

Monetary Times

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of Canada

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GERMAN WORK IN THE STATES

The activities of German sympathizers in the United States have a very wide range from newspaper publicity to bomb planting, from criminal work to threats of political retaliation. The government at Washington is now investigating serious charges made by the New York World as to the widespread propaganda by Germans in the United States and directed by Germans in high official positions in the United States and in the Fatherland. The American Truth Society, with headquarters in New York, have distributed a circular advising the withdrawal of gold from banks as a protest against the manufacture and shipment of war munitions to the Allies. The result of even a limited compliance with this suggestion would mean commercial and financial disaster to the country. The deposit liabilities of banks are more than four times greater than the supply of all kinds of money and currency in the country. It is not expected that there will be even limited compliance with the treasonable suggestion, but it is important to know that the pro-German element is well organized and busy. In relating the incident, the journal of the American Bankers' Association says that it is important to know to what extent it may be carried before American tolerance ceases to be a virtue and free speech and a free press cease to be the cloaks behind which conspirators and traitors may hide.

REPAYMENT OF MUNICIPAL DEBTS

The statement printed by a Montreal newspaper recently that the city of Montreal would appoint a receiver to administer its finances, is so foolish that it does not need serious contradiction. The city's revenue has diminished as it has in most other Canadian cities, following the financial crisis. But the credit of the city has not been impaired, and so long as the civic authorities listen to the good counsel of their financial advisers, the city's credit will be maintained at a high standard.

The incident recalls the fact, however, that improved methods of municipal finance are necessary. Haphazard methods are too common and refusals to depart from time-worn policies are too frequent. The town or city treasurer who will not analyze the merits of alternative financing plans, is in the wrong position. Even for the one purpose of selling Canadian municipal securities in the only large market at present available for them (the United States) civic authorities should examine their financing methods. Legislators should note the signs of the times, listen to the demands of investors and assist the running of civic affairs on business principles.

The method of repayment of permanent loans is one of several important matters which our municipalities should study. The three recognized methods of repaying moneys borrowed for a long term of years are (1) sinking fund, (2) annuity instalment, (3) serial instalment. In an unusually instructive paper read by Mr. Thomas Bradshaw to a convention of municipal authorities in Toronto last week, he submitted that municipalities should, in practically every instance, adopt the instalment method, either annuity or serial, instead of the sinking fund method, chiefly because of the heavy financial loss involved in the sinking fund method. In these days when economy is imperative, a way of obviating financial loss is worthy of serious consideration. Many of the smaller municipalities issue only instalment bonds, and *The Monetary Times* agrees with Mr. Bradshaw, that in this action, they have shown greater wisdom than our important cities, most of which still persist in obtaining their loans by the issue of sinking fund bonds.

Mr. Bradshaw, who is an actuary of ability and prominence, gave an illustration of each of these three methods. He assumed that a municipality proposes to issue bonds for some important permanent work, for say \$1,000,000, the loan to be repaid in twenty years and to carry interest at the rate of 5 per cent. Which of the three methods is most economical and desirable? Under the sinking fund method, the annual levy for interest would be \$50,000, and for sinking fund (assuming 3 per cent. as the sinking fund rate) \$37,215, a total annual levy of \$87,215.

Under the annuity instalment method, the annual levy required for repayment of principal and interest would be only \$80,242, or \$6,973 per annum less. The present value of this annual saving for the life-time of the loan is \$86,900, and this amount represents the actual saving to the municipality in issuing annuity instalment bonds instead of sinking fund bonds.

Under the serial instalment method the annual levy would vary from \$78,750 to \$81,500 per annum, and the saving therefore would be practically the same as in the annuity instalment case. In three tables Mr. Bradshaw set forth in detail the repayment of the loan under consideration. From these it is observed that the aggregate moneys which the taxpayers would be called upon, during the twenty years, to discharge the \$1,000,000 debt, according to the three methods would be as follows:—

- (1) According to sinking fund method\$1,744,314
- (2) According to annuity instalment method.. 1,604,851
- (3) According to serial instalment method ... 1,606,250

By the annuity or serial instalment method the amount of the debt repaid each year is a definite quantity, and the bonds corresponding thereto are redeemed and cancelled. As a result, the net indebtedness of the municipality at any given time can be determined with accuracy. By the sinking fund method, the entire debt