PROBLEMS OF MUNICIPAL FINANCING.

Written for the Monetary Times by John MacKay.

I have been asked to express my opinion upon the scheme of municipal financing proposed by Mr. Kinnaird, of Edmonton, and published in the Monetary Times of last week.

With reference thereto I may observe in the first place that the basic proposition of the article in question is that "Money for Muncipal Development is costing more than money is actually worth if a fair distribution of the world's wealth can be utilized and applied to the requirements of the world's progress in an equable manner." The author has, by assuming the truth of this curious proposition, relieved himself of the very inconvenient task of establishing it.

Concerning the Price of Money.

I suppose that it is intended to state that municipal borrowings cost too much at the present time. It is true that comparatively high interest rates have to be paid at present for such borrowing. It is not true to say that money so borrowed costs generally more than it is worth. Money, like any other commodity, is worth what it will bring under unrestrained competitive conditions.

The sources and degree of competition from time to time are determined by the elementary laws of supply and demand. When the demand for money exceeds the supply borrowers compete for their needs and lenders profit by higher rates. When the supply of money exceeds the demand money-lending agencies compete by methods of varying dignity for available loans, and borrowers profit by lower rates. The degree of competition varies in intensity with the measure of the excess needs of borrowers on the one side or the measure of the excess supplies of lenders on the other side. The resultant varying scale of interest rates represents a natural and perfect adjustment of values to changing conditions.

Canadian municipalities are paying to-day for their borrowings just the rates of interest determined by the operation of these purely natural conditions, undisturbed by the artificial interference of combines or other modern devices for the restraint of competition. It is an open question what they would have to pay for money to-day "if a fair distribution of the world's wealth .... were applied to the requirements of the worlds progress." It is quite as conceivable that under such supposedly ideal conditions they would have to pay higher rates of interest than those presently prevailing, as it is that they would effect their borrowing at lower rates.

Definition of the World's Wealth.

I observe that that loose but convenient phrase the "world's wealth" is not defined. I suppose, however, that it is intended to describe what may roughly be called the world's lending fund, which is something very different indeed from the "world's wealth." If this fund were expanded to its utmost limit by the divers instruments and methods of modern "credit," and were applied equitably—by means of mathematics as yet undiscovered—to the satisfaction of the requirements of the world's progress, an enormous diversion thereof to South and Central America and the Asiatic, African and Australian continents would certainly take place.

If the needs of these vast territories, not to speak of those of Europe, North America, and other parts of the world, were proportionately supplied, it is well within the probabilities that the share of capital available for the development of Canadian municipalities would shrink rather than expand, and that, in consequence, still higher rates of interest than those now prevailing would have to be paid. That Canadian municipalities are not alone in suffering from high interest rates is notorious and is further vividly illustrated by the recent experience of the City of New York; while in the field of State borrowings the richest gold producing country in the world, viz., the Transvaal Colony, has had to have recourse to an Imperial Government guarantee in order that it may raise money under current conditions.

Money Scarcity is World-wide.

These conditions of high interest, rates and scarcity of loanable funds, prevail in varying degree throughout the world, and no rational being believes that the world is or could be victimized by a conspiracy coexistent with the borrowing needs of men.

I observe in the next place that it is recommended that the Union of Municipalities shall undertake the work of remedying the conditions complained of under the basic proposition referred to. That is to say—assuming logical coherence on the part of the author—that the Union of Municipalities shall undertake the task of effecting a more equitable distribution of the "world's wealth" with the object of getting cheaper money for Canadian municipalities.

The means by which this revolutionary task is to be accomplished are singularly simple. They consist of the organization of a bureau, which is to be placed under the control of a committee, and the appointment of a permanent salaried official. The officer so appointed is to prepare statistics, to disseminate information, to advertise debenture sales, to arrange for the engraving of debenture instruments, to place temporary loans with banks, to engage a foreign correspondent, to act as general critic of Canadian municipal expenditure, to maintain a high standard of our national, municipal credit, and, presumably, take any other steps necessary to the end in view.

The benefits of such an organization are definitely predicted as consisting in the realization of the various important functions assigned it, and in "the more ready acquisition of money at better rates of interest and the consequent lessening of the cost of municipal undertakings and municipal developments." This last revolutionary improvement represents, I presume, the result of the bureau's redistribution of the world's wealth. It is without doubt a signal achievement. The means of its accomplishment are not disclosed, but that merely indicates a wise reticence.

Money is Dear in the West.

Such occult knowledge, if made public, might be employed by unscrupulous persons in another redistribution of the world's wealth to the advancement of their own nefarious ends and the injury of Canadian municipalities and the public good. This permanent salaried official should be a highly-paid man. The world has for many centuries been looking for such a talented and versatile representative of the race. As the custodian of our national, municipal credit, and Sovereign Lord of Economic Law, his future as the saviour of the borrowing classes is assured—unless some of our banks should unhappily get him and corrupt him.

Perhaps, however, I may be allowed to express a doubt as to whether a sufficiently qualified candidate will appear, and to say that in the absence of such an one it would be just as reasonable to organize a bureau and appoint a man to reduce the price of wheat or raise the price of labour. The fact of the matter is the whole scheme is nebulous and crude in the highest degree. Of course, money is dearer in the West than it has been; it is also dearer in the East and throughout the whole civilized world than it has been.

It is also, in all probability, cheaper to-day in the West, in the East, and in the whole civilized world than it will be in certain periods of time yet future. The cost of money, like everything else, varies with varying conditions, and an attempt to alter the tides or to change the climate will meet with just as much success as an attempt to effect a reduction in the rate of interest by a redistribution of the world's wealth through the organization of a municipal bureau and the appointment of another municipal officer.

Scheme is Not Satisfactory.

Every serious and informing discussion of the scope and limits of governmental functions, whether legislative, judicial or administrative, whether imperial, federal, provincial or municipal, is to be welcomed, irrespective of its source, as an educative influence in the community. Every intelligent effort to raise the efficiency of governmental administration in its various spheres and branches is to be welcomed for the same and other reasons.

Every sound and genuine advance in the economic development of the country is to be welcomed whether or not it conflicts with established interests. All sober minded constructive work looking to the improvement of society in its multifarious relations, interests, functions, and duties, is to be welcomed. Each and all take their place in, and exercise their measure of shaping influence upon, that great, progressive movement that marks the course of human history. Such a crude and fanciful scheme, however, as that under consideration would neither attract nor receive even the passing attention of thinking men except for the status that publication in a responsible paper gives it.

If the scheme should be taken out of the altitudes of heaven and brought down to earth and reduced to a simple plan for the direct marketing of municipal debentures by a purely municipal agency, it would, though by comparison terribly commonplace, be at least practicable. In such an event, if the organization were properly manned, it would occasionally get a higher price for an issue and it would frequently get lower prices. To reconcile the conflicting claims and interests of municipalities, in times when the output of debentures exceeds the demand for them, would, however, be a difficult, if not an impossible task.

Municipalities Get the Highest Prices.

In times when the demand exceeds the supply the municipalities get the highest prices under present methods. The education of the foreign investor and the opening of foreign markets to secure nominal rates of interest is a seductive prospect. When the prospect gives place to the retrospect it will be found that the foreign investor has not monopolized the educational discipline.

The carrying out of such a comparatively limited and unpretentious scheme involves, as a matter of fact, the as-