

been discovered in the system of audit for which we are asked to pay and whether any change has been made in consequence of these defalcations?

Sir LEONARD TILLEY. Some six or nine months ago, with reference to the Audit Department, a change took place which led to the discovery to which the hon. gentleman refers. That is now in process of litigation and we cannot say what the result will be. Of course there may be a very considerable deficit.

Mr. BLAKE. It is found there was some weakness in the system which before prevailed. I am not blaming the hon. gentleman, for I suppose he continued the old system.

Sir LEONARD TILLEY. Yes, but the Deputy Minister of Finance thought it might be amended, and new regulations were adopted, which led to the discoveries referred to.

Mr. BLAKE. Were they with reference to the audit.

Sir LEONARD TILLEY. Yes; and I will bring the new regulations down.

Sir RICHARD CARTWRIGHT. Some years ago I called the hon. gentleman's attention to the large amount of the Sinking Fund. That has since increased considerably. With reference to his intentions, or his expectations, if he prefers to call them so, with respect to the new loan, the hon. gentleman in making his explanations said nothing about his intentions with respect to the Sinking Fund. I should like to know whether he proposes to continue the policy of having a large Sinking Fund, in view of the new loans he contemplates making. It appears to me the time has come when the Sinking Fund can be fairly dropped. Other nations have none, and our standing is good enough not to require it any longer. It is clear this Sinking Fund is becoming a serious incubus in more ways than one. It is now \$1,250,000, and it has this serious disadvantage, that it raises the nominal price of our bonds beyond their genuine value, which is not desirable. We are obliged to purchase back many of these bonds at a very considerable premium, and for this reason I came to the conclusion some years ago that it is desirable that we should have no more Sinking Funds, as the credit of the country is sufficient to dispense with them. What is the policy of the hon. gentleman on that point going to be?

Sir LEONARD TILLEY. The hon. gentleman says he came to the conclusion some years ago to have no sinking fund. From 1874 to 1878 he did not put that in practice.

Sir RICHARD CARTWRIGHT. Of course not.

Sir LEONARD TILLEY. Therefore I did not take the course proposed. There is something to be said on both sides. During the time the hon. gentleman was in office he, looking at both sides of the case, took the ground that, on the whole, it was better to have a Sinking Fund. In that respect, I agree with him. There are advantages and disadvantages, but under the circumstances and seeing there is not one of the Colonies issuing loans without a Sinking Fund, I purpose, in the next loan, following in the steps of my illustrious predecessor.

Sir RICHARD CARTWRIGHT. I think the hon. gentleman is making a serious mistake. I find the Sinking Fund is nearly double what it was in my time, having risen from \$500,000 to nearly \$1,400,000. It is quite a different thing to have a sinking fund of \$500,000 and one of \$1,400,000; moreover there is this very great difference, that I was then establishing a new system of loans—of 4 per cent. loans—and moreover the American securities were being offered in the market at precisely the same price as I obtained for the loans I floated. Now the American securities are vastly ahead of ours. Their 4½ per cents. were then being offered in the markets at par, while our 4's were being offered at 90. Now the circumstances are different,

and moreover money is cheaper now than it was then. And, although of course the hon. Minister must follow his own judgment in that matter, I regret to hear him say that he is not disposed to consider the question of dropping the Sinking Fund. I think that, in more ways than one, it is a serious error to continue it, but it is for him, of course, to decide, on his responsibility. It is my business only to call attention to the fact that the Sinking Fund has swollen to nearly \$1,500,000, which, in the practical operation, means that we have to purchase our 4 per cents. at premiums of 4 or 5 all the time. I do not think that is a very profitable transaction for us, and besides it is open to the two objections I have mentioned—you keep your securities at a point beyond their genuine value, and that is not a desirable thing; and you add unnecessarily, which is a point he may well consider, to the nominal expenditure of this country. Of course, if he is going to take any action, he has got to make it pretty soon, because he will probably have, within the next two years, to borrow a pretty large sum of money; and it is for that reason that I call attention to it now.

Sir LEONARD TILLEY. I do not see the connection between the statement made by the hon. gentleman and the propriety of changing the policy. He justifies himself for not adopting the policy he now recommends, because American securities were nearer the rate at which our securities were. I do not see that that has anything to do with it at all. It makes no difference whatever to us. If American securities were double what they are, it would not affect our position one iota, it would not affect it to the extent of one cent. Then, if he makes the statement with the view of showing that our securities have not advanced in the same proportion as the United States securities, if that is the object he has in view, he knows perfectly well the reason which has led to the increase in the value of American securities. The Government have been paying them off at the rate of \$100,000,000 a year, and certain securities, by the American law, are absolutely necessary in order to secure the bank circulation; so the fact that they are diminishing in number and the increased demand have increased their value. It does not bear on the question of the advisability of our having a sinking fund or not. The Sinking Funds will be less this year than before, because about \$5,000,000 or \$6,000,000 will be taken up of the sinking fund in the present year. Of course they are maturing, and they are held now by the Government; but, as I stated before, I cannot see any circumstances at the present time that at all change the reasons or make it desirable that it should be done now more than when the hon. gentleman had charge of the financial affairs of the Dominion. They were then about \$900,000 or \$1,000,000; this year perhaps they will be about \$1,250,000; but that does not affect the case at all. The question is simply this, what would we receive for the debentures if they were placed on the market if they had no sinking fund provided for them? They would not bring the same price, and that must be taken into account as to the loss we sometimes sustain by buying these at a sum in advance of what we sold the debentures for, and that is a question to be considered in settling this point with no reference whatever to the value of American securities.

Sir RICHARD CARTWRIGHT. I think I can explain to the hon. gentleman, or at any rate to many members of this House, that it made a very considerable difference when I was offering my loans. The price investors will give depends upon the price for which they can obtain as good securities in the market, and, when the American Republic were offering their securities at a certain figure, it was not very easy for the Canadian Government to get a higher rate. The hon. gentleman cannot fail to see the connection. What investors look at is the value of money and the number of other securities that are offered, and there is therefore a