

THE MUNICIPAL LOAN FUND.

So little is known concerning the Municipal Loan Fund, even by the Treasurers of the interested municipalities themselves, that a page or two of the *Year Book* cannot perhaps be better used than in presenting some details of its nature, history, and present position—a work, fortunately, not difficult of accomplishment, since we have the assistance of the report made upon the subject, in 1864, by the Hon. John Simpson, now Assistant Auditor of the Dominion.

"Politics!—my politics are Railways!" cried the late Sir Allan N. MacNab, when Premier of a Canadian administration, not many years ago. The Municipal Loan Fund is an offspring of the headlong finance of those times. It was established as for *Upper Canada*, by 16 Vic., Cap. 22, in 1852. The credit of the Government of Canada was at that time good—that of the municipalities which had not long been thoroughly organized, not yet established—and the intention of the projectors of the Municipal Loan Fund was to procure money for the use of the counties, townships, towns, and cities, at the comparatively cheap rate at which Government could obtain it. The borrowing powers given to the municipalities under the Act were unlimited as to the extent of the loans, which were, however, to be approved by the Governor in Council, and were only to be for the purpose of effecting public improvements.

Two short years were sufficient to show some of the evils of this system. Reckless municipalities plunged deeply into speculative undertakings, their lavish expenditure of money brought down even the Provincial credit, and by 18 Vic., Cap. 13, 1854, the Fund was limited to £1,500,000 sterling, (\$7,300,000), and the extent to which a municipality might borrow defined to be 20 per cent. on the aggregate valuation of its property as *per* the assessment roll. The same Act created the *Lower Canada* Municipal Loan Fund, which was to be subject to similar limitations. By 22 Vic., Cap. 15, 1859, it was provided that further loans to *Upper Canada* municipalities should cease, and that only \$400,000 more should be lent to *Lower Canada* municipalities. By another Act, passed on the same day, it was also provided, "That a sum of money bearing the same proportion to that which under the Seigniorial Amendment Act of 1859, will be payable yearly to the Seigniors in Lower Canada as the population of the Townships of Lower Canada shall, by the census of 1861, be found to bear to that of the Seigniors, shall be payable yearly out of Provincial Funds to the credit of the Lower Canada Municipal Loan Fund, but for the benefit of the Townships only, including the Town of Sherbrooke and St. Armand East and West, in the County of Missisquoi." Also, "that a sum of money equal in amount to the capital at 6 per cent. per annum of the sum which will be payable yearly to Seigniors in Lower Canada out of Provincial Funds, added to the sum of \$140,000, payable to the Seminary of Montreal, shall be deducted from the amount of the Lower Canada Municipal Loan Fund."

The payments to be made for the use of Municipal Loan Fund monies were affected by provisions similar for both Provinces.

The Act 16 Vic., Cap. 22, fixed these at 6 per cent. per annum for interest, and 2 per cent. for Sinking Fund.

The whole western country at that time labored under a delusion that railways must pay handsome dividends wherever located and however managed—a stupidity which now seems incomprehensible, but is no more wonderful than the feverish speculations in lands which prevailed at the same period, or the financial excitement of the historical South Sea bubble in England, or of the Mississippi scheme in France.

Many of the Upper Canada municipalities, and a few even in Lower Canada, therefore hastened to secure as much of the Loan Fund money as possible, to invest it in the stock or bonds of some railway which was supposed to be of special local interest. They all expected the railways to pay the interest, and never thought that they would be called upon themselves to disburse a dollar. They soon, however, found that they were like individuals who have carelessly endorsed their neighbours' notes—and those which had borrowed too extensively were quite unable to meet their liabilities.

Two Acts were consequently passed. The first, (20 Vic., Cap. 20,) provided with respect to the case of municipalities in default, that as it might be inexpedient to press the collection of the whole sum due, the Governor might issue his warrant to the Sheriff directing what rate should be levied, but it should not be less than 12½ cents on the dollar of the assessed yearly value of property. The second, (22 Vic., Cap. 15,) provided that instead of the payments previously to be made by municipalities, a sum equal to 5 cents on the dollar of the assessed yearly value, or to the like per centage on the interest at 6 per cent. per annum on the assessed actual value should be annually paid on or before the first day of December in each year, until principal and interest should be paid, or a smaller sum should be sufficient to satisfy the same, in which case such smaller sum only should be paid. This sum was made the first charge on the funds, and the Treasurer was to be deemed guilty of a misdemeanor in default of payment to the extent of funds in his hands, and all profits or dividends from works which received moneys from defaulting municipalities were to be paid in to Government and placed to the credit of the municipality, and no further debts were to be incurred by any municipality indebted to the Fund until such indebtedness was discharged, and as long as any municipality was indebted, it was to have no share in Clergy Reserve monies or other monies which would otherwise come to it from Provincial sources. It followed naturally, from these two measures, that Government which was at first indirectly responsible for the Municipal Loan Fund debentures, became directly liable for the same. They were called in and the holders paid off, the necessary amount being raised by the negotiation of the ordinary obligations of the Government. This arrangement has worked tolerably until now, so far as the collection of the debts by Government is concerned, but in the opinion of the writer the time has arrived when a final settlement of the Fund should be come to, for it is still most unsatisfactory as regards the municipalities.

It will be remarked, that 5 cents on the dollar on the 6 per cent. of the actual value of the assessed property will have to be paid by defaulting municipalities for all time. The interest on the default will, of course, constantly accumulate, in almost all cases much faster than the value of property. Thus an incubus upon property exists which can never be removed, and every effort made by a locality to