THE DEBT OF CANADA AND QUEBEC AND ONTARIO.

THE ARBITRATION.

THE following is the first portion of the Supplementary Return to the Address of the Ontario Legislative Assembly for information on the above subject:

OTTAWA, Nov. 21st, 1868.

SIR,—Your letter of the 9th instant only reached me on the 16th. on my return from Quebec.

The communication to you of the statement of affairs having been only informal, with the object of eliciting a like informal expression of opinion on the various points involved, before the Dominion Government finally determined the amount of debt. I had not looked to being put in possession of your conclusions in the formal shape in which you have now conveyed them without some further intermediate discussion But I accept by anticipation this expression of your views, and I lose no time in replying as far as necessary to the different points raised by you.

I trust, however that you will pardon my saying that we will both encounter difficulty in arriving at common conclusions, by attempting to discuss these questions in writing, and that more progress would have been made in narrowing the points of difference, had much of what you now advance formed the subject of oral discussion.

I feel very strongly the duty of dealing with the financial interests of the various Provinces in their relation with the Dominion in a just and liberal spirit, and I am solicitous that the real intention of the Union Act as to its financial provisions should be faithfully carried out as regards the four Provinces.

I am sure that you are actuated by the same desire, and while it is the duty of Ontario to see that its interests are not overlooked, you would not seek to assert for that Province an interpretation of the Union Act, which would be unfair to the other sections of the Dominion

In this belief I trust that the observations I have to offer may lead to a modification of the views you have put forward with reference to certain items in the accounts.

The points of primary importance to which you call attention may be reduced to five in number.

1st. That you wish the three railway debts due by the Great Western the Northern, and the Grand Trunk Companies to go in diminution of the debt of Ontario and Quebec at their par value.

2nd. That the amount due by the Bank of Upper Canada should be taken at its face by the Dominion as a banker's balance, and deducted from the Provincial debt.

3rd. That all investments by the late Province of Canada out of trust moneys, and on account of trust funds, should be retained by the Dominion at their face, that the trust funds should be a liability of the Dominion to their full amount, but that the Dominion should keep as assets, and deduct from the debt of Ontario and Quebec the full amount of these investments, whether they be good or not.

4th That the whole of what is termed indirect debt, incurred for account, or as security for various institutions, should be put on the same footing and deducted absolutely from the gross liability.

5th. That you do not consider the proposition that the Dominion shall pay five per cent semi-annually on the amount at the credit of the Common School Fund —U. C. Grammar School—Superior Education Fund, L C, including the Superannuated Teachers' Fund, the Normal School Fund, one which can be entertained at present, but that it ought to stand over for independent negotiations at a future day.

These five heads comprise the different points raised by you in the first ten paragraphs of your letter, in reference to the mode of stating and dealing with the debt. I will notice later those paragraphs which refer to the rules proposed to govern transactions since 1st July, 1867.

1st. Then as to the deduction of the three railway debts mentioned by you.

I forbear entering into a critical discussion as to the strict legal interpretation of the Union Act.

I cannot, however, agree with the views you put forward, for, tested even by the strict rules of legal construction, I submit and am advised that these amounts are to be considered the absolute property of the Dominion, for which no allowance is to be made to Ontario and Quebec. But independently of the argument derived from a correct reading of the Act, I understand it was a matter of compact that those railway debts should become the absolute property of the Dominion as a contribution by the late Province of Canada of so much railway property in return for assets of a corresponding nature viz., railways costing $11,000,000, contributed by New Brunswick and Nova Scotia, and for which no allowance was made to these Provinces by way of reduction in their debt. I am sure it will suffice to mention this arrangement as existing in the minds of the framers of the Bill, and the Government of Ontario will think it unnecessary to discuss the point, and will not only withdraw the objections you make, founded on the literal wording of the Act, but will be the first to urge that an interpretation shall be given to it in consonance with the understanding I have mentioned.

I do not, I think, mistake the aim which I believe to be common to us both, viz., to ascertain the real intention in the minds of those who represented the various Provinces of the Union when the Act was framed, and to give a broad and liberal interpretation to its meaning, so as to carry out those intentions. rather than to strive for any more favourable construction either to the Dominion or to any of the Provinces, which strict rules of legal criticism might sanction.

2nd As to the debt of the Bank of Upper Canada your argument seems to be two-fold 1st, you contend that it is a banker's balance and that on a correct interpretation of the Act, is to be assumed at its nominal figure wholly irrespective of its real value; and 2ndly, you say that the Dominion Government, and the Dominion Government alone, has the power to make it worth its face, and that, therefore, if the Dominion Government abstains from exercising that power, it ought not to subject Ontario and Quebec to loss. My reply to the first point (keeping in view the principles of construction to which I have just adverted, as those which should guide us.) is that the words "Banker's Balance" clearly means cash available to the Dominion, in the hands of the Bankers of the several Provinces at the time of the Union, and not doubtful debts, whether due by Banks or otherwise. This amount had for years before the Union been treated by the Province of Canada as a debt. Its Banker's balance handed over to the Dominion was in the hands of another Institution the Bank of Montreal. By arrangement under various orders in Council the late Province had given time to the Bank of Upper Canada to pay this amount.

As far back as December, 1861. the Bank admitted its inability to pay in cash the deposits which it held on Government account, then amounting to nearly one and a half millions, and which was then spoken of as a debt due to the Government. That debt the Bank agreed to liquidate by half-yearly instalments of fifty thousand dollars each with interest at three per cent.

The Bank was unable to meet the first of these instalments, and in August 1864, applied for and obtained an extension of time on condition of depositing $883.300 of Grand Trunk Postal Bonds as collateral security.

Further negotiations took place from time to time for the liquidation of this debt, all anterior to the Union, and it is manifest from the character in which the late Province had itself regarded it, and from all the attendant circumstances, that the amount could not be viewed in the light of an available Banker's balance to be assumed by the Dominion as cash.

Let me test your argument by reference to a fact of recent occurrence.

The Government of New Brunswick has since the Union kept their account with the Commercial Bank of St. John, which closed its doors a few days ago, having a balance in its hands belonging to the Local Government.

Suppose this had taken place before the Union, I am sure that you, as representing Ontario, would not have been willing that the Dominion should have taken that balance over at its face, and credit New Brunswick with the full amount on account of its debt, supposing it to be only worth twenty-five cents to the dollar I think it is quite obvious that the words "Banker's Balance" could only have meant available cash.

The second part of your argument, viz , that the Dominion has the power to make it a good debt, and if for Dominion purposes it refrains from exercising that power the Provinces should not suffer, would be more plausible if it were founded on fact. But how are the facts? Could the Dominion up to this time have collected it in full? Would it have been in the interest of the Dominion generally, or in that of Ontario or Quebec, or specially that of the former Province, that coercive legal measures should, previous to this time, have been instituted under the double liability clause against the shareholders.

Is there not some doubts whether the whole of the assets must not be realised before such a proceeding can be effectually taken, and would you have wished to have substituted for the system pursued up to this time, of realizing the property as judiciously and vigorously as circumstances will permit, the arbitrary process or a writ of extent with all its attendant cost and sacrifice? The Government of the Dominion will continue to make, as they have hitherto used every effort to make this a good debt, and until unquestionable laches on the part of the Dominion, or a formal abandonment of its privileged rights shall have taken place, it is premature to claim that the Dominion must accept the debt at its face. If you are not satisfied with the assurance that every effort has been and will continue to be made to collect it, and if you believe that the debt can be immediately realized, are you willing to assume it as part of the liability of Ontario if the Dominion deducts it from the debt of the late Province of Canada and subrogates you in all its rights and in the use of its name.

3rdly. The subject of the investments of the trust funds can hardly, I think, have been viewed by you in all its aspects, for I am persuaded that further consideration will satisfy you of the injustice of applying the rule you propose with reference to them.

It would amount to this: The Provinces of Ontario and Quebec when formerly co-partners, invested funds belonging to certain trusts in securities of different kinds.

These securities became the property of the parties interested in the trusts, some of the securities are of doubtful value, but you wish that the Dominion or the new concern should take them all off the hands of Ontario and Quebec at par and reduce your debt accordingly.

You do not seem to think that the element of value to the new partners ought to be taken into considera tion, but that, whether good, bad or doubtful, they are all to be credited to the old partners at par, however injudicious those old partners may have been in the selection of the securities, or even if they have by their own acts rendered them worthless. If that be so and you think it right principle that all securities must be taken by the Dominion at par—on what principle do you omit to claim that all the railway debts, without distinction, which you say are to be credited to Ontario and Quebec shall be in like manner written off your debt at par?

You only pick out three which you consider good, viz.: the Great Western, a small part of the Northern and a small part of the Grand Trunk

But on what possible principle, it, as you contend, all securities are to be taken by the Dominion at par in reduction of Provincial debt, do you exclude the rest of the amounts due by the Grand Trunk and Northern Railways? They amount in the aggregate to $29,345 000, and if your rule is applied would reduce the debt of Ontario and Quebec, according to your statement of it, to about, in round figures, $36,500,000.

I cannot but think that you will, on reflection, see the manifest fairness of this proposal and acquiesce in the rule proposed viz :—That the trust securities shall go with the funds. There would be no objections to the Dominion taking them at *their real value* if that could be fixed but as it is impossible to ascertain it, the most practical way is that they shall accompany funds and be deducted from the amount which the Dominion has to pay on account of the Trust Funds. You will perceive that practically it makes no difference whether the Dominion pays on the gross amount of the Trust Funds without deduction of the securities, or on the net amount after deduction, because in the former case the excess of debt, the interest on which would have to be deducted from the subsidy of Ontario and Quebec would be increased in exact correspondence with the additional amount, payable by the Dominion on the trust account.

4thly. Indirect debt.

You wish that the $150,400 of what is termed indirect debt shall be deducted as well as the $693 056 which it is proposed to deduct

But you are mistaken in supposing that the Dominion is only contingently liable for this amount.

The debentures issued are undistinguishable from any other debentures It is true that the funds are bound to repay us and are well able to do so, but Ontario and Quebec have possession of these funds. If they will pay us the amount we may strike it out If we leave it there we do not ask them to pay us. It makes no manner of difference to them or to us which way you treat it.

5th. Payment the Dominion of the five per cent. interest on the funds mentioned in paragraph 7, viz : Common School Fund Upper Canada Grammar School Superior Education Fund, Lower Canada, including the Superannuated Teachers' Fund and the Normal School Building Fund, Upper Canada Building Fund.

I don't see how it is possible to avoid settling this now. There can be no objection in principle to the plan we propose, or to the rate of interest, because in all transactions between the Dominion and the Provinces, 5 per cent is the fixed rate

The Dominion pays exactly the same rate of interest to the Province on the debt composed of these funds as is charged to the Provinces on the excess of debt beyond the 62½ millions which is created partly by the funds, and as you do not indicate any distinct ground of objection to this plan, I may reasonably conclude that none occurs to your own mind.

Having now discussed the various questions of any moment adverted to by you as bearing on the amount of debt as at 30th June, 1867, it remains only to notice the 11th and 12th paragraphs of your letter, wherein you animadvert on the 17th rule, which it is proposed to apply to transactions subsequent to June 30. I am happy to perceive that you give a general acquiescence in the more important of these rules, and especially in the 3rd, 4th, 5th, 6th, 15th, 16th and 17th and in a qualified or conditional sense in all the others except the 9th, 10th and 11th, by which three last rules it is proposed to change certain pensions and gratuities to the late Province of Canada

As to the rule by which it is proposed to change all payments since June 30, 1867, in virtue of pre-existing engagements against the Province contracting the engagement; it is, of course, impossible to say that in some cases it may not work inequitably, but as there must be some rule, it is believed the one adopted applies with more general fairness than any other that could be laid down and that the exceptional cases in which it would work unfairly will be found to be fewer than if any other principle were adopted. If there are any cases of sufficient importance to warrant the application of a separate rule they can be considered as they arise. But the same rule must be extended to the transactions with all the Provinces.

RULES TWO AND SEVEN, VIZ :

Payment of balances of appropriation for surveys of public buildings, and arrears due by Crown Land Agents.

It is obvious that we have no power to receive appropriations in respect of which no contract had been entered into, or liability of any kind arisen, but if the surveys were in progress on the condition laid down in the report, viz., that they could not have been stopped without prejudice to some individual, they will be paid and charged as an arrear to the Province.

You will, I think, see the injustice of varying the 7th rule, as you propose in the 11th paragraph of your letter, so as to make the Dominion assume as good debts all the arrears due by former Crown Land Agents of Canada. The Dominion ought not to be called on to assume *any* bad debts of any of the Provinces, more especially when arising out of services left to the separate administration of those Provinces

RULE EIGHTH CAPITALIZING OF PENSIONS AT SIX INSTEAD OF FIVE PER CENT.

I am at a very great loss to perceive on what ground you ask that an exceptional rate of interest shall apply to this class of liabilities to that which governs every other transaction between the Dominion and the Provinces.

The Dominion charges you but 5 per cent. on the capital of these pensions and there can be no good reason why a different rate should regulate the investment of the amount requisite to provide the annuity.

You ask us to capitalize these payments at 6 per cent, and only to receive from you per cent, and I am sure that reflection will satisfy you of the injustice of this proposal.

You wish that the pension so capitalized should be confined to those fixed by law. I do not think that