

MUNICIPALITY'S DEBT ADVERSELY AFFECTED.

The practice of selling bonds carrying a rate of interest materially less than the current rate for like securities has the effect of unduly swelling the municipality's debt. It is only necessary in this connection to consider the loan above referred to. If this loan had carried the normal rate of interest, a rate which would have enabled the municipality to dispose of its bonds at about par, the debt created would have been only \$1,460,000, instead of \$1,586,612. The increase in this particular debt amounted to not less than 8%.

At a time when the debts of many of our municipalities are assuming large amounts, it is important that they should not be improperly inflated, and the municipality's financial position thus adversely represented. Moreover, when debts of the different municipalities are being closely scrutinized and compared by financial houses and investors, it is important, for the sake of their credit, that nothing should be done that would place them in a worse condition than that which they are entitled to occupy. It is well known that the more favorable the financial affairs of a municipality are, the more highly will its bonds be regarded and the higher will be the price which they will command.

In the municipality to which reference has been made it may be interesting to state that in the year 1914 its debt was increased by \$752,000, or almost 7%, through discount on bonds issued at a rate of interest inconsistent with market conditions. This amount the city had not received or expended, and to that extent its debt was unwarrantably swollen.

MARKET EFFECT.

It might be thought that it would injuriously affect a municipality's credit in the investment market if its bonds were to be issued at a higher rate of interest than that which obtained in past times. There is absolutely no foundation for this view, as investors and financial houses recognize that governments and municipalities, like corporations and individuals, must be prepared to pay the current rate of interest for their loans. Justification for varying the interest rate is to be found in the practice of governments and important municipalities. They adopt the principle of putting out their loans at a low rate when money is cheap and a higher rate when money is dear. We have only to mention in this respect the action of such important borrowers as the British and Dominion Governments, the City of New York and the Province of Ontario. Great Britain and New York have increased their interest rate to