

## SUPERVISION OF MUNICIPAL LOANS BECOMES LEADING ISSUE

### London Authorities Suggest Federal Rather Than Provincial Control--How to Borrow Cheaply is the Why of the Discussion

An analysis of the proposal that some sort of Government control should be instituted in Canada over the borrowings of Canadian municipalities in the London market is discussed in the *London Economist*, says a cable to the *Montreal Star*. The proposal came from Canada itself and received authoritative shape at the recent conference of Albertan municipalities.

Mr. John Coles, a veteran London financier and director of the Hudson's Bay Company, and some of the leading insurance corporations here, when recently in Canada carried the suggestion a step further by proposing that something should be created in Canada for the supervision of municipal borrowings analagous to that of the Local Government Board of the British administration, the head of which is a member of the Cabinet.

#### Lenders Have a Say.

"Seeing," said Mr. Coles, "we in England are the lenders and you Canadian municipalities are the borrowers, it is reasonable that we should have some say as to the basis upon which we lend money and it will be good business on the part of borrowers to meet these conditions as far as they can!"

The *Economist* and the important financial interests here whose views the *Economist* generally expresses, cordially approve of the suggestion in general. But what the *Economist* goes on to say when it comes to detail will provoke a good deal of dissent in some Canadian circles. Its own preferences are obviously for some sort of federal and not provincial control over municipal finance.

#### Provincial and Municipal Credit.

It says:—"The provincial authorities in Canada do not command much better credit or more respect than better class municipalities. The fact, for example, that the finance of Toronto was controlled by the Ontario Government, or that the finance of Winnipeg was controlled by Manitoba, or that of Vancouver by British Columbia, would not necessarily add very much to the security of these municipal loans in the eyes of a judicious investor. Some of the western provinces, such as Alberta, are not on a much better financial footing than the growing towns of the west."

Hence the *Economist* does not think much of the proposal which seems to have the support of Mr. Arthur Meighen, the Dominion Solicitor-General, that the desired supervision should come from a competent Financial Board appointed by various provinces. It contends that the problem of Canadian municipal finance is much more than a local affair and that the matter should be taken up at Ottawa. It continues:

#### Standing of Canadian Municipalities.

"If the Central Government would begin by tabulating and publishing the exact financial position of all Canadian municipalities, that alone would act as a very valuable check, though it would by no means put the Canadian municipality under the safeguards which apply to our own towns in the United Kingdom. All local loans in England have to be obtained either by Act of Parliament, or a provisional order of the local Government Board. In both cases there is close supervision by the board. If these safeguards are necessary in an old and settled country where ratepayers are strongly opposed to extravagance, they are doubly desirable in a new country full of pushful communities which are eager to develop as quickly as possible without much regard to the expense so long as the money is not raised by taxation."

#### To Borrow Cheaply.

I have heard the *Economist* article discussed among financiers here whose opinions Canadians value, and find a good deal of approval, looking of course to the supreme question, How can Canadian municipalities borrow most cheaply in the London market? Coupled, however, with this approval, is the strong doubt whether it is practical politics that in such a vital municipal matter the Provincial Governments should be superseded by the federal authority.

The same subject is discussed by Mr. J. Watson Grice in *United Empire*, the organ of the Royal Colonial Institute. "It is asserted," he says, "that while the methods of local government in Canada are admirably suited for safeguarding the rights of the ratepayers and securing local control of municipal expenditure, they are not such as may secure the most advantageous terms when recourse must be had to borrowing in aid of local revenues for purposes of permanent improve-

ment. The councils may not, as a rule, incur debts amounting to more than 20 per cent. of the assessment values of the city or town. Even within that limit, present arrangements of procedure are not considered satisfactory. The councils are handicapped unduly in providing for future needs of a more or less speculative nature by the changing personnel of their members, (who are elected for two years only) and by the legal routine which insists on repeated appeals to the general body of ratepayers. Frequent plebiscites and, in certain towns, the necessity of obtaining the approval of the Public Health Commissioners involve much uncertainty and possible delay. As the councils are all elected in January, and the procedure is much the same everywhere, proposals involving appeals for financial support are all ready to be launched in the late spring of each year.

#### Flood the Money Market.

"This rigidity of procedure tends to flood the money market with flotation schemes at much the same time, and the municipalities which are all keen on making the best bargain for themselves, in the bulk lose by making bids for British support under conditions which are often ill-timed. The larger cities have, as a consequence, to close with less advantageous offers, and the smaller areas are crowded out. Proposals have accordingly been made that the councils should have a freer hand in dealing with their most important projects, so that they might take advantage of temporary fluctuations in the market. A further suggestion has been made that stock should be issued for specific objects (e.g., water-works, and electric supply) independently, and not in the form of debentures.

"On the other hand it is desirable to introduce a more effective guarantee that the sums required are for profitable enterprises, undertaken with reasonable general security, and not because of particular inducements which occasionally appeal to councillors in their private capacity, or from a reckless desire to out-do a neighboring town. At home the Public Works Loan Commissioners, the Local Government Board, and other government departments effectually check rash borrowing for unsound projects. Similarly, in Canada, the public sense of security has been strengthened by such impartial bodies as the Public Utility Commissioners of Manitoba and Quebec. Further developments in the same direction are now being publicly canvassed on the following lines.

#### Appointment of Independent Boards.

"Independent boards should be appointed, whose sanction and approval for the whole or part of any proposed loan should be necessary. They should be free from political control, and should base their judgments on the real needs of the towns and their capacity to meet the burden. Increases in the assessments, and debts already contracted would form the basis of the board's inquiry. The ratepayers would be glad of a generally accepted guarantee of the soundness of any proposal, and in necessary cases the faith of the hesitating British investor would be strengthened.

Continuity of policy might be further effected by the handing over more generally of projects of any magnitude to the care of experienced and competent officials, who might devote their whole time to the work, as in the towns of Germany and in many American cities.

To relieve the smaller areas of the unfair disadvantages under which they at present suffer, the Government should foster the consolidation of municipal loans. Proposals made by any town for inclusion in a consolidated loan would provide some opportunity of examination and supervision of town accounts, and the smaller towns would reap the benefit of better terms obtained in the market. The combined proposals made under these conditions would almost bear the imprint of a Government guarantee.

#### Would Bestow Triple Benefit.

It is claimed for these suggestions that their adoption would bestow a triple benefit. Changes of this character would be of distinct advantage to the municipal authorities and relieve them of much financial anxiety; they would prove an effective guarantee to the ratepayers of the municipal areas that not only were the improvements really needed, but that the money would be properly spent, and that the town's resources were not being dissipated or neglected; moreover they would afford security to the British investor, and lead to