

exchange, and that unless a £1 bank note were convertible into a golden sovereign it would be a fraud. But in Canada and the United States, where I lived for four years, all trade is carried on by means of paper credit notes (dollar bills) in convenient amounts from one dollar to 1,000 dollars, a gold coin being almost a curiosity, and there is no valid reason why the same system could not be at once adopted in the United Kingdom. Municipal banks could, and should, be at once organized at all the large towns--London, Manchester, Glasgow, Dublin, Plymouth, Bristol, etc., the bank notes of which, in convenient amounts from 5s. to £1,000, would circulate freely in the area supplied with money by these large banks.

The smaller towns, like Paignton, would obtain what money they required from these large municipal banks, just as they now obtain it from the gold-based banks, on mortgage, the vital difference being that whereas they now have to pay a monopoly price of  $3\frac{1}{2}$  to 4 per cent. they would then have to pay only  $\frac{1}{2}$  per cent., or the actual labor cost of manufacturing the bank notes and keeping the accounts.

#### Policy for the Smaller Towns

All the small towns would add a banking branch to their other municipal work, which would deal with the necessary accounts and correspondence, and the large municipal banks would be linked together and their varying credits adjusted by the agency of a municipal clearing house. In addition to the enormous saving of interest charges to the municipalities which such a sound, simple, sensible and scientific system of finance would entail, it would have been the incidental advantage of enabling the ratepayers to get all their banking business done at a fair and reasonable rate, and any profits from the same would go to reduce the rates.

Interest on money is justified by the orthodox economists as the reward of "waiting," but if we follow the path of circulation of a municipal bank note it is easy enough to see the utter fallacy of this justification. Let us suppose that a municipality has entered on some enterprise, such as the construction of a water-works, which will take many weeks to complete. At the end of the first week the work will have been advanced one stage out of the many necessary to its completion, and the workers engaged therein will have a claim on the municipality for the value of the work done during the week. The municipal bank, therefore pays them in municipal bank notes with which they proceed to purchase what goods they require from the shop-keepers. The shopkeepers accept the bank notes in exchange for their goods and in turn pay them away for goods they require, or in wages to their assistants, or back to the municipality for rates due and hand any balance they do not immediately want to the municipal bank, where they are duly credited to their account against which they may draw checks on the other municipal banks at distant parts of the country in payment of wholesalers from whom they get their goods.

#### Municipal Bank Notes.

Now each of these classes of persons, the workmen, the shopkeepers, the wholesalers, has to wait a certain time for the satisfaction of his claim for goods represented by the bank notes. The workman first carries the bank notes for a short time till he changes them into goods supplied to him by the shop-keeper. The shop-keeper then takes up the burden of waiting—he has given his goods for the bank notes, and as long as he continues to hold the bank notes has received no goods in exchange for the goods he has supplied to the workers. Thus these bank notes pass from hand to hand, each person who handles them doing his share in the waiting for the completion of the waterworks, and the burden of waiting has

been distributed equitably and fairly throughout the whole community.

On the other hand, when a municipality borrows the notes of a gold-based bank it has to give in exchange a municipal bond which is quite as secure as the bank notes it borrows. The gold-based bank runs absolutely no risk and can sell the municipal bond at any time in the open market for its face value, and thus convert it into goods. Consequently it does no more "waiting" than anybody else concerned, and that waiting is precisely what suits its own convenience. Why, then, should it be paid for a service which it has not performed? The answer is very simple—because the business of banking is now restricted to those persons only who are in possession of gold.

#### RESULT OF MUNICIPAL OPERATION

An annual statement showing the profits divided from the municipal operation of water and light plant or other public utility is always desirable if it is not misleading.

Some statements are prepared with a view to comparing municipal with private operation of these utilities, in which the fixed charges include annual dividends and depreciation or reserve fund for renewals.

Other statements recognize that the dividends from municipal operation are services well and economically done, that the depreciation or reserve fund may rest in the hands of the ratepayers, where it can be put to profitable use, until needed, when it can be raised by taxation.

Depreciation must be distinguished from wear and tear, which may be provided for by constant repair, thereby keeping a plant in an efficient condition. This would be a charge on revenue. Care should be taken to distinguish between repairs and additions to plant.

The debentures issued for the construction or purchase of a water or light plant are a liability chargeable against the municipal corporation which is entitled to receive the cash surplus accruing each year.

The following simple form of statement will assist in determining the financial results from the operation of a municipal plant.

|   | CAPITAL ACCOUNT. |           | CURRENT ACCOUNT |          |
|---|------------------|-----------|-----------------|----------|
|   | Dr.              | Cr.       | Dr.             | Cr.      |
| VALUATION OF PLANT                                  |                  |           |                 |          |
| 1905 audit  |                  | \$100,000 |                 |          |
| EXPENDITURES 1906                                   |                  |           |                 |          |
| Maintenance   |                  |           | \$10,000        |          |
| Addition to Plant                                   |                  | \$ 10,000 |                 |          |
| RECEIPTS 1906                                       |                  |           |                 |          |
| Rates collected                                     |                  |           |                 | \$9,000  |
| CHARGES ON PLANT                                    |                  |           |                 |          |
| Value of street or other Public Lighting            |                  |           |                 |          |
| Value of Fire Hydrants or other Public Water Supply |                  |           |                 | 4,000    |
| Profit 1906   |                  |           | 3,000           |          |
| DEPRECIATION 5% OF 1905 VALUATION                   | 5,000            |           |                 |          |
| Present value of Plant                              | 105,000          |           |                 |          |
| Totals  | \$110,000        | \$110,000 | \$13,000        | \$13,000 |