

CANADIAN MUNICIPALITIES SHOULD NOT HAWK THEIR BONDS

Prevailing Practice of Paying Commercial Firms with Debentures instead of Cash is Undesirable

The financial stringency which is being felt throughout the world has caused Canadian municipalities difficulty in disposing of their bonds. The sale of a large block in the aggregate awaits better market conditions. In the meantime many cities and towns need money badly, and are resorting to various means to obtain it. Short term rates are being negotiated and bonds are being peddled to the much discussed local investor. Finally, firms doing local importing work and supplying plant materials, etc., to municipalities, are asked to accept municipal bonds, instead of cash, as payment. Is that a wise course?

Merely Shifting the Strain.

The Monetary Times, commenting upon this phase of the bond situation recently, said: "There are several objections to such a course, and it seems doubtful whether commercial firms have any strong desire to develop suddenly into amateur bond houses. Municipal bonds should be sold by the regular methods. If money is tight, economy must be practised and work postponed. The foisting of municipal bonds upon paving, machinery and other companies gives no relief to the general municipal bond situation. It merely shifts the strain."

The Monetary Times has sought the opinions of prominent bond houses on the subject. The commercial firms are naturally reticent in expressing their opinions, but it may be said generally that they have no great wish to introduce a bond department into their business.

Some Objections to Method.

Some of the objections to the course being adopted by many civic authorities are cited by the bond brokers as follows:—

Contractors accepting municipal bonds, in view of money market conditions, load their contract prices.

Bonds are indiscriminately hawked, injuring municipal credit.

Contractors or merchants holding bonds might offer them at some time at an unfair market value.

Future issues would probably be more difficult to place.

Municipalities Would Suffer.

These are a few of the reasons urged against the practice. Mr. T. S. G. Pepler, manager of the Ontario Securities Corporation, Toronto, tells The Monetary Times that in his opinion this means of disposing of debentures, if done to any extent, will have a very injurious effect, both upon the municipalities themselves and also upon the bond business generally.

"In the first place," he adds, "firms from whom the municipalities are purchasing material, etc., knowing that they are to receive debentures in payment, would unquestionably ask a higher price for the material, etc., than if it were a cash transaction; or in other words they would want to buy the debentures at a figure below their market value, as no doubt they would be anxious to dispose of these for cash at the first available opportunity.

"Secondly, bond brokers would naturally be very careful in tendering for future issues of such a municipality, knowing that any time the bonds in the hands of some contractor or merchant might be offered at a price not in keeping with the then fair market value. Therefore the municipality would have more or less difficulty in placing their next issues of bonds to advantage through the usual channels, viz., bond brokers.

"For these reasons," concludes Mr. Pepler, "I cannot see any real benefit to be derived from this mode of procedure. It is only a temporary relief to the municipalities, for which they would no doubt in my mind have to pay dearly in the future."

TWELTH INTERNATIONAL GEOLOGICAL CONGRESS.

The twelfth International Geological Congress, which is to be held in Canada this year, gives promise of being a marked success. The governments of twenty-five different countries have signified their intention of sending official delegates, and various scientific institutions in thirty-eight countries will be represented. The membership already is seven hundred and thirty, consisting of leading geologists and mining engineers of the whole civilized world.

The session of the Congress will be held in Toronto on August 7 to 14, inclusive, during which papers of great general geological interest will be read and discussed. The most attractive feature, however, is the opportunity that will be afforded to visit the leading mining districts and points of greatest geological interest in the country. To this end a great number of excursions have been arranged for, and a series of guide books have been prepared by the Geological

Messrs. Goldman and Company, Toronto, raise somewhat similar objections, and strongly disapprove of the practice indulged in by some municipalities in Canada of disposing of debenture issues to provide funds for the construction of public works, to contractors. Such transactions usually occur during a period of financial stringency, when a municipality finds it difficult to realize on its bonds. Contractors, they say, have to take current conditions into consideration and load the price of their contracts accordingly, creating entirely fictitious values, both for the work and the securities received in payment. In one case Messrs. Goldman tell The Monetary Times the municipal officials congratulated themselves on having turned in an issue of bonds on a contract for water and sewage installation, at par. The contractors subsequently sold the bonds at 90 and it is not to be assumed that they did not at that figure reap a good profit on the work.

"Another undesirable feature," adds this bond house, "is the tendency to depreciate the municipality's outstanding securities through an indiscriminate hawking of their bonds by persons not in intimate touch with the channels through which debentures are most advantageously sold. Municipalities should conserve their credit by directly controlling the sale of their bonds in the first instance and not lose sight of the fact that contractors as a class are not permanent investors in municipal debentures and must look to the sale of the securities to get their money out."

Might Create Dangerous Situation.

A less rigorous view is taken by Messrs. C. Meredith and Company, of Montreal. They do not think it is an undesirable practice if the bonds given in this way are to strong people who are willing to take them as investments. If that is not the case, it would mean a dangerous situation owing to the bonds being hawked all over the country at practically any price, in order to secure funds. This, they quite agree, would be a most undesirable state of affairs and would hurt the credit of the municipality.

The practice of contractors taking bonds in full or part payment for work done has been in vogue for a number of years, and it is only in times like these, when money is tight, that it is detrimental to the interests of the towns issuing the bonds. It appears to Messrs. Meredith, however, that the matter will probably right itself, because of the fact that contractors, knowing perfectly well that they cannot sell bonds in times like the present, will refuse to take them, or will only accept them knowing where they can be placed.

"So far the cases that have come under our notice," says a Western bond firm, "have been municipalities that had already undertaken the improvements or works and were practically tied up by their bankers refusing to grant further credits, mainly for the reason that their debentures were unsaleable except at a very great sacrifice, and this condition was more marked in the cases of towns in the 500 to 1,000 population class.

"In some instances the contractors having completed their work, would demand payment, and even went so far as to threaten suit. We think in one case a firm actually secured judgment against a town. One can therefore appreciate the municipality's position; they would practically have only one alternative, that is, to offer some of their debentures either as security or in satisfaction of the debt.

"This condition is obviously brought about by the prevailing state of the money market, and our impression is that with the return of better times this practice will altogether cease. One might consider it an undesirable practice, but as it is not being generally adopted and for the foregoing reasons we have not taken the subject very seriously."

Survey. This set of guide books covers practically all through railway lines and steamboat routes from Sydney in Cape Breton to Dawson in Yukon. These consist in all of 1,600 pages, contain well arranged notes, are of convenient size, are accompanied by geological coloured maps and sections and make a notable contribution to the literature treating of the geology of the country. These guides are for sale by the Congress.

Two Grand Trunk Pacific steamers are now on the regular run between Victoria, Vancouver and Prince Rupert, with a call at the Queen Charlotte Islands en route.

The Washburn-Crosby Company is reported as about to build a large flour mill at Port Arthur, which city has agreed to guarantee \$100,000 bonds of the elevator firm of Davidson and Smith which agrees to build a \$350,000 elevator and a \$500,000 flour mill.