

have to pay them anyway." There is no doubt what would have happened if we had not come into the picture: these roads would be in the hands of a receiver.

Mr. HOWE: Quite.

Mr. BENNETT: I made as earnest a plea for that course as I ever made in my life, and it fell on deaf ears. Now we cannot do it because of our guarantees, but should we change our accounting system because of that? The minister asks whether they are capitalizable. I do not say they are capitalizable; I never did, nor do the auditors. All they do is to show where the money came from, and I think the consolidated balance sheet is the most effective way of putting the matter that has ever been attempted. What is the trouble with the present balance sheet?

Mr. HOWE: The trouble with the present balance sheet is that it puts a wholly fictitious value on the assets of the railway, whereas, suppose we come out with a loss of some forty million dollars, that money is gone if we take it out of capital.

Mr. BENNETT: No.

Mr. HOWE: Surely if the government for its own purposes wishes to put forty million dollars back into the system to keep it going, that is not capitalizable against the earning power of the railway. It represents no new value. This is the matter my right hon. friend settled in principle in 1932. He said, "This thing is wrong," and I admire him for it.

Mr. BENNETT: No, we simply said we will not capitalize the deficit as part of the funded debt of the enterprise.

Mr. HOWE: What we are proposing here is not a new thought. It has been recommended by everyone who has had anything to do with the enterprise.

Mr. BENNETT: No; they have recommended the reconstruction of the capitalization, but they have not recommended this.

Mr. HOWE: The elimination of government loans in the form of capitalized deficits, including interest, aggregating \$904,000,000, is on the basis of (a) the report of the Drayton-Acworth commission of 1917 under the chairmanship of Sir Henry Drayton, which regarded the argument for capitalizing interest deficits on government owned railways as "somewhat fantastic"; (b) the 1925 report of two firms of chartered accountants—one, Edwards, Morgan and Company, and the other, Peat, Marwick, Mitchell and Company—as made to the board of audit under the Board of Audit Act of

1925, which recommended "that the practice of capitalizing operating deficits be discontinued" and that government advances for such deficits "be not added to the investment account, but be absorbed in the consolidated revenue fund of Canada"; (c) the report of the Duff royal commission of 1931-32, under the chairmanship of the Right Hon. Sir Lyman P. Duff, P.C., which made two significant statements on the writing-down of the capital liabilities of the national railways. In considering the earning power of the railway the commission said:

It is obvious that on this basis of earnings the capital liabilities would require a very drastic writing down.

In recommending the early attention of the board of trustees to the whole matter of the capital structure, the commission further emphasized the need of liability adjustment, as follows:

... this commission is of the opinion that it must be frankly recognized that a very substantial part of the money invested in the railways comprised within the Canadian National system must be regarded as lost and that its capital liabilities should be heavily written down.

Then the Canadian National-Canadian Pacific Act of 1933, to which I have referred, said "income deficits shall not be funded."

Mr. BENNETT: Quite so. I do not quarrel with that at all.

Mr. HOWE: Then we have—which I can refer to, though I do not know that it is necessary—the practice in other countries. Australia has done exactly the same thing with every one of her railways.

Mr. BENNETT: No. I am glad to have the chance to correct that.

Mr. HOWE: I shall be glad to give the right hon. gentleman chapter and verse.

Mr. BENNETT: I know all about that. I took the trouble to investigate the subject while on the ground. I intended to correct the statement when it was made by the minister the other day, so I went and looked at my papers. They did not write down depreciation of the properties. On the urgent demand of the commission they estimated a proper depreciation, and that depreciation represents the write-off; that is what is written off.

Mr. HOWE: We write off no depreciation on the Canadian National Canadian lines. We might call it that, perhaps.

Mr. DUNNING: We should reach the same place.