

Citizen Control of the Citlzen's Business

TORONTO'S CITIZENS CAN CONTROL TORONTO'S AFFAIRS ONLY
THROUGH FREQUENT, PROMPT, ACCURATE AND PERTINENT INFOR-
MATION WITH REGARD TO TORONTO'S BUSINESS.

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When Is A Debt Not A Debt?

A WIDE-AWAKE BUSINESS MAN

after a careful study of the needs of his fellow citizens, decided that the best service he could render them was to make good furniture at a reasonable cost. This being the case, he saw his best opportunity for making a fairly certain though legitimate profit as a return for his services.

He invested \$100,000 in a new furniture manufacturing company. It prospered. The number of customers increased. Its relative overhead decreased. It lowered its prices. Its clientèle again increased. The number of its employees grew. The business soon began to find difficulty in getting good housing accommodation for its employees. As a result the labor turnover began to grow. Costs of production began to mount. The business then invested another \$100,000 in building houses for its employees, to be repaid by them in monthly instalments somewhat larger than rent.

Did the business owe \$100,000 or \$200,000? Was the security behind the second \$100,000 different in character from that behind the first \$100,000? Or was the number of those who used the services of the business plus their ability to pay for those services, the real basis for the security of both investments?

The housing venture reduced the labor turnover; costs went down, the number of purchasers increased; more hands were employed, the population around the factory grew. Then unsanitary conditions began to develop and a central water plant became necessary. The business invested another \$100,000 and recouped itself by charging water-rates to itself, its employees occupying the houses built for them and residents of the district who had been attracted to the vicinity by the opportunity of doing business at a growing centre. Was this third \$100,000 a debt? Was the basis of the security behind it different in character from that behind the previously invested \$200,000?

In the same way the business established, at a cost of \$100,000, an electric lighting plant to serve its factory, its employees and the surrounding population at a price which would carry the debt charges and leave a reasonable profit.

Shortly afterward, 100 miles away, a rival concern with almost unlimited and cheap raw material, and situated near a large waterpower which had been cheaply developed, began to undersell the business. The business lost some of its customers. It had to curtail its production. Its relative overhead increased. Its costs went up. It was forced to advance its prices. Sales fell off further. Production was again curtailed.

Hands were laid off. Some houses reverted to the company. Many water and light services were discontinued. The deficits of the housing, water and light operating fell upon the original business. Prices could not be increased. Deficits began to accumulate in the original business. The clientèle almost vanished. Finally the factory was closed. Its employees dispersed. The rest of the population moved away. More capital could not be obtained. The whole investment was lost, because its purchasing clientèle fell away. The same thing would have happened if its customers had decreased in average individual purchasing power, rather than in number. The basis of credit behind the new capital was the same as that behind the original investment, i.e., the number of people who purchased from the company and their ability to pay their bills. All ventures grew together. All vanished together.

Let us consider a parallel case in public business. A number of citizens take the necessary steps to start a municipality. To initiate the basal services to be carried by taxation, \$100,000 is borrowed. This furnishes the necessary school building, streets, sidewalks, police and fire equipment. Taxation is low and population is attracted. \$100,000 is borrowed for water-works, another \$100,000 for light, and another \$100,000 for housing. The charges on the first \$100,000 are carried by the taxes, those of the second and third \$100,000 by rates, and those of the fourth by monthly payments. Is the debt \$100,000 or \$400,000? Is the basis of credit behind the first \$100,000 essentially different from that behind the \$300,000 whose charges are not to be borne out of taxation?

Let us suppose that the cost of operating the basal services increases to such an extent that the per capita taxation becomes relatively much larger than other neighboring municipalities. What happens? Industries tend to move to the other centres. Unemployment increases. Population remains stationary or diminishes. Per capita costs go up. Houses lie vacant. Public Utility services lose customers. Deficits on ordinary current account accumulate. Deficits on the operation of the three public utilities appear and increase the per capita tax burden. The municipality finds it more difficult to borrow even at higher interest rates. The current costs of operating the ordinary civic departments again go up, the population diminishes or its ability to pay declines and the process goes on in a vicious circle. Such a history is rare in Canadian municipalities. It is not unknown. It represents an extreme case. But extreme cases illustrate universal tendencies.

In almost every case where such a history represents the facts, it has not been due to dishonesty or malfeasance in office. It has been due to inefficiency and still more to basing expenditure on wants, fancied or real, rather than on needs, actual and basal.

This parallel is drawn not to condemn all capital expenditures, not to oppose adequate investments to meet healthy expansion, not to attack rational taxation for the proved needs of basal services, but to emphasize the following facts:—

1. The value in exchange of all municipal debentures depends, in the last analysis, on the ability of citizens to pay for services.
2. Their ability to pay for services depends on their opportunities for lucrative employment.
3. Lucrative employment depends on the prosperity and number of the businesses and industries carried on in the community.
4. The prosperity of business and industry depends on their ability to compete in selling goods or services in local, provincial, national or world markets.
5. Their ability to compete depends, among other things, and increasingly so, on relatively moderate local taxation.
6. Therefore, moderate municipal taxation is a prime factor in determining the number of taxpayers in a community and their aggregate ability to pay for services,
and also
7. Therefore, moderate municipal taxation is a prime factor in determining the soundness of a city's investments in special services not supported out of taxation.

Destroy or diminish the advantages of the municipality as a community desirable as a place in which to earn a living and bring up a family, and you destroy or diminish the value of all investments made by the city. All taxes, all rates must be paid out of income. If they leave too little income for other necessary or desirable things, the community in the long run is bound to suffer. The results at first may be imperceptible. A natural inertia may delay the time when tendencies become evident as actualities; but when the decline begins to occur, to arrest it is difficult. It is easier to stay sound than to become sound after unsoundness has appeared.

From a financial standpoint a municipality is a unit. Unsound or extravagant current financing reacts on capital financing. Injudicious or extravagant capital investments react on current expenditures. The success of one department of the city's activities contributes to the success of all, and the weakness of one contributes to the weakness of all. A city's credit is not distributed among several watertight compartments.

That Toronto's finances are sound is shown by the results of the recent bond sale.

That it would take much extravagance in current expenditure and much un wisdom in capital expenditure to impair seriously Toronto's credit is a tribute to

1. The value of the assets accumulated by the citizens of Toronto during the last hundred years.
2. The average earning (producing) power, and therefore tax-paying ability, of Toronto's citizens.
3. The effect of home owning on the stability of the population.
4. The attachment of citizens to their home city.

During periods of national expansion, when business and industry are operated with a large margin of profit, the relative cost of municipal government in competing cities is not a vital matter. But when profits approach the vanishing point in all communities and vanish entirely in some where the taxation overhead absorbs the small surpluses otherwise available for dividends, economy and efficiency in civic administration become important factors in determining the policy of industries as to location and expansion.

QUERIES

1. Does Toronto need more industries and more producers to assist in carrying the community overhead?
2. Are Toronto's current expenditures, taking into consideration the services rendered, such as to promote naturally such growth in industry and population?
3. Are Toronto's policies with regard to centralized purchasing or price-getting, centralized accounting, systematic city planning and the standardization of civic employment, such as to produce the greatest possible amount of public service for the public monies expended?
4. Has Toronto any revenue-producing civic enterprise (or enterprises) which produces deficits only, and if so, were careful studies made as to probable success before the necessary investments were made?
5. Can there be any doubt that the next decade should be marked by decreasing or at least stationary current per capita expenditures and by the greatest conservatism in making decisions as to policies involving capital expenditure?

It is true, of course, that there is a real difference between net general debt and net public utility debt; but both are essential parts of a true debt statement. Over or unwise expansion in either direction may seriously affect a city's investments in either field. A nice balance between the two forms of civic investment and a nice adjustment of the current expenditures on civic services to proved civic needs are necessary to the highest success in municipal administration.

WHEN IS A DEBT NOT A DEBT?
WHEN IT IS PAID.

*This White Paper is one of a series
dealing with municipal debt.*