

SUPERIORITY OF SERIAL PAYMENT PLAN

Ample Proof of Its Advantages is Available—Opinion of
Charles F. Cushman, a New York Expert

The following contribution to the discussion now in progress in these columns regarding the relative merits of the serial and sinking fund methods of issuing municipal bonds, comes to *The Monetary Times* from Mr. Charles F. Cushman, manager of the municipal bond department of the New York Life Insurance Company:—
Editor, *The Monetary Times*,

Sir,—In *The Monetary Times* of October 1st, there is published a letter of Mr. W. D. L. Hardie, city clerk, Lethbridge, Alberta, in which he takes exception to the endorsement by *The Monetary Times* of Mr. Thomas Bradshaw's able article illustrating the superiority of the serial over the sinking fund method of issuing municipal bonds. Mr. Bradshaw's article seems so clear and convincing that it is surprising that Mr. Hardie would attempt to maintain that a sinking fund can be invested for the full period of time over a long term of years at the same rate of interest as that borne by the bonds themselves. Mr. Bradshaw illustrated very clearly why this is impracticable if not impossible.

Under existing abnormal conditions, sinking funds can be invested at very much higher rates than those borne by long-time loans contracted a number of years ago when municipalities enjoyed a 3½ per cent. to 4 per cent. credit; but to issue long-time bonds under the sinking fund plan with the belief, or in the hope, that interest rates will be as high or higher during the greater part of the period than the rate at which the city borrowed, and that full interest for the full time can be maintained, is to speculate, and speculation is not a recognized municipal function.

What Experience Shows.

The object of this article, however, is to show that experience teaches and that Mr. Hardie's strictures in his statement, "The fad of damning the sinking fund bond is largely due to the poorly managed affairs of the metropolitan debts of Boston and vicinity," are not applicable to that section of country to-day. His statement may prove to be in the nature of a boomerang that returns to strike him with the conviction that Mr. Bradshaw's position is correct, if the experience of "Boston and vicinity" is of value as an endorsement thereof. It was found several years ago by the Massachusetts Bureau of Statistics "upon computing some 1,200 different sinking funds of the 85 Massachusetts cities and towns (except Boston) having such funds, that while 47 showed net surplus aggregating \$2,855,192, there were 52 instances in 40 different municipalities of apparent failure to provide sufficiently for the requirements of the funds in order to meet the debt at maturity, the deficiencies, according to the method of computation adopted, aggregating \$1,794,391.

"In numerous cases the contributions were based upon no definite, regular formula, the amounts which should have been raised annually having apparently never been properly calculated, or not recalculated with sufficient frequency to meet current requirements accurately. (See Report of a Special Investigation Relative to the Sinking Funds and Serial Loans of the Cities and Towns of the Commonwealth, by the Director of the Bureau of Statistics. House Document No. 2162.)" The outcome of this, with several other investigations, was embodied by the Massachusetts Legislature in 16 acts.

Sound Financial Principles.

The director of the bureau of statistics in his fifth annual report states: "I doubt whether any state can show an instance of legislation more thoroughly predigested than that which, without a dissenting voice in either branch of the legislature, has just been placed upon the statute books of Massachusetts for the purpose of restricting and regulating the incurrence of municipal indebtedness in accordance with sound financial principles." He states further: "Without undertaking a digest of these several enactments, it seems appropriate at this time to review briefly certain of the principal features of the new municipal indebtedness act, which will make many radical changes in the conditions under which the cities and towns of the Commonwealth may hereafter incur debt, giving to Massachusetts, indeed, a law upon

this subject which is probably the most advanced of that of any state of the Union. In its more important aspects this new legislation seeks to strike at four fundamental evils of municipal financial administration, namely—(1) (2) (3) 4. The neglectful and costly management of sinking funds. . . . The way to stop the abuses of the sinking fund method of paying municipal debt caused by ignorance and inefficiency and to remedy its wastes is to stop the further establishment of such funds. This is the very simple and effective remedy which has now been applied in Massachusetts.

State Bonds and Serial Method.

"The Commonwealth itself set the example a few years ago and since then all state bonds have been issued and made payable by the serial method; several of our cities and towns did likewise and the process is now to be hastened by the prohibition of any further creation of sinking funds and the requirement that all debt shall be issued in accordance with the serial plan. The serial payment provision of the law requires municipalities to provide for the payment of all except temporary loans by such annual payments as will extinguish the same at maturity, and so that the first of such annual payments on account of any loan shall be made not later than one year after the date of the bonds or notes issued therefor, and so that the amount of such annual payments in any year on account of such debts, so far as issued, shall not be less than the amount of principal payable in any subsequent year, and such annual amount, together with the interest on all debts, shall, without further vote, be assessed until the debt is extinguished."

Further Proof Available.

As a result, then, of "the poorly managed affairs," to which Mr. Hardie calls attention, legislation has been enacted abolishing the sinking fund bond which Mr. Hardie advocates.

If Mr. Hardie desires further proof that experience is the best teacher, let him study the results of the New York State Constitutional Convention that has recently followed the leadership of Massachusetts on this important question; or read the able report of counsel for the Investment Bankers' Association of America delivered at the annual convention at Denver last month.

Yours, etc.,

CHARLES F. CUSHMAN.

New York, October 8th, 1915.

CANADIAN FINANCES

The detailed statement of the revenue and expenditure of Canada for the first half of the fiscal year, April 1st to September 30th, shows that the revenue, compared with that of the same months of 1914, was as follows:—

	1914.	1915.
Customs	\$41,906,668	\$43,206,579
Excise	11,055,734	10,190,055
Post-office	5,725,000	7,999,779
Public works, etc.	7,060,846	7,834,871
Miscellaneous	4,582,961	4,012,228
Total	\$70,331,211	\$73,243,514

The figures of the customs and post-office returns indicate that the new taxes are providing the necessary income.

The figures of expenditure for the six months of the past and present years compare as follows:—

	1914.	1915.
Ordinary account	\$55,515,639	\$46,271,622
Public works capital	17,702,674	16,811,845
Railway subsidies	1,449,062	723,021
	\$74,667,375	\$63,806,488

While the revenue showed an increase in 1915 over 1914 to September 30th of nearly \$3,000,000, the expenditures on the public services and public works were \$10,860,000 less this year than last. There would be an apparent surplus of income over all expenditures of about \$9,500,000. There is included in this year's returns, however, \$44,427,893 of war expenditures, which has to be added to the total outlay, and makes it \$108,234,382. There were war expenditures in August and September of last year, but they were not included in the monthly returns.