

Longer Term Conversion Bonds Suggested by New York Bank

By ELMER C. WALZER
UPI Financial Editor

New York—The government bond market in a turmoil it is suggested that the treasury get busy with some longer term conversions on the order of the recent Canadian government financing.

First National City Bank of New York makes this suggestion following hectic speculation in U.S. bonds that required billions of dollars of Treasury and Federal Reserve support to bring some order into the market.

The Treasury support has a deflationary impact in that it takes bonds off the market. But it cuts into Treasury funds.

Federal Reserve support of the bond market pumps more credit into the economy on top of a rise of more than \$8 billion in bank credit in the first half of 1958. This credit has a way of going to work and here then is an inflationary push that is causing worry among the experts.

Some Problems

With the bond market now showing some semblance of stability, the Treasury still is faced with many problems:

1. It must raise \$10 to \$12 billion in new money to make up for a Treasury deficit this year. And it will be competing with recovering industry which will need funds.
2. It must retain a market for \$22 billion of 91-day bills.
3. It must refinance \$46 billion of marketable certificates, notes and bonds maturing in the next 12 months.

The way things look right

now the financing ahead must be done through the bank of issue. In other words, the Treasury in depending on banks for its financial lends a hand to a big credit inflation.

In this connection, First National City Bank says: "Financing governmental deficits through banks of issue is a hazardous business."

"It raises the specter of uncontrolled inflation . . ."

"It can create circumstances in which government bonds can be made saleable only if



TEAMSTER PRESIDENT— James R. Hoffa, president of the Teamsters Union, made a return appearance before the Senate labor rackets committee in Washington, just in time to face questions about the "human torch" attack on one of his associates, Frank Kierdorf, of Flint, Mich.

they are tied to cost of living indexes or the price of gold.

"The unfortunate aspect of the Federal Reserve's massive intervention is that it gives encouragement to inflationary psychology."

First National City says the sounder way is to follow the Canadian example. Canada launched a huge refunding involving about 45 per cent of the \$14 billion Canadian national debt.

Canadian Plan
Canada offered holders of \$6.4 billion 3 per cent victory bonds issued during World War II and due from 1959 to 1966 four noncallable securities ranging from 3½ years to 25 years with no investor permitted to exchange for a maturity shorter than he held.

Higher coupons sweetened the issues and bonuses were thrown in. Coupons ranged to 4½ per cent, the highest rate on dominion bonds since 1932. This, says First National City, "looks good to conservative investors even in an age of creeping inflation."

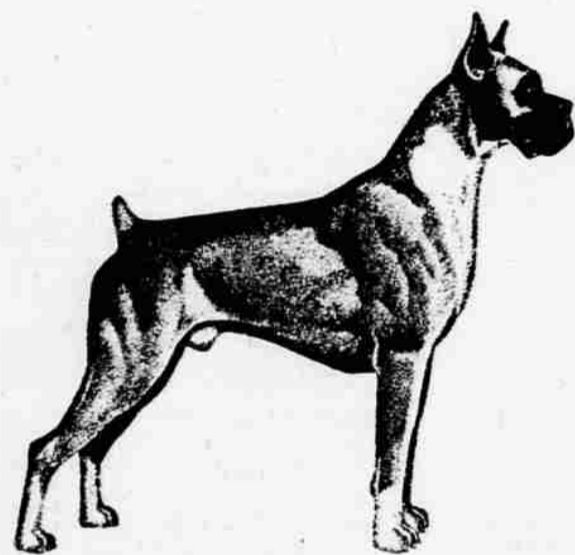
"The Canadian plan accomplishes at one fell swoop what Secretary of the Treasury Robert B. Anderson has been attempting to work out slowly, over an extended period of time."

"The beauty of it is that the Bank of Canada is relieved from pressure to help the government with its financing problems."

"This sort of step is one we should be considering."

But the bank considers as most essential getting government expenditures and financial commitments under control and adds:

"It is not fair to ask anyone to buy bonds of a government which seems to be embarked on deficits as a way of life."



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