Perpetual Bonds

[*Translation*]

Mr. Serge Joyal (Maisonneuve-Rosemont): Madam Speaker, I listened very closely to the motion of the hon. member on the perpetual bonds, and was surprised to note, in the light of his statement, that his main arguments in support of the motion concern the protection of the senior citizens who bought those bonds in 1936. I shall come back to that aspect of his arguments shortly.

The government has always been concerned about ensuring, throughout the period of inflation we have known and unfortunately still persists, that our senior citizens have sufficient income to meet their needs with regard to housing as well as to current consumer goods. That aspect of his statement, if it were as solid as he endeavoured to prove, should suffice to convince the government to accept the motion he presented.

However, if we try to recall the situation when these bonds were issued in 1936, we realize that the situation was not exactly as he described it, and that the importance he gives to the quality of the holders of these perpetual bonds is not as crucial as he seems to suggest.

Before coming back to this aspect, I would like to remind the House that on March 18, 1975, the Minister of Finance (Mr. Turner) published a press release announcing that the $55 million of perpetual bonds of the Canadian government, which had been issued at 3 per cent, would be redeemable at par value on September 15, 1996. The Minister of Finance went on to say:

—that the perpetual bonds issued in 1936 were a unique form of financing in the debt structure of the federal government. In fact, it was a relatively small issue which resulted in few transactions. No other western industrial nation has used this method of financing since after the war. This decision to redeem the perpetual bonds on a precise date, thirty years after their maturity date, makes these bonds comparable to any other current bond issue of the Canadian government.

It is noteworthy to try to describe the political and economic situation of the period when these bonds were issued, and particularly to compare this with the situation in England at that time since the practise of issuing perpetual bonds in that country then seemed on the uprise. I will come back to this later by using a few figures to support my argument. In 1936, the Canadian government issued $55 million worth of perpetual bonds bearing interest at 3 per cent at a cost of $96.50. Those bonds, as I mentioned earlier, were perpetual. Consequently, they were eternal on the stock market and cannot be directly redeemed at maturity. This issue was offered either for cash payments or in exchange for some bonds which had reached maturity in 1936 and which had been issued for a 4-year period.

On the $55 million worth of bonds available, a number of bonds valued at $11.3 million were exchanged by bond holders, as I said earlier, whose bonds had reached maturity. Therefore, the people who have directly made some outlays and paid their bonds in cash in 1936 have bought $43 million in bonds.

According to original certificates, interest coupons should have been semi-annual and covered a period of 30 years, that is enough semi-annual coupons had been issued for 30 years, and the last of them was to become payable on September 15, 1966.

When those bonds were issued, their attraction on the Canadian market was strong enough since at that time they offered a fairly important yield, considering interest rates, all the more so as they had been widely distributed on the Canadian market. That was the first issue of perpetual bonds, and it aroused the interest of Canadian buyers so that an important section of Canadian investors decided at the time to invest in those bonds.

It should be noted however that at the same time, in the United Kingdom, that was a very important means of redeeming the national debt. In 1935, over 60 per cent of the United Kingdom national debt was financed through perpetual bonds whereas in Canada at the same time such bonds accounted all in all for only a limited fraction of the aggregate debt.

That is not without interest, and we should keep it in mind. As a matter of fact, as I said earlier, over 60 per cent of the United Kingdom debt was financed through that type of bonds, and I should specify what happened to them in the context of this period. Indeed both financial agencies and investors in the United Kingdom were perfectly aware of the implications and character of that kind of financing. Perpetual bonds were issued for the first time in the United Kingdom in 1853. That issue yielded an interest of 2½ per cent and was redeemable at par at government option at any time.

That issue was redeemed afterwards, and it can be remarked that in the whole history of the financing of the British debt, the 1883 issue was the largest ever. As a matter of fact, $257 million worth of bonds were issued in 1883 at an interest rate of 2½ per cent, redeemable at any time after April 5, 1923, and, of course, with an option or at the government's convenience, and I insist on the "government's convenience", because, Madam Speaker, that was one of the simplest ways of financing the public debt. In fact, when the bond bears a surrender date, the government may decide, depending on the fluctuation in interest rates, to redeem or not to redeem it. If the interest rates decline while the option is open, the government may choose to redeem the bond and refinance it at a lower rate. On the contrary, if the interest rate is very high, the government may simply leave the bond on the market and wait for a more favourable stock market situation.

It is thought that more than $3.5 billion in this type of bonds are still circulating on the financial market of England and are redeemable by the government at any time, whereas I pointed out earlier that the Canadian issue totals only $55 million. Immediately, Madam Speaker, one considers the different emphasis that we in Canada have laid over the years on this type of public investment to finance the public debt.

In the United Kingdom, as I mentioned a while ago, the most interesting of these issues are those that were floated to finance the war debt bearing interest at 2½ per cent, as well as another issue whose actual objective was to finance the war effort and which bore interest at 3½ per cent, transacted on the financial market bearing interests at the relatively high rates of 16½ and 23 per cent. Anyone can realize, Madam Speaker, that such a form of investment in England was truly popular.

And it is here that attention must be paid to the remarks of the mover. All the bonds involved are redeemable at the