

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 12, 1941To Mr. Thurston

Subject: _____

From C. P. Kindleberger

The figures given for Canada in your table are in the main taken from the Budget Speech of May 29, 1941. Defense expenditure there was given as a minimum of \$1,300,000,000, but it was suggested that it would probably be as high as \$1,450,000,000. This would make total expenditure within a range of \$1,768,000,000 to \$1,918,000,000, and the estimated deficit, exclusive of Dominion funds borrowed to finance British purchases, \$368,000,000 to \$518,000,000.

The Finance Minister, however, has indicated that revenues are insufficiently buoyant (and presumably defense expenditures have lagged sufficiently behind estimates) so that the deficit, exclusive of British aid, will be on the order of \$100,000,000. No data have been given to enable a correction of the budget estimates.

The figure for population in Canada should be 11.3 million instead of 10 million, and I would be inclined -- although this is out of my field -- to suggest \$92,000,000,000 instead of \$90,000,000,000 for the national income for the United States. It should also be pointed out that if defense expenditures do not reach \$1,300,000,000 to \$1,450,000,000, national income for the fiscal year 1941-42 may not be as high as the \$5,950,000,000 (\$6,000,000,000) estimated in the April Budget Speech.

The Victory Loan issued in June offered \$600,000,000 to the public in the form of 10-year bonds bearing 3 per cent interest and redeemable at a premium of 1 per cent, making an effective yield of 3.09 per cent, and 5 1/2-year bonds, which yield 2.19 per cent. In addition to the \$600,000,000 offered, conversion privileges were extended to maturing issues of \$134,000,000. After a three-week campaign, conducted by a nationwide organization of bankers, investment houses, public-spirited citizens, etc., with parades, drives, speeches, drum majorettes, and all the trappings, some \$737,000,000 was subscribed in cash and \$104,000,000 of maturing issues converted. Figures have not been published showing the breakdown between the ten-year and the 5 1/2-year maturities, although I have been given to understand that the longer-term issue far outsold the shorter. The total number of subscribers was 948,000, many of whom borrowed from banks at the rate of interest borne by their bonds, these loans being repaid in ten equal monthly installments, beginning at the date of subscription.

I have a little further information derived from not too reliable newspaper sources, which shows that \$262,000,000 was subscribed by companies and individuals in amounts of \$500,000 or more. These figures do not indicate whether subscriptions are in cash or conversion but indicate a breakdown of large subscribers as follows:

Insurance companies	\$115,000,000
Other financial institutions	5,000,000
Public bodies	9,000,000
Defense industries:	
Mining and smelting	28,000,000
Oil	8,000,000
Manufacturing, etc.	36,000,000
Other industries:	
Wood and paper	11,000,000
Power	10,000,000
Gold mining	4,000,000
Agriculture and food	16,000,000
Textiles	7,000,000
Retail establishments	2,000,000
Other	6,000,000
Personal subscriptions	3,000,000

The financial institutions mentioned in the foregoing list included trust companies, investment trusts, savings banks, but not chartered banks.

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Note: There is a good deal of borrowing from Canadian banks by individuals to buy these issues--I understand such loans are on an instalment basis--and if repaid out of current income would not be inflationary.

	<u>Canada</u>	<u>United States</u>	<u>U.S. on comparable basis 15X</u>
Population	11.3 millions	130 millions	
Estimated National Income	6 billions	92 billions	
War Outlays	1.4* "	20 "	21 billions
Total Outlays	1.9* "	26.5 "	28.5* "
Receipts	1.5 "	12 "	22.5 "
Deficit	418* millions	14.5 "	6.2 "
Deposits (all)	3 billions	67 "	45 "
Adjusted Demand Deposits and Currency	1.4 "	47 ⁽¹⁾ "	21 "

*If, as estimated, Canada must also finance about 900 millions of aid to Britain, her total outlays will be about 2.6 billions. On a comparable basis the United States would be spending 39 billions instead of 28.5.

The budget figures given above are taken from budget estimates (some revised) and are all for the fiscal year 1941-1942.

In June Canada floated a Victory Loan of 600 millions (10-yr. 3% bonds and 5-1/2 year 2.19% bonds) and offered conversion privileges on 134 millions of maturing issues. They got 730 in cash and 106 was converted, making a total of 836 millions. On a comparable basis, we would raise 10.95 billions of new money and convert 1.59 billions, or a total of 12.5 billions.

(1) Exclusive of 950 millions of Government deposits.