

Our New Debenture Stock and British Exchequer Bonds

The Latter Offer More Attractive Investment. An Issue Here Would Further Canada's Interest

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Since the article on the British Exchequer bonds was published, in the October 10th issue of the JOURNAL OF COMMERCE, announcement has been made at Ottawa of a new issue of Dominion Government debenture stock bearing interest at 5 per cent. and redeemable on October 1st, 1919. The stock is to be continuously on sale at the Finance Department at par, and it carries with it the right of conversion at par with accrued interest into any Canadian war loan bonds to be issued in the future. The main purpose is to secure for the use of the Federal Government a goodly portion of such investment funds as may accumulate in the Dominion between the present time and the date of issue of the next round amount which is available for purchase war loan. Thus an investor coming into possession of our national war bonds, can put the money at once into the debenture stock, get a clean 5 per cent. on it until the next domestic loan is made, and then exchange without loss or expense into the war bonds perhaps bearing the same or a higher rate and running for 10 or 15 years or more.

Such an investment should be attractive to institutional buyers, the insurance companies in particular. With reference to the latter some observers have surmised that drastic cutting down of their subscriptions to the last war loan might leave several of them short of Dominion Government bonds in respect to the requirements promulgated in the recent legislation taxing excess profits. For example, if one of the large insurance companies, proceeding on the theory that it would be allotted approximately the amount of its subscription, were to have fixed its application so as to produce on this basis about the amount in Dominion bonds which the company needed to fill out its 1916 requirements, then the allotment on the basis of one-half or one-third of the amount applied for, might leave a considerable shortage, which but for the new issue of debenture stock would have to be covered by means of purchases in the open market. Also other buyers, having their applications cut down in the allotment, would perhaps be compelled to go into the market and buy what they required. Such developments would have a tendency to drive up the quotations for the outstanding bonds; and from the Government's point of view it is to be desired that the demand for its securities should be satisfied by means of further issues rather than through tempting existing holders to sell out on account of rising prices. In this way the issue of debenture stock has a marked tendency to keep the prices of the first and second war loans from rising unduly.

Most financiers will probably agree that the rate of interest on the debenture stock has been wisely fixed at 5 per cent. It would not be advisable to have the stock yield better returns than the long term loans yield to subscribers, because it is to the advantage of the Government to have its securities permanently placed. The 5 per cent. rate is practically the same as that applying to the issues of the Eastern Provinces and of the principal Eastern Cities. It is slightly lower than what the smaller cities of the East and the large cities and provinces of the West have been paying. Thus it should not prevent them getting what capital they urgently need. The rate is, however, a full one per cent. less than can be obtained through buying the new British Exchequer bonds, or the Anglo-French fives as offered in the New York market. With reference to the Anglo-French fives, it has already been intimated, semi-officially at Ottawa, that the Imperial Government has secured the money from New York for the whole of its share of that issue. The United States have provided the cash, and are carrying the bonds. So, when a Canadian investor buys into the issue he gets a good investment to be sure and he contributes to a certain extent towards maintaining British credit abroad, but he does not give the British Government new money for prosecuting the war. It is scarcely correct to assert that his purchase does not benefit the British finances; for it plays its part in sustaining the American market for British bonds and this tends to facilitate the placing of further British loans in New York.

On the other hand the purchase by a Canadian of the new Exchequer bonds constitutes a direct loan of new money to the British Government, and thus

is support for the Empire of a more direct nature. In view of the difference in yield as compared with our new debenture stock, it will be interesting to trace results of an investment in Exchequer bonds.

Demand sterling, at date of writing this article, is 4.75% at Canadian centres. Take it at 4.76 and £200 par value in bonds would cost \$952. The yearly interest would be £12; and with respect to this the rates of exchange prevailing at interest dates would influence the yield. If the interest is converted at 4.76, the yield is exactly 6 per cent. If the rate is less than 4.76, the yield is less than 6—and so on. Then an important consideration is that of the rate of exchange when the bonds mature, in February, 1920. Most of us believe the war will by that time be over, and that the Germans and their Allies will have passed through crushing defeat. If our expectations in this respect are realized, it is quite within the possibilities that gold will be moving back to England and France from the United States; and with a gold movement to Europe in progress sterling exchange at New York and at Canadian centres would perhaps be selling at 4.88 or thereabouts. Now, if the Canadian investor is able to cash his £200 Exchequer bonds in 1920 at 4.88, he would receive \$976—a gain of \$24 as compared with the purchase price. Spreading this over the 3 year period and adding it to the nominal interest, the average annual net return would be roughly 6.80 p. c.—this on the assumption that the coupons or interest payments

are converted into Canadian money at \$4.76 to the pound.

The example shows the possibilities in connection with an investment by a Canadian in the new Exchequer bonds—the return, even if sterling exchange, in 1920 is still at 4.76, being a full 1 per cent. better than on Dominion Government debenture stock. It is understood by Canadian financiers and capitalists that while it is our duty to support the finances of the Empire, yet in doing so we should select a method which specially strengthens and supports the Dominion. If one of our investors, acting independently, cables or sends by mail an order for the British bonds, he truly supports the Imperial interests; but the transaction has no direct effect in improving or sustaining Canada's position. On the other hand should the Finance Minister during his visit in England arrange with the British authorities to the effect that a block of £10,000,000 or £15,000,000 of the bonds be set aside for allotment to Canada, with the understanding that proceeds were to be used to meet bills for munition purchases in the Dominion, then a purchase of the bonds by a Canadian investor would accomplish the two-fold purpose of supporting the Imperial finances and of furthering Canada's interests.

Such an investment, at short date, would not mean locking up our capital—we would collect in three years at the latest. Again, if the operation were put through about December or January, it would not likely interfere materially with the next domestic war loan which perhaps would not be issued until midsummer of 1917 or later. Also, as mentioned in the article of October 10th, the distribution of these bonds among the Canadian public would help us to avoid the danger of over-loading the banks with treasury bills. In the event of such an arrangement being made, the transaction of placing the British bonds here might have better prospects of success if our investors were allowed to participate the chances of gain through rise in sterling quotations.

Canada's Water Powers

Nearly Eighteen Million Horse Power Available; Only One-tenth Developed

Water power has played a most important role in the industrial development of the Dominion, and with the advances in electrical science, will play an even more important role in the future. Probably no country in the world is more fortunate in the extent and location of its white coal than is Canada. Practically every commercial centre from coast to coast, except only a few in the middle prairie provinces, have abundance of water power available, not only for present needs, but for all anticipated requirements. Indeed, the fortunate location of Canada's water powers is the outstanding feature of her water-power resources.

Furthermore, where there is not sufficient white coal available to furnish energy requirements, there is an abundance of black coal. So far as sources of energy for power producing agencies are concerned, Canada's position is pre-eminent.

Within the provinces of the Dominion of Canada, and excluding the Northwest Territories, practically all of the Yukon, and the northern and eastern portions of Quebec, it is estimated that 17,746,000 horse-power are available, this amount being inclusive, in the case of Niagara Falls, Fort Frances and the St. Mary's river at Sault Ste. Marie, of only the development permitted by international treaties, and, further, does not contemplate the full possibilities of storage for the improvement of present capacities. The developed powers, which are inclusive of all water powers, whether for electrical production, pulp-grinders, for mining and milling, or for the great many other uses, aggregate 1,712,193 horse-power, the distribution throughout the respective provinces being shown in the table hereunder:

Developed Power in Canada.

Province	Horse-power Developed.
Nova Scotia	21,412
New Brunswick	13,390
Prince Edward Island	500
Quebec	520,000
Ontario	789,466
Manitoba	56,730
Saskatchewan	45
Alberta	33,305
British Columbia	265,345
Yukon	12,000
Total	1,712,193

The extent of the future development can be only limited by the available water powers. Practically

all of the 1,712,193 horse-power enumerated above as developed from water power has been created within the last twenty years, and of this the last decade has seen practically two-thirds of the total produced. If such a rate of increase were projected into the future the 8,000,000 horse-power estimated to be available within range of present markets, will be entirely in use within fifteen years, and even by liberally discounting such a rate of increase, notwithstanding our confidence in being upon the threshold of an inconceivably prosperous future, such a condition of development may be readily approached within a generation.

With water power as a fundamental necessity in the industrial future the regulation and conservation of the river waters is to-day being demanded on a large scale, and this will naturally become more insistent as time goes on. It has been fortunate that, in Canada, the title to the water-power rights have largely remained under the control of the Dominion or Provincial Governments. The Dominion Government controls navigable streams and their water powers throughout the Dominion and the water powers in general of the provinces of Manitoba, Saskatchewan and Alberta. The administration of all water powers in British Columbia, Ontario, Quebec, New Brunswick and Nova Scotia is under respective provincial control.

The administrative policy of the Dominion Government and the various provinces may be readily studied in the five monographs included in a book recently published by the Dominion Water Power Branch, Ottawa. These treat in a "popular" way of the water powers of British Columbia; the prairie provinces of Manitoba, Saskatchewan and Alberta; Ontario; Quebec; and the maritime provinces of Prince Edward Island, New Brunswick and Nova Scotia. While it is impossible to treat in detail of the various sites and power developments existing throughout Canada, the more important are at least described in the most essential features.

These five monographs were originally prepared and published for distribution in connection with the water power exhibit of the Dominion Government in the Canadian pavilion at the Panama-Pacific International Exposition, and particularly for distribution to the members of the International Engineering Congress at San Francisco, September 20-25, 1915.