

ing armies that have been maintained and would be released by a sound peace. The recuperative development of France, after the war of 1870, astonished the world. Even apart from such optimistic results, it seems that too much attention may be given to the obvious destruction of the war. A general period of industrial activity and prosperity actually developed after the Napoleonic war, the Crimean war, the Franco-Prussian war and the Spanish-American war. Possibly the main factor has been the great movement of general economy which wars induce. At any rate, conditions are materially different from those of 1893, when commercial depression induced economy, for we have already experienced two years of such depression. Yet the economy of that period resulted within a few years in great accumulation of investment capital and a general upward movement of the prices of securities lasting nearly ten years. The wave of economy now operating means a much more rapid accumulation now than then, especially in Canada and the United States, since their general trade is to be stimulated by war conditions.

## Industrial Dividends

PASSING of dividends indicates the industrial situation, but even in such cases, the war has not necessarily been the cause for such action. There had, in fact, been criticism of the last payments made by some Canadian companies. Yet more industrial stock dividends were passed or reduced in the second quarter of this year than in the third. Such as have occurred this quarter have caused little surprise. The Canadian steel companies had been feeling the depression. The Dominion Steel Corporation's common dividend had been passed, and doubt had been cast on the Company's ability to meet the half-yearly distribution on Dominion Iron preferred due in October. Nova Scotia Steel's business was admittedly slack. The postponement of dividends on some other preferred stocks has not been entirely due to trade conditions, rather to financial conditions. Such companies as have not supplied their own working capital, but have relied on borrowed funds, have now found it sounder policy to retain their earnings for that purpose rather than distribute them to shareholders. These dividends being cumulative, the payment is simply postponed, shareholders becoming creditors to that extent, instead of banks having to advance more funds to these shareholders.

## Life Policy Loans

NO statistics are yet available as to increases of loans to policy-holders by life insurance companies, but it seems certain that there has been a large demand for funds of this sort, if for no other reason than that the rate of interest on such loans provided in many policies is 6 per cent. As the ruling rate for call loans in New York has been as high as 8 per cent., many speculators are finding it cheaper to borrow on policies and take up their shares. The effect is that the insurance companies are practically taking up these stocks and that their funds available for other investments are likely to be lessened to that extent.

## Immigration

INCREASED immigration to Canada, after peace, has been forecast by many careful judges of economic influences. On this point, The Statist says: "If after the war there should, as seems probable, be a great exodus of population from the closely populated and war-stricken countries of Europe to the new countries where war is unknown and where a given amount of effort produces a much greater amount of income than in Europe, the adverse effect of the war upon world income and world trade may be repaired in a relatively short space of time."

## Long or Short?

### The Statist on the War

ON whether the war will be long or short depend what conditions will follow it. The editor of The Statist expresses both views. In one article he says it is extremely probable that the war will be much longer than most people anticipated, but with courage and enterprise Britain's trade should expand. It was in the great revolutionary war with France that Britain established her command of the sea and commercial supremacy. He concludes: "For if the two Central European empires are practically driven out of the world's markets we have new countries entering which can fill the void. Compare the United States now, our self-governing Dominions and Commonwealths, India, Japan, and South America, with what they were a hundred years ago, and will any sane man seriously contend that a great trade cannot be conducted?"

On the other prospect of an early peace, The Statist is equally emphatic, for "we have come to the conclusion that the strain on the physical, financial, and economic strength of Germany will be so great that the war cannot be a long one, and that as far as this country is concerned its economic effects will be comparatively small."

# CANADA'S MUNICIPAL CREDIT

By THE FINANCIAL EDITOR

HAVING urged the appointment of some provincial authority in Ontario to supervise our municipal finances, the Courier proposes to show the seriousness of the problem, and its important relation to the whole fabric of Canadian credit. This is not a war proposition. The effect of the war has simply been to demonstrate what serious injury can be done by reckless and improvident methods. What is wanted is that some responsible Cabinet Minister should be put in control of a department giving special attention to supervising and assisting municipalities especially in financing. We have enough commissions. This matter is serious enough to require the attention of a responsible Minister who can make a reputation for himself, by efficient control, and by compelling efficiency in this municipal sphere. We need some permanent authority to control the operations of transient municipal councillors. In time of war prepare for peace. And nothing can have a more important influence on Canadian credit in peace than some better system of controlling municipal borrowings. There is an excellent standard in this matter, the Local Government Board in Great Britain. Let the Provincial Government "get busy" and work out this policy as successfully as the Provincial Secretary has that of Prison Reform.

CANADA, like the rest of the world, had been passing through a period of depression when the war clouds burst. We had made financial mistakes, and will have to pay the penalty. During the rapid expansion of this country we have been heavy borrowers. We must continue so. But during the lull caused by the war we must improve our methods. In the confident assurance of the country's development, we went ahead capitalizing the future in a reckless way, and in this game of confidence none has been more reckless than some of our municipalities. That Canadian municipal treasury bills abroad to-day total over \$30,000,000, and that our municipalities have also borrowed from our own banks nearly \$40,000,000, shows the seriousness of this problem of municipal finance. In addition to this total of \$70,000,000 in current liabilities, the amount of municipal borrowings in 1913 by public issues was over \$115,000,000. In the same year the total Government issues in Canada, Dominion and Provincial, were only \$53,000,000, and even of this a large share was only a refund of a Dominion issue. In fact, municipal borrowings in 1913 may be said to have been more than three times those of the

Total Issues.	Eastern Municipalities.	Western Municipalities.
\$115,761,925	\$61,914,134	\$53,847,791

governments. And the floating indebtedness shows that these municipal authorities have been, in fact, speculating on the money market, betting that at some future time they would be able to float long-term debentures at better rates, and thus fund their current debts. That is one of the mistakes they have made. Perhaps it is not the worst.

HERE is a sample of some city of Toronto financing. In its report the Toronto Bureau of Municipal Research shows that: "In the preparation of the annual budget for 1913, it was estimated that \$1,075,000 would be paid into the city treasury by the Toronto Street Railway Company as the city's percentage of the gross earnings of the railway and the mileage rental. This entire sum, less a total of \$230,155 for sinking fund and interest charges on street railway pavement debentures previously issued, was included in the total revenues applicable to the reduction of taxation. This was done in face of the fact that the general ledger of the city disclosed that for the years 1911 and 1912, \$826,223.92 had been expended for track allowance repairs, the funds for which had not been provided for as of December, 1912. The balance on the books represented actual disbursements for repairs, to fund which no provision was made by council until 1913, when debentures were authorized to be issued for this purpose. Why the city should apply the total amount of revenues derived from the operation of the Toronto Street Railway to the reduction of taxation, and make the necessary repairs to the railway track pavements through debenture issues is beyond conception. Such practice has the effect of the city issuing debenture bonds, the proceeds of which are applied to the reduction of taxation."

An official report shows that of a total of \$4,500,000 for pavements issued by Toronto between 1892 and

"Of course it is evident that, whether long or short, the war cannot fail to affect the world's general prosperity for many years to come, but we are not without hope that its effect will be more or less confined to the stoppage of the expansion in the world's prosperity and that it will not bring about any great diminution in well-being."

1913, \$2,500,000 were for repairs which should not have been funded, but should have been paid from current revenue. Then, too, we find that every year Ontario cities appear before the Private Bills Committee of the Legislature asking authority to issue debentures to provide funds which should be furnished from current revenue. The applicants know it. The Committee know it, and yet much of the legislation is granted. All sorts of incidental expenditures are covered by bond issues which spread the payment over future years.

THE problem is shown to be all the more urgent by reason of the onerous terms now being imposed on municipal borrowers. For instance, the city of New York, which ordinarily has got funds at 4 to 4½ per cent. has had to pay 6 per cent. for \$100,000,000 in one, two and three year securities, and the terms also provide that improvements authorized by the city during 1915, which are not self-sustaining, are to be paid for 25 per cent. from taxes and 75 per cent. by the issue of one to fifteen-year corporate stock. Improvements authorized during 1916 will be paid for 50 per cent. from the tax budget of the next year and 50 per cent. by sale of serial stock; during 1917, they will be met 75 per cent. from the budget and 25 per cent. by serial stock, and in 1918 the full cost of such improvements will be met from taxes.

WHO can say what, when peace arrives, will be the ruling interest rate for municipal loans. We cannot get too much advice in the matter. Certainly one of the advantages of Provincial supervision would be a higher regard for municipal issues among investors and a consequently lower rate than under the present haphazard system.

In the three Maritime Provinces, borrowing by a municipality is permissible only after that municipality has obtained the authority of a special act of the provincial legislature. The result is that few maritime cities have unduly large general or net debenture debts, and their obligations are highly regarded by conservative investors. But the legislatures are not in session continually, and official authority over municipal borrowings should rest in executive rather than in legislative hands.

M. R. E. R. WOOD, President of the Dominion Securities Corporation, in his annual review of the Bond market in Canada for 1913, shows that total government issues were about \$53,000,000, and that total municipal issues were made and placed as follows:

Sold in Canada.	Sold in United States.	Sold in Great Britain.
\$25,850,653 22.33%	\$22,135,762 19.12%	\$67,775,510 58.55%

Mr. Wood's comment on the market conditions points out the increase from 8 per cent. in 1912 to over 19 per cent. in 1913 of these issues which were placed in the United States, and still further increase in sales there is to be expected, since the yield on Canadian municipal issues has usually been higher than on similar American debentures.

HERE are some additional opinions received by the Courier from bankers and others who have studied the question:

"I have carefully read the Courier article on 'Money for our Cities,' and heartily agree with your suggestion to appoint Local Government Boards in the different provinces, whose duty it would be to O.K. municipal debentures after having investigated the use to which the debenture moneys are to be put."

"I think your suggestion regarding a department to supervise the issue of debentures by municipalities is a very good one."

"I certainly believe the financial conditions of our cities would be very much improved if a department similar to the Local Government Board were established, which department would have supervision over all municipal flotations. They would be able to regulate and in a way guarantee such flotations and would, in my opinion, make the borrowing on these securities a much more easy proposition. One phase of the situation, and the most important one, it seems to me, is the fact that there is a desire on the part of nearly all city councils to issue debentures for almost every conceivable thing for which they require money, in place of letting the citizens meet fairly and squarely from year to year, what and really are their honest debts."

The head of a municipal bond dealing firm writes: "To my mind the proper solution is that the people