

He said: Honourable senators, I do not know how much time the Senate will give to the study of this Bill on its second reading. I suggested two or three days ago that if honourable members were agreeable the Bill should be submitted to the Standing Committee on Railways, Telegraphs and Harbours for examination and report. I should mention now, for the information of the House, after consulting with my right honourable friend opposite (Right Hon. Mr. Meighen), that if second reading is passed this afternoon, I shall move that the measure be referred to that committee to be taken up this evening. We are rapidly moving towards the end of the session and I think we should lose no time in dealing with bills of importance that are coming from the House of Commons.

My right honourable friend has asked me to give some details as to the working of this Bill, which is entitled "An Act to provide for revision of the accounting set-up of the Canadian National Railway System," and which, if it goes into the Statute Book, will be known as The Canadian National Railways Capital Revision Act, 1937.

The balance sheet of the Canadian National Railways, made necessary by present accounting legislation, presents the debt of the railway in figures that are somewhat fantastic when compared with the actual investment of the Dominion Government in the property. Need for revision of the accounts has been emphasized by Sir Joseph Flavelle, first chairman of the railway, by two firms of chartered accountants who reported on the subject in 1925, by the Duff Commission in 1931, and in several reports presented to Parliament by the auditors of the railway.

Capital stocks of the Canadian Northern Railway and the Grand Trunk Railway are carried on the balance sheet at their par value. The Canadian Northern Railway has outstanding \$100,000,000 of common stock, which stands as a liability. When taken over by the Government it was worthless, but 60 per cent of that stock was estimated by a board of arbitration to be worth \$10,800,000, bringing its total value to \$18,000,000. It will be asked in this revision that \$82,000,000 be deducted.

Right Hon. Mr. GRAHAM: Was that valuation in the Drayton-Acworth report?

Right Hon. Mr. MEIGHEN: That was arrived at by the arbitration of 1917.

Hon. Mr. DANDURAND: The Canadian National has now outstanding \$165,000,000 of common stock, wholly owned by the Canadian Government. It has been declared in arbitration that this is worthless and should go by

Hon. Mr. DANDURAND.

the board. Advances from the Dominion Government in payment of operating deficits are charged in the balance sheet as interest-bearing debt from a time prior to the acquisition of the properties by the Government up to 1932, when the practice of capitalizing deficits was discontinued by legislation. Interest on Government advances is being charged yearly, and now amounts to over \$500,000,000.

On the Government accounts advances for capital purposes are charged directly to the net debt of Canada, and no interest against the railway is set up. The result is that today the debts of the Dominion Government and the debts of the railway, as shown on its balance sheet, duplicate each other to an amount in excess of \$1,500,000,000. Canada is responsible for the railway debts as well as the public debt, and investors abroad usually magnify the obligations of Canada by the amount of this duplication, which is harmful to the credit of Canada abroad.

Financiers who add the two totals find obligations of	
Canada.. . . .	\$ 5,750,000,000
In reality the obligations of	
Canada on both heads amount	
to about.. . . .	4,250,000,000
	\$ 1,500,000,000

Interest alone, included as	
funded debt of the railway,	
has pyramided to.. . . .	\$ 495,000,000

The present Bill undertakes to provide a balance sheet for the railway more in keeping with the actual investment by the Government in the property. The new balance sheet involves no increase in the net debt of Canada, and involves no elimination from the balance sheet of any moneys expended by the Government in building or improving the property. The new balance sheet does, however, recognize the fact that the Government is the owner of the railway, and advances from the Government to the railway for the construction of the Intercolonial and National Transcontinental and for improvements to the properties are shown as proprietor's equity rather than as funded debt.

In the new balance sheet the funded debt of the railway includes railway bonds in the hands of the public and such advances from the Government as are not now included in the net debt of Canada. Proprietors' equity shown in the balance sheet includes all sums expended on the property by the Government not included in the funded debt of the railway.

The new balance sheet eliminates advances to the railway to meet operating deficits and the interest thereon. These advances have