

redeemable, in whole or in part, by drawings or otherwise, at par, at any time up to 1963 on three months' notice.

In these circumstances Canada may be asked whether they would consider, as a means of relieving the Province's financial position, taking over the blocked sterling deposits to be used for redemption of the sterling stock, and making available the dollar equivalent to the Province. A similar arrangement might be a convenient means of disposing of the interest-free loan. If Canada favoured such an arrangement, it would presumably be for them to take the matter up with the United Kingdom.

2. *Public Debt.*

Paragraph 7 and Annex II of the "proposed arrangements" explain the basis on which Canada proposes that the existing public debt should be apportioned between Canada and the Province. It will be seen that, of the gross total of \$82.3 million, \$10.4 million (12.6%) would be left to the Province, \$71.9 million (87.4%) being assumed by Canada. The latter figure is the amount of the 3% Guaranteed Sterling Stock and the allocation is clearly to some extent arbitrary. It is explained that the amount of the Guaranteed Stock represents, in the opinion of the Canadian Government, a fair estimate of the amount of debt incurred for purposes which would presumably have been the responsibility of the Government of Canada had Newfoundland been a Province of Canada when the debt was incurred. The Delegation may wish to examine the basis for this claim.

The necessary data are to be found in Appendix F (pages 246-253) of the Newfoundland Royal Commission, 1933, Report. This shows that the gross debt in 1933 was \$98.4 million. The purposes for which it was raised are shown, and if these are analysed according to the proposed allocation of functions, it will be found that \$68.2 million was raised for Federal purposes and \$30.2 million for Provincial purposes. (\$24.4 million incurred for deficits has been divided equally between Federal and Provincial, on the assumption that approximately fifty per cent would be represented by Railway deficits). On these figures Canada would be entitled to argue that she need assume only 69.3% of the total debt, but, as shown above, she is assuming 87.4%.

It will be noted from Annex II that among the items of debt to be retained by Newfoundland are two 3 1/2% Sterling Trustee Loans amounting to £872,528. In suggesting this allocation, Canada may have been influenced by the knowledge that full provision for redemption had already been made by Newfoundland. The original copies of the "proposed arrangements" indicated that the amount of \$3,232,000 set aside for this purpose was not included in the \$28 million surplus which Canada assumed to be available to the Province. In fact, the \$3,232,000 is included in the surplus, and the total surplus available to the Province for development, etc., is correspondingly less than was assumed by Canada. This position may be useful in bargaining in connection with the availability of the surplus (Note 1) or for improved terms generally.

3. *Provincial Budget.*

An attempt has been made to estimate the Provincial Budget for the first two years of union. Taking account of possible windfalls and allowing, on the other