

States would probably make a strong bid for some of the loan. As an Ottawa dispatch says, such a loan, while not relieving the Canadian treasury to any extent of future interest charges, would have the advantage of keeping interest payments in Canada, while at the same time a safe and profitable investment would be offered to the surplus funds in Canada, for which a comparatively small field of safe domestic investment is offered.

SERIAL INSTALMENT BONDS

In *The Monetary Times* last week a letter was printed from Mr. W. D. L. Hardie, the city clerk of Lethbridge, Alberta, in which he questions the issuing of bonds on the annuity or serial instalment plan, as opposed to the sinking fund plan. Mr. Hardie, apparently, favors the sinking fund method. The subject is an interesting one, but in view of the arguments put forth by Mr. Bradshaw in these columns and elsewhere, and the practical experience which he is able to marshal, *The Monetary Times* feels that annuity or serial instalment methods are the more preferable for many of our municipalities.

Mr. Hardie has given an example and if we were to accept his theoretical statement, apart from practical experience, there would not be room for much difference of opinion. In the discussion of this matter Mr. Bradshaw cited the fact that municipalities which issue their bonds according to the sinking fund system calculate the annual instalment of sinking fund to earn a conservative rate of interest—some of the large municipalities 3 per cent., $3\frac{1}{2}$ per cent. and 4 per cent.—rather than a higher rate such as might be experienced in investments in the sinking fund during some period of the history of the bonds. It is a well recognized principle in finance, to assume a conservative rate of interest in connection with obligations running from twenty to forty years. While the interest rates to-day are high, no one can determine what they will be ten or fifteen years hence. Not many years ago, the bonds of our important municipalities were selling on a $3\frac{1}{2}$ per cent. to $3\frac{3}{4}$ per cent. interest basis. These conditions may be with us again. Any excess of interest earned in the sinking fund over the assumed rate should be reserved by the sinking fund to make sure of the investments in the sinking fund and to protect the fund should earnings decline. It would not only be poor judgment but dangerous to fix the annual instalment for the sinking fund on the assumption that a maximum rate of interest would be earned. There should be a very fair margin.

As to the merits of the two systems, we think that Mr. Hardie will immediately recognize the soundness of Mr. Bradshaw's contentions by a reference in the last annual report of his own municipality. Practically all the bonds of Lethbridge have been issued under the sinking fund system and the sinking fund statement shows that it has \$265,846 at its credit. How has this fund been invested and what rate of interest is it earning compared with the rate of interest at which bonds of the city of Lethbridge are selling? The sum of \$37,836 is in bank balance. What rate of interest does this earn? Presumably the usual bank rate of 3 per cent., or if some special arrangement has been made with the bank, it may be a little higher.

Then, again, the sinking fund carries as an investment, bonds to the extent of \$102,760 of the city of Lethbridge debentures. These bonds earn only 5 per cent. The sinking fund also contains a small investment of

\$2,790 in the city's own bonds which appear to have been issued at a 6 per cent. rate. The other investments in the sinking fund are: Mortgage loans, \$40,000, regarding which the auditor states: "No interest has been received on the loan."

The sinking fund is also made up of \$82,459, due from the city. In respect to this investment, the auditor says: "The instalment has not been paid over to the trustees owing to the non-payment of a large proportion of the taxes."

We have also before us a statement of a leading brokerage house which is offering city of Lethbridge bonds to yield 6.30 per cent., and therefore it must be presumed that in making a sale of its bonds, the money must have cost at least that rate of interest to the city.

It will be noticed that there is not a single investment in the sinking fund which is paying to-day the rate of interest at which the city's bonds are selling. The bank deposit, as it is intimated, will be about 3 per cent. The investment in its own bonds will be about 5 per cent. No interest has been paid on the mortgage loan and not only has no interest been earned on the amount due by the city to the sinking fund, but the instalment itself has not yet been paid over by the city to the sinking fund. It is difficult to imagine a sinking fund in a more unsatisfactory condition, not only from the standpoint of earnings, but also from the standpoint of security, and the situation in Lethbridge illustrates in a striking manner the contention so earnestly put forth by Mr. Bradshaw of the dangers, the difficulties and the losses associated with municipal sinking funds.

If the city of Lethbridge had issued its bonds on the instalment principle, it would have been subject to no loss whatever in the way of low interest earnings. It would not have been liable to place the sinking fund moneys in a security the interest upon which has not been paid, nor would it have been possible for the city to have defaulted in the payment of the amount due to the sinking fund. On the other hand, if the bonds had been issued on the instalment principle, as the instalments fell due it would have been necessary for the city to have met these instalments promptly and this would have brought home to the citizens of Lethbridge in a forcible manner the necessity of meeting its debt charges from year to year.

THE TIN CAN EPISODE

Henry Ford, Detroit, has made a bad break and does not seem to have had time to apologize. According to New York dispatches, Mr. Ford said: "If I find any of the banks in which my company or myself have deposits taking part in the proposed loan to the Allies I will immediately close our accounts. I will not have any part of my personal funds or the Ford Company funds, directly or indirectly, aiding the flotation of this loan."

"If I had my way, I would tie a tin can to this joint Anglo-French commission and chase it back to Europe."

Mr. Ford, in subsequent statements, would neither deny nor affirm the above. In the meantime, therefore, his utterances must be taken as being correctly reported. Mr. Ford would give his entire fortune to end this war. If he is sincere in that expression, therefore, and if he can see clearly through the mists of pacific theories, he should subscribe \$10,000,000 to the Allies' war loan. That act would help in the most practical way to accomplish the end, the theoretical aspects of which Mr. Ford seems to cherish devoutly.