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TORONTO
CANADA

White Paper No. 238

February 21st, 1939

"RELIEF" STORY No. 2

Reporting Direct Unemployment Relief Expenditures

Personal deficits are unpleasant, but must be faced. If they are not, bankruptcy quickly follows.

Public deficits are unpleasant. They may be disguised with apparent impunity for some time because public authorities have the power of taxation. Such disguises create an unwarranted feeling of security and operate against economy of operation.

Telling the facts at once in a language which may be clearly understood by all may sometimes be thought unnecessary, but is always salutary.

If there were no possibility of a continuance of unemployment on a large scale or its recurrence on a larger scale, of the financing of other current expenditures by debenture issues, or of insufficient reporting of public affairs, this paper would not be issued. Toronto's public financial reporting has greatly improved in the last twenty years and the problem of direct unemployment relief financing in Toronto has entered on its final phase and seems to be on the way to working itself out.

An Expense is an Expense Irrespective of How It May Be Financed

It is surely a general principle that borrowing money to meet an expense does not change the nature of the expense. A current expense is still a current expense and not a capital expenditure, even if debentures are issued to meet it. Direct unemployment relief expenditure is a current expense, because it creates no asset which may be shown on a civic balance sheet. It preserves human life and, to the extent that it is adequate and adequately administered, proves its efficiency. Current expenditure on education preserves human values and creates human assets. The same thing is true of current public health expenditures. Yet no one would suggest that current school or health expenditures (as distinct from investments in buildings and permanent equipment) were capital expenditures and should appear in the capital budget only. If we spent more on these services than the revenue, it would appear as a current deficit, to meet which it might be necessary to borrow money. In the same way the whole current cost of direct unemployment relief should be shown on the expense side, the total estimated general revenue, proposed tax revenue and estimated proceeds of proposed direct unemployment debenture issue on the other, the proceeds of the debenture issue being the amount of the estimated current deficit.

In recent years the Toronto Civic Estimates have shown in memorandum form the total cost of direct unemployment relief, the net cost to the City, the amount to be included in the current estimates and the amount to be funded. There has therefore been no attempt in Toronto to hide the facts, and the management is to be commended for its clear memorandum. Anyone who studies the official statement can reconstruct the statement for himself, but this the general public who pay the bills cannot be expected to do. A more direct statement would meet their needs.

The *pro forma* statement below illustrates the point:

Estimated Current Expenditure	Estimated Revenue and Proceeds of Debentures
Fire Department \$ 1,700,000	General Revenues \$ 6,350,000
Police Department 2,400,000	Net Taxation 32,250,000
Schools 11,250,000	Proceeds of Relief De-
Health Department 860,000	bentures, i.e. the Cur-
Works Department 860,000	rent Deficit 1,400,000
Other Departments, etc... 22,930,000	
Total..... \$40,000,000	Total..... \$40,000,000

This method of showing the facts, shows that there is a current deficit. If the part of direct unemployment relief expenditures which is defrayed out of debenture issue proceeds is not included in the budget of current expenditures, **no deficit is shown** and the people think there is no deficit.* The psychological effect is quite different. How much the total costs of direct unemployment relief have been increased by the elimination of the word "deficit", cannot be estimated. It is probably large.

* In 1937 and 1938 the estimates even showed surpluses brought forward from 1936 and 1937, respectively, of \$384,320 and \$181,537, although in 1936 and 1937 there were borrowed on current relief account, respectively, \$2,183,552 and \$1,435,562.

HOW RELIEF CHARGES HAVE GROWN.

Year	I Actual Total Current Expendi- ture met out of Taxation and General Revenue	II Total Charge in Tax Levy for Direct Unemploy- ment Relief	III Percentage of Total (Column I)
1932.....	\$37,678,877	\$ 746,755	1.98
1933.....	35,225,088	12,239	0.03
1934.....	35,958,647	656,467	1.82
1935.....	36,486,738	1,390,970	3.81
1936.....	36,961,769	2,381,191	6.44
1937.....	37,808,764	2,944,444	7.79
1938 (Est.).....	37,023,546†	3,457,233	9.33

† Apparent reduction due largely to change in Water for Fire Department, \$831,000. If this had been included, the percentage of the total expenditure going to direct unemployment debt charges would have been 9.18%.

Outside of the large but not calculable indirect costs due to the human tendency to control current expenditure out of borrowed funds less rigidly than current expenditure out of current tax revenue, and of the increased total costs due to failure to reduce general costs on account of the temporary budgetary relief afforded by funding unemployment relief, the total cost to date of the funding of a great part of direct unemployment relief costs has been about \$860,000 in interest charges or about one mill on the general assessment. That it is not larger is due to the low interest rates now being paid by the city, which are due not only to the conditions of the market but in considerable measure to the maintenance of the city's credit.

Recommendation of the Finance Commissioner from his introduction to the 1938 Estimates, p. 9:

"In view of the reduction of approximately \$2¾ millions in Debt Charges during the period 1940-43, as explained above, I suggest that this year, and also in 1939 and 1940, that the term of funding Direct Relief—estimated to be \$3,025,000 over the three-year period—should be reduced from the usual five-year period to terms as indicated in the statement hereunder. Such procedure would not only effect a material net saving of debt charges upon Direct Relief Debentures between now and 1945, but would also retire the Direct Relief Debt by 1943, instead of two years later."

Year	Estimated Net Cost to City of Direct Relief	Net Cost and Recommendation for Financing City's Share of Direct Relief			Estimated Debt Charges on Whole of City Debt if Recommendation Adopted	Debt Charges Compared with Previous Year See also Statement "E"	
		Net Cost to be met as a current Expenditure	To be Funded	Term			
1938	\$2,472,507*	\$ 972,507	\$1,500,000	4 Yrs.	\$12,279,000	Increase	\$380,000
1939	2,100,000	975,000	1,125,000	3 "	12,482,000	"	203,000
1940	1,700,000	1,300,000	400,000	1 "	12,100,000	Decrease	382,000
1941	1,300,000	1,300,000		11,781,000	"	319,000
1942	900,000	900,000		10,549,000	"	1,232,000
1943	600,000	600,000		9,166,000	"	1,383,000

* An additional \$390,000 for increased food allowance to persons on relief was approved by City Council providing the Provincial Government permit the funding of such amount.

We note in the daily press and in the Draft Estimates for 1939, that this recommendation of the Finance Commissioner, implemented in 1938, has partially been adopted by the Board of Control for 1939. The Ontario Municipal Board have approved of the suggestion to the extent of permitting funding of \$600,000. over a four-year period, and the balance of \$800,000. over a three-year period. This marks a very welcome forward step, as it is probable that if the policy of funding Direct Relief for three-year periods is adopted in future, the total net cost of Direct Unemployment Relief will be treated as a Current Expenditure in 1944, as it was in 1932 and previously. It is to be hoped that this end can be attained before 1944.

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