been causing me alarm in recent weeks and I believe it also requires some very decisive action on the minister's part. All hon. gentlemen know that we recently had the floating of two fairly short term bonds, one at a nominal coupon rate of $2\frac{3}{4}$ per cent for 13 months and the other at 3 per cent for one year, $9\frac{1}{2}$ months. The thing that is worrying me and which I draw to the minister's attention because I feel it will be helpful to him in consideration of budget proposals to which he will be giving very rapt attention over the recess is the fact that there seems to be an unseemly and unholy competition on the part of public borrowers—and I include the federal government, the provinces and the municipalities—in seeking from the public funds with a silent gimmick or attraction, namely bonds sold at a discount which when one relates it to an income tax rate results in very expensive cost for public money.

In January of this year the province of New Brunswick floated bonds which carried a coupon rate of $2\frac{1}{2}$ per cent but by reason of the discount and short term the effective rate will be 4.75 per cent. I am told that one of the municipalities in Quebec has been utilizing this gimmick to the extent that it offered money at a nominal rate of 1 per cent but the non-taxable discount was so substantial that it still had attractions for borrowers because they believed they would not be responsible for income tax on the difference between the par value of the bonds and the discount prices at which they got them.

Mr. Fleming (Eglinton): Mr. Chairman, would the hon. gentleman care to give the date of the municipal issue to which he refers?

Mr. Benidickson: I refer to the municipality of Malartic.

Mr. Fleming (Eglinton): And would my hon. friend give the date?

Mr. Benidickson: I have not got it.

Mr. Fleming (Eglinton): I think my hon. friend will find it was several years ago under the previous government.

Mr. Benidickson: I am not so informed by the Bank of Canada. When I inquired yesterday the date was not given me. I have cited this as a recent illustration of what is happening. Hon. members of the committee know that except in the provinces of Quebec and Ontario any tax advantage in the matter of floating bonds of this kind is at the expense of the federal income tax collections and so unless this thing is straightened out the minister himself will find that the federal treasury will be losing in taxes on these highly discounted bonds for short terms whether his or offered by other governments.

I want to give a little illustration of what the actual value was of the most recent flotation of federal bonds by the minister. I will refer to the $2\frac{3}{4}$ per cent bonds due, as I said, 13 months after issue, $85 million of which was subscribed. This bond will go up $20 per thousand in 13 months.

Mr. Fleming (Eglinton): My hon. friend says "subscribed". He knows it was over subscribed and that was the limit of the allotment.

Mr. Benidickson: My friend has boasted about oversubscription. I want to indicate to the house why this bond has perhaps proved satisfactory to the extent that it was oversubscribed.

Mr. Fleming (Eglinton): Don't say $85 million was subscribed.

Mr. Benidickson: In the minister's advertisements to the public the issue is referred to as $2\frac{3}{4}$ per cent, due April 1, 1960, issued at 97.90, a discount from 100 to yield on that basis 4.76 per cent. I want to point out to the minister that the corporation tax is approximately 50 per cent and that a great number of the personal taxpayers who buy bonds are paying on the last portion of their income an income tax of at least 50 per cent. The result is that people in that category who buy these bonds would have to get an annual yield of 6.6 per cent on another bond sold at par in order to net this amount. That is how attractive the minister has been forced to make his interest rates for his purposes.

Mr. Fleming (Eglinton): Surely my hon. friend is not going to leave on the record a shockingly misleading and inaccurate statement of that kind. The hon. member knows perfectly well how interest rates are calculated, and if anybody paid any attention to his last statement it could not possibly fail to do very serious mischief. I ask the hon. member if he does not think that a sense of responsibility would dissuade him from making a shocking statement of that kind.

Mr. Benidickson: I will spell out how attractive it is and the type of argument that is made by the sellers of these bonds to people who, as I say, may have an income tax rate of 50 per cent. A person or corporation paying a 50 per cent tax would receive in a year after paying tax $13.75, being one-half of a $2\frac{3}{4}$ per cent coupon, plus $19.32—I am using a year as the basis although the issue was for 13 months—being twelve-thirteenths of $21. The result is that he receives in that year a benefit of $33.07 per $1,000 bond after tax. I repeat that to net that amount on another bond sold at par he would have to get an annual yield of 6.6 per cent.

But the point I am making is that there is unseemly competition going on between