The last reduction in the discount rate of the Federal Reserve Banks of the United States was made on April 18. Bond prices in that country hit their peak on April 21. A decline then set in which was temporarily interrupted in the latter half of May, but then continued with little interruption until October 3. A further decline in bond prices began in the last week of November and has continued in that country up to the present time.

It is not to be expected that Canadian bond prices will always follow United States prices even in direction over short intervals, let alone in degree of movement, but undoubtedly developments in the United States are bound sooner or later to have a weighty influence on developments in Canada. And so it has been in 1958.

The average maturity of the public debt had been shortening for several years, both in the United States and Canada. The large volume of securities falling due for repayment each year was a matter of concern to fiscal authorities in both countries, and a serious handicap to the sale of new issues for cash in a period of government deficits.

By the end of June the market atmosphere was very unfavourable to new financing, yet the Government of Canada needed large sums of new money in the immediate future. Funds could be obtained as a last resort from the banks, with the Bank of Canada providing increased cash reserves to the chartered banks, but after the large scale purchases of government securities by the banks and corresponding monetary expansion in the preceding twelve months, this would have been regarded as dangerously inflationary, unless other steps could be taken simultaneously to deal with the public debt structure and make possible the sale of future issues of government bonds to non-bank investors. At the same time, some way had to be found to reduce the heavy proportion of short-term bonds and increase substantially the proportion of long-term bonds.

The five victory loans totalling $6,416 million had ultimate maturity dates between January 1, 1959 and September 1, 1966. In addition, all these issues were callable on or before September 1, 1961. This prospect, in addition to non-victory loan maturities and the need for heavy new borrowings, made debt re-organization imperative, if a high degree of confusion and demoralization of the bond market was to be avoided and a sound basis created for financing Canada's expansion and development. The conversion of all five victory loan issues was more equitable, more efficient and less costly than a piece-meal approach.

Fundamental to the project was the idea that it would be easier to sell the public long-term bonds in exchange for bonds which they already held, than to sell them long-term bonds for cash. The prospective cash requirements of the Canadian Government for several years ahead were also a major consideration.