in its platform. The issue is a political one, and evaluation of it is beyond the scope of this study.

41 For Canada, "total money supply" is defined as total Canadian deposits of the chartered banks less interbank deposits, government deposits with the Bank of Canada, and active note circulation. For the United States, "total money supply" has been defined as adjusted demand deposits, time deposits, government deposits with the Federal Reserve Banks, and active note circulation. For a detailed account of American monetary expansion in wartime see Charles R. Whittlesey, *op. cit.*

42 "Circulating medium" for the United States is defined as total money supply less time deposits, while for Canada it is defined as identical with total money supply.

CHART V — CANADIAN MONEY SUPPLY RISES 77%, AMERICAN 104%



* Adjusted demand deposits plus government deposits with central banks.
Sources: Canada — Bank of Canada, *Statistical Summary;* United States — *Federal Reserve Bulletin.*

rate of increase of 2 percent in the United States is nearly twice that in Canada.

Bank of Canada note circulation swelled from $180 million to $797 million in this period, while chartered bank note circulation dwindled from $93 million to $47 million. This substitution of central for chartered bank notes does not arise from war policy, but from the requirement of the Bank of Canada Act of 1934 that chartered bank note circulation should be gradually reduced so that an upper limit of 25 percent of paid-up capital is reached by January 1945. The 350 percent growth of total active note circulation is greater than has occurred in the United States, but per capita currency circulation is still more than twice as great in the United States as it is in Canada.

As pointed out above, Canadian monetary expansion during the first two years of war was partly the result of deliberate financial policy designed to speed mobilization of resources for war. In the third war year, and even more so in the fourth war year, monetary expansion exceeded the wishes of the Department of Finance. In his budget speech of March 1943, the Finance Minister stated that during the year "we shall have borrowed direct from the Bank of Canada and the chartered banks a net amount of $983 million. That is not all dangerous borrowing, for the public has desired to hold considerable savings in cash, but most of it is borrowing which I would rather not have done."

On Business

War has brought business less freedom but more profits. Priorities, allocation of materials, manpower regulations, and the pressure of wartime needs upon the total supply of credit mean that few enterprises other than war industries have been permitted to undertake expansion. These restrictions, together with high taxes on corporate income and the excess profits tax, tend to limit new investment in fields lacking direct or indirect government support, making further control of the capital market unnecessary. On the other hand, the high level of government expenditures, combined with the increase in total consumer spending, has resulted in higher earnings for war industries and peace industries alike.

The usual rate of profit allowed under war contracts has been 5 percent of total cost of production. Under the "target price" contract which was in most general use for new products earlier in the war, the cost estimate was usually the British price plus 10 or 20 percent, which was expected to yield the 5 percent profit to the Canadian manufacturer. If costs proved higher than this estimate, the contractor absorbed 25 percent of the excess, the government the rest. If costs were lower than estimated, the contractor kept 25 percent of the saving as additional profit, and passed on the rest to the government as a reduction in price. For commodities which were in production before the war, firm price contracts established by competitive bidding were usual, but sometimes "ceiling prices," subject to downward revision only, were used. "Cost plus percentage of cost" contracts were negotiated only as a last resort and were carefully checked. After four years of war most contracts could be let on a "firm price" basis. In addition, under these war contracts, depreciation may be accelerated for tax purposes to rates high enough to write off the entire investment over the expected duration of the war, provided that the plant has no prospect of peacetime utility.[43]

However, despite high taxes, most concerns up to 1943 fared better than they did in peacetime. For the 484 companies with assets of more than $500 thousand, net income to stockholders (after provision for taxes) amounted to 9 percent of stockholders' investment in 1939, 10 percent in 1941, slightly less in 1942. Figures for these companies plus more than 100 smaller concerns are presented in Table 18. In 1942 net profits before taxes were 80 percent above the 1939 level, and about double the 1936-39 average. Even net profits after taxes were over 15 percent higher than in 1939 and 29 percent higher than the 1936-39 average. Statements for 1943 will probably show profits before taxes higher than ever, but profits net of taxes somewhat below the prewar level, since for the first time the provision of the 1942 tax law will have been applicable over the whole year.

The effect on profits has by no means been uniform for all industrial groups. In 1942, net income to stockholders of railways was up 500 percent, of pulp and paper companies 240 percent, of machinery and rubber companies nearly 140 percent, of retail service concerns 129 percent, of iron and steel and electrical equipment companies 59 percent, above the 1936-39 average. On the other hand, profits of gold mining firms fell 31 percent, of petroleum and coal companies 30 percent, of printing and publishing concerns 8 percent, of tobacco companies 6 percent below "standard" prewar profits. Of course, some of the larger percentage increases in profits were made from a small or negligible base. The pulp and paper companies, for example, had been in difficulties throughout most of the thirties.

This rise in earnings has been accompanied by an increase in the working capital liquidity of Canadian corporations, as is shown by the figures for depreciation and undistributed profits in Table 18, and by the selected current items in Table 19. In addition to these factors, there has been a net retirement of corporate bonds of more than $230 million since the war began.

Effects of war on working capital have been much the same for all industrial groups. Among the major industries, only public utilities

43 For a more complete account of the handling of war contracts, see Lionel Chevrier (Parliamentary Assistant to the Minister of Munitions and Supply), *Hansard* (June 15, 1943); Henry Borden, "The Work of the Department of Munitions and Supply," Parkinson (editor), *Canadian War Economics* (Toronto, 1941).

TABLE 18 — PROFIT STATISTICS FOR 628 CANADIAN COMPANIES, 1936-42[a] (in millions)

Item	Fiscal Year Nearest to Calendar Year				
	1936-39 Average	1939	1940	1941	1942
Net operating profit (before depreciation)	$502	$565	$715	$905	$1,013
Less: depreciation, deferred development and patent write-offs	*123*	*135*	*162*	*206*	*264*
Investment and other non-operating income (net)	56	54	49	55	53
Less: bond interest (including exchange and amortization of discount)	*78*	*77*	*77*	*75*	*74*
Net profit before income and excess profits tax provision	357	407	525	679	728
Less: income and excess profits tax provision (excluding refundable portion)	*63*	*79*	*188*	*299*	*349*[b]
Net income to stockholders[c]	294	328	337	380	379
Less: forced saving (refundable portion of excess profits tax)	..	..	..	..	*19*
Net income available for dividends[c]	294	328	337	380	360
Net income paid out in cash dividends	230	240	239	239	233
Undistributed income (excluding forced saving)[c]	64	88	98	141	127

Source: Bank of Canada, *Statistical Summary* (October-November 1943).

[a] Compiled by the Bank of Canada. The sample includes all companies with 1941 assets over $500,000 which publish reports or file them with the Companies Branch of the Department of the Secretary of State, plus over 100 smaller companies whose reports were available on the same basis. For the 628 companies, net income to stockholders in recent years appears to be about two-thirds of the total for all companies. The table is, of course, subject to all the limitations and qualifications which apply to the basic accounting statements.

[b] The increased rate of excess profits tax (and forced saving) imposed in the 1942 Budget did not go into force until July 1, 1942, and consequently the effect over a full year will not be apparent until 1943 statements are available.

[c] For purposes of comparability any special capital charges made against income account in company reports have been added back, as well as special inventory reserve provision amounting to 2.5, 8.3, 14.6, 5.2 in the years 1939 to 1942 respectively. Depletion charges have been added back into "net income to stockholders" for the years 1936 to 1942 respectively as follows: pulp and paper, 1.3, 1.7, 1.4, 1.0, 2.0, 2.0 and 2.0; other non-ferrous metals, 2.3, 3.6, 3.3, 3.6, 3.9, 4.2 and 4.0; coal and petroleum, .5, .8, .8, .3, .4, .5 and .5. Thus, in these cases, and in other cases such as gold mining, where depletion has not been charged in the accounting statements, profits are overstated to the extent that no deductions are made for these factors. Included also is current bond interest earned but not paid in cash of 2.2, 2.4, .6, 1.7, 2.4, 2.3 and 1.9 in the years 1936 to 1942 respectively.

TABLE 19 – SELECTED CURRENT ITEMS FOR 135 CANADIAN INDUSTRIAL COMPANIES
(in millions)

Item	*1939*		*1941*
Cash and cash equivalent [a]	$221.7	$241.0	$331.1
Inventories	282.1	352.5	416.1
Working capital (net)	454.7	500.5	586.0
Bank loans	22.3	29.0	33.4

Source: *The Financial Post* (June 13, 1942) p. 4.
[a] Includes government bonds.

and construction firms seem to have suffered a net reduction of working capital during the war period. Such returns as are available for 1942 and 1943 suggest that cash holdings were somewhat below the 1941 level, but that investments in marketable securities plus inventories were up an amount which is considerably larger. Working capital was above the 1941 figures for almost all categories of corporations.

The total increase in corporate holdings of government bonds alone exceeded the entire investment in war plants at the end of 1943 and the refundable portion of excess profits is expected to surpass $100 million per year. Consequently, it is quite possible that corporations will be less in need of bank credit and security flotations at the end of the war than they were before it began. Much depends, however, upon such factors as the extent of postponed replacements and repairs of plant and equipment in peacetime industries, the extent to which war plant and equipment can be converted, accrued tax liability, postwar changes in wage and price levels, and the like. If an unexpectedly large demand for investment funds develops, the present strong working capital position of corporations should improve their ability to borrow, even in face of temporary readjustment losses.

On Life Insurance Companies

The changed composition of Canadian life insurance companies' portfolios since war began is illustrated by Table 20. The biggest change is clearly in holdings of Dominion obligations, while the largest percentage increase is found in "United States and other" securities. These are mainly American securities, and the enlarged holdings probably arise from state insurance regulations requiring

TABLE 20 — PORTFOLIOS OF CANADIAN LIFE INSURANCE COMPANIES, 1939 AND 1942
(dollar figures in millions)

	Bonds and Debentures					
Country and Year	Central Govern-ment	Provin-cial	Munici-pal	Public Utility	Indus-trial	Total
Canadian						
1939	$269	$112	$138	$108	$59	$686
1942	526	189	126	121	54	1,016
% Change	+96%	+69%	− 9%	+12%	− 8%	+48%
British and Colonial						
1939	$112	..	$77	..	..	$189
1942	189	..	74	..	..	263
% Change	+69%	..	− 4%	..	..	+39%
United States and Other						
1939	$58	..	$21	$140	$14	$233
1942	126	..	6	205	36	373
% Change	+117%	..	−71%	+46%	+157%	+60%
All Countries						
1939	$439	$112	$236	$248	$73	$1,108
1942	841	189	206	326	90	1,652
% Change	+92%	69%	− 13%	+31%	+23%	+49%

	Other Ledger Assets					
	Real Estate[a]	Real Estate Loans	Policy Loans	Stocks	Cash	*Total Ledger Assets*
All Countries						
1939	$101	$305	$247	$305	$59	$2,276
1942	92	92	221	277	31	2,653
% Change	− 9%	− 70%	− 11%	− 9%	− 48%	+17%

Source: Superintendent of Insurance.

[a] Includes real estate held under agreements of sale.

the American liabilities against Canadian companies to be covered substantially by American assets. Some substitution of public utilities and industrials for municipals has taken place within the American portfolio, which may reflect an effort to sustain earnings despite the obligation the companies feel to subscribe to low-yield American war loans. British and Colonial holdings show a much smaller increase, which is concentrated in central government securities.

With the wartime rise in national income, policy loans have fallen off. Thus, high tax rates have not changed the usual inverse correlation of volume of such loans with national income.[44] Annual charges on policy loans have been maintained at 6 percent, and the general attitude of the companies is to discourage borrowing on policies because of the high percentage of cancellations of policies on which loans have been extended. Holdings of stocks show a moderate decline, and this development may be the result of limitations imposed by the Insurance Law of Canada upon purchases of stocks. Real estate and mortgage loans fell 70 percent, and depletion of cash reserves amounted to 48 percent between 1939 and 1942. Available returns for 1943 show a further increase in the share of government bonds in total assets, and a drop in virtually all other classes of assets.

One result of the growing share of central government securities in the investment portfolios of Canadian life insurance companies has been a continuation of the prewar decline in rates of earnings on ledger assets. This decline has taken place despite greatly improved collections on western mortgages as the war has brought prosperity to agriculture. As Table 21 shows, earnings have failed to

TABLE 21 — EARNINGS AND ASSETS OF CANADIAN LIFE INSURANCE COMPANIES, 1937 AND 1939-42
(dollar figures in millions)

Item	*1937*	*1939*	*1940*	*1941*	*1942*	*Change 1939–42*
Total ledger assets[a]	$2,065	$2,276	$2,379	$2,508	$2,653	12%
Interest, dividends and rents	$89	$94	$96	$102	$104	10
Earnings on ledger assets	4.56%	4.32%	4.24%	4.24%	4.13%	−4
Insurance in force in Canada	$4,305	$4,470	$4,609	$4,836	$5,185	16

Source: Superintendent of Insurance.

[a] Total assets less accrued interest, dividends, and rents.

keep pace with the expansion of assets and liabilities. However, the decline in rate of earnings has been less rapid than in the immediate prewar years. Returns for 1943 show a further drop in the rate of return on the insurance company assets.

44 See Gottfried Haberler, *Consumer Instalment Credit and Economic Fluctuations* (National Bureau of Economic Research, Financial Research Program, 1942) pp. 110-14.

While rising incomes would have led to some increase of insurance in force in any case, it seems likely that income tax provisions regarding life insurance are partly responsible for this growth. Many people have preferred to put their savings into insurance rather than into refundable taxes. The percentage growth of liabilities during the war has exceeded the growth of earnings, and has outrun the percentage rise in premiums paid, by a considerable margin.

The insurance companies may face some complicated investment problems whether the war is followed by a depression or by a boom. In a depression, rents, interest on mortgages, and dividends on stocks fall off; deficit-financed public work and social security projects might mean continued pressure on insurance companies to buy government bonds. These developments would have adverse effects on earnings. Restrictions on investment limit participation in a boom, and the price of bonds may decline. Portfolios cannot be rearranged quickly enough for earnings to keep pace with general business activity and improved investment opportunities. In addition, the pattern of interest rates may reverse itself in a boom, so that yields are higher on short-term, as they were in the late twenties. These conditions would require shifts among types of maturities and investment different from those generally practiced.

While the lag in mortality tables used for calculating insurance premiums behind actual mortality rates provides some margin of safety, the decline in yields must eventually force insurance companies to seek new fields for investment, raise premiums, or lower dividends. Housing, industrial expansion, and foreign loans are among the new investment possibilities discussed. Other investors have their eyes on these fields, however, and whether there will be opportunities for all funds seeking profitable investment remains to be seen. Foreign lending and reconversion financing may prove no safer than purchase of common stocks.

Insurance companies are already the chief lenders under the National Housing Act, which permits a comparatively high rate to the lender and charges a moderate rate to the borrower, since the government assumes part of the mortgage. A system of pooling plus government underwriting makes these loans virtually riskless for the insurance companies, and it is highly unlikely that direct investment in housing projects will prove more attractive than indirect investment under the present Housing Act. There is some feeling, however, that the burden of supporting the insurance companies should be on policyholders rather than on householders, and a revised Housing Act may be less generous to lenders than the present one.

The most probable development, if no way is found to sustain earnings, is a rise in premiums on new policies or a reduction in dividends (which amounts to much the same thing since policyholders participate in the earnings of most companies). Dividends paid to shareholders fell from $1.5 million to $1.4 million from 1939 to 1942. If insurance premiums are raised, it is improbable that people will reduce the size of their policies precisely enough to keep total premiums paid a constant proportion of their incomes. The declining rate of returns on insurance company investments in itself would probably result in some slight increase in the ratio of savings to national income.[45]

On Retail Finance Companies

Consumer Credit Regulations have been in force only since October 1941. Their effects are hard to disentangle from effects of limitations on production and of rising incomes, but there is evidence that they have been successful in restricting sales of consumers' durable goods. Table 22 presents evidence that cash sales by department stores,

TABLE 22 — DEVELOPMENT OF CONSUMER CREDIT, 1941-43

Type of Store	*Jan.–June 1943 in % of June 1941* Instalment Sales	Instalment Accounts Receivable	Charge Accounts Receivable	PERCENT OF TOTAL SALES *Cash* 1941[a]	1943[a]	*Instalment* 1941[a]	1943[a]
Department	63%	38%	83%	68%	75%	15%	8%
Clothing	96	65	71	59	67	18	13
Furniture	60	38	75	23	39	61	40
Jewelry	46	29	66	48	61	22	9

Source: WPTB, Research Division, Statistics Branch (most, but not all of these figures are published in the *Report of the Wartime Prices and Trade Board, April 1, 1943-December 31, 1943,* pp. 44-45).

[a] January to June.

[45] Nationalization of life insurance, as well as banking, is proposed by the Cooperative Commonwealth Federation party. As in the case of banks, evaluation of this proposal is beyond the scope of this study.

clothing, house furnishings and jewelry concerns have increased relative to total sales, while instalment sales have fallen off both relatively and absolutely. Charge accounts outstanding have also declined. The fact that instalment accounts receivable have fallen more than instalment sales shows that collections have exceeded new instalment sales. According to the WPTB, these same trends are observable in all areas of Canada.[46]

Retail credit is closely tied to those consumer durable goods which have been most severely limited. New sales of automobiles fell from $8 million in December 1941 to $600 thousand in December 1942, and total number of cars financed, new and used, fell from 7,100 to 2,500. New credit extended for buying automobiles fell from $3 million to $500 thousand. Similarly, radio sales fell from $7 million in the third quarter of 1941 to $3½ million in the third quarter of 1942.[47] It seems clear that retail finance companies must expect a distinctly reduced volume of business for the duration, because of reduced output of consumer durables and restrictions on consumer credit.

On Provincial and Municipal Governments

Table 23 shows some of the differences in the financial policies of provincial and municipal governments for the two war periods.

TABLE 23 – PROVINCIAL AND MUNICIPAL FINANCE[a]
(in millions)

Item	*1913*	*1921*	*Change*	*1939*	*1942*[b]	*Change*
Current expenditures	$147	$296	$149	$601	$597	$–74
Current revenue	155	320	165	571	658	87
Debt	790	1,436	646	3,400	3,128	–272

Sources: Bank of Canada, *Statistical Summary,* various issues, and Royal Commission on Dominion-Provincial Relations, *Report,* Book I, pp. 105-07.

[a] Unfortunately, no municipal figures are available for the period of War I. Provincial expenditures rose from $57.1 million in 1914 to $66 million in 1918, receipts from $51.7 to $69.3 million. Municipal expenditures were clearly a much more important factor than provincial.

[b] Budget estimates.

During the first war, the provinces and municipalities made capital outlays on public works and welfare and as a consequence there was

[46] *Report of the Wartime Prices and Trade Board, April 1, 1943-December 31, 1943,* p. 45.

[47] DBS, *Monthly Review of Business Statistics.*

a large rise in their combined debt, while in the present war, they have adopted fiscal policies which on the whole are counter-inflationary. In addition to the items shown in the table, provincial and local governments reduced their bank indebtedness by $60 million and subscribed $80 million to the first three Victory Loans during the period. Estimates for 1943 show a small current surplus, and a further contraction of debt by $52 million for municipalities, while net retirements of municipal bonds amounted to $23 million in the first half of the year. The adoption of contractionist policies by provincial and local governments in a large measure is the result of Federal policies, which have reduced relief loads, made public work expenditures well-nigh impossible, and increased revenues.