

GOVERNMENT TO BACK MUNICIPAL BONDS.

Proposal of Ontario Municipal Association Described as Impracticable, and Impossible of Consummation —Government Debenture Department.

Recognizing the drastic changes that would be experienced by adopting the proposals of the Ontario Municipal Association in reference to the advisability of the Provincial Government providing for the purchase of all debentures of Ontario municipalities by the issue of provincial bonds, *The Monetary Times* has ascertained the opinions of leading bond brokers regarding these proposals. The scheme appears to us to be impossible of consummation, and one that is not likely to be entertained by the Provincial Government, is the opinion of Mr. F. W. Moore, of the National Finance Company, who anticipates opposition on the part of the larger municipalities such as Toronto and Hamilton, the opposition being actuated by the fact that such wholesale guaranteeing of municipal bonds would depreciate the market value of provincial bonds to a level below that which bonds of the two cities mentioned are being sold, and thus not benefiting the municipalities to any extent. While it is true that counties have authority to guarantee debentures of local municipalities, most of the county councils show a wise discretion, and it is a well-known fact where county councils have shown a tendency to guarantee bonds indiscriminately, this action has reflected upon the credit of such counties.

Increase of Borrowing Powers.

Another evil likely to arise in the event of municipalities being in a position to raise funds so readily from the government is that it would remove the restraint now imposed upon the borrowing tendencies of many municipalities by their subjection to market conditions and the criticism of municipal security buyers.

While the care of sinking funds by municipal officers is not all that could be desired, this could be remedied by other means than the wholesale absorption by the government of municipal bonds.

If officers responsible for the issuing of debentures would consult reputable bond dealers as to the best form of issuing their debentures, the rate of interest they should bear, the difficulties that they often experience through the failure to do this would be eliminated. The sale of bonds at a discount is referred to as "a loss to the municipality." The premium or discount pertaining to the sale of the debentures is not a gain or loss, excepting merely as to the amount of funds immediately available. In either case, the cost of the money to the municipality is the same, and the receipt of a premium or discount merely either increases or decreases the amount of principal borrowed and to be repaid.

Is it the intention of the Association to have the government purchase all municipal bonds on the same basis? Mr. C. H. Burgess, of Messrs. C. H. Burgess & Company, presumes this is the object the municipalities desire. If not, on what terms is the government to purchase the debentures? One would hardly expect debentures of a town say like Sturgeon Falls to be worth as much as debentures of a city like Toronto. Before any arrangement such as this could be made (if it is at all possible to make it) many important details would have to be worked out. If the city of Ottawa is to be responsible in its proportion for debentures issued by the town of Sturgeon Falls the city of Ottawa should have a voice as to how many debentures the town of Sturgeon Falls is to issue. Then would the government be wise in impairing its credit by acceding to such a suggestion of this kind? It would involve the issue of very many millions of Ontario government bonds with the result that the price of those bonds would decrease materially because there is only a limited number of people who desire debentures which will yield 4% and their requirements would very soon be satisfied. The government would then have to lower its price in order to find a market for the other bonds which would be continually coming on.

New York's Example.

As an instance of the effect on prices by the continual issuing of large blocks of bonds by one municipality or government look at New York's experience. Although it is the largest city on the continent and possesses more wealth than many of the next largest places put together, its debentures had a lower market value than many cities less than 1-10 its size and it was only when New York stopped issuing debentures for a year or so, that the prices of its securities improved to any extent and even yet they are not in as good demand as many of the other cities. If this plan were a good one would it not be better to extend it still further and cover the whole country so that every municipality could sell

its debentures to the Dominion which in turn would issue bonds to cover the payment.

Upon what would the Ontario Government bonds be secured? Would they be secured on the debentures which they hold or upon the general credit of the province at large? If they would be secured on the debentures themselves the security would be no better than the straight municipal debenture. Probably to the man who has had no experience in the marketing of bonds, the arrangement suggested would seem a good one for the municipalities but in the working out of that problem it would be found to fall short of the objects intended to be realized.

Alter Basis of Investment.

Regarding the Ontario Municipal Association's request, Mr. Noxon, of Messrs. Brent, Noxon & Company, does not believe such a course to be practicable. The even and reasonable distribution of patronage under such a scheme would be a serious undertaking, to say nothing of the radical change in the whole financial basis of investment.

The proposal is an absurd one, which the Provincial Government will scarcely adopt. Small municipalities would have bonds on the same basis as the larger cities; this would be unwise. Its effect would be to lower the price of all the bonds offered by the government, and cheapen its credit, objected another well-known broker. Then it would take away the privilege from the small investor of buying the smaller municipality bonds, which yield a higher income than afforded by the bonds of the larger cities. The necessity for constant borrowing by the Province of Ontario would make the British investors feel the province was borrowing beyond its limits. Carry this to an extreme conclusion every province would do the same, so that such an amount of bonds would create a glut, and securities would sink to a lower average level than obtained for them under the present mode of issue, so that nothing in any way would be gained.

Enormity of Province's Undertaking.

Colonel Stimson, of Messrs. G. A. Stimson & Company, thinks the proposal is impracticable, and lends credence to the belief that the idea was born in the mind of someone very unfamiliar with financial conditions.

Not knowing whether or not the proposed request is to ask the Provincial Government to undertake the financing of the cities and large towns in Ontario, such as Toronto and Hamilton, but assuming it is, during the year 1911 this would have meant the financing of an enormous amount aggregating many millions of municipal debentures sold by the various Ontario municipalities.

The immediate problem with which the government would be confronted in assuming such a task would be the marketing of the bonds.

It is not difficult to imagine if the Province of Ontario were to issue their bonds from time to time, year in and year out at the rate which would be necessary to meet the requirements of all the municipalities, that there would soon be a glut of provincial securities, and therefore a corresponding falling off in price. It would not only necessitate a higher rate of interest, but would injure and reflect upon the credit of the Government of Ontario in the English and other financial markets.

No Situation to Remedy.

As far as the home market is concerned the demand for provincial securities is limited on account of the low interest rate which they bear.

Under present conditions where smaller Ontario municipalities are issuing their debentures bearing, say 5%, and disposing of them at or around par, there is a demand for these from institutions, companies, etc., who are attracted by the safety of the security and the fairly good interest return.

Institutions and good buyers would not be interested to any appreciable extent in the purchase of provincial bonds bearing a correspondingly lower interest.

As a general rule the municipalities in the Province of Ontario are able, and are borrowing their required money on very advantageous terms.

The Ontario Municipal Association have no real situation to remedy.

Under normal conditions there is a good demand for the securities referred to, and looking over a period of years the rate of interest paid by the municipalities could not be deemed onerous or hard to bear. It is such an imaginative theory and so impracticable and unworkable no government would consider the adoption of such a proposal for a moment.

The Durham Furniture Company's new \$75,000 addition is near completion and will give employment to 100 more workmen.