

BRIGHT OUTLOOK FOR MUNICIPAL BONDS; BABSON

Roger Babson Advises Purchase of Municipal Bonds at Present Levels

By ROGER BABSON

Wellesley Hills, Mass., July 22, 1922—While discussing the opportunities in the present bond market, Roger W. Babson, the statistician made the following statement regarding the future of municipal issues.

"The past few years," says Mr. Babson, have been hard for cities and towns desiring to borrow money. During the war an unwritten ban was placed upon municipal borrowing and unnecessary public building. Directly after the war money was scarce and rates were high. It has only been within the last few months that cities and towns have been able to secure what money they have desired at a fair rate. Municipal fathers, contractors and investors are now wondering whether the present decline in rates is temporary or will extend over several years.

"Study of the situation leads me to believe that the present decline in interest rates will continue and that cities and towns will be able to borrow freely during the next few years. It even looks as if the city fathers will soon be solicited by bond houses for issues to sell. Up to the present time city officials have been obliged to hunt up banks to buy their securities. The time will soon come

when the bankers will be sending buyers throughout the country to hunt up bond issues that they can sell. The next few years will see a scramble for bonds on the part of the dealers far greater than any previous scramble for money on the part of the cities and towns. The law of business cycles still operates. As we have had years of advancing interest rates we will have years of declining interest rates. Moreover, these cycles cannot be suspended or changed any more than we can suspend or change the tides of the ocean.

"In addition to the law of business cycles, the tax situation is very much in favor of municipal borrowing. Before the days of income taxes and sur-taxes, bonds of our best cities sold on a 3 1/2% basis, and even better. Now, when wealthy men are obliged to pay sur-taxes of from 30% to 50% these tax exempt bonds of cities and towns should be in great demand. Some of my associates even state that many of these bonds may go up until they are on a 2 1/2% basis, or less. Of course, this also applies to the Government bonds, although the Government bonds are rather short time and therefore not so attractive to the investor. Cities and towns will temporarily be greatly benefited in their borrowing by any amendment to the Constitution making all bonds taxable. If such a legislation is attempted, there naturally will be a lot of tax exempt bonds put on the market just preceding such legislation. Some feel that such a flood of securities would depress the price, but others believe that if they are to be the last tax exempt securities, the market will absorb easily all they offer. Which ever is the case, cities and towns will have no difficulty in

disposing of their securities during the next few years, and the interest rates should steadily and continually decline.

"This means that municipalities adopt civic planning schemes," continued Mr. Babson, "and probably should make during the next five years, such improvements as they ordinarily would make in ten. The time to make hay is while the sun shines, and the time to borrow money on long term loans is when money rates are low. Hence, cities and towns should not only borrow during the next few years for their current needs but should borrow large sum and invest the same for use for years to come, especially during the next period of unemployment.

"If cities operated in a business way they would borrow their money at times like the present, stow it away, and then spend it when the next period of unemployment comes. By spending it at such times they not only could get the work done very much cheaper, but they could perform a very distinct service to the people of the community. The general custom followed is the reverse. Cities now do their construction work when it is easy to get money, which is when labor is fully employed and when everyone else is building. This is all wrong. When the period of unemployment comes it is very difficult to borrow money for construction work because money is then tight and the citizens feel poor. Hence, under the present system it is impossible to do much to relieve unemployment when it comes. If an ice man attempted to follow the system in his business as the city officials follow, he would wait until summer to cut his ice.

"For investors this means that tax

exempt securities, and town bonds should now be purchased even though they have already gone up some in price. Those who contemplate buying should buy at once before they go up still higher. When buying tax exempt issues seek the long term ones as these will show the greatest profit. All of this should be specially encouraging to the contractors and builders, as it means that a great deal of public work will be done during the next few years. City water plants will be extended, more sewers will be constructed, new public buildings will be erected, and the good road movement will continue to

grow. This should be welcome information," concluded the statistician, "to those who handle contractors' supplies and building materials, and especially all such materials as are used by cities and towns."

General business as reflected in the index figure of the Babsonchart

is 13% below normal. This is improvement of 4% over last week and is 10% above the activity of the same week a year ago. Smaller failures are helping matters considerably and further improvement should be reflected during the next few weeks. (All Rights Reserved)

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