Borrowing, Debt and Interest

The fiscal measures which were taken in 1958 and 1959 were accompanied by far-reaching measures of debt management. I have pointed out on previous occasions that good debt management is essential to the maintenance of the purchasing power of the Canadian dollar and the achievement of sustained national development. It is at the very heart of national thrift and is vital to the realization of the economic goals of a free and competitive society.

The great conversion loan of 1958 achieved an unprecedented success. It proved to be a major anti-inflationary step. It removed a source of heavy pressure on the bond market and by nearly doubling the average length of our debt it enabled us to develop and carry forward a sound debt management policy. It has greatly contributed to the stable growth of the economy in the year just ended.

As the Governor of the Bank of Canada pointed out in a speech on November 16th: "The value of the conversion loan should not be under-estimated. It was the most important single factor in the changed circumstances which made it possible for the net financing requirements of the Government to be raised entirely from non-bank investors after September 1958, and therefore made it possible for monetary expansion to cease and comparative stability to be maintained for a considerable period thereafter".

In the fiscal year which ended March 31st, 1959, the Federal Government borrowed $1,296 million of new money in the market. As I forecast in my Budget, in the present fiscal year new money requirements should be reduced to some $850 million and if account is taken of the decision of the CNR to repay to the Government the proceeds of its public issue of last month, the Federal Government's requirements for new funds will be reduced by a further $300 million. In short, our new market borrowings for the fiscal year ending March 31st, 1960, will be about one-half of our requirements of 1959. Moveover, our new market borrowings in the current fiscal year have all been raised from the savings of the general public, as the Governor noted, and therefore in a non-inflationary manner.

In the last four months the bond market has been stabilized and strengthened and there has been a notable return of confidence. Interest rates, it is true, have been high, but these rates have served to attract investors. The Government's bond offering in September and the CNR bond offering in December were both heavily over-subscribed. The recent 14th Canada Savings Bond campaign attracted the highest volume of subscriptions ever attained in a savings bond campaign — over $1.4 billion. I am not suggesting that there are no problems in the market, but I draw attention to the solid and constructive improvement evident since September.