

November 28, 1945.

Dear Fred:

It occurred to me that you might be interested in seeing the enclosed copy of a confidential letter from Governor Towers of the Bank of Canada that gives an excellent and interesting statistical study on the distribution of the increase in the Canadian debt. I asked our staff to give me a similar table for comparative purposes on the distribution of ownership of our debt, and I enclose this also. It confirms in a striking way what we already knew -- how much more successful Canada has been in distributing the increase in the debt to nonbank investors.

Sixty-seven per cent of the increase in their debt was taken and held by nonbank investors, as compared with only 58 per cent in the United States. Similarly, individuals in Canada took and held 39 per cent of the increase in their debt, compared with only 24 per cent in this country. While we did somewhat better with respect to corporate investors, when you take into account the higher levels of taxation on corporations and individuals in Canada, our showing suffers all the more by comparison. It is also significant, I think, that commercial banks in Canada took only 21 per cent of the increase in their debt, while ours took 32 per cent.

I imagine that Dan, among others in the Treasury, might also be interested in these figures.

Sincerely yours,

The Honorable Fred M. Vinson,  
Secretary of the Treasury,  
Washington 25, D. C.

Enclosures 2

 ET:b

BANK OF CANADA

Confidential

Ottawa, November 10, 1945.

Dear Mr. Governor,

Bank of Canada and National War Finance Committee have recently completed a statistical study - not yet released for publication - with reference to the distribution by class of holder of the Dominion Government's direct funded debt.

The total of this debt (including treasury bills and special deposit certificates) has been multiplied between 4 and 5 times during the war, increasing from \$3,400 million at the end of 1938 to \$15,100 million at the end of May, 1945, the latest date for which a breakdown by class of holder is available. The increase has been entirely in issues payable in domestic currency; the amount payable in sterling or U.S. dollars (included in the total figures given above) has declined from \$855 million in 1938 to \$345 million in 1945.

Indirect debt, i.e. C.N.R. bonds and other obligations guaranteed by the Dominion, and consisting chiefly of foreign-currency issues, has substantially decreased during this period, from \$1,275 million in 1938 to \$660 million in 1945. The analysis of the distribution of the public debt as described below relates only to direct debt, exclusive of C.N.R. and other guaranteed issues.

The dollar amount of the holdings of each of a number of a number of groups, and the significance of such holdings as a percentage of the total outstanding debt, are shown in the table below.

DOMINION GOVERNMENT DIRECT FUNDED DEBT

<u>Class of holder</u>	<u>Amount in</u> <u>\$ millions</u>		<u>% of total</u> <u>outstanding</u>	
	<u>Dec. 31</u> <u>1938</u>	<u>May 31</u> <u>1945</u>	<u>Dec. 31</u> <u>1938</u>	<u>May 31</u> <u>1945</u>
Bank of Canada	170	1,575	5%	10%
Commercial banks*	660	3,035	20	21
Individuals in Canada	885	5,480	26	36
Life insurance companies	350	1,660	10	11
Dominion Government accounts	155	755	5	5
All other residents	375	2,020	11	13
Non-residents	775	565	23	4
<b>TOTALS</b>	<b>3,370</b>	<b>15,090</b>	<b>100</b>	<b>100</b>

\*The Savings Departments of the commercial banks are the chief savings bodies in the country. During the period in question, savings deposits increased from \$1,660 million to \$2,560 million; demand deposits of the public increased from \$730 million to \$1,790 million.

The chief object of the wartime savings program has been, of course, to place as much as possible of the debt increase with the general public, and to minimize reliance on the banking system. We believe we have fairly good records of the extent to which this has been achieved at time of issue of Victory Bonds and other issues. Obtaining information as to market sales of outstanding securities is much more difficult, particularly because of the very large quantities of bearer bonds. The holdings of banks, life insurance companies and Dominion Government accounts are based on detailed information, but the separation of the other groups has required a certain amount of inspired guessing. On the whole, however, we feel the estimates are within a reasonable margin of error.

The following table indicates (A) Net increase in total holdings of each group, (B) Net amount acquired by subscription to new issues, i.e. gross subscriptions less all maturities during the period, and (C) Net amount acquired by purchases from other groups, or disposed of by sales to other groups:

<u>Class of holder</u>	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>
Bank of Canada	1,405	345	1,060
Commercial banks	2,375	1,420	955
Individuals in Canada	4,595	5,060	- 465
Life insurance companies	1,310	1,235	75
Dominion Government accounts	600	110	490
All other residents	1,645	4,060	-2,415
Non-residents (see note)	-210	-510	300
<b>TOTALS</b>	<b>11,720</b>	<b>11,720</b>	<b>---</b>

It may be of interest to comment briefly on each group:

1. Bank of Canada

Only one-quarter of the total increase in Bank of Canada's holdings during the period in question affected the cash position of the commercial banks. In 1940 the Bank of Canada transferred its gold and foreign exchange reserves, totalling some \$250 million, to the Foreign Exchange Control Board, receiving in return a special government note, which is included in the public debt figures shown above. A further \$800 million of the increase in securities is the counterpart of a corresponding increase in the active circulation (outside the banks) of Bank of Canada notes. The remaining \$350 million increase in our holdings of Dominion Government securities corresponds with an expansion of commercial bank cash, of which about \$90 million took the form of an increase in the amount of Bank of Canada notes held in banks' tills, and the balance of something over \$265 million in increased deposits at the Bank of Canada. (Total bank cash was

\$257 million in December 1938 and \$613 million in May 1945.)

## 2. Commercial banks

The commercial banks have not significantly increased their proportion of total holdings, i.e. the increase in their holdings of Dominion Government securities has been almost exactly proportionate to the increase in the total outstanding amount of such securities. The actual increase in their holdings was \$2,375 million. Of this, \$1,000 million was in the form of special deposit certificates, a new 6-months instrument paying  $3\frac{1}{4}\%$  per annum, which was created during the war. Other special banking issues and 3-months treasury bills account for part of the remainder of the increase in the banks' holdings, but some \$950 million of publicly issued securities were acquired by purchase from other holders. (I should explain that the banks have not been eligible to subscribe to new public issues of long-term securities at time of issue, but they have been free to acquire securities of any issue in the intervals between Victory Loan campaigns). As the banks' holdings of deposit certificates are approximately equal to the increase in demand deposits, all of the increase in their holdings of other securities may be regarded, in effect, as held against the increase in savings deposits (see footnote to table on p. 1).

## 3. Private individuals in Canada

Resident investors other than corporations and institutions increased their holdings from \$885 million to \$5,480 million, taking 39% of the total increase in the debt, including 46% of the net increase in public issues. Total purchases at time of issue (less redemptions of maturing issues and less war savings certificates encashed before maturity) were \$5,060 million. Between loan campaigns this group sold on balance \$465 million, or approximately 9% of their net subscriptions of new money at time of issue.

This group comprises all levels of individual investors, over 3,000,000 persons. It is probable that a number of persons sold a higher percentage of their original subscription than the overall figure for the group as a whole (particularly persons at either extreme of the income range), while a small number made net market purchases between loans.

The change in total holdings of the more important "liquid" assets on the part of individuals during the war may be summarized as follows:

<u>Asset</u> (Estimated amount held by individuals only)	<u>Total Holdings</u>		
	Dec. 31 1938	May 31 1945 ( $\$$ millions)	Increase
Dominion Government securities (less bank loans for purchases)	885	5,270	4,385
Refundable taxes		260	260
Active note circulation	185	840	655
Deposits at banks and savings institutions	1,915	3,205	2,290
<b>TOTALS</b>	<b>2,985</b>	<b>9,575</b>	<b>7,590</b>

4. Life insurance companies

Purchases by life insurance companies represent not only current increases in their policy reserves, but also re-investment of moneys received on sale of other securities, repayment of mortgages and policy loans, etc. United States companies somewhat increased their net Canadian position.

5. Dominion Government accounts

Investment of currently accruing funds by the Unemployment Insurance Commission, C.N.R., National Harbours Board, etc. account for about half of this item; the remainder represents acquisitions by a special Bond Holding Account, which from time to time took surplus offerings of long-term issues off the market.

6. All other residents

This group comprises provincial and local government accounts, insurance companies other than life, trust companies, loan companies, pension funds, etc., and also all non-financial corporations and business firms. The latter accounted for 55% of the group total in 1938, and about 60% of the net increase in subsequent years.

This group, particularly the non-financial businesses, persistently overbought at the time of Victory Loan issues, and sold sizeable amounts to other investors between loans. Sales to "special names" including these business firms and corporations reached their peak in the spring loan of 1943 and have since been held down. In the latest loan (October-November) which is intended to cover requirements for a

12-months period, the amount sold to this group will not significantly exceed the amount sold in any previous loan with reference to a 6-months period. In this loan, it may also be noted, the long-term 3% issue is being offered only to private individuals, savings bodies, insurance companies, etc., not to commercial enterprises.

7. Non-residents

The "net new issues" figure for this group is the net decrease in foreign-pay issues only, as reliable figures for non-resident purchases of domestic issues at time of issue are not available. The over-all non-resident figures are the net result of a considerably larger decline in U.K. holdings, offset in part by an increase in U.S. holdings. It should also be noted that Dominion Government bonds have never been more than a small part of the total non-resident investment in Canada.

I am,

Dear Mr. Governor,

Yours sincerely,

(Signed) G. F. Towers.

Marriner S. Eccles, Esq.,  
Chairman,  
Board of Governors,  
Federal Reserve System,  
Washington, D. C.

## OWNERSHIP OF GOVERNMENT DEBT, UNITED STATES AND CANADA

R&S 100-1766  
November 19, 1945

Item	Amount			Per cent of total outstanding		Per cent of increase
	Dec. 31, 1939	May 31, 1945	Increase	Dec. 31, 1939	May 31, 1945	
<u>United States</u>	(In billions of U. S. dollars)					
1. Federal Reserve Banks . . . . .	2.5	21.0	18.5	5	9	10
2. Commercial banks . . . . .	15.9	77.6	61.7	34	33	32
3. Individuals . . . . .	9.8	54.7	44.9	21	23	24
4. Insurance companies . . . . .	6.3	20.1	13.8	13	8	7
5. U. S. Gov't. agencies and trust accounts. .	6.5	23.8	17.3	14	10	9
6. Corporations and others . . . . .	6.1	39.7	33.6	13	17	18
7. Banking system. . . . .	18.4	98.6	80.2	39	42	42
8. Nonbank investors . . . . .	28.7	138.3	109.6	61	58	58
9. Total . . . . .	47.1	236.9	189.8	100	100	100
	Dec. 31, 1938	May 31, 1945	Increase	Dec. 31, 1938	May 31, 1945	Per cent of increase
<u>Canada</u>	(In millions of Canadian dollars)					
1. Bank of Canada. . . . .	170	1,575	1,405	5	10	12
2. Commercial banks. . . . .	660	3,035	2,375	20	21	21
3. Individuals . . . . .	885	5,480	4,595	26	36	39
4. Life insurance companies. . . . .	350	1,660	1,310	10	11	11
5. Dominion Government accounts	155	755	600	5	5	5
6. Corporations and others. . . . .	1,150	2,585	1,435	34	17	12
7. Banking system. . . . .	830	4,610	3,780	25	31	33
8. Nonbank investors . . . . .	2,540	10,480	7,940	75	69	67
9. Total . . . . .	3,370	15,090	11,720	100	100	100

GOVERNMENT SECURITIES SECTION, BOARD OF GOVERNORS