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I. *A Plan of applying the latest improvements sanctioned by Parliament in the Management of the Public Debt and of Town Finance to the Debts and Borrowing Powers of the Town Council of Dublin.* By W. Neilson Hancock, LL.D.

[Read Tuesday, 17th January, 1871.]

OF all the modes of borrowing money for public purposes which were resorted to by financiers from the reign of William III., when the National Debt may be said to have commenced, till 1816, when it reached its greatest height—when the capital of the Debt was £885,186,323, and the interest payable was £32,938,751—the securities which found most favour with the public were the annuities, transferable in any amount however small, in books kept by the banks of England and Ireland, as agents for the Government, such annuities being called government stock. When the terms of redemption of these annuities were fixed at the market price of the day of public credit, as 5 per cent. or 4 per cent., the Government were able, when the public credit improved so that money could be raised at a lower rate, to reduce the 5 per cent. and 4 per cent. stock to $3\frac{1}{2}$, $3\frac{1}{4}$, and ultimately to 3 per cent. Hence the stocks in which the public debt is now held are Consols (which are redeemable at 3 per cent.) Three per cent. Reduced, and the New Three per cents., which, as their name implies, are redeemable at the same rate. By these reductions, and the falling in of long annuities, the capital necessary to redeem the debt has fallen to £749,101,428, and the annual charge is now only £26,640,561.

The capital to be paid on redemption shows a reduction, since 1816, of £136,084,895, or above 15 per cent., and the annual charge, a reduction of £6,298,190, or 19 per cent. This has been brought about by the closest financing, and by attending to differences in the rate of interest and terms of redemption as low as $\frac{1}{4}$ per cent., because upon such a large capital to be paid for redemption in 1816, $\frac{1}{4}$ per cent. would be a very large amount.

The most favourite government security, Three per cent. Consols, bears at present the price of $92\frac{5}{8}$, showing that the price of public credit at this moment is $3\frac{1}{4}$ per cent.

Amongst the improvements which have been recently adopted in the management of the public funds, is the payment of dividends by post, which was adopted in London in 1869, and in Dublin in 1870. Another improvement, the consolidation of the Three per cent. Consols, Three per cent. Reduced, and New Three per cent. Stock, has not yet been adopted, though it would simplify dealings with stock, and so improve the value of the funds.

Another improvement would be to make the government stock transferable at more places than two. At present government stock can only be transferred at one office in the Bank of England, in the centre of London, and at one office in the Bank of Ireland, in Dublin.

The existence of a second office is a matter of historical accident and not a matter of policy. At the time of the Union there was a public debt in Ireland managed at the Bank of Ireland; but it was not until 1824 that an act was passed enabling government stock to be transferred from London to Dublin, and from Dublin to London. At the time of the Scotch Union there was no National Debt in Scotland, and so there is no office for transferring government stock in Edinburgh.

From the statistics of the transfer of government stock from Dublin to London and back since 1824, we have an opportunity of seeing the tendency of government stock to be held at places outside London, if only greater facility for investment were afforded. The whole government funds have diminished from £885,186,323 in 1816, to £749,101,428. Yet the amount* held in Dublin has increased from £21,004,430 in 1818, to £38,813,838 in 1869. The proportion of the entire debt held in Dublin at the first date was less than $2\frac{1}{2}$ per cent., it is now above 5 per cent.

It follows from this circumstance that if arrangements were made for having the government funds transferable at Manchester, Liverpool, Birmingham, Bristol, Norwich, and Newcastle-upon-Tyne in England; at Edinburgh, Glasgow, and Aberdeen in Scotland; and at Belfast, Cork, and Limerick in Ireland, the market for government securities would be increased, and the investing public accommodated, and so the price of the funds would have a greater tendency to rise to par.

Next to the National Debt, the largest sums borrowed from the public are by the railway companies. They commenced at first by the ancient method of mortgages and debentures; but in process of time they devised a security very closely resembling government stock, which is called debenture stock. As an illustration of stock of this kind, I may notice the largest operation in Ireland—the debenture

* Including £2,630,769 loan from Bank of Ireland. *Thom's Statistics*, 1870, p. 725.

stock of the Great Southern and Western Railway Company. This company was aided in 1847 by government loans to accelerate the making of the railway for the purpose of giving employment to relieve distress to the extent of £500,000. These loans were originally at 5 per cent. repayable in twenty years; and in the year 1852 the interest was reduced to 4 per cent. a few months afterwards the Company created a 4 per cent. preference stock and paid off the government in full.

The company within the last two years have adopted the policy of issuing a 4 per cent debenture stock, and they raised £388,125. Their debenture stock is now at £98 3s. 8d. or within a fraction of par, showing the value of the credit of a railway company paying 5 per cent. dividend—for debenture stock is in Dublin as nearly as possibly £4 per cent. The difference in interest between the credit of railway stock and government stock is $\frac{3}{4}$ths per cent.

The main part of this difference must arise from the fact, that as the power of taxation is practically unlimited, security for government stock is absolute, and is consequently legal security for trustees and for all public investments, whilst debenture stock of a company paying such a dividend is, as a commercial security, practically safe, but still not of the character which the law recognizes as trustee security, unless the trustee be expressly authorized by the trust deed to invest in it.

There are two suggestions of some importance for consideration as to railway debenture stock, as the railway companies' dividends would be enhanced by any reduction of the terms on which they could issue such stock. If some railway company would copy the government arrangement, and made a bank their agent for the transfer of debenture stock, they might then adopt the French plan of having such securities negotiable in the provinces, as they might be made transferable at the branches of the bank which they appointed as agent.

Next to the railway companies, as applicants for public loans, come local authorities. The law as to borrowing by them has been for a long time in a complicated and unsatisfactory state. At last the complication reached such a height in the London metropolitan district that the evil had to be met by parliament, and the mode of meeting it adopted in 1869, by an act which was amended in 1870, was by taking the analogy of government stock and railway debenture stock, and enabling the London Metropolitan Board of Works to create a Metropolitan Stock, which I now propose to describe.

The Metropolitan Board of Works' Act, 1869 (32 and 33 Vic. c. 102), recites that the board had borrowed, between 1855 and 1869, £8,000,000 under twenty-three distinct acts of parliament, including such various names as "The Metropolis Management Act;" "Covent Garden Approach and Southwark and Westminster Communication Act;" "Finsbury Park Act;" "Victoria Park Approach Act;" "Southwark Park Act;" "Whitechapel and Holborn Improvement Act;" "Kensington Improvement Act;" "Marylebone (Stingo-lane) Improvement Act;" "Metropolitan Fire Brigade Act;" "Thames Embankment Act;" "The Park Lane Improvement Act." It also recites that the sum of £2,000,000 more was wanted, making a debt of £10,000,000.

All future borrowing by the board is to be by a consolidated stock, redeemable at the option of the board at par, at such times fixed beforehand as the Treasury may approve of, and on such terms, conditions, and at such rate of interest, as may be in like manner approved of. There is to be no priority between holders of the stock, but the entire stock is secured on the whole of the lands, rents, and property belonging to the board, and on all the money that can be raised by rates under the act, and upon the improvement fund. The books for the stock may be kept at a bank approved of by the Treasury or at the office of the Commissioners.

The Public Works Loan Commissioners are enabled to advance money to the Board on the security of consolidated stock. The Commissioners for the redemption of the National Debt, if they think fit, with the approval of the Treasury, may invest in metropolitan stock money coming into their hands relating to savings banks and post office savings banks.

The transfer of stock is made exactly like that of government stock, and no notice of any trust—express, implied, or constructive—shall be entered in the books or receivable by the Board, or by any person or body corporate who keeps the books.

With regard to the £8,000,000 of existing securities, it is provided that the Board may enter into an arrangement with the holders of such security for the conversion thereof into such an amount of consolidated stock as may be arranged between them. Provision is made for enabling trustees and persons under disabilities, to assent to such conversion, or to the discharge of their security before the time fixed under previous acts for payment, and the Board are enabled to borrow for the purpose of extinguishing previous loans.

The security of the borrower is made complete by a very summary proceeding for any creditor obtaining a receiver if payment of interest be delayed. Purchasers of stock are exempted from inquiry into the application of the money, and the purchasers of land from the Board are freed from all charges, so that sales of land for the redemption of debt are facilitated.

The plan of creating the Metropolitan Consolidated Stock appears to have been perfectly successful.

The act was passed on 11th August, 1869; and upon the 4th July, 1870, another act was passed enabling the Board to compound for stamp duties on metropolitan stock, and the sum thus paid was £9,895 2s. 6d., this at the rate of composition fixed for the future, would represent the issue of £2,638,700 stock.

The stock having been taken up to this extent, the question arises, what saving did it produce in the rate of interest on Loans of Metropolitan Board of Works in the market? The rate the Board had to pay before the act, appears from a return called for about 1868, of the loans of the Metropolitan Board of Works, and the rates of interest paid therefor. It appeared from this return that they borrowed upon their general rates from the Clergy Mutual Insurance Association in 1858, at the rate of 4 per cent., £42,000. But in

1864 the same company charged for a further loan of £50,000, $4\frac{1}{2}$ per cent.

The Bank of England lent on the same security in 1858 and 1859 £40,000, and charged $4\frac{1}{2}$ per cent. In 1864 the Bank lent a further sum of £135,000, and between 1865 and 1867 a sum of £55,000, but at $4\frac{1}{2}$ per cent.

The Commissioners have issued a $3\frac{1}{2}$ per cent. stock, dividends payable quarterly, and its price in the market on the 13th January was $93\frac{1}{4}$. If we deduct $\frac{1}{8}$th per cent. for dividend, we get $93\frac{1}{8}$, which is equivalent to $3\frac{3}{4}$ per cent. for the money invested. So that the London Metropolitan Board are enabled to borrow on their general rates, since the act of parliament, at $3\frac{3}{4}$ per cent., instead of $4\frac{1}{2}$, being a saving of $\frac{3}{4}$ per cent. in the rate of interest, or an ultimate annual saving of $16\frac{2}{3}$ per cent in the amount of interest payable on money borrowed from private lenders.

Whilst the Metropolitan Board of Works had to pay $4\frac{1}{2}$ per cent. on money borrowed on their general rates on the old system, they had obtained a government guarantee for a very large loan of £3,850,000 for main drainage from the Bank of England, at $3\frac{3}{4}$ per cent.

It is, however, a remarkable fact, that under the new act they are able to borrow at precisely the same rate, without government guarantee, as they paid previously with government guarantee, verifying the well-known social law that government cannot create money. It borrows from the public to lend for various purposes; but a government guarantee is only a pledge that the Executive and Parliament will aid the lender in getting the money from the borrower.

When, however, as in London, the law as to raising public loans by local authorities is made simple and complete, the ordinary judicial remedy for enforcing the payment of the lender by the borrower is sufficient. The guarantee of the Executive and Parliament becomes unnecessary, and the borrower raises money at as low a rate of interest without it, as he had previously done with it.

To sum up: the lesson to be learned from the London Metropolitan Board of Works Loan Acts, are—

> 1^0 A simple reform in the law extending to town loans the latest improvements in finance, has enabled the Metropolitan Board of Works to raise money in the market within a year and a half of the plan being introduced, at $3\frac{3}{4}$ per cent instead of $4\frac{1}{2}$ per cent., and so they effect a saving of $16\frac{2}{3}$ per cent. on the amount of interest payable on private loans.
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> 2^0 It has enabled the Board to dispense with the complications of a government guarantee, and raise money direct from the public at the same rate without such guarantee, as it had previously done with it.
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> 3^0 It has inaugurated a plan by which, when the security becomes thoroughly known, the Metropolitan Board may reasonably expect to secure a further reduction of interest to $3\frac{1}{4}$ per cent., or $27\frac{3}{4}$ per cent. in all, in the annual charge for interest, as there is nothing to prevent loans of the local government on this system attaining the same value as the loans of the central government.

The question remains to be considered: How can these lessons be applied to the debts and borrowing powers of the Town Council of Dublin?

The first point to be observed is, that the credit of the Town Council of Dublin in obtaining private loans, under recent acts of parliament, appears to have been about the same as that of the Metropolitan Board of Works was before the recent act.

The London Board had to pay, first 4, then $4\frac{1}{2}$ per cent. for loans on their general rates to the Clergy Mutual Insurance Association, and $4\frac{1}{2}$ per cent. to the Bank of England; and the Town Council of Dublin borrowed £50,000 at the same rate from the Economic Life Assurance Association; and for loans of small amounts, and for more recent loans, they had to pay 5 per cent.

The rate for the best railway debenture stock is at this moment the same in London and in Dublin. Thus, the 4 per cent. debenture stock of the Great Southern and Western Railway in Dublin is quoted at 98. The 4 per cent. debenture stock of the London and North-western Railway (including dividend) is at present from 98 to 100. Under these circumstances if the price of the London metropolitan stock represents $3\frac{3}{4}$ per cent. there is every reason to believe that a $3\frac{3}{4}$ Dublin metropolitan stock, if all the necessary conditions were provided for in the act authorizing the stock, could be issued at par.

If this could be done, there would be a saving of 25 per cent. on the interest of all private loans borrowed at 5 per cent. and of $16\frac{2}{3}$ per cent. on the interest of all private loans borrowed at $4\frac{1}{2}$ per cent. Upon the £42,500 loans, at $4\frac{1}{2}$ per cent., the saving would be £318 a year. Upon the £37,500 loans, at 5 per cent., the saving would be £469, or a total saving in these loans* of £787 a year.

The Town Council recently made a very satisfactory arrangement with the government as to £382,000 Water Works Loans borrowed from the Public Works Loans Commissioners. This is to be repaid, I am informed, "by seventy-nine half-yearly payments, on 30th June and 31st December of £9,550, 5 per cent. on £382,000, the balance of principal and interest to be paid 31st December, 1909." This 5 per cent. per annum, includes sinking fund. This arrangement is most satisfactory, as it saves all borrowing at 5, $4\frac{1}{2}$, or 4 per cent. interest, and secures the money for the entire period at $3\frac{7}{8}$ per cent. interest, with a sinking fund of $1\frac{7}{8}$ per cent. improved at $3\frac{3}{4}$ per cent.; but even this is not so favourable as money raised and accumulated at $3\frac{3}{4}$ per cent., as the loan would thus be paid off in $37\frac{1}{2}$ years instead of $39\frac{1}{2}$, and with quarterly payments of interest at even a shorter period.

Again as to future government loans, if the Dublin Metropolitan Stock succeeded, the Town Council would be able, like the London Board, to dispense with government guarantee, and to obtain the money for the main drainage direct from the public at

* The Town Council's accounts do not give the particulars of all their loans, but I was kindly supplied with those figures as to some waterworks mortgages outstanding at 30th August, 1870.

one-fourth per cent. lower than the terms the Public Works Loan Commissioners are authorized to lend for that purpose, by statute 33 and 34 Vic., c. 106. The rate of loan fixed is 4 per cent., with 1 per cent. for a sinking fund. As this loan is to be £350,000, the saving of a quarter per cent. on it would be £875 a-year; and if the Dublin Metropolitan Stock should ultimately be reduced to $3\frac{1}{2}$, the saving would be £1,750 a-year, and if to $3\frac{1}{4}$ per cent., the saving would be £2,625 a-year.

I have hitherto dwelt on the grounds for extending the London system to Dublin which are strictly common to both the town authorities. There exist, however, a class of securities mostly handed down from the authorities, whom the Dublin Town Council succeeded, which have no existence in connexion with the London Metropolitan Board. I refer to the debentures.

An examination of the stock list of the Dublin Stock Exchange of the past year, shows the following results :—

There are on the Dublin market six classes of debentures, connected with property or taxes and tolls under the Town Council of Dublin, and three of these are still in Irish currency.

The interest payable on the Cattle Market Debentures, charged on tolls only, is 6 per cent., and on all the other Debentures is 4 per cent. The amount of each Debenture and Total outstanding debt is as follows :—

	£	s.	d.	British. £	s.	d.
City Debentures, Irish Currency	92	6	2	} 187,384	12	3
Do. (deferred) Irish Currency*	92	6	2			
Do. British Currency	100	0	0	27,500	0	0
Pipe Water Debentures, Ir. Cur.	92	6	2	} 72,015	7	8
Do. British Currency	100	0	0			
				286,899	19	11
Cattle Market Debentures	100	0	0	17,550	0	0
Total				£304,449	19	11

The Irish Debentures of £92 6s. 2d. bear the interest of £1 16s. $11\frac{1}{8}$d., half-yearly, or £2 Irish.

The inconvenience of this security is shown by items in the Town Council's accounts for 1869, where, besides the regular charge for interest on debentures, there was paid in fractions on Irish currency debentures, September, 1868, 8s. 6d., March, 1869, 9s. 7d.

These debentures pass on delivery from hand to hand, and so are unsuitable as trustee security.

The latest price of only *four* of these appears on the stock exchange list during the past year.

The cattle market debentures were at 105, implying a credit on the cattle market rates, at $5\frac{3}{4}$ per cent.

The City Debentures,* (Deferred) Irish currency £92 6s. 2d., were at last quotation £76, or depreciated 17.7 per cent. This is equivalent to 4.86 per cent. interest* on the money invested. The New

* These Debentures are called deferred, because, when first issued, the interest was deferred for about three years, but the name does not, I am informed, mply any real postponement of change at the present time.

Pipe Water Debentures of £100 (bearing date March, 1837) at last quotation are 86⅜, or depreciated 13.62 per cent., equivalent to 4.63 per cent. interest on the money invested. The City Debentures, Irish currency £92 6s. 2d., were at last quotation 84½, or depreciated 8.45 per cent., equivalent to 4.73 per cent. interest on the money invested.

For the City Debentures (British currency), and the Pipe Water Debentures (Irish currency), no price is quoted, implying few transfers in the market.

Taking the other securities, we have it that the credit of the Town Council in these securities is 4.73 per cent., 4.63 per cent., 4.86 per cent., and 5¾ per cent.

We have thus at once a field for applying the principles of the Metropolitan Board of Works Loan Act to Dublin. We have a complicated system of securities that are depreciated in the market.

If all the debentures were converted into a 3¾ Dublin Metropolitan Stock, there would be a saving in the interest of ¼ per cent. on £287,000, and of 2¼ per cent. on £17,550, or £1,112 a year. If they were all converted at their present market price, the extent of saving by conversion can be readily calculated. The city debentures (deferred) Irish currency* are for such a small sum, about £5,000, that their market price would have little effect on the total.

The saving on City Debentures, both Irish and British, £214,885, at 8·1 per cent., depreciated as above, may be estimated at	£17,405
The saving on the pipe water debentures, both Irish and British, £72,015, at 13·62 per cent. depreciation as above, may be estimated at	£9,808
Total saving ...	£27,213

If this saving were effected in the conversion, the debenture stock that would require to be issued would be so much less, or £259,787 instead of £287,000 debentures, and, in addition, the saving of ¼ per cent. already referred to, on the interest of the large sum, there could be a further annual saving of 3¾ on £27,213, or £1,020 making the immediate possible saving, arising out of the conversion of debentures, into 3¾ Metropolitan Stock, £2,132 a year. If the stock was ultimately reduced to 3¼ per cent., the saving would be increased by £1,522, so that the ultimate possible saving from the conversion of debentures alone would be £3,654 a year.

The whole possible saving at 3¾ per cent. is on private loans	£787
On Main Drainage Loans	875
And in Debentures	2,132
Total estimated† per annum,	3,794

* *Vide* note on preceding page.

† In these estimates I have not included, on the one hand, ⅛ per cent. on the Waterworks' Loans, nor estimated the possible rise of interest as the mortgages to pay off instalments of loan from Economic Assurance Company falling due. On the other hand, I have not estimated the effect of the contract with the

If the proposed stock should fall to $3\frac{1}{4}$ per cent. $\frac{1}{2}$ per cent. on the whole loans of £1,116,500, would raise the total estimated saving £9,376 per annum.

There are various small economies and simplifications which would arise from the creation of Dublin Metropolitan stock. Thus the gradual redemption of debt would be provided for by a fixed operation of having the stock all issued like the government funds, redeemable after a certain period, and with certain notice at par; and a provision that sufficient taxation should be raised to redeem a fixed proportion, say a hundredth part of the original debt each year, with interest on what was redeemed applied to further redemption.

This redemption money, together with the produce of all sales of land (as is provided in the case of the Metropolitan Board of Works), should be applied in purchasing stock if below par, or the paying off at par. At present there are several sinking funds—one applied to purchase debentures; another connected with the water works loan; a third invested in the government funds; and there will be a fourth connected with main drainage loan; so that whilst the Town Council are borrowing money at 5 per cent. and paying commission to have some of their loans taken up, they have from the complication of existing arrangements £5,470 in government stock accumulating in a sinking fund at $3\frac{1}{4}$ per cent.

If the issue of Dublin Metropolitan Stock was fully carried out, a further sinking fund might be applied to it by the gradual sale of the Town Council estates.

It appears anomalous that the Town Council of Dublin should be managing property let at weekly and quarterly rents at Baldoyle, and that the time of No. 3 Committee should be taken up in visiting that estate. It seems an expensive machinery for the management of such property. Other estates are of an agricultural character, suitable for sale under the Land Act.

Some years ago the unsatisfactory position of the City of Dublin as to the means of extinguishing fires from the complicated and antiquated system of parish engines, with a division of authority and responsibility between the police brigade and the brigades of Insurance Companies was pointed out in this society. The town council at once took the matter up and established the fire brigade, and led the way to the introduction of a similar system in London.

When the supply of water was complained of, the town council struck out the Vartry water scheme, and notwithstanding great opposition and difficulties, achieved the successful result which every one now admits. In the same spirit they have taken up the purification of the Liffey. These great and useful undertakings have led, as in London, to a large increase of the permanent debt on the

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Hibernian Bank, under which the Bank took up all debentures the holders of which refused to accept 4 per cent. instead of 5 per cent.; and the Town Council contracted to apply an annual sinking fund to redeem the debentures at a certain rate. The estimates are, however, sufficiently close to support the principles contended for.

city, and so have made the economical management of that debt assume an importance which it has not hitherto had.

The financial management of our railways and the successful management of our joint stock banks, makes me feel confident that if the Town Council of Dublin will give us the benefit of the plan of consolidated metropolitan stock so successfully introduced in London, with the few practical improvements I have ventured to suggest, they will shew the stability of credit in Ireland by raising the money at as low a rate as the London Metropolitan Board of Works; they will set an example which will benefit every town in Ireland, many of which have now to pay 5 per cent. or higher for their loans; they will confer a boon on prudent investors by putting an end to all risk in town loans; and by substituting for the old city debentures in the Irish currency, with the odd sum of £92 6s. 2d. for each debenture and fractions in the interest, the safest and most convenient investment which the latest improvements in the financial arrangements of the world can suggest.

In conclusion, the plan I venture to submit involves the following propositions:—

1st. That the Town Council of Dublin should seek for powers to issue a $3\frac{3}{4}$ Dublin Metropolitan Stock, to be a charge on all their property and taxing powers, next after existing charges.

2nd. That the stock should be all inscribed and transferred in books to be kept by a bank, to be selected by the Town Council, dividends to be payable by post, and the stock to be transferable at any branch of the bank employed as agent for the Town Council.

3rd. That the first inscription of all stock in the books of the bank should be submitted to a Judge of the Queen's Bench as presentments now are, with evidence that the sum proposed to be inscribed was within the limits sanctioned by statute; and that the conditions, if any, as to conversion or extinction of previous securities, had been complied with, and the judge's orders sanctioning the inscription should give the stock so entered absolute title under the statute.

4th. That the stock should be regulated upon the same legal basis as London Metropolitan Stock.

5th. That the Public Works Loan Commissioners should be, in like manner, enabled to lend upon the security of it.

6th. That the Commissioners for the reduction of National Debt should be enabled, as in case of London Metropolitan Stock to invest the deposits of trustee savings banks and Post Office Savings Banks in it.

7th. That when all prior charges had been discharged, or converted, the Dublin Metropolitan Stock should be declared good security for trustees to invest in, and the Court of Chancery, and Landed Estates Court and other courts should be enabled to sanction investments in it of the money of suitors.