Supporting the Victory Bonds

No one expects that the Finance Minister will essay to support the Victory Bonds by means of an edict

By H. M. P. ECKARDT.

In discussing the probable course of the market for Canada's Victory Bonds, some observers take the position that it was unwise to lay stress during the subscription campaign upon the point that an investment in the bonds would not in any sense represent a lock-up — owing to the facility with which the bonds could be sold at any time in the market. It is said that the inordinate use of this argument for inducing people to send in their subscriptions must have a tendency to increase the offerings of bonds on the market after the flotation was effected, and that the difficulty of preventing the bonds going to a discount would thereby be considerably enhanced. Another body of opinion has it that thousands of the subscribers will consider themselves injured if the quotations for the bonds drop below par, and that they will not give their support to future issues because of their belief that the Government "gold-bricked" them in this Victory Loan affair. Such considerations as these do not, of course, apply to seasoned or experienced investors, but to the multitude of subscribers who had never previously bought a bond. So the conclusion is arrived at that the Government should support the market and thus prevent the bonds going to a discount.

It is probably safe to assume that the Ottawa authorities will not undertake to keep the market for the Victory Bonds at par or better. When one remembers that there may be $400,000,000 of new bonds issued in connection with this loan, and perhaps $500,000,000 or $600,000,000 including conversions of old loans, it is possible to see more clearly what would be involved in the undertaking to keep that immense volume of securities from receding under pressure of offerings. As there were over 800,000 subscribers to the loan, it is inevitable that the circumstances of many will force them to dispose of a part of their holdings from day to day. If there is a demand for the bonds equal to, or greater than the offerings, the price will probably be maintained at par or at a slight premium; but if buyers are in the minority the tendency will be for the bonds to fall. We have our own experiences in connection with the previous domestic loans to guide us, also the experience of the United States. When the first Liberty Loan was floated in the neighboring country there was a great outcry over the first sales at less than par. The holders who sold, the parties who bought, and the dealers who put the transactions through were characterized as unpatriotic; and I believe some of the purchasers actually paid up the difference between their purchase price and par, — in deference to the outraged feelings of the community. But that mood soon passed, and sensible people soon realized that it was necessary to have a real market for the bonds, and that the Government's purposes were served best when any one could take his bond into the market at any time and sell it for what it would bring. The second Liberty Loan which was recently floated in the United States is now quoted at 97 and thereabouts, although it was issued to subscribers at par.

There are several ways in which our Government might attempt to prevent sales of Victory bonds at a discount. If sales at a discount were in evidence it might endow the bonds with additional privileges; it might issue an edict forbidding transactions at prices under 100 just as the Montreal and Toronto stock exchanges have done with the listed stocks; or it might support when the market is weak — that is buy the bonds offered for sale at less than 100. The experiment of endowing outstanding bonds with additional privileges was tried last summer when the 1931 and 1937 war loans sold down in the market. In order to strengthen the market for these bonds, the Government decreed by Order-in-Council that they should be eligible for conversion at issue price and interest into future domestic loans having a currency of 20 years and over. Although this served to bring about a recovery in quotations, the recovery did not restore the prices to the level at which subscribers bought. There was also an element of injustice in the proceeding, inasmuch as those original subscribers who had parted with their holdings did not derive any benefit from the changed status of the bonds. Again, it is unusual for either of the parties to such contracts as these to alter the terms thereof after the completion of the transaction. Another point is that the Victory Loan bonds are already endowed with the conversion privilege, so that cannot be repeated in their case. Also they are exempt from Dominion income tax; and it is difficult to see what new privilege they could properly be endowed with.

No one expects that the Finance Minister will essay to support the Victory bonds by means of an edict. It would either be entirely ineffectual, or if effective it would perhaps destroy the market for the bonds just as the minimum prices on the stock exchanges in this country have temporarily destroyed the market for a number of Canadian stocks which were formerly active and salable. If that were done in case of the Victory bonds, and, holders could not sell them at will, there would be but a small chance of getting another huge domestic loan from the Canadian public. On the contrary, if there is a free market, people will be ready to put their money into the new bonds.

Finally we arrive at the third method — that of extending artificial support to the market. If there were but a small volume of bonds outstanding, no doubt this method could be prosecuted successfully. The Government could have its orders in the market and buy in the bonds when they broke par, probable selling them again at par or better. But could that be done with a half-billion dollar issue? The tendency of the interest rate on Government loans, where the Government appears in the market regularly and repeatedly for new loans of huge amount, is steadily upwards; and the discount quoted on old loans is merely one of the ways in which this rising tendency of interest is expressed. It means that investors generally expect that future loans will probably have to bear higher interest rates. So when that belief prevails, the buying of the bonds is not likely to be as keen or urgent as the selling. If the Victory Loan bonds should break par and selling should be persistent, the Government in attempting to support the market would perhaps be forced to acquire and hold a large amount of its own bonds thus nullifying to that extent the loan of the people to the Government. In view of the treasury's very pressing needs, for all purposes connected with the war, it would be absurd for it to pay out large amounts of its precious funds for the purpose of supporting the market.

What does it matter if the bonds do go to a discount? Canadians understand the vast importance of the war issues, and nearly all of them are willing to contribute in various ways towards the winning of the war. A drop of a few points, in the Victory bonds will not alarm them. Most of them know the depreciation would be but temporary. Those who are obliged to sell while the quotations are down, will cheerfully write off the loss, counting it as a small contribution towards the defeat of the Hun; and those who do not need to sell will collect their interest at every coupon date — the market quotation in most cases being ignored. Many of the farmers and working people who bought the bonds, did so to help the Government, and secondly for the interest return. The interest return is sure, and is not affected by the vagaries of the market. So it may be the case that the parties who wish to have "something done" to prevent the bonds selling below par, have an exaggerated idea of the ill effects that would accompany or follow the discount quotations. There are many strong points in favor of letting the bonds find their natural level and trusting to the patriotism and good sense of the investing public.

NOVA SCOTIA'S PRODUCTION.

The Halifax Chronicle estimates that in 1917 the following values were produced by the industries of Nova Scotia:

Coal	$23,600,000
Coke and by-products	5,000,000
Gold and other minerals	250,000
Gypsum, limestone, etc.	1,250,000
Building materials and clay products	450,000
Iron and steel products	20,000,000
Fisheries	10,092,000
Manufactures, ships and freights	47,750,000
Products of the farm	36,117,203
Products of the forest	4,500,000
Game and furs	500,000
Total	$149,509,203

CANADA'S STATISTICAL STORY OF 1917.

(Toronto Globe.)

	1917.	1916.	1915.
Canada's total exports (11 months ending November)	*$1,399,018,000	$961,666,000	$521,953,000
Canada's total imports (11 months ending November)	*$943,499,567	$698,709,000	$405,973,000
Canada's total trade (11 months ending November)	*$2,342,517,567	$1,660,375,000	$927,926,000
Western grain crop (bushels)	540,000,000	599,406,500	724,533,900
Western wheat crop (bushels)	215,000,000	242,314,000	342,948,000
Value of western grain crop	$584,426,200	$423,543,000	$419,179,887
Value of Ontario field crops	$245,281,850	$190,646,000	$210,674,415
Total mineral production of Canada (value)	$200,000,000	$177,201,534	$137,109,171
Pig iron production (short tons)	1,187,000	1,169,257	913,775
Steel ingots and castings (short tons)	1,735,000	1,428,249	1,020,336
Copper production (pounds)	113,000,000	117,150,028	100,785,150
Zinc (value)	$2,086,800	$3,010,864	None.
Gold production (value)	$17,000,000	$19,234,976	$18,977,901
Silver production (ounces)	23,500,000	25,459,741	26,625,960
Coal production (short tons)	14,000,000	14,483,395	13,267,023
Nickel production (pounds)	84,800,000	82,958,564	68,308,657
Porcupine output (ounces)	452,095	452,095	362,186
Porcupine output (value)	$9,397,536	$9,397,536	$7,480,901
Porcupine dividends	$2,278,199	$4,166,000	$4,441,948
Cobalt output (ounces)	20,000,000	20,000,000	23,653,718
Cobalt output (value)	$16,000,000	$13,000,000	$11,704,300
Cobalt dividends	$5,903,112	$4,958,650	$4,424,501
Total B.C. Mines production (value)	$40,000,000	$42,000,000	$29,447,508
Bank clearings	$12,469,426,435	$10,564,043,329	$7,797,430,809
Bank capital paid up, Nov. 30	$111,669,770	$113,305,244	$113,987,275
Deposits in banks in Canada, November 30	$1,547,527,236	$1,295,870,723	$1,120,954,459
Current loans of banks, November 30	$964,928,238	$813,791,947	$830,403,518
Liabilities of chartered banks, November 30	$2,078,101,230	$1,716,214,920	$1,463,200,922
Assets of chartered banks, November 30	$2,320,270,985	$1,957,511,502	$1,702,194,396
Failurues, number during year	1,131	1,772	2,621
Failures, liabilities	$12,953,799	$15,952,684	$31,989,105
Insurance in force with companies in Canada	$1,500,000,000	$1,422,179,632	$1,311,616,677
Canadian borrowings during year	$725,325,000	$316,917,362	$341,892,871
Government issues	$676,050,000	$208,621,933	$214,814,133
Municipal issues	$27,750,000	$49,893,763	$66,508,073
Railway issues	$2,500,000	$15,920,000	$37,915,665
Public utilities	$9,200,000	$22,950,000	$14,605,000
Miscellaneous issues	$9,825,000	$19,531,666	$8,050,000

* Excluding coin and bullion.