

GROWTH OF MUNICIPAL DEBTS

Lessons from Experiences in the United States—Economy Being Practised in Canada

The present time being one of economy and conservative spending, Canadian municipalities are reducing their expenditures, and learning from their experience and from that of municipalities in other lands. Looking south, a recent volume, "Principles and Methods of Municipal Administration," issued by the Macmillan Company of Canada, states that, taken as a whole, the debt situation in United States cities is far from satisfactory. The net totals are too high and the methods of borrowing leave much to be desired. These things are due principally to five causes.

Professor W. B. Munro, the author, gives them in part as follows: In the first place, the wasteful use of municipal borrowing powers has been due to the lack of effective state regulation, or, what is practically the same thing, to the policy of trying to regulate local borrowing by the broad and rigid provisions of state constitutions and statutes.

Borrowing Money for Long Terms.

A second and very widespread evil has been the custom of borrowing money for terms that exceed the life of the improvement on which the borrowed funds are spent. An asphalt pavement, for example, will rarely keep in good condition for more than fifteen years; yet in connection with work of this kind money has often been borrowed for a period of twenty or twenty-five years, with the result that the pavement has had to be torn up and replaced several years before it was fully paid for, a new set of bonds being issued for the replacement. The financial history of United States cities affords many examples of this practice. A strict limitation of the maximum term for which bonds may be issued to cover the cost of any designated class of work or outlay should be provided by the laws of every state; and, furthermore, these maximum terms should be conservative—that is, they should be fairly within the normal life of the improvement as experience has shown it to be.

As to Current Expenses.

In this connection one should call attention to the common practice of borrowing money to pay for what are really current expenses although not frankly designated as such. When a city passes a certain point in size, for instance, it must resurface a portion of its roadways each year, it must purchase some new equipment for its fire-protection service annually, and so on; or, if it grows still larger, it may find that it has to provide at least one new schoolhouse or police station every year. Outlays for all such things thus become current expenses, or recurrent expenses if one prefers to call them so, and ought to be taken care of by the annual income. Most cities, however, keep on paying for them by bond issues, until in time they reach a point at which the interest charges and repayments of principal amount to quite as much each year as would have sufficed to pay spot cash for the recurrent improvements in the first place. The pay-as-you-go policy in relation to recurrent outlays is the only prudent one.

Heavy Municipal Indebtedness.

In the fourth place, our heavy municipal indebtedness is due in part to loose methods of accounting and reporting, as well as to jugglery which has so frequently marked the preparation of municipal balance sheets. Balance sheets made out improperly are worse than useless; they mislead both the city authorities and the taxpayers. When properly drawn they should make clear distinction between municipal assets which are saleable (such as unrestricted land) and those which are non-saleable (such as the city's streets). They should differentiate between productive assets (such as municipal market or water-supply plant) and unproductive assets (such as parks, bridges and public libraries). Likewise they should make clear what assets are fixed, that is to say, tied up in lands or buildings, and what are current, that is, available in cash or other quickly-realizable resources.

Have Been too Optimistic.

Finally, United States cities have been too optimistic. They have discounted future growth too heavily, piling up debts for future generations without due regard to the certainty that every decade will bring its own new demands to

be looked after. True, cities must have money, and borrowing is under certain conditions a legitimate way of getting it. If the debts of United States cities are to be kept within proper bounds, this end must be accomplished by a broad programme which will concentrate attention not only upon the maximum ratio of borrowed funds to assessed valuation, but upon the specific purposes for which cities may issue bonds, the terms and methods of borrowing, the system of repayment, upon the forms of revenue-yielding city property which may fairly be regarded as an offset to public indebtedness, and upon the details of an accounting system that will inform the taxpayer fully and clearly about the annual burden which the existing debt is putting upon him.

BANKS' EXCESS CIRCULATION

Canadian banks have been authorized to issue from March 1st to August 31st excess circulation up to fifteen per cent. of their combined unimpaired capital and rests. The proclamation giving effect to this privilege has been issued by the government. It is based on one of the war measure acts.

CEDARS RAPIDS TO SELL BONDS

The work which the Cedars Rapids Manufacturing & Power Company has in hand will require about \$350,000, and provision has been made for the sale of additional bonds of the company to provide this amount. It is expected that this work will be completed and the 10th unit will be in operation by April 1st. An arrangement has been made with the Aluminum Company of America covering the use temporarily of the entire output of this unit.

CUSTOMERS AND CREDIT EXTENSION

"Modern business is full of complex problems and not the least of them is that of commercial credits," a newly-published volume of merit states. "In every wholesale house and in every manufacturing company there is one man who occupies a position of authority which is unique. Not even his superiors can afford to reverse his decisions. From them there is no appeal. He has the authority to say who may buy on time and who must purchase for cash. He is known as the 'credit man.' He sits in judgment on the financial responsibility of customers. He may be young, but his experience has been long and varied, since this is necessary for the adequate discharge of his duties. He has a range of special information and a command of pertinent facts such as no other man in the organization of his company can bring to bear in deciding a customer's trustworthiness."

The work of credit and collection men is carefully analysed and outlined in detail by three men of experience, and will be read with interest and profit by those whose activities involve the extension and handling of credit transactions.

"Credits and Collections." By E. M. Skinner, R. S. White and H. E. Kramer. 266 pages; limp leather. \$2 post-paid. LaSalle Extension University, Chicago.

The Germania Fire Insurance Company, of New York, has reinsured all its business in the Western Assurance Company, of Toronto.

Mr. J. S. Rankin, fire adjuster, will shortly re-open his Vancouver office. The firm of Messrs. Paterson, Waugh and Rankin, adjusters of fire losses, has been dissolved by mutual consent, and Mr. Rankin has been carrying on the Calgary office alone.

The following companies have increased their capital stock: Waterman-Waterbury Manufacturing Company, Limited, with Saskatchewan charter, from \$15,000 to \$50,000; the Weldon Rural Telephone Company, Limited, with Saskatchewan charter, from \$5,000 to \$7,000; Standard Lime Company, with Dominion charter, from \$75,000 to \$350,000; the James Robertson Company, Limited, with Dominion charter, from \$750,000 to \$2,000,000; the Globe Educator Syndicate Company, Limited, with Dominion charter, from \$25,000 to \$100,000.