

in the said agreement, being the amount loaned or to be loaned by the said bank to the said railway company, as hereinbefore mentioned, with interest at the rate of five per cent per annum, payable half-yearly, in the following general form.

The form is the same in all cases and I do not think it is necessary to take the time to read the form except these words:

The crown hereby guarantees the repayment to the bank at maturity of the whole or the then unpaid balances of the loans made or to be made by the bank to the Canadian Pacific Railway Company.

And in the event of default provision is made for taking possession of the securities.

Mr. POULIOT: Much worse than the Canadian Northern deal.

Mr. BENNETT: The position is this, that the capital expenditures of the railway company, as I have said, had in times past been made and I recall very clearly that they were made in connection with branch line construction because the company had substantial cash surplus balances. They made those expenditures, such as on the Royal York hotel, steamships and so forth, hoping and believing that they could sell their debenture stock. Then came 1930 and the following years and the capital obligations borrowed from banks in Canada and the United States to the extent indicated in the order in council, and having been renewed, when the crisis came again, fell due. The company could do one of two things: should they default or should they not? Some hon. members are familiar with financial transactions in Great Britain and probably know the four per cent perpetual debenture stock of the Canadian Pacific ranks higher than any other security that this country has issued apart from its national securities. This stock is held largely by trustees and family settlements. It is held in the United States; it is held in Canada. What would be the effect upon Canada of default? The government had to consider that question. The president of the railway company went to England. The right hon. gentleman wondered about the delay and I said that if he had read the document he would see that the fact is that it was put off from time to time in the hope that conditions might clarify in either the United States or Great Britain and an opportunity to sell the securities would arise. The president visited Great Britain at the time I was there and the Minister of Finance (Mr. Rhodes) was there. It was impossible to secure permission to make any issue there and an issue in the United States under the

[Mr. Bennett.]

Securities Act was, with the then situation of railroads, also impossible. It must be remembered that the United States has advanced hundreds of millions of dollars under the Reconstruction Finance Corporation from advances made by the nation on borrowings, to its railways, the New York Central, the Pennsylvania and the other great systems of that country. In the light of those facts, we decided to make this grant.

Mr. MACKENZIE KING: The Prime Minister has just said that it was in August that the president of the Canadian Pacific Railway was in England and unable to accomplish what he hoped he might be able to. How does it happen that it was as late as November 29 before the order in council was passed?

Mr. BENNETT: I can easily explain that. The obligations maturing on December 1, it did not become necessary to close out the transaction until then. That is the reason for the order in council being passed on November 29, because the money had to be available on December 1.

Mr. MACKENZIE KING: Were the banks, as early as, say the month of August, given to understand that the government would guarantee the loan?

Mr. BENNETT: The banks were given to understand that if all other efforts failed the company would have to get the money from them and a guarantee would be given.

Mr. MACKENZIE KING: Would that be as early as the month of May?

Mr. BENNETT: My memory is that it would not be May. My memory is that it was much later than that. At any rate, as I have said, my memory is that it was August. The right hon. gentleman speaks of August, and that is my recollection.

Mr. MACKENZIE (Vancouver): He left Canada on July 30.

Mr. BENNETT: Yes, it was July. The hon. member for Vancouver Centre was there at the time. I recall that he sailed on the same ship. At that time it was apparent that the government would guarantee the advance, but the money was not required until December 1, although part of the maturity, I think, had been paid before that date, but the order in council was not passed until November 29, as I have indicated. That was the transaction. If hon. members think the government is censurable for the step it took, it will, of course, have to abide by the con-