

In the second place, in 1921 Sir Joseph Flavelle took the whole of these advances and suggested that common stock be issued for them without any question of interest. That was his recommendation.

The capitalization of deficits is an unsound practice in corporate accounting or corporate finance. It just is not sound. And the accrual of the interest on these deficits is something that just cannot be defended from any point of view of sound accounting or sound finance, because there does come a time when the structure falls of its own weight. We have heard the argument of the shareholder loaning a company money and treating it as a liability. But can he do that indefinitely until the amount of interest exceeds the amount of the deficit? I do not think in our corporate accounting practice we could find a precedent for such a thing.

Hon. Mr. BLACK: It is hardly fair to make that kind of comparison, because if this were a privately-owned corporation it would have been bankrupt long ago.

Right Hon. Mr. MEIGHEN: Have you read Sir Joseph Flavelle's fine disquisition at page 50 of the Duff Commission report on Political and Public Pressure?

Mr. MATTHEWS: Sir Joseph Flavelle was a member of the Royal Commission ten years after he made the recommendations which I have mentioned in 1921. That Commission, as I have already said, recommended that the capital liabilities of this property be heavily written down. Did they make that recommendation believing that it was the wrong thing to do, that it would deceive the people, and so forth? I think we have to regard them as very capable men, drawn from three countries. They spent a great deal of time on this railway problem, and they recommended that these capital liabilities be heavily written down. As a result of the Duff Commission report the Government of the day put through the Canadian National-Canadian Pacific Act, and discontinued the charging of deficits and interest on deficits.

Right Hon. Mr. MEIGHEN: But they recommended that that be not done for a while yet.

Mr. MATTHEWS: That was in 1932. They recommended it to the attention of the Board of Trustees, and Boards of Trustees have come and gone.

Right Hon. Mr. MEIGHEN: They recommended we should wait until we could get away from the danger of public and political pressure.

Mr. MATTHEWS: I do not think they said that, Senator Meighen. They said, in recommending this to the early attention of the Board of Trustees this Commission is of the opinion that it must be frankly recognized that these moneys are lost, and that the capital liabilities should be heavily written down. I do not know what that means if it does not mean writing down. That Commission was composed of men of international repute. Can we disregard their recommendation and simply say that that kind of thing is without any meaning in this problem we are trying to deal with?

Now I move to the question of interest on deficits and interest on other things. Sir Henry Drayton in 1917, in the Drayton-Acworth report used these terms, that the argument for the capitalization of interest on a Government-owned property is a somewhat fantastic argument. Then he went on to say that if you are going to do this in respect of Government properties, then you must do it in respect of all other railways in Canada. He went into the question in pretty fearless fashion.

There has been a great deal said incidentally as to what should be continued on the balance sheet of the Canadian National. But there were moneys put into other properties. Do you find them on the balance sheet of liabilities of those companies? Certainly not. They were contractual obligations which no one disputes. But they represent money put up by the Dominion of Canada. Why for the Canadian National Railways, your own property, should you refuse