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Canada. Parl. H. of C. Standing
Comm. on Public Accounts,
1943/44.

Minutes of proceedings
and evidence.

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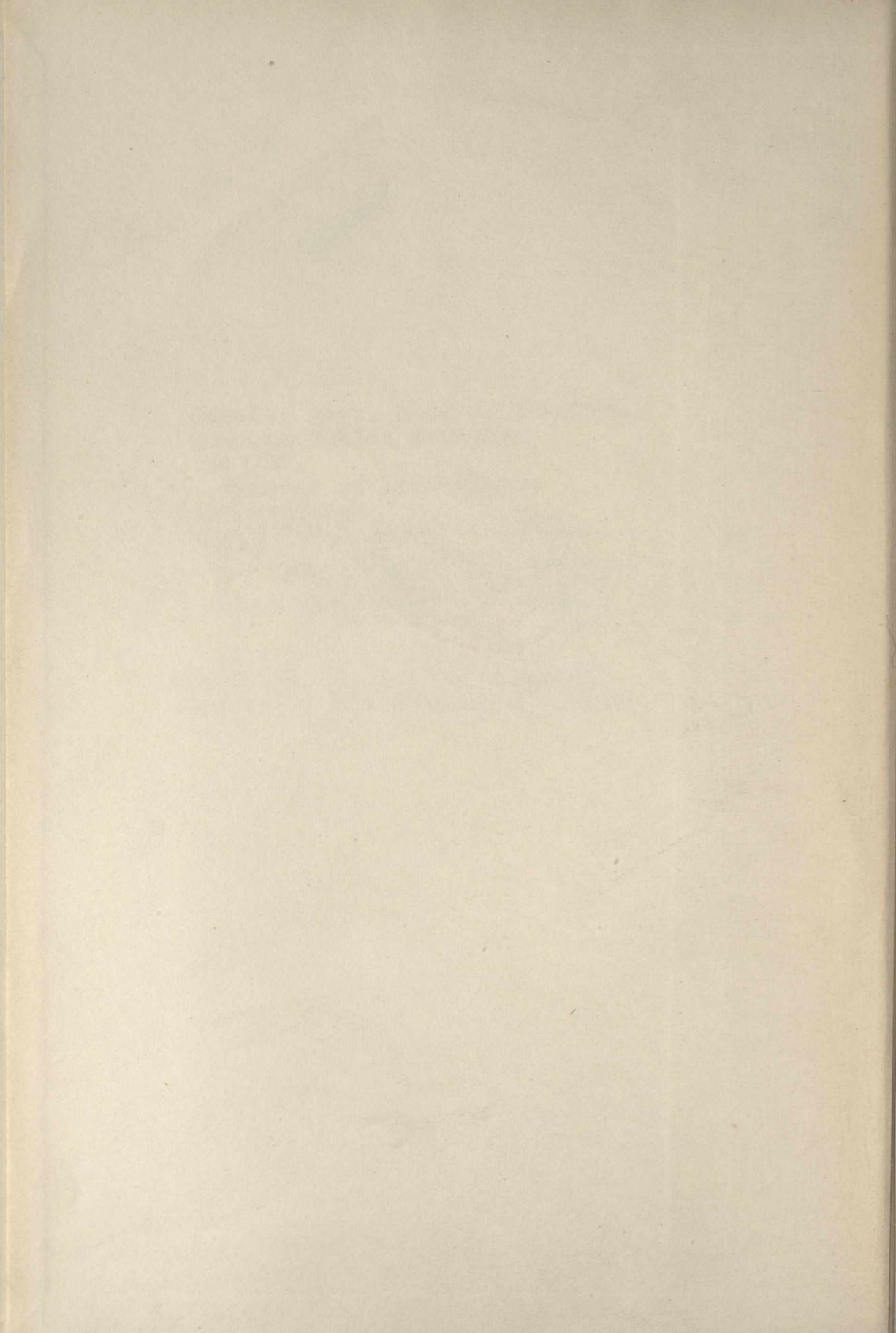
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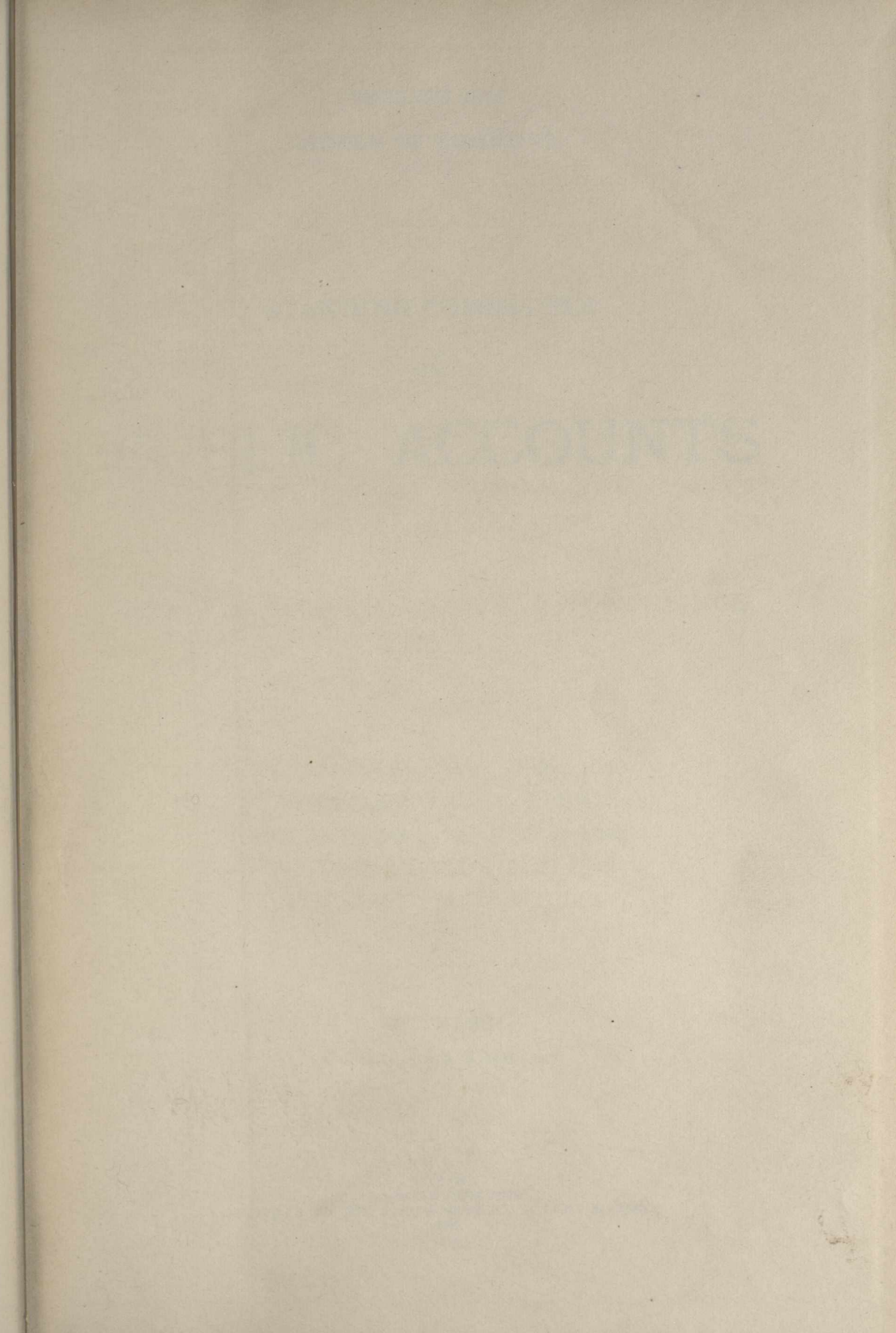
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SESSION 1943

HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

THURSDAY, MARCH 25, 1943

TUESDAY, APRIL 6, 1943

WEDNESDAY, APRIL 7, 1943

THURSDAY, APRIL 8, 1943

TUESDAY, MAY 11, 1943

WITNESS:

Colonel John Thompson

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1943

ORDERS OF REFERENCE

HOUSE OF COMMONS

MONDAY, February 15, 1943.

Resolved,—That the following members do compose the Standing Committee on Public Accounts:

Messieurs

Abbott,	Fontaine,	McIvor,
Anderson,	Fournier (<i>Maisonneuve-Rosemont</i>),	McNiven (<i>Regina City</i>),
Authier,	Fraser (<i>Northumberland</i>),	Marshall,
Black (<i>Yukon</i>),	Fulford,	Mullins,
Black (<i>Chateauguay-Huntingdon</i>),	Gladstone,	Mulock,
Booth,	Golding,	Noseworthy,
Boucher,	Grant,	Purdy,
Bourget,	Graydon,	Rhéaume,
Brooks,	Henderson,	Rickard,
Casselman (<i>Mrs.</i>),	Homuth,	Roebuck,
Church,	Isnor,	Ross (<i>Hamilton East</i>)
Clark,	Johnston (<i>Bow River</i>),	Slaght,
Coté,	Leader,	Tripp,
Cruickshank,	McCubbin,	Thauvette,
Denis,	McDonald (<i>Pontiac</i>),	Veniot,
Desmond,	McGeer,	Winkler,
Ferland,		Wright—50.

(Quorum 15)

Attest

ARTHUR BEAUCHESNE,
Clerk of the House.

Ordered.—That the Standing Committee on Public Accounts be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, March 8, 1943.

Ordered.—That the Public Accounts and the Report of the Auditor General for the fiscal year ended March 31, 1942, be referred to the Standing Committee on Public Accounts.

Attest

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, March 24, 1943.

Ordered.—That the name of Mr. Douglas (*Weyburn*) be substituted for that of Mr. Wright on the said Committee.

Attest

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, March 25, 1943.

Ordered.—That the names of Messrs. Hanson (*York-Sunbury*), Green, Ross (*Souris*), Ward, Matthews and Dechêne be substituted for those of Mrs. Casselman (*Edmonton East*), Messrs. Anderson, Church, Brooks, Leader and Booth on the said Committee.

Attest

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, March 31, 1943.

Ordered.—That the Orders of Reference of the said Committee be enlarged to permit the calling of Colonel John Thompson before the Committee to give evidence relating to the performance of his duties as Director of Government Office Economies Control during the fiscal year 1942-1943.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, May 20, 1943.

Ordered.—That the said Committee be empowered to print from day to day 500 copies in English and 200 copies in French of its minutes of proceedings and evidence and that Standing Order 64 be suspended in relation thereto.

Ordered.—That the said Committee be given leave to sit while the House is sitting.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS TO THE HOUSE

THURSDAY, March 25, 1943.

The Standing Committee on Public Accounts begs leave to present the following as its

FIRST REPORT

Your Committee recommends that its order of reference be enlarged to permit of the calling of Colonel John Thompson before the Committee to give evidence relating to the performance of his duties as Director of Government Office Economies Control during the fiscal year 1942-1943.

All of which is respectfully submitted.

W. A. FRASER,
Chairman.

(Concurred in on March 31, 1943.)

TUESDAY, April 6, 1943.

The Standing Committee on Public Accounts begs leave to present the following as its

SECOND REPORT

Your Committee recommends:

1. That it be empowered to print from day to day 500 Copies in English and 200 copies in French of its minutes of proceedings and evidence and that Standing Order 64 be suspended in relation thereto.
2. That it be given leave to sit while the House is sitting.

All of which is respectfully submitted.

W. A. FRASER,
Chairman.

(Concurred in on May 20, 1943.)

MINUTES OF PROCEEDINGS

THURSDAY, March 25, 1943.

The Standing Committee on Public Accounts met this day at 11 a.m.

Members present: Mrs. Casselman (*Edmonton East*), Messrs. Abbott, Black (*Yukon*), Black (*Chateauguay-Huntingdon*), Boucher, Bourget, Church, Clark, Côté, Cruickshank, Ferland, Fontaine, Fraser (*Northumberland*), Fulford, Gladstone, Golding, Graydon, Henderson, Homuth, Isnor, Leader, McCubbin, McDonald (*Pontiac*), McIvor, McNiven (*Regina City*), Marshall, Mullins, Mulock, Noseworthy, Purdy, Rhéaume, Rickard, Ross (*Hamilton East*), Tripp, Thauvette, Veniot, Winkler and Douglas (*Weyburn*).—38.

A quorum being present, the Clerk opened the meeting.

On motion of Mr. Golding, Mr. Fraser (*Northumberland*), was elected Chairman.

Mr. Fraser thanked the members of the Committee for his election and expressed his confidence that the Committee would discharge its duties efficiently and harmoniously.

The Chairman read the orders of reference.

It was suggested that, whenever possible, the Committee hold its meetings in another room.

On motion of Mr. Homuth,—

Resolved,—That all contracts, documents and papers respecting the item of \$3,189,609.90 for the Noorduyn Aviation Limited, as shown on page 501 of the Auditor General's Report for the year ending March 31, 1942, be produced.

Mr. Homuth then moved that the Public Accounts Committee report back to the House asking authority to call Colonel Thompson before the Committee to give evidence relating to the performance of his duties as Director General of Government Office Economies Control during the fiscal year 1942-43.

After discussion, Mr. Isnor moved in amendment that the motion stand as a notice of motion for the next meeting.

After further discussion, and with the consent of the Committee, Mr. Isnor withdrew his amendment.

After further debate, the question was put and was resolved unanimously in the affirmative.

In consequence, the Committee agreed that the motion as adopted be the Committee's first Report to the House.

On motion of Mr. Golding,—

Resolved,—That an Agenda Committee of seven members selected from all groups represented on the Committee be appointed and that the Chairman name the members.

At 12.15 p.m., the Committee adjourned at the call of the Chair.

TUESDAY, April 6, 1943.

The Standing Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. Fraser (*Northumberland*), presided.

Members present: Messrs. Black (*Yukon*), Boucher, Bourget, Côté, Cruickshank, Dechêne, Ferland, Fontaine, Fraser (*Northumberland*), Fulford, Gladstone, Golding, Green, Homuth, Johnston (*Bow River*), McCubbin, McDonald (*Pontiac*), McGeer, McIvor, McNiven (*Regina City*), Matthews, Marshall, Mullins, Mulock, Noseworthy, Purdy, Rhéaume, Ross (*Hamilton East*), Ross (*Souris*), Slaght, Tripp, Thauvette, Winkler, Ward and Douglas (*Weyburn*).—35.

The Chairman informed the Committee that he had named Messrs. McNiven (*Regina City*), McGeer, Golding, Veniot, Marshall, Douglas (*Weyburn*) and Green to act with him as members of the Agenda Committee.

He presented the Agenda Committee's Report as follows:—

"Members present: Messrs. McNiven (*Regina City*), McGeer, Fraser, Golding, Marshall, Veniot, Douglas (*Weyburn*) and Green.

The Committee has given careful consideration to the question of arranging a programme and has agreed to make the following recommendations:—

1. That power be asked to print from day to day minutes of proceedings and evidence.
2. That permission be asked to sit while the House is sitting.
3. That leave be asked to investigate expenditures incurred for publicity or in relation thereto by various Governmental Departments and/or Boards subsequent to March 31, 1942.
4. That all correspondence exchanged between Colonel John Thompson and the Government tabled in the House be produced and left in the custody of the Clerk for the convenience and information of the members of the Committee.
5. That at present the business of the Committee be taken in the following sequence:—
 - (a) Evidence of Colonel John Thompson.
 - (b) Evidence respecting publicity expenditures subsequent to March 31, 1942.
 - (c) Payment to Noorduyn Aviation Limited as shown on page 501 of the Auditor General's Report for the year ending March 31, 1942."

A discussion took place.

On motion of Mr. McNiven (*Regina City*),—

Resolved,—That power be asked to print from day to day 500 copies in English and 200 copies in French of its minutes of proceedings and evidence and that Standing Order 64 be suspended in relation thereto.

On motion of Mr. Golding,—

Resolved,—That permission be obtained to sit while the House is sitting.

On motion of Mr. McIvor,—

Ordered,—That all correspondence exchanged between Colonel John Thompson and the Government, as tabled in the House, be produced and left in the custody of the Clerk for the convenience and information of the members of the Committee.

The Chairman informed the Committee that the aforementioned correspondence was in the custody of the Clerk.

Mr. Homuth moved that leave be asked to investigate expenditures incurred for publicity or in relation thereto by various Governmental Departments and/or Boards subsequent to March 31, 1942.

After discussion, Mr. McNiven (*Regina City*) moved the following amendment:

"That consideration of the third recommendation of the Agenda Committee be deferred until such time as this Committee makes substantial progress in examining the Auditor General's Report as referred to the Committee by the House."

After further discussion, the question was put on the amendment and it was resolved in the affirmative on the following division:—

YEAS: Messrs. Bourget, Côté, Dechêne, Ferland, Fontaine, Fulford, Golding, McDonald (*Pontiac*), McIvor, McNiven (*Regina City*) Matthews, Mullins, Mulock, Purdy, Rhéaume, Ross (*Hamilton East*), Tripp, Thauvette, Ward and Winkler.—20.

NAYS: Messrs. Black (*Yukon*), Boucher, Cruickshank, Gladstone, Green, Homuth, Johnston (*Bow-River*), McCubbin, McGeer, Marshall, Noseworthy, Ross (*Souris*), Slaght and Douglas (*Weyburn*).—14.

Mr. Cruickshank moved that the Committee sit during the proposed Easter recess. The motion was resolved in the negative.

The Committee agreed to proceed with the examination of Colonel John Thompson.

Colonel Thompson was called and examined by Mr. Green on the performance of his duties as Director of the Government Economies Control Office.

Mr. Green requested that the following documents be produced before the Committee:—

1. Order in Council creating the Office of Government Economies Control.
2. Order in Council defining the duties of the Director of the Office.
3. Order in Council amending the above mentioned.
4. Letter of Colonel Thompson to the Minister of Public Works respecting the purchase of rugs.
5. Reply of the Minister of National War Services to Colonel Thompson and Colonel Thompson's reply.
6. Letter of the Minister of the National War Services to Colonel Thompson asking him to forward file concerning the Girls Hostel.

Colonel John Thompson was retired.

The Committee agreed that the Chairman present to the House a report asking leave to print and to sit while the House is sitting. Mr. Green interjected that he was not prepared to agree to unanimous consent should concurrence be moved today.

At 1.05 p.m., the Committee adjourned until *Wednesday, April 7*, at 11 a.m.

WEDNESDAY, April 7, 1943.

The Standing Committee on Public Accounts met this day at 11 o'clock. The Chairman, Mr. Fraser (*Northumberland*), presided.

Members present: Messrs. Boucher, Bourget, Cruickshank, Ferland, Fontaine, Fournier (*Maisonneuve-Rosemont*), Fraser (*Northumberland*), Fulford, Gladstone, Golding, Graydon, Green, Henderson, Homuth, Johnston (*Bow-River*), McCubbin, McDonald (*Pontiac*), McGeer, McIvor, Marshall, Matthews, Mullins, Mulock, Noseworthy, Purdy, Rhéaume, Ross (*Hamilton East*), Ross (*Souris*), Slaght, Tripp, Thauvette, Veniot, Ward, Winkler and Douglas (*Weyburn*).—35.

The Chairman informed the Committee that copies of the following documents had been received:

- (a) P.C. 10274—Read and filed as *Exhibit No. 1.*
- (b) P.C. 4428—Read and filed as *Exhibit No. 2.*
- (c) P.C. 6358—Read and filed as *Exhibit No. 3.*
- (d) P.C. 319—Filed as *Exhibit No. 4.*
- (e) P.C. 9804—Filed as *Exhibit No. 5.*
(See today's evidence)
- (f) Correspondence and statement showing all rugs purchased by the Department of Public Works from September, 1939, to December 18, 1942. Filed as *Exhibit No. 6.*

Additional copies of Orders in Council were requested.

Mr. Golding quoted an article of the *Ottawa Journal* with respect to the purchase of rugs.

Colonel John Thompson was recalled and Mr. Green resumed his examination of the witness.

In the course of his examination, Mr. Green asked that the following information be made available to the Committee:

1. Requisitions with respect to a report of Mr. Elliot M. Little of the National Selective Service and a statement showing the number of copies printed.
2. Correspondence with the Cabinet Ministers concerning the restriction on embossed letterheads.
3. Office file respecting the Girls' Hostel.
4. Office files of Colonel Thompson.

A discussion arose as to whether any member should be allowed to proceed with his interrogation of the witness without interruption.

Colonel John Thompson was retired.

At the time of the adjournment, the Committee was discussing the mode of procedure which should be adopted and followed in the examination of the witnesses.

At 1.10 o'clock the Committee adjourned on motion of Mr. Homuth until *Thursday*, April 8, at 11 o'clock.

THURSDAY, April 8, 1943.

The Standing Committee on Public Accounts met this day at 11 a.m. The Chairman, Mr. Fraser (*Northumberland*), presided.

Members present: Messrs. Black (*Yukon*), Boucher, Bourget, Clark, Côté, Cruickshank, Dechêne, Ferland, Fraser (*Northumberland*), Fulford, Gladstone, Golding, Green, Hanson (*York-Sunbury*), Homuth, Isnor, Johnston (*Bow River*), McCubbin, McDonald (*Pontiac*), McGeer, Marshall, Mullins, Mulock, Noseworthy, Purdy, Rhéaume, Rickard, Ross (*Hamilton East*), Ross (*Souris*), Slaght, Tripp, Thauvette, Veniot, Ward, Winkler and Douglas (*Weyburn*).—36.

Colonel John Thompson was recalled.

Mr. Green concluded his examination of the witness.

On motion of Mr. Green,—

Ordered,—That the original of all letters accompanying the statement of the purchase of rugs, tabled at the previous meeting, and any other letters referred to be produced before the Committee.

Mr. Green read the following:—

1. Copy of memorandum dated February 11, 1943, from Major-General LaFlèche to Colonel Thompson.
2. Copy of memorandum dated February 18, 1943, from Colonel Thompson to Major-General LaFlèche.
3. Copy of letter dated February 23, 1943, from Major-General LaFlèche to the Minister of Public Works.
4. Copy of letter from the Minister of Public Works to Major-General LaFlèche dated March 4, 1943.
5. Copy of letter from Colonel Thompson to the Secretary of the Public Works Department dated December 18, 1942.

The above-mentioned were filed as *Exhibit No. 7*.

Mr. McGeer read the following:—

1. Copy of letter from the Secretary of Public Works Department to Colonel John Thompson dated February 11, 1943.
2. Copy of letter from the Minister of National War Services to the Minister of Public Works dated February 6, 1943.

Those two letters were filed as *Exhibit No. 8*.

Copies of a statement showing the purchase of rugs by the Department of Public Works from September, 1939, to December, 1942, with accompanying correspondence, as tabled on April 6 last, were distributed to the members present.

On motion of Mr. Green:—

Ordered:—That the correspondence and other papers relating to Mr. Elliot M. Little pamphlet be produced.

In connection with the Women's Hostel in Ottawa, the Chairman read a statement showing the purchase of rugs on January 19, 1943.

This statement was filed as *Exhibit No. 9*.

Discussing the question of stationery and letterheads, Mr. Green read the following correspondence:—

1. Copy of letter from the Associate Deputy Minister of National War Services to the Clerk of the Privy Council dated September 26, 1942.
2. Copy of letter from the Clerk of the Privy Council to the Cabinet Ministers dated October 2, 1942.

The letters were filed as *Exhibit No. 10*.

Relative to publications, Mr. McGeer tabled and commented upon a statement, being a reply given in the House on March 10, 1943, with respect to Canada Handbook.

The statement was filed as *Exhibit No. 11*.

The original of the above reply was requested.

Concluding his examination of the witness, Mr. Green suggested that Colonel Thompson present to the Committee a statement as to economies that could be effected in the future.

Witness retired.

At 1 o'clock, on motion of Mr. Golding, the Committee adjourned at the call of the Chair.

TUESDAY, May 11, 1943.

The Standing Committee on Public Accounts met this day at eleven o'clock, Mr. Fraser (*Northumberland*), the Chairman, presided.

Members present: Messrs. Abbott, Boucher, Bourget, Côté, Cruickshank, Dechene, Ferland, Fraser (*Northumberland*), Gladstone, Golding, Green, Homuth, Isnor, McDonald (*Pontiac*), McIvor, McNiven (*Regina City*), Marshall, Matthews, Mullins, Mulock, Noseworthy, Purdy, Rheaume, Rickard, Ross (*Hamilton East*), Ross (*Souris*), Slaght, Tripp, Winkler and Douglas (*Weyburn*).—31.

The Chairman informed the Committee that the Clerk had received the documents ordered to be produced at the previous meetings.

Colonel John Thompson was recalled.

With the consent of the Committee the witness made a correction in the evidence which he gave on April 8 with respect to certain publications of the Department of Agriculture.

Mr. Green resumed and concluded his examination of Colonel Thompson.

Messrs. Slaght, Côté, Ross (*Souris*), Isnor, Cruickshank and Marshall also questioned the witness.

Mr. Isnor requested certain figures concerning beds purchased for the women's hostel. The Clerk having this information in his possession, passed it on to Mr. Isnor who concluded his examination in this respect.

On motion of Mr. McNiven (*Regina City*), a vote of thanks and good wishes to Colonel Thompson was adopted.

The witness was released.

The Committee then discussed the procedure to be followed at its future sittings in the light of its order of reference.

On motion of Mr. Boucher:—

Resolved:—That the Committee call Messrs. Bayer, Martin and Noorduyn at the earliest possible moment respecting the Noorduyn Aviation Limited, as referred to in the Auditor General's Report for the year ending March 31 1942.

In consequence of a resolution adopted on March 25th last, the Clerk was instructed to procure the documents therein mentioned.

The Committee adjourned at 1.10 p.m., to meet again on Thursday, May 13, at 11.00 a.m.

ANTONIO PLOUFFE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 6th, 1943.

The Standing Committee on Public Accounts met this day at 11:00 o'clock a.m. The Chairman, Mr. W. A. Fraser, presiding.

The CHAIRMAN: Gentlemen, will you come to order please. I will first make a report: at our last meeting it was decided that the Chairman would be charged with the responsibility of choosing a steering committee. I now wish to inform this committee that the following members of the committee were chosen as a steering committee: Mr. McNiven (*Regina City*), Mr. McGeer (*Vancouver*), Mr. Golding (*Huron-Perth*), Mr. Veniot, Mr. Marshall (*Camrose*), Mr. Douglas (*Weyburn*), and Mr. Green (*Vancouver South*). These gentlemen will act throughout the life of this committee as its steering committee.

Your steering committee met last Wednesday and I now present to you the results of their deliberations.

(Chairman read report; see Minutes of Proceedings of this day.)

Mr. GOLDING: Mr. Chairman, before these resolutions are adopted; I may say at once that I was not in agreement with the idea of going into all the current expenditures in connection with all the various boards that are functioning for the government. The request was that the report of the Auditor General be referred to this Public Accounts Committee, and I question very much whether we will ever get through that in the time that is at our disposal. And now, if we are going to go into all the current expenditures in regard to all the boards—I do not just know how long we are going to be here. And, I want to direct the attention of the committee to another point; there is a war expenditures committee for that purpose, which I expect will be functioning again very soon. I do not agree with the idea of throwing this wide open to call any board or anyone functioning on a board in the manner as indicated in that clause of the report of the steering committee. If that is going to happen, you will have all of these boards upset getting evidence for the committee here; and after all, I do not know what the big idea is. We have this report of the Auditor General's here and the committee can do a good job if they examined the expenditures which have already been referred to us; but, now, if you are going to go through all these other things—well, I just want to say that I am not in agreement with that.

Mr. GLADSTONE: Mr. Chairman, the big idea is to save money; and you cannot save the situation by locking the door after the horse is stolen. Now, I do agree with Mr. Golding so far as opening up the activities of these boards with respect to every item in the Auditor General's report; but most certainly I would consider that on the subject of our specific reference we ought not to be handicapped by being prevented from going into everything that is current.

Mr. GOLDING: Would you read that clause again, Mr. Chairman.

The CHAIRMAN: Clause 3: that leave be asked to investigate expenditures incurred for publicity or in relation thereto by various governmental departments and/or boards subsequent to March 31, 1942.

Hon. Mr. BLACK: Mr. Chairman, it does not follow that because that report is brought in all that work will be done, it only gives the committee authority to do it; and the steering committee can decide what work they will do, what

investigations they will make. It only gives the committee more power. It does not mean that we have to sit here until next Fall to do all that could be done.

Mr. McNIVEN (*Regina*): Our primary responsibility under our reference from the House of Commons is a consideration of the report of the Auditor General. I conceive that to be our primary responsibility, and I have no objection at all after our work is completed to our seeking other fields. I suggest, as a member of the steering committee, that action on that clause 3 be deferred until such time as we have made some progress in carrying out the responsibility that has been given us by the house.

Mr. HOMUTH: We are debating this without a motion before the Chair; therefore, I would like to move that the report of the steering committee be accepted and concurred in.

The CHAIRMAN: I wonder, Mr. Homuth, if it would not clarify the situation if I were to take each item of this report and put it to the committee separately. We might clear up a lot of misunderstanding in that way. Take Clause 1, with respect to printing first.

Mr. McNIVEN (*Regina*) moved the adoption of Clause 1.

The CHAIRMAN: It has been moved that power be asked to print from day to day minutes of proceedings and evidence. How many copies should we print; I understand it has been usual to print 500 in English and 200 in French.

Mr. McIVOR: I was just wondering if it was necessary to have them printed in English and French. If we are going to cut down, we should cut down on something.

The CHAIRMAN: Can't we eliminate the English?

Mr. ROSS (*Souris*): Which should we eliminate, Mr. McIvor?

The CHAIRMAN: I take it that that clause is agreed to. Now, as to Clause 2: that permission be asked to sit while the house is sitting.

Then, as to Clause 4: that all correspondence exchanged between Colonel Thompson and the government tabled in the house, be produced and left in the custody of the Clerk for the convenience and information of the members of the committee.

I may say, gentlemen, that those documents have been in the custody of the Clerk since last week and every member of the committee was notified that they were there.

Mr. CRUICKSHANK: Might I ask if we are to vote on each one individually?

The CHAIRMAN: Yes.

Mr. CRUICKSHANK: I am personally opposed to sitting while the house is sitting; I suggest rather that we sit here during the Easter recess and get something done.

The CHAIRMAN: Mr. McIvor:

Mr. McIVOR: I move it because I believe it is absolutely necessary. There are lots of us not in the house when we consider unimportant things are on anyway.

Mr. CRUICKSHANK: The British Columbia members cannot go home, and a lot of these Ontario fellows are only here half the time anyway. I move that we sit as a committee during the Easter recess.

Mr. McGEER: I will be very pleased to second that motion.

The CHAIRMAN: There is quite a lot of British Columbia there.

Mr. McGEER: I know. Our difficulty is this, it is something that has never been recognized by the members or by the government. I have been coming to this part of Canada from British Columbia for a great number of years and yet I have no evidence of anybody around here ever recognizing that British Columbia is in Canada. The difficulty seems to be that the great

majority of members live within close distance of Ottawa and they completely ignore the situation which exists with reference to those members who live long distances away. While it is not quite as bad for the Maritimes and the east as it is for British Columbia, there will come a time we hope some day when the great responsible majority in the east will recognize that the minorities of the exteriors have some right to receive consideration.

Mr. CRUICKSHANK: Hear, hear.

Mr. McGEER: I sympathize with Mr. Cruickshank because I believe we will all be much better off if parliament would get down to work and do the business of the country no doubt in a quarter of the time in which it is now being done.

Some Hon. MEMBER: Hear, hear.

Mr. McGEER: And we can set a fairly good example to the whole nation by doing our work in much less time than we are taking to do it; and I think we could also give to the ministry, the government, in wartime an escape from prolonged parliamentary duties that are so doubtful as to their value. I feel we would do well as a committee also—and this is going to be a very heavy committee—to get down to work and stay at it until the job is done.

Mr. Ross (*Souris*): I agree with the arguments advanced by Mr. Cruickshank and Mr. McGeer; but as one coming from quite a distance I am utterly opposed to sitting during the Easter recess; and I think this is probably the most important committee that we have set up during this war. I agree with Mr. McGeer, that if we could get some of our colleagues here for the week-ends and get a little more done in the early part of the week and at week-ends that will be all to the good. I am all for it. I think that the majority of the members of this committee have a job to do during the Easter recess assisting with the Victory Loan campaign and other important matters, and I would be very much opposed to the committee sitting during the Easter recess.

Mr. McIVOR: And the farmers, as well.

Mr. Ross (*Souris*): Yes, and the farmers as well.

Mr. McGEER: As far as I am concerned, I do not think Mr. Cruickshank or I have any hope of carrying this vote; we are just registering our complaint.

Mr. PURDY: I would move we go home at Easter, but sit on Fridays, Saturdays and Mondays.

The CHAIRMAN: Gentlemen, would somebody move that leave be asked to investigate expenditures with regard to publicity or in relation thereto of the various government departments or boards subsequent to March 31, 1942?

Mr. HOMUTH: I would move that, Mr. Chairman.

Mr. Ross (*Souris*): I second it.

Mr. McNIVEN: I would move an amendment, Mr. Chairman, to the effect that consideration of that resolution be deferred until such time as we have made progress in performing the responsibility which was vested in us by the House of Commons; namely, to make a survey and examination of the Auditor General's report.

Mr. GREEN: Mr. Chairman, the steering committee gave that recommendation very careful consideration and I thought that we were all unanimous; apparently Mr. Golding does not agree.

Mr. GOLDING: I do not know how you could think that; for I expressed myself there. How you got that idea I do not know.

Mr. GREEN: I guess I was dumb.

Mr. GOLDING: That is not the first time.

Mr. GREEN: That is better than all the time, anyway. I do suggest to the committee, Mr. Chairman, that the recommendation should be voted on by the committee as a whole. There is a great deal of interest being taken in the work of this Public Accounts Committee; we are more or less on trial. The committee has not sat for many years and there is a good deal of criticism about the Public Accounts Committee not meeting. Many people wonder whether it can do any effective work even if it does meet. Here is our opportunity to deal with this question of publicity, which is really propaganda, as Mr. McGeer said in the meeting of the steering committee. It is really propaganda. Do not just think of it as publicity; it is really propaganda, and we do not have to go very far from propaganda to the type of thing Mr. Goebbels is doing over in Germany. Under all the conditions, and facing facts as they are to-day, I do suggest that we be realistic about this matter and go into the question of cost of publicity. We all know there has been severe criticism of the cost, for example, of the Wartime Information Board. In the interests of the Canadian people that should be investigated and should be cleared up. It does not look good if we are all to be throttled or forced back to the consideration of nothing but expenses before the 1st of April, 1942. I do suggest we can render useful service to Canada at this time by going into this up to the minute. The steering committee suggested that we hear Colonel Thompson's story and also investigate the question of publicity. We also have the Noorduyn contract which, I believe, dates back to before the 1st of April, 1942. I do suggest in all seriousness that we take the recommendation as it was made. If we work together in harmony in this committee there is no reason why we cannot do a lot of good. This committee does not necessarily have to be a bear garden. If it is to become a bear garden, of course, its usefulness is finished. I hope that will not develop.

Mr. GOLDING: I will second Mr. McNiven's amendment. If there is some important thing, something that we think wise to bring before the committee later on, that can be done, but in the meantime I think that we should do the job that was assigned to us. I will second the amendment.

Mr. McGEER: I did not hear Mr. McNiven's amendment; what is it?

The CHAIRMAN: This is Mr. McNiven's amendment: "That consideration of clause 3 of the recommendations of the steering committee be deferred until such time as this committee makes substantial progress in examining the Auditor General's report submitted to the committee by the House of Commons."

Mr. NOSEWORTHY: Mr. Chairman, have you disposed of clause 2, the one relating to how long we are going to sit? Have you disposed of that?

Mr. HOMUTH: Yes.

Mr. CRUICKSHANK: I did not withdraw my motion, in all deference to my good friend from Burrard. I should like to see a vote on it. There is important work going on in the House of Commons, and if it is as important as we believe it is, can we take fifty members out of the house during the time that important matters are coming up there, members representing nearly all the ridings in Canada? Is this the time to do that? If so, I cannot see the consistency in going on and putting on the heat with regard to other matters. I did not withdraw my motion. I should like to see how some of the members are going to vote to show to the public that fifty members of parliament stayed out of the house during the important discussions there to discuss certain matters in committee. If matters coming before this committee are so important surely we can sit here during Easter to go on with this work. I did not withdraw my motion.

Mr. HOMUTH: Question?

The CHAIRMAN: Gentlemen, I wonder if we could dispose of this motion, and come back to the other later. The motion asks that permission be asked to sit while the house is sitting. I think we can take this motion as an ordinary routine motion to bring before the committee. It is a customary motion that comes before all committees. What the committee may decide to do afterwards in connection with the sittings rests absolutely with the committee. The committee can decide when it wants to sit, where and at what time, and the agenda before the committee from day to day. This is an obvious motion.

Mr. GOLDING: I move that the clause be carried.

The CHAIRMAN: The working of the committee rests with the committee. You are only asking the permission.

Mr. McGEER: Let us have the motion. You have a motion before you to that effect. That motion has not been dealt with. Then there is another motion by Mr. Cruickshank.

The CHAIRMAN: We can carry this motion.

Motion carried.

Mr. JOHNSTON: Which motion was carried?

Mr. McNIVEN: Which motion was carried?

Mr. HOMUTH: To sit when the house is sitting.

The CHAIRMAN: What is carried is this: "That permission be asked to sit while the house is sitting." That is settled.

Some Hon. MEMBERS: No.

Mr. ROSS (*Souris*): How can we settle the motion without having a vote?

Mr. COTE: Is there not an amendment to that motion by Mr. Cruickshank?

The CHAIRMAN: No. The motion before the committee now is that permission be asked to sit while the house is sitting.

Some Hon. MEMBERS: Take the yeas and nays.

On a vote being taken twenty-nine voted for, and two against.

Motion carried.

Mr. HOMUTH: Read the original motion I moved.

The CHAIRMAN: "Moved by Mr. Homuth that leave be asked to investigate expenditures with regard to publicity or in relation thereto of the various governmental departments or boards subsequent to March 31, 1942." That is the motion. There is also an amendment to this effect: "That consideration of clause 3 of the recommendations of the steering committee be deferred until such time as this committee makes substantial progress in examining the Auditor General's report submitted to the committee by the House of Commons."

Mr. DOUGLAS: Mr. Chairman, I wonder what the mover has in mind.

Mr. McIVOR: That does not close the door. If the steering committee comes back again and asks that other matters be investigated we are perfectly free to do so; but let us do the job that we have been asked to do first.

The CHAIRMAN: Gentlemen, you have heard the amendment.

Mr. DOUGLAS: Mr. Chairman, may I say a word? The steering committee discussed this question raised to-day and the problem that arose at the meeting of the steering committee, and I should like to know what is meant by "substantial progress of the Auditor General's report." In my opinion this amendment is tantamount to a motion to deny that investigation, because if you mean by "substantial progress" that we shall have gone a good part of the way through the Auditor General's report then you are not going to reach this motion to investigate publicity of the various government branches. It seems

to me in the light of the wording of the amendment that this committee would never get to it. "Substantial progress" would mean covering a good part of the Auditor General's report, which would take the time of this committee from now until the time the house rose.

Mr. HOMUTH: I was not a member of the steering committee, but I understand that motion was put by Mr. Green and seconded by Mr. McGeer, and I also understand that it was unanimous; however, Mr. Golding said it was not. This motion does not refer to a wide open investigation, as Mr. Golding has suggested, of all those departments and boards of government. It deals only with the publicity part of the various boards. All the motion asks for is that we recommend to the house that we be granted the power to do it. It does not say we are going to do it; but it does say we are asking the power to investigate these matters, which is an entirely different thing. The steering committee would then decide when it was going to be done and when we have that power we can do it at whatever convenient time we have. I think the members of the committee ought to realize this: at our meeting the other day when the question of examining into the department of which Colonel Thompson was chief, the reason given at that time, and I thought it pretty well swayed the minds of the members of the committee, was the fact that great publicity had been given to that in all the papers of the country. It was in the minds of the people, and we felt that now was the time that that matter should be cleared up rather than let it sink in for months and months and months. Now, with regard to the War Information Board, information has been given in the house, information which has become part of editorials in every newspaper in this country, with the result that people feel that there is a preponderance of people who are drawing down large salaries and they were questioning what we were getting for it. That is in the minds of the people. That is a serious problem, and if there is any time when we ought to disabuse the minds of the people as to whether there is extravagance in these things, it is at a time of war. We are going out in another two weeks to plead with the people of this country to put hundreds of millions of dollars into the war loan. If we in this committee this morning are going to defer the report of the steering committee with regard to investigating this matter it is not going to help the situation. We are going to have a struggle to go out and sell this war loan. Let us disabuse the minds of the people of this country that if there is anything at all in the Auditor General's report or anything that has happened subsequent to it that this committee is going to hesitate to investigate. I think that in asking only for the power to investigate, when the time comes, that every member of this committee ought to support the motion.

Mr. GOLDING: Mr. Chairman, I think that we ought to keep this in mind in considering these matters. In Britain matters of this kind are referred to the War Expenditures Committee. They are dealt with by that committee and that committee goes into the matters very exhaustively and makes a report to the government. If there is something wrong they so report, and they are doing splendid work there. I contend that the War Expenditures Committee should deal with matters of that nature, and I know they will report honestly what they find to the government.

Mr. McNIVEN: There seems to be a thought in the minds of some that the motion is introduced for the purpose of delaying the investigation of this particular matter, and, as Mr. Green put it, that there was some thought in somebody's mind of throttling the work of this committee and that some of the things would result in the committee being turned into a bear garden. I want to assure you, Mr. Chairman, and members of the committee, that that is farthest from my mind and farthest from the mind of any member of the committee, apart from those who have made the suggestion, that anything is going to be

done to throttle or delay the work of the committee or to turn this committee into a bear garden. The Auditor General's report has not been under consideration by this committee, to my knowledge, for the last six or seven years. The setting up of this committee and the calling of the committee was requested by certain members of the committee, members of the House of Commons. They undoubtedly had in mind something that should be examined into in the Auditor General's report, and with that as a basis the House of Commons referred the Auditor General's report to this committee for examination. I think that the committee should proceed with the work in hand. First things first is a pretty good principle to work on, and in undertaking the responsibility that has been given to us by the House of Commons, which, notwithstanding some remarks, is still the responsible body in this country, we as a committee should not go out seeking into other fields until we have performed the responsibility that we have in mind.

Now, Mr. Douglas intimated that there might be some unusual meaning attached to the words "substantial progress". I submit by those words all that is indicated is that we should afford an opportunity to those members who want certain items or certain parts of the Auditor General's report investigated, that we should investigate those items which they wish to investigate and make progress in that, and then if we find that there is some time left we can go back to the House and ask for additional authority. It is merely a postponement and it is not intended to delay the proceedings of this committee or any worthwhile work any member may have in mind, and it is far from any intention to throttle the work of the committee.

Mr. McDONALD (*Pontiac*): Mr. Chairman, at the last meeting of the committee the matter was dealt with regarding what action would be taken by the committee first in regard to the Public Accounts Committee, and that as we were to investigate accounts only up to 1942 they felt we did not have authority enough to investigate the matter of Colonel Thompson. If my memory serves me rightly the committee asked the House of Commons to give us authority to investigate Colonel Thompson. I understand that the gentleman is here to-day. I do not understand why we do not proceed according to that order of business and investigate the public accounts or, if they prefer, investigate Colonel Thompson to-day, and in the future as we hold further sessions take up these other matters in routine order. I certainly will vote for the amendment on the ground that we should proceed according to the order laid down in the last meeting and investigate Colonel Thompson to-day.

Mr. ROSS (*Souris*): I cannot help but feel if we carry this amendment proposed by Mr. McNiven we would certainly be taking a retrograde step. This matter of wartime information is a controversy which is public throughout Canada to-day. As has been pointed out by one member a while ago with the victory loan approaching it has been discussed on that basis. As Mr. Golding pointed out we have more than we can accomplish this session with the Auditor General's report alone, and if we are simply going to confine our remarks—

Mr. GOLDING: Do that job and let the War Expenditures Committee do their job.

Mr. ROSS (*Souris*): We are not accomplishing what the public would expect of us at a time such as this. In the discussion about calling the committee together it was pointed out by myself and others that we should be able to investigate matters such as this and that corrections should be made before the horse was gone and the door locked, as it were. It was pointed out by the Prime Minister and others that we can decide among ourselves. We have authority in this committee to extend our terms of reference. Certainly this is one of the terms of reference which I think should be extended so that we can discuss these matters before waiting another year until they are audited in the

Auditor General's report and the money is spent. I think it is a retrograde step that we should oppose the motion.

Mr. WARD: Mr. Chairman, if we want to bedevil the victory loan campaign just go on the way we are; just keep on making loose insinuations in regard to the work of parliament and this committee. There is nothing wrong whatsoever. It seems to me it is sound sense and logic that we should proceed on the basis of the reference we now have. The committee is a law unto itself in so far as this work is concerned. You have a steering committee set up very wisely for the purpose of directing the work of this committee, and to my mind I cannot follow the logic at all of those who would oppose the motion that is now before the committee.

Mr. DOUGLAS: The motion came from the steering committee.

Mr. WARD: Or the amendment, rather.

Mr. McGEER: This is the first time we have heard of anything like this. This is a minority amendment from the steering committee.

Mr. WARD: Is there a point at issue that we should go back beyond the reference that has been given to us by the House of Commons, beyond the first of April, 1942?

Mr. McGEER: Bring the investigation up to date; the steering committee made that recommendation.

Mr. WARD: After all, these reports are going out to the country. The proceedings of this committee are being taken down and will go out to the public. It does seem to me that we should proceed now without any further delay to examine as far as the reference from the House of Commons will permit us to go, and then if we have time, and we think it is wise to do so, we can go on from there. For goodness sake, let us get on with the work of this committee and quit making loose insinuations in regard to conditions that may not exist at all but which will be proven if we proceed with our work.

Mr. McGEER: Mr. Chairman, the committee first applied to parliament for the right to investigate Colonel Thompson. Colonel Thompson's position was that of General Supervisor of Economy of Expenditures. The matter came before parliament by way of a newspaper statement attributing to Colonel Thompson certain allegations. Immediately parliament undertook an investigation of that matter and referred it to the Public Accounts Committee. The Public Accounts Committee met and found they had no power to investigate beyond March 31, 1942, and asked for leave to bring that investigation up to date.

With reference to publicity, as I understand the matter, certain returns were called for and filed in the House. Certain features of expenditures on publicity became the information of parliament and the information of the public. As a result of those returns the criticism of the expenditures became a matter of not only news but editorial comment from one end of Canada to the other. When the matter came before the steering committee it seemed to me that was a matter of immediate concern which was almost on all fours in principle with the Colonel Thompson situation. After what I thought was a fairly long discussion in the steering committee the question of whether or not we should go ahead or confine ourselves to public accounts up to March 31, 1942, was also discussed. Both Mr. Golding and Mr. McNiven raised that question in the committee. I may be wrong in my interpretation of the matter but I came away from that committee believing that we were in unanimous agreement. I am certainly not speaking for what was in Mr. Golding's mind or in Mr. McNiven's mind, but I am satisfied that the records will show that there was no amendment and no vote taken against the motion.

Mr. McNIVEN: Merely because it was a recommendation.

Mr. McGEER: Mr. Green moved and I seconded the motion.

Mr. GOLDING: There was no motion at all.

Mr. McGEER: Mr. Chairman, Mr. Green moved in the steering committee, and I seconded the motion, that the recommendation now before this committee be made. As I remember it there was no opposition vote registered or indicated. It was carried.

Mr. McNIVEN: None asked for.

Mr. McGEER: You were the one to ask for it. I thought we had discussed the matter and had agreed to it. Certainly the Chairman knows what happened, and he can confirm or not what I say. I think I am making a correct statement of the facts as they developed in the steering committee. The Chairman can vouch for what I say.

On the point of whether or not we should investigate matters of current public concern, or whether we should confine ourselves to the auditor's reports up to the 31st of March, 1942, I take it for granted that the majority of the committee will agree that there is very little in a general way in the auditor's reports to investigate. In the main they are correct. It is only in instances brought to the attention of parliament where there is a charge of extravagance that this committee has some real work to do. We are not going to sit as a committee of auditors and chartered accountants to put our O.K. on these reports because no public accounts committee has the capacity to perform any such work.

Mr. HOMUTH: Hear, hear.

Mr. McGEER: Let me ask you, is there any difference in our investigating Colonel Thompson in the administration of the duties which he had to perform which involved the economy of the whole administration, and bringing up to date a matter which is now before parliament in the form of some returns, a matter of the cost of publicity, and which is a matter of general concern throughout the country? I do not think we would assume any responsibility in dealing with the work of the publicity men in what they were publicizing. What this committee is concerned with as a public accounts committee is whether or not these returns for expenditures which now run into very large sums of money are justified or whether they can be curtailed or possibly whether they can be expanded, but the actual cost of publicity is now before parliament in these returns. The policy of publicity and the matters which are being publicized are not within the scope of our investigation.

Let me say another word on the work of the committee. Mr. McNiven says this should be deferred until we have made substantial progress with the investigation of the Auditor General's report. Of course, that is always in the hands of the committee. The committee can decide whether they have power from parliament or not to go on with this investigation. That is not lost as a matter of priority. It is not lost as a right of procedure. The procedure of the committee is not interfered with, and even though parliament were to grant us power to investigate publicity up to date there is no obligation upon the committee to defer any other work or to place that investigation in any position of priority. I am somewhat surprised, when a matter of great concern to the public comes before parliament in the way of a return and becomes a matter of general editorial comment, which is extremely severe, that the committee hesitates to accept the recommendation of the majority of the steering committee. As I say, we discussed this question of the Auditor General's reports, as every member on that committee knows, and if there is going to be any disturbance in the public mind with regard to that matter it is already there. It is already a matter of public comment. I think probably the most severe charges of extravagance with regard to public expenditure have been made in that particular phase of our administrative program at the moment. If we want to allay any fears that there may be in the minds

of the public with regard to indifference to expenditure then the best thing to do is to let the public know that the Public Accounts Committee is functioning, and that when a matter of that kind came before parliament there was a committee prepared, ready and willing to deal with it at once. That was the only idea I had in my mind when I supported on the steering committee the motion moved by Mr. Green. I hope that the committee will support the majority findings of the steering committee, and if you are not satisfied with that steering committee you had better have another one because if we are going to sit down and devote our time to making recommendations to the committee and then find a minority coming in from the government side and over-ruling us then the usefulness of that steering committee is completely done away with.

The CHAIRMAN: I wonder if I might interpose with a suggestion? Actually the item on our agenda for this morning is the evidence of Colonel Thompson. Colonel Thompson has kindly come over this morning and is ready to take the chair as a witness before this committee. Might I make a suggestion, and couple with it a request to Mr. Homuth and to Mr. McNiven, that the motion and the amendment stand until the next meeting of the committee so we can proceed this morning?

Mr. HOMUTH: No, no, wait a minute; Mr. Chairman, I see no reason whatever for deferring action on my motion. I do not see any reason why we should defer action. All we have got to do is take a vote here and if it is carried we go to the House with that recommendation. If it is defeated, all right, it is defeated, but it will only take a minute to take the vote now.

Mr. DOUGLAS: I move that the question be now put.

Mr. McGEER: Mr. Chairman, I would hardly agree with the stand Mr. Homuth has taken because after all this is a matter which is not of immediate pressing importance and I do think we should attempt to get at the other matter. Mind you, if the committee carries that recommendation on the motion of Mr. Golding and Mr. McNiven, the majority of the committee on the government side, then I can see no alternative but for me to resign from the steering committee. I would much sooner have that matter fully discussed after Colonel Thompson has given evidence.

Mr. GOLDING: Do not take a stand like that.

Mr. McGEER: That is exactly the situation.

Mr. GOLDING: Surely to goodness you are big enough not to do that.

Mr. McGEER: I do not need any instructions from you about that. What I do say is we should have had a better understanding in the steering committee than we apparently have this morning.

Mr. NOSEWORTHY: Question.

Mr. McGEER: I thought it was unanimous but apparently it was not. I was wrong, but I would certainly agree with the suggestion of the Chairman that the matter be set over until we can find some way to agree, if it is possible. I think Mr. Green will agree on that.

Mr. DOUGLAS: Mr. Chairman, I move that the question be now put. If the government want to sort out family quarrels it is all right, but I do not see why the committee should be held up.

Mr. NOSEWORTHY: I second the motion.

Mr. PURDY: I would move that this matter be postponed until another meeting.

Mr. COTE: I just want to raise a point of order, if it is one. Great importance is being given to the fact that the recommendation of the steering committee is not being supported by the majority of its members. I fail completely to see

what power the steering committee had to recommend the opening of a new field of activity for this committee. Is it not their duty to determine the precedence of the matters we actually have on our table here for study? That is the responsibility of this committee, the same as we did at the last meeting when this committee decided to apply to the House to empower them to call Colonel Thompson. To my mind the steering committee only has authority to determine the precedence of the matters which are actually in the hands of this committee here, and on that ground I will support the amendment of Mr. McNiven.

Mr. DOUGLAS: Mr. Chairman, a motion to put the question is not debatable; I move that the question be now put.

Mr. CHAIRMAN: Gentlemen, I am going to put the question now. I will read the amendment again; moved by Mr. McNiven (*Regina*) consideration of Clause 3 of the recommendation of the steering committee be deferred until such time as the committee makes substantial progress in examining the Auditor General's Report submitted to the committee by the House of Commons.

On a recorded vote: yeas, 20; nays, 14.

The CHAIRMAN: I declare the amendment carried. Gentlemen, we will now proceed to hear the evidence of Colonel Thompson.

Mr. GREEN: There are other paragraphs in that report.

The CHAIRMAN: We have a motion from Mr. Cruickshank that we shall stand consideration of them.

Mr. CRUICKSHANK: It will only take a minute and I would like to say this—I only want to say one word—mention has been made here of the importance of members' activities in connection with the Victory Loan; I know of no way in which we could possibly help the country, or the Victory Loan, more than by sitting here during the Easter recess; and I would so move, that the committee should sit during the Easter recess.

Mr. McGEER: I would second that motion.

The CHAIRMAN: A motion in committee does not need a seconder.

Gentlemen, it has been moved by Mr. Cruickshank that this committee sit during the Easter recess.

On a show of hands the motion was declared lost.

Mr. NOSEWORTHY: While you are on that point, I think there was a suggestion made by another member that these committee meetings should not all be crowded into Tuesdays, Wednesdays and Thursdays. There is no reason in the world why this committee should not sit on Mondays, Fridays and Saturdays. The other days are too crowded for us to meet.

The CHAIRMAN: The committee can decide that for themselves at the close of every meeting. They can indicate then the date to which they wish to adjourn.

I will now call on Colonel Thompson.

Colonel JOHN THOMPSON, called.

The CHAIRMAN: Members of the committee, of course, have carte blanche to examine Colonel Thompson on any item or in any way that they wish consistent with procedure. The documents that were asked for have been in the hands of the committee clerk since last week; and I know that Colonel Thompson will be very glad to answer the questions as they are put to him. I wonder if we could proceed by each questioner rising in his place and only one asking a question at a time.

Mr. NOSEWORTHY: There is only one question I would like to ask, and it is this: the minister read in the house a statement from Colonel Thompson to the effect that his department have not been interfered with by the minister

or by any members of parliament. I wonder if Colonel Thompson will tell us if that holds true for the officials of all the departments of government? I notice that Colonel Thompson's statement was confined to the minister and members of parliament. The question in my mind was whether Colonel Thompson was hampered in his economy drive by officials other than the minister or members of parliament—if that is a fair question. That is the question in my mind.

Mr. GLADSTONE: Would it not be well first to have Col. Thompson outline the scope of his work and in that way lay a foundation?

The CHAIRMAN: If Mr. Noseworthy will permit; I am sure Col. Thompson would be glad to do that.

Mr. HOMUTH: I do not think it is necessary for Col. Thompson to stand up.

The CHAIRMAN: No, no.

The WITNESS: The scope of the economy branch was veritably limited. In the first instance it was confined entirely to office supplies, typewriters and machines. I say office supplies—note paper, pens, and so on.

Mr. GREEN: It is hard to hear, Mr. Chairman; will you ask the witness to speak a little louder, please?

The CHAIRMAN: Yes.

The WITNESS: In the first instance it was confined entirely to office supplies, typewriters and office machines. Requisitions would come in to be approved or not as the case might be and then passed on to the Printing Bureau. Subsequently, along towards the end of November, furniture was allocated also to the economy branch. That briefly comprises the duties of the economy branch.

And now, you asked me first as to whether any minister or member of parliament had interfered with me in the institution of my duties and I said, "no". Then you asked me if any of the officials of any of the boards and so on interfered. It all depends upon what you mean by interfering. We certainly had protests from a number of officials against our economy drive. Such protests did not affect my decisions in regard to any matters that came before me; unless the protest, in my opinion, was justified; but, I was not hampered by any protests.

By Mr. Green:

Q. What type of protests did you get?—A. Oh, an official would want an expensive sort of binder for papers; he might want an expensive filing system. I had very little trouble with any of the officials with regard to furniture. I had the advice of one of the Public Works officers, and only in rare instances were representations made that a more expensive type of furniture be granted—sometimes the protest was justified; others, not.

Q. You had some protests in regard to equipment, did you?—A. Oh, yes.

Q. What about stationery and supplies, and things of that type?—A. That is what I mean by office supplies.

Q. Oh, I see; and did you—were the protests more numerous from the regular departments; that is, the peace-time departments; or, from the war departments?—A. I think, from the board.

Q. Some of the boards?—A. Yes.

Q. Well, what boards do you include in the groups protesting?—A. Oh, the Wartime Prices.

Q. They were the strongest?—A. And Munitions and Supply.

Q. They were the most frequent protesters, were they?—A. I would not say that.

Q. What were the other boards?—A. I think those were the principal two.

Q. Did you say Wartime Prices and Trade Board?—A. Yes.

Q. And Munitions and Supply?—A. Yes.

Q. That is the Department of Munitions and Supply?—A. Yes; not as regards furniture from these people, but with regard to bills and accounts which they contracted and then sent in a requisition with these bills to be o.k'd and rubber stamped by the economy branch.

Q. Were they supposed to get your approval before they ordered these things?—A. Oh, yes.

Q. And in these cases you mention they did not do that, they simply went ahead and ordered regardless of you and then sent in the voucher and asked you to sign it?—A. Yes.

Q. That is your complaint?—A. Yes.

Q. And that is from the Department of Munitions and Supply, and Wartime Prices and Trade Board largely?—A. Yes. I think the odd bill was contracted from other departments; as a matter of fact, in the National War Services that was so too.

Q. They did the same thing?—A. Yes.

Q. I see.—A. I might say that about the middle of October, approximately that, Judge Davis in accordance with the order in council directed all boards and department to nominate a representative with whom the Economy Director would communicate; and subsequently called a meeting and gave quite an address. I think there were forty-two altogether. Then, pursuant to that, they issued an order or regulation—as the case may be—I think they were confined altogether—they were informed then or the representatives were informed as to what had been done in the various instances.

Q. That is, all the representatives of the different departments and on the different boards were informed by you, or by Mr. Justice Davis?—A. When they were nominated, then I sent notices out as to what had been done by the representatives—while I cannot say so, to my own knowledge, my inference is that whatever they did with it in a number of instances the order was not passed on. I say that because when these bills came in, the larger ones, the excuse given was that we didn't know about it. In other words the information had not been disseminated.

Q. By your representative in that particular department or on that particular board?—A. In that particular department, yes. I do not know—I do not say that the representative in that department—that is, one of the departmental employees—I do not say he failed in his duties; what I say is that the information on orders was not disseminated, according to the excuses given to me; that the officers who had incurred these bills outside had not been informed.

Q. That would mean, I suppose, that your representative in that department or on that particular board did not have the full co-operation of the department or the board?—A. That I do not know. I could not say.

Q. Is that the way you would explain these happenings?—A. As to what happened in the department or board, I do not know; except that the excuse given by the officials outside of Ottawa was that, "I do not know of the regulations."

Q. I say. In any event your instructions to your representatives did not get down to the men who were actually doing the ordering in those departments or units.—A. That is right.

Q. Now, you have spoken of protests coming from the departments of boards to you; did you do any protesting about your orders not being followed?—A. Yes. Of course, this was an entirely new organization, and they sent in bills to be o.k'd I wrote back saying this ought to have been done and so on; and I allowed it and it went on for several months. Eventually I stepped down on them and would not o.k. any further amounts.

Q. Well then, what happened?—A. I do not know.

Q. Was it shortly after that that you resigned?—A. With regard to National War Services, I think it was about the 17th of November; and I can only recall presently this one particular item that came in, where the official in question had ordered some supplies from outside of Ottawa without getting permission—in a number of cases when I refused to pass them—the official, or the board, or the department; whatever it was.

Mr. SLAGHT: Was it a lead pencil; do you know what that was?

The WITNESS: What was?

Mr. SLAGHT: The item.

The WITNESS: That had been purchased outside—I do not understand your question.

Mr. SLAGHT: I do not want to interrupt, Mr. Green; you mentioned one single item.

The WITNESS: No, one instance; not a single item. You referred to a single item. I was referring to a bill of about \$500.

Mr. GREEN: Go ahead and explain what it was.

Mr. SLAGHT: What was it for?

Mr. McGEER: What was the \$500 for?

The WITNESS: Stationery and supplies.

Mr. McGEER: Explain it.

The WITNESS: I cannot tell exactly what it was.

Mr. GREEN: I think it is going to be very difficult if we are going to cross-question in this way.

The CHAIRMAN: Gentlemen, Mr. Green has the floor.

The WITNESS: You see there were I should say a hundred requisitions coming in in a day and they would probably average ten to twenty items. This bill was from one of the registrars.

By Mr. Green:

Q. In National War Services?—A. National War Services, yes; as to whether it was excessive or not; I do not think I was concerned about that at the time; it was probably because everybody and anybody could order supplies and send in bills for payment—the branch would be absolutely useless.

Q. What happened in that case?—A. I did not pass it. I do not know what became of it.

Q. What had happened in these cases where you refused to pass the vouchers, where you refused to approve the purchase?—A. As I say, I allowed it to run on in a number of cases where they said they knew nothing about the orders, and so on. Eventually, and I think towards the end—I am not sure—I think towards February or something like that I just held everything.

Q. That is, you held these orders which you had not authorized?—A. These supplies which had been bought.

Q. And which you had not authorized?—A. Yes. I held the bills finally.

Q. And then what happened after that?—A. I do not know.

Q. You do not know whether they were paid without your approval or not?—A. They were not paid up to the time I left.

Q. That is, until the time you resigned?—A. That is right.

Q. You spoke about things that happened in the Department of National War Services in November; you were really working under the Minister of National War Services, were you not?—A. That is right.

Q. What did you do in that connection; did you protest to the minister?—A. No. As I say, it was apparently new, and when an official incurred a number of these things, travelling from one end of Canada to the other, setting up these various offices in connection with enlistments and so on.

Q. He was incurring those expenses without your authorization?—A. He was making things uniform throughout Canada. Therefore I said, "All right." I think this was about the 15th or 17th of November, and he wrote me and said, "This will be the last order I pass out."

Q. Did you resign in November, or attempt to resign in November?—A. Yes, I did.

Q. Why?—A. Because of the way the Order in Council was drawn which made the economy branch just a rubber stamp. Under that Order in Council there was no power to refuse any requisition.

Q. Have you got a copy of the Order in Council?—A. No.

Q. Can you produce a copy?—A. Well, I have not got it. It is in the economy branch.

Mr. GREEN: I wonder, Mr. Chairman, if we could have that Order in Council.

By Mr. Green:

Q. Do you remember the date, Colonel Thompson?—A. I think it was towards the end of November.

Q. Towards the end of November?—A. Yes.

Q. Will you enumerate again your objections to that Order in Council?—A. Under that Order in Council the economy branch had no power to reject any application for purchase within the duties allotted to the economy branch.

Q. What were your powers under the Order in Council?—A. Well, really to consider but not to refuse.

Q. Which?—A. Consider or approve.

Q. You would consider or approve but you could not reject?—A. No. The power of rejection was not stated as such, but as we only had the other two there was no power to say that articles in question would not be supplied. That was subsequently amended, and gave us the power of rejection.

Q. When was the amending Order in Council put through?—A. I have not got the exact date.

Q. Can you tell us about when that was?—A. I think it was about a month later.

Q. That would be in December?—A. Yes, I think so. I am not definite about it.

Q. Did you withdraw your resignation?—A. Yes.

Q. When?—A. Well, I did not actually withdraw it. General LaFlèche asked me, as he was busy with his election at the time, to wait until afterwards which I did, and then shortly after he asked me to draw an amendment which would be satisfactory to me.

Q. And why did you withdraw your resignation?—A. Because by putting in the power of rejection then the economy branch was no longer a rubber stamp. That was my objection.

Mr. GREEN: I would like that amended order in council, too.

By Mr. Green:

Q. After the order in council had been amended and you had withdrawn your resignation of last November, then you again found that your power of rejection was nil or that these orders were going through without your approval?—A. No. When the subsequent order in council was passed it gave us power to reject applications to purchase materials, furniture, and so on.

Q. How did the trouble arise subsequently? That is this trouble with regard to departments and boards purchasing things without your knowledge?—A. As I say, the information in many cases had not sifted down, had not been disseminated by the representative in each board or department or by those senior officials whose duty it was to pass the information on.

Q. So you found, although you had this power to reject, still orders were being placed without you being consulted?—A. I do not say that I would have rejected those purchases on the ground that they were excessive. It was a matter of principle as to whether the branch was to be a rubber stamp or whether they were all to requisition for their materials first. I might give an illustration of one department where there was never any trouble and where a lot of economies had been put in force very shortly after war was declared. That was in the naval service.

Q. Which?—A. The naval service.

Q. The naval department?—A. Yes. I had no trouble. Whatever they wanted to buy, if it was something urgent down at Halifax or Saint John or Vancouver, wherever it might be, they would wire in and permission would be given to purchase so much. They would send in a telegram and I would telephone back, "Go ahead and buy." You see, in some places the local purchase is much greater than Ottawa, and further they would buy a quality which we would not approve of here.

Q. Under the order in council was the Wartime Information Board exempt from your control?—A. Yes.

Q. Did you object to that?—A. No.

Q. You made no objection?—A. No. Our job was to do whatever was allotted to us and not to ask for more.

Q. You never had any control over the Wartime Information Board?—A. No.

Q. What other boards or government bureaus were exempt from your control?—A. I think the Bank of Canada.

Q. Any others?—A. Not that I know of.

Q. Were there any departments exempted from your control?—A. No.

Q. For example, was the Department of Public Works under your control from the first?—A. No, not until towards the end of November, I think it was.

Q. When were you appointed, Colonel Thompson?—A. I took over on the first of September. I think I was appointed in August some time, but Mr. Thorson was away and did not return until approximately the first of September.

Q. And at the first the Department of Public Works was not under your control?—A. No.

Q. Was there any dispute about that?—A. None whatsoever.

Q. How did they come to be brought under your control eventually?—A. By order in council.

Q. Was there any discussion about that?—A. I do not recollect any.

Q. Were there any other departments not under your control?—A. No, they were all in.

Q. All except the Department of Public Works?—A. Prior to November.

Q. That is what I mean. Were there any other departments prior to November not under your control?—A. No, except I think they called them then the Publicity Board.

Q. That is the predecessor of the Wartime Information Board?—A. Yes.

Q. Was the Printing Bureau under your control?—A. No, not at the time, but I think the first week that I was in office Judge Davis, who was then the Deputy Minister, asked me to meet the King's printer, Mr. Cloutier. We met in his office and the King's printer said, "I am quite ready to co-operate in every possible way," and he has done so.

Q. I see, but was he included in the order in council?—A. I considered not.

Q. You considered he was not?—A. Yes. There is no doubt he has co-operated very well. As a matter of fact, he and the stationery branch of the Printing Bureau have been very helpful. I had in the office one employee from the Printing Bureau to advise on the quality of paper and print, and so on.

Q. Did you write to the Minister of Public Works, Mr. Fournier, asking for a list, with prices and locations, of the rugs that had been purchased during the past two years for government offices.—A. Yes.

Q. Did he reply?—A. No. I received a letter from General LaFleche.

Q. You received a letter from General LaFleche?—A. Yes, asking me what I wanted to know for, and I replied to him that I wanted to know because the rugs were very expensive, and that certain officials had rugs which would not be allotted now which would save purchasing new ones.

Q. Did you receive any reply from General LaFleche?—A. No.

Q. And did you at any time receive a reply to your letter from Mr. Fournier?—A. No.

Q. Was anything done about the purchase of these rugs?—A. I do not know.

Q. You do not know. You were unable to get anywhere on that particular enquiry? Have you got these letters? Can you produce these letters?—A. Oh, they will be on file in the office.

Mr. GREEN: I wonder if we could get them, Mr. Chairman.

By Mr. Green:

Q. Did you do anything about transferring rugs or furniture from one department or board to another?—A. I do not know definitely about that. Mr. Narraway of Public Works, who was advising me in regard to furniture, used to come each day and was very helpful.

By Mr. Homuth:

Q. What is that name?—A. Mr. Narraway.

By Mr. Green:

Q. How did you come to get into this question of rugs?—A. It was in connection with the general setup. Under the order in council we had power to move furniture from one department to another, from one branch to another, and so on. It came to my notice by a senior official that he only had a small table whereas very junior officials had something like a cabinet minister's desk, and when he moved around he was amazed how some of these older departments were furnished. I do not think we allotted more than half a dozen rugs altogether, but I think the last one was a rug for Mr. Justice Thorson. We salvaged the old rug and had it cleaned, and so on, but the price was very high, and I was on the lookout for economy in view of what I had heard about furniture in these other older departments.

Q. What do you mean by very high?—A. Well, to my way of thinking they were very expensive.

Q. What did they cost? Give us some illustrations.—A. Oh, I think the one for Mr. Justice Thorson that we allotted was about \$170 in his room, and somebody had recommended or indented for one a couple of hundred dollars beyond that.

Q. One that was worth about \$400?—A. Yes, I should think so.

Q. Any other illustration?—A. Another illustration as to what?

Q. With regard to these rugs?—A. I recollect that we allotted one to a deputy minister, and only one. I think, on the ground that the condition of the floor was very bad. We had made an investigation in the first instance and there was one to a cabinet minister, but there were so many requisitions of all sorts I cannot tell you which cabinet minister it was. The requisitions will speak for themselves. They are all in the Printing Bureau or Public Works.

Q. You were never able to get any information about the full list of prices and locations of the rugs?—A. No, I never did anything further.

Q. You were never able to get that from the Department of Public Works?—A. Well, I was never furnished with it; that is all.

Q. Have you any idea how many rugs were bought during that two-year period for which you asked information?—A. Not the slightest idea.

Q. By the way, was the Canadian Broadcasting Corporation under your jurisdiction?—A. No.

Q. You had no control over them?—A. Just a minute; no, they were not, no. The Film Board was.

Q. The Film Board but not the Broadcasting Corporation?—A. No. At any rate, I cannot recollect that they ever sent in a requisition. There may have been some. You see, there must have been very nearly three thousand items in the course of a month so that only the extraordinary ones would be impinged on my memory.

Q. Apparently there was some trouble about the women's hostel here in Ottawa. I believe there was a hostel committee, was there not?—A. Yes.

Q. Who were the members of that committee?—A. Mr. B. J. Roberts.

Q. Of the Harbour Board?—A. Yes. Mr. Somerville of the Chateau, Miss Belcourt. I do not know whether there were any others.

Q. Did the hostel committee ever complain either to Mr. McLarty, the Secretary of State, or to General LaFleche, about the part you took in the equipping of the women's hostel?—A. Well, I inferred so.

Q. Pardon?—A. I inferred so.

Q. Why did you infer that?—A. Mr. McLarty telephoned me and he said that Mr. Roberts was in his office at the time and he said, "Our idea was that the hostel should be furnished somewhat commensurate with the furnishings in the Y.W.C.A.," with which I agreed. I might say at the first meeting of the hostel committee they had a long list of furnishings which I did not approve of. They wanted at the time to go down the list item by item and I said, "No, we must establish the principle and the style on which the hostel is to be furnished". I quoted Mr. McLarty and I quite agreed with his view, that it ought to be something commensurate to the Y.W.C.A. Then they dispersed and they never came for another meeting.

Q. They did not play any more after that?—A. No, never came near us again.

Q. Did they file complaints?—A. Not with me.

Q. Against you with one of the ministers?—A. I do not know.

Q. Were there not some twenty odd complaints filed against you or your bureau with regard to your attitude on the furnishings for the hostel?—A. Not to me, but I understand they wrote to Public Works about what we had allotted.

Q. I see. Did you make any reply to those complaints?—A. No.

Q. It was not referred to you at all?—A. I was informed of it but I paid no attention to it.

Q. After the file of contracts for the hostel had been completed and turned over to General LaFleche were there any additional expenditures made?—A. I am so informed.

Q. Did you approve of them?—A. They never came before me.

Q. You were not consulted on them at all?—A. No.

Q. How much?—A. I was told they were about \$4,000 after everything was completed, as I thought.

Q. That was while you were still director? You were still in charge, or supposed to be at the time that was done?—A. When?

Q. At the time of this extra \$4,000?—A. No, I was out.

Q. This \$4,000 was over and above the file of contracts which you had approved?—A. Yes. I asked Public Works if there were any other contracts outstanding, or to be made, and they said, "No". So I closed the file and sent it to General LaFleche. He asked me to do so when the last contract was let.

Q. He asked you to close the file?—A. He asked me as soon as the last contract was closed. I think the last contract was for blinds.

Q. When did you close your file on the hostel?—A. Oh, towards the end of March.

Q. And who made these additional expenditures?—A. I do not know.

Q. Do you know by which department they would be made?—A. Oh, Public Works would bring them before my successor.

Q. Did General LaFleche write you about the hostel?—A. Nothing other than to ask me to forward the file when the last contract was awarded.

Q. Have you got that letter?—A. That will be in the office. I have not got it. My successor will have it.

Mr. GREEN: Can that be produced, Mr. Chairman?

By Mr. Green:

Q. At the time this additional \$4,000 was spent was the hostel committee active again?—A. Were they what?

Q. Was the hostel committee on the job again?—A. I do not know with regard to the \$4,000.

Q. Were they the ones who spent the \$4,000?—A. I do not know who spent it.

Q. You have no information?—A. I have no information.

Q. What were your instructions from your minister, General LaFleche, with regard to making public statements?—A. He asked me not to give interviews to the reporters.

Q. When was that?—A. Oh, I cannot tell you now. It would be a month or a month and a half ago, something like that.

Q. Was it before or after the first article appeared in the Ottawa Journal?—A. Oh, it would be some time after that.

Q. Some time after that?—A. Yes.

Q. And did he tell you that all information on economy departments would have to come from him from then on?—A. Practically so.

Q. How did you come to have that discussion with him?—A. He came in to my office.

Q. Will you just tell us what happened?—A. He said he did not wish interviews published and asked me to have the staff so informed, so the staff signed a chit I sent around to the effect that information was not to be given out.

Q. Had you been in the habit of giving interviews to the press before that?—A. I have been in public life about twenty years and my door was always an open door to anybody who wanted information, unless it was of a secret nature. When I took over this job I did not see why it should be any different, but after that I did not give any information. I could not slam the door in the face of any reporter who wanted to see me, but I did not give him anything after that.

Q. From the time the minister took that position you considered that you were absolutely restricted in giving any interviews to the press at all?—A. Yes.

Q. Was there some member of the Department of National Defence posted in the Pacific command who ordered a large number of transport mileage books printed and then presented you with the requisition for them after the order had been filled?—A. I do not know where he came from.

Q. Who was that?—A. Major Capes.

Q. Where was he stationed?—A. I do not know. He was in Ottawa when I saw him.

Q. Did you then approve of the expenditure?—A. I did not.

Q. Why not?—A. Because I had already approved of what I might call a pad with a list of items, one of which was to go in every single vehicle in the army, and always remain there, and the duties that had to be performed were on it, and so on and so on. I was under the impression that when this sticker, I

would call it, was presented to me at a later date that it was already covered by the pad which remained in every vehicle and which had to be filled out every day, some of them twice a day, with regard to mileage and the number of times it had to be inspected and the number of times it had to be turned in for overhaul, the number of times it had to go into the factory, and so on, and I did not pass it. I kept asking for those pads and the representative of the army came in. I did not pass it and I said, "I want one of those before I consider this at all". I said, "If it does not come I will not pass it," and I turned it down.

Q. Did you pass it eventually?—A. I did not. Then I found that these had already been printed in St. Catharines without any requisition or authority at all amounting to something over \$2,000.

Q. What happened eventually?—A. I do not know.

Q. You did not approve of it at any time?—A. No, not at any time.

Q. What date was that?—A. Oh, I should say two or three weeks ago; that was the final refusal. It was right there on my side table waiting for these pads which I had called for. The sticker in question was a little larger than two postage stamps, such as garage men put on your car when you change your oil, with the mileage, and so on, and these were to be posted in these vehicles. I turned it down on the merits, as I thought, in the first instance because this pad which I had authorized a couple of months or so before contained, as I thought, that information.

Q. Yet apparently the army went ahead and had their own pads printed and ignored the ones you had approved; is that what happened?—A. Had what?

Q. They have their own forms printed and ignored the form which you had approved?—A. No, no; this was an entirely new one.

Q. What happened?—A. I was informed that many hundreds of them, thousands of them, had been in store over here in Ottawa.

Q. Of the form that you had approved?—A. No, the one that I refused.

Q. The one you refused?—A. I do not know anything about the others, except that they were not submitted to me for comparison.

Mr. GREEN: It is one o'clock, Mr. Chairman. May I ask if the orders in council referred to will be printed in our proceedings of to-day?

The CHAIRMAN: The usual procedure will be followed. Gentlemen, does the committee agree that we ask the house to-day for approval of the two motions; one, to sit while the house is sitting and the other to have our proceedings printed?

Mr. GREEN: Mr. Chairman, there are one or two other paragraphs in the recommendations from the steering committee that you did not put through the committee.

The CHAIRMAN: No; but I think we have to ask approval of these two by the house. We do not have to ask the house to approve of anything in that report except these two items.

Mr. GREEN: Is your amendment to that report to be included in the report for the house?

The CHAIRMAN: No.

Mr. GREEN: It should be, should it not?

The CHAIRMAN: All we require an order of the house for is authority to sit while the house is sitting, and to have our proceedings printed.

Mr. GREEN: And not the amendment to the motion put to the entire report?

The CHAIRMAN: You mean, the one we voted on?

Mr. GREEN: Yes.

The CHAIRMAN: That is a matter for the committee and that will appear in our proceedings. We don't have to take that up in the house.

Mr. GREEN: I see.

The CHAIRMAN: That will be included in our proceedings here, that is entirely a committee matter.

Gentlemen, does it meet with your approval that we meet again to-morrow at 11 o'clock?

Mr. McNIVEN: The committee on reconstruction has already arranged a meeting and has brought a witness here from western Canada.

The CHAIRMAN: Are many of our members on that committee?

Mr. JOHNSTON: The same condition prevails with the social security committee of which I am a member and it is meeting this morning, and if it can be arranged so that some of these committees, such as the reconstruction committee and the recent committee on social security and this committee do not sit at the same time it might be of some assistance to some of us who are on these other committees.

The CHAIRMAN: That is true, Mr. Johnston. Our difficulty always has been in trying to steer clear of meetings of other committees. It is almost impossible to do it every time.

Mr. JOHNSTON: The suggestion has been made now that we do not sit to-morrow because of the meeting of the reconstruction committee, and I just wanted to point out the difficulties some of the rest of us have also.

The CHAIRMAN: What about Thursday next?

Mr. JOHNSTON: I do not think it likely that Wednesday would interfere with the Social Security Committee because it is sitting to-day. I just draw attention to it.

The CHAIRMAN: There is no objection to a meeting to-morrow then?

Mr. GREEN: You are not taking it that we are giving unanimous consent to having that report adopted this afternoon?

The CHAIRMAN: Not at all. We will proceed with that—

Mr. GREEN: I mean, your report to the house.

The CHAIRMAN: All I am going to ask the house for to-day is simply authority on these two items.

Mr. GREEN: By giving your notice in the regular way, we cannot agree to unanimous consent.

The CHAIRMAN: We have agreed to these two motions.

Mr. GREEN: We cannot agree to have it go through without regular notice.

The CHAIRMAN: I do not just get your point there.

Mr. GREEN: You have to give the house notice of your report.

The CHAIRMAN: Right.

Mr. GREEN: You have to give notice before you have concurrence.

The CHAIRMAN: Right.

Mr. GREEN: In order to have these two motions go through in one day you have to have unanimous consent. I thought you were asking us to give that to-day and I am saying that we cannot give that.

The CHAIRMAN: All I am asking for is authority from the house for the committee to have its proceedings printed and for us to have authority to sit while the house is sitting.

Mr. GREEN: We may want to discuss these other questions when that report is up in the house, so we cannot agree to have it go through to-day.

The CHAIRMAN: You mean, go through the house to-day.

Mr. GREEN: Yes.

The CHAIRMAN: We won't get concurrence to-day, it will have to be there forty-eight hours anyway.

We will ask Col. Thompson to return here to-morrow morning at 11 o'clock.

The Committee adjourned at 1.05 o'clock p.m. to meet again to-morrow, April 7, 1943, at 11 o'clock a.m.

House of Commons,

April 7, 1943.

The Standing Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, if you will come to order we will proceed. At yesterday's sitting Mr. Green asked for the production of Orders in Council. We have them here. I would like to know before we proceed with the examination of Colonel Thompson whether it is the wish of the members of the committee that I should read these orders in council as a basis for questions that will be asked or whether we will simply table them. Does anybody wish them read?

Mr. JOHNSON: I think you should read them so we will all know.

The CHAIRMAN: I had that in mind.

Order in Council amending P.C. 4428—Government Office Economies Control.

P.C. 10274

AT THE GOVERNMENT HOUSE AT OTTAWA

TUESDAY, the 17th day of November, 1942.

PRESENT:

HIS EXCELLENCY

THE GOVERNOR GENERAL IN COUNCIL:

WHEREAS the Minister of National War Services reports that since the passing of Order in Council P.C. 4428, dated the 18th day of August, 1942, which provides for the setting up of a division of the Department of National War Services to be known as the Division of Government Office Economies Control, it has become apparent that certain amendments and additions to the said order are required;

AND WHEREAS the amendments and additions hereinafter set out are in accordance with the conclusions arrived at by the special committee of Council appointed for the purpose of reviewing the powers and functions of the Director of Government Office Economies Control;

NOW, THEREFORE, His Excellency the Governor General in Council, on the recommendation of the Minister of National War Services, is pleased to amend Order in Council P.C. 4428, dated August 18th, 1942, and it is hereby amended as follows,—

1. Sub-paragraph (b) of Section 8 is rescinded, and the following substituted therefore;

(b) The examination, consideration and approval of any requisition for stationery, office supplies, furniture, equipment or office machines by all departments of the Government of Canada.

2. Subsection (12) of Section 9 is renumbered (14) and the following new subsection (12) is added to Section 9:

(12) survey of all the practices employed by and the costs incurred in Government office communications by telephone and telegraph, both incoming and outgoing, and direct any changes necessary to effect an expense reduction and establish an expense control over the use of these services.

3. Section 9 is further amended by adding thereto the following as subsection (13):

(13) Survey the purchase or requisition by any department of government of books, publications, periodicals, magazines or newspapers.

Certified to be a true copy.

A. D. P. HEENEY,
Clerk of the Privy Council.

(Filed as Exhibit No. 1.)

The original order in council was P.C. 4428, dated August 18th, 1942:

A-3

AT THE GOVERNMENT HOUSE AT OTTAWA

TUESDAY, the 18th day of August, 1942.

PRESENT:

HIS EXCELLENCY

THE GOVERNOR GENERAL IN COUNCIL:

WHEREAS the Governor General in Council has from time to time in the past directed investigations to be made with respect to the control of publications issued by, and the purchase or requisition of stationery and office supplies, furniture, equipment and machines, used in all Departments of the Government of Canada, and has required reports to be made with regard to measures of control to be taken, with a view to effecting economy with regard thereto;

AND WHEREAS at a meeting convened by the Minister of National War Services consideration was given to the creation of appropriate measures and machinery to provide such necessary control;

AND WHEREAS in view of the state of war now existing it is deemed more than ever necessary because of shortage of paper and supplies, to exercise the greatest control in the use thereof by Departments of the Government;

AND WHEREAS it is also deemed advisable, not only to provide control over stationery and supplies used by Departments of the Government, but also that steps should be taken to prevent the waste of paper and supplies in the operation of all Departments of the Government of Canada;

AND WHEREAS by section 6 of the Department of National War Services Act it is provided that the Minister of National War Services should perform such other duties as might be assigned to him from time to time by the Governor in Council, and that he should have all powers necessary to carry out the provisions of the said Act, or any orders or regulations made thereunder;

Now, therefore, His Excellency the Governor General in Council, on the recommendation of the Minister of National War Services, and under and by virtue of the powers conferred by the War Measures Act, Chapter 206, Revised Statutes of Canada, 1927, and the powers contained in the Department of National War Services Act, 1940, is pleased to order and doth hereby order as follows:—

1. In this Order, unless the context otherwise requires,

- (a) "Department of the Government of Canada" includes any branch or portion of the executive Government of Canada, including any commission, board or corporate body administering moneys appropriated by Parliament and upon whose requisition issues of public moneys are made out of the Consolidated Revenue Fund under the direction and control of the Comptroller of the Treasury;
- (b) "deputy head" means and includes any deputy head as defined in the Civil Service Act or any person having the status of a deputy head pursuant to the provisions of any statute or any Order in Council, and in the case of any Commission, Board or Corporation, in respect of which no person has the status of a deputy head, means such Commission, Board or Corporation;
- (c) "Minister" means the Minister of National War Services;
- (d) "publication" means any book, pamphlet, bulletin, statistical compilation, map or plan or other matter, whether printed or published by any other process, and whether for distribution by sale or without charge.

2. (1) For the purpose of the administration of this order, the Minister of National War Services may establish a Division of his Department, to be known as the Division of Government Office Economies Control.
(2) The Minister may, with the approval of the Governor in Council, appoint a person to have charge, under his control and direction, of the said Division, to be known as the Director of Government Office Economies Control.
3. The Director of Government Office Economies Control shall perform such duties and exercise such powers under this Order as are assigned or delegated to him by the Minister.
4. The Minister may establish an Advisory Committee to consist of not less than three and not more than seven members, to be nominated by the Minister from officers in the public service of Canada, to advise the Minister in all matters with regard to the performance of the duties imposed on the Minister under this Order and to perform any other duties imposed on them by the Minister in relation to the administration of this Order.
5. (1) If the deputy head of any Department of the Government of Canada is dissatisfied with any order made or proposed to be made by the Director of Government Office Economies Control, pursuant to any power conferred upon him by the Minister under this Order, such deputy head may request that the order or the proposed order be considered by the Advisory Committee aforesaid.
(2) The Director of Government Office Economies Control and such deputy head shall thereupon make reports upon the matter in dispute to the Advisory Committee and the Advisory Committee shall, after consideration of such reports, make such recommendations as it sees fit, to the Minister.
6. The Minister shall, before making any order pursuant to any recommendation of the Advisory Committee under the last preceding section, refer such recommendation to the deputy head concerned.
7. If a deputy head is dissatisfied with any recommendation made by the Advisory Committee or with any order of the Minister made pursuant to this Order he may request the Minister to refer such recommendation or such order to the Treasury Board of Canada, and any direction made by the Treasury Board, pursuant to any such reference, shall be final and binding.
8. The Minister of National War Services shall be charged with the duty of controlling and directing
 - (a) the publication and distribution of all publications issued by all Departments of the Government of Canada, including therein the limitation of the matter to be produced, the style of make up, the mode of publishing, the manner of distribution and the methods of storage thereof, but not including the control of the placing of orders for printing and the actual printing thereof, and the printing, storage or distribution of any official document under the control and direction of the King's Printer by virtue of the provisions of the Public Printing and Stationery Act or by any Order in Council;
 - (b) the purchase, requisition, storage and use of stationery and office supplies, furniture and equipment or office machines by all Departments of the Government of Canada, and the reconditioning, salvage, and disposal thereof, but not including the purchase, requisition and storage of stationery or supplies under the control and

direction of the King's Printer by virtue of the provisions of the Public Printing and Stationery Act or by virtue of the provisions of any Order in Council, or the purchase, requisition or storage of office supplies, furniture or equipment or office machines under the control and direction of the Minister of Public Works by virtue of the provisions of the Public Works Act or by virtue of the provisions of any Order in Council;

- (c) the prevention of waste in the use of stationery and office supplies, equipment and furniture and office machines by all departments of the Government of Canada;
- (d) the survey of all stationery and office supplies, equipment and furniture and office machines used in all departments of the Government of Canada with a view to the most effective distribution and use thereof,

with a view to effecting economies and eliminating unnecessary expenditures with respect thereto.

9. For the purpose of carrying out the duties imposed upon him by this Order, the Minister may, with respect to any department of the Government of Canada, by order,

(1) limit the matter to be contained in any publication, require any change to be made in the style or make-up thereof, determine the mode of publishing any publication, limit the materials to be used therein, and direct the mode and manner of distribution thereof;

(2) prohibit or limit the publishing or distribution of any publication;

(3) subject to the approval of the Standing Committee on Internal Economy and Contingent Accounts of the Senate, and the Internal Economy Committee of the House of Commons, respectively, prohibit during the continuation of the state of war now existing, the publishing of any publication or the making of any return required under any statute or Order in Council, notwithstanding anything contained in any such statute or Order in Council;

(4) require stationery and office supplies, furniture and equipment and office machines, to be standardized in style or quality and fix the standards to be adopted with regard thereto;

(5) prohibit or limit the purchase requisition or use of any class or type of stationery, office supplies, furniture and equipment or office machines;

(6) direct the prevention of waste in the use of stationery and office supplies, furniture and equipment or office machines;

(7) require the delivery up of any office supplies, furniture, and equipment and office machines which are not necessary for the conduct of the work of such department or direct the transfer thereof to some other department of the Government of Canada;

(8) require the centralization of administration or the adoption of administration procedures with regard to the publishing, storage or distribution of publications or the purchase, requisition, storage, or use of stationery and office supplies, furniture and equipment and office machines;

(9) require surveys to be made of all publications including the matter published, the style or make-up thereof, the mode of publishing and the method or manner of distribution of all stationery and office supplies, furniture and equipment and office machines, or of any premises used for the storage thereof, and require reports to be made with respect thereto;

(10) require the attendance before him or any person or persons designated by him, of any officer, clerk or employee, and the production of any documents or records in the custody of any such officer, clerk or employee relating to publications, or to stationery and office supplies, furniture and equipment and office machines;

(11) require the deputy head of any department of the Government of Canada to designate an officer, clerk or employee as representative of that department to be charged with the duty of investigating and reporting to the Minister, either directly or through such deputy head as such deputy head may determine, on measures to be taken for the purpose of reducing expenditures with regard to the publication, distribution or storage of publications, or the purchase, requisition, storage or use of stationery and office supplies, furniture and equipment and office machines, and to make such recommendations with regard thereto at such times and in such manner as the Minister may require;

(12) order all or any other measures to be taken incidental to the foregoing.

10. (1) If the King's Printer is of opinion that it is advisable to do so in order to effect economy, he may propose to the deputy head of any department of the Government of Canada from which he has received a requisition for the printing of any publication or the furnishing of any stationery or office supplies;

- (i) changes in the style or make-up of any such publication;
- (ii) the substitution of a different type of paper to be used in such publication or of a different type of stationery or office supplies to those requisitioned;

- (iii) the postponement of any such publication until the termination of the state of war now existing.

(2) If the Deputy Minister of Public Works is of opinion that it is advisable to do so in order to effect economy, he may propose to the deputy head of any Department of the Government of Canada from which he has received a requisition for any office supplies, furniture or equipment or office machines, the substitution of a different type of supplies, furniture, equipment or machines, or the postponement of the purchase of such supplies, equipment, furniture or machines.

(3) If the King's Printer or the Deputy Minister of Public Works proposes any such change, substitution or postponement to any deputy head of any Department, he shall forthwith notify the Director of Government Office Economies Control of such proposal.

(4) If any such deputy head does not agree to any such change, substitution or postponement, he may request the King's Printer or the Deputy Minister of Public Works to refer such matter to the Director of Government Office Economies Control.

(5) The Minister, or the Director of Government Office Economies Control, if authorized by the Minister so to do, may make such order relating to any matter referred to under this section as he is under this order empowered to make any such order shall be subject to the provisions of sections five, six and seven of this order.

11. The Deputy head of each department of the government of Canada shall forthwith after the coming into operation of this order furnish to the Director of Government Office Economies Control a complete list of all publications issued by such department together with a statement of the cost of publication and distribution of each such publication.

Sgd.: A. D. P. HEENEY,
Clerk of the Privy Council."

(Filed as Exhibit No. 2.)

That is the original order in council.

Mr. McGEER: How many more are there to read, Mr. Chairman?

The CHAIRMAN: Just one, and a very short one.

Mr. McGEER: Surely there is no need of reading the orders in council if they are filed and everybody can get them. Do you want them to be read, Mr. Green?

Mr. GREEN: No. I did not ask for that.

Mr. DOUGLAS: Could these not be placed on the record?

The CHAIRMAN: I have just one more, and then everybody will be satisfied. It is only a very short one.

Mr. McGEER: It is not that we do not like to hear the voice of the chairman.

Mr. PURDY: You are a very good reader. Go ahead.

The CHAIRMAN: This is P.C. 6358. It reads:—

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 18th August, 1942.

The Committee of the Privy Council, on the recommendation of the Minister of National War Services, submit for Your Excellency's approval, in accordance with the provisions of Order in Council of the 18th August, 1942, (P.C. 4428) the appointment of John Thompson, Esquire, of the City of Ottawa, one of His Majesty's Counsel learned in the law, as Director of the Division of Government Office Economies Control.

Sgd.: A. D. P. HEENEY,

Clerk of the Privy Council.

(Filed as Exhibit No. 3.)

I think that covers everything.

Mr. GREEN: I did not ask you to do that, Mr. Chairman.

The CHAIRMAN: I will take the responsibility for doing it.

Mr. McGEER: I think those orders in council had now better be filed with the record; because after all, when they are transcribed and somebody is reading them into the record, there may be some question of interpretation. May they be filed or at least copies of them?

The CHAIRMAN: I just felt with regard to these orders in council asked for yesterday, with nobody having an opportunity of looking them over, that it would be much better if everybody had some idea of them.

Mr. McGEER: I quite agree. But I think we will have to refer to them later on and we had better have exact copies filed, because there may be some question of this form of secondary interpretation of a document that is available, as a copy of what it really is. I suggest they be filed.

The CHAIRMAN: Mr. Green or somebody asked yesterday for a list of rugs and the correspondence that passed between the Department of Public Works and the Minister of National War Services. We are tabling that correspondence with the list of locations and cost of rugs.

(Filed as Exhibit No. 6.)

Mr. GOLDING: Before you leave that matter of rugs, Mr. Chairman, may I say that in yesterday's Evening *Journal*—

Mr. McGEER: Would you allow me to interrupt, just in order to keep the record straight. I must confess that I have not been here, but it seems to me that you will have to identify these exhibits that you are filing. I mean, we have the orders in council filed, and I do not know what the exact number will be. Then these documents coming from the Department of Public Works should have an identifying number for the record.

The CHAIRMAN: The clerk is preparing that now, Mr. McGeer.

Mr. McGEER: They will have to be put in the record, so that we can keep track of them. This is getting to be quite a volume of material. Are there any other exhibits filed to-day?

The CHAIRMAN: There are these orders in council and this correspondence.

Mr. McGEER: This correspondence will be exhibit what?

The CLERK: Exhibit number 6.

Exhibit number 1—Order in council P.C. 10274, dated November 17, 1942.

Exhibit number 2—Order in council P.C. 4428, dated August 18, 1942.

Exhibit number 3—Order in council P.C. 6358, dated August 18, 1942.

Exhibit number 4—Order in council P.C. 319, dated January 14, 1943.

Exhibit number 5—Order in council P.C. 9804, dated October 27, 1942.

Exhibit number 6—Statement showing all rugs purchased by Department of Public Works from September, 1939, to December 18, 1942, together with correspondence between Department of Public Works and Minister of National War Services.

Exhibit number 5 is as follows:—

“Order in Council exempting publications issued or approved by Wartime Information Board from provisions of P.C. 4428, August 18th, 1942—Government Office Economies Control.

P.C. 9804

AT THE GOVERNMENT HOUSE AT OTTAWA

TUESDAY, the 27th day of October, 1942.

PRESENT

HIS EXCELLENCY

THE GOVERNOR GENERAL IN COUNCIL:

Whereas in virtue of Order in Council P.C. 4428 of the 18th day of August, 1942, the Division of Government Office Economies Control was established by the Minister of National War Services as a division of his department, and charged with the duty of controlling and directing, *inter alia*, the publication and distribution of all publications issued by department of the government of Canada as set out in the said Order;

And whereas Order in Council P.C. 8099 of the 9th day of September, 1942, establishing Wartime Information Board, provided *inter alia*, that the Board should “co-ordinate the existing public information services of the government and supervise the release from government sources of Canadian war news and information in and to any country outside of Canada”, and “provide means and facilities for the distribution, both within and without Canada, of Canadian war news and information”;

And whereas in the performance of the said powers and duties and other functions lawfully pertaining to the Board, it is necessary for the Board to undertake the publication and distribution of a variety of pamphlets, bulletins and other printed and published matter connected with the war effort, and to confer with other departments and agencies of government with a view to the publication of such material by such departments and agencies with the approval of the Board;

And whereas for these reasons, it is necessary that the authority of War-time Information Board to undertake and approve the publication of such material be clearly established, and that, for this purpose, it be provided that publications issued or approved by the Board be not subject to the control and direction of the Division of Government Office Economies Control.

Now, therefore, His Excellency the Governor General in Council, on the recommendation of the Prime Minister and President of the Privy Council, and under the authority of the War Measures Act (Chapter 206 of the Revised Statutes of Canada, 1927), is pleased to order and doth hereby order that the provisions of Order in Council P.C. 4428 of the 18th day of August, 1942 and of any order made in virtue thereof by the Minister of National War Services, shall not apply to publications issued or approved by Wartime Information Board in the performance of the powers and duties of the said Board under Order in Council P.C. 8099 of the 9th day of September, 1942.

Certified to be a true copy.

(Sgd.) A. D. P. HEENEY,
Clerk of the Privy Council."

Exhibit number 4 is as follows:

P.C. 319

AT THE GOVERNMENT HOUSE AT OTTAWA

THURSDAY, the 14th day of January, 1943.

PRESENT

HIS EXCELLENCY

THE GOVERNOR GENERAL IN COUNCIL:

His Excellency the Governor General in Council, on the recommendation of the Minister of National War Services, is pleased to amend Order in Council P.C. 4428, dated 18th August, 1942, as amended by Order in Council P.C. 10274 of the 17th day of November, 1942, which provides for the setting up of a division of the Department of National War Services to be known as the Division of Government Office Economies Control, and it is hereby further amended as follows,—

Sub paragraph (b) of Section 8 is rescinded, and the following is substituted therefor:

(b) the examination, consideration, approval or rejection of any requisition for stationery, office supplies, furniture, equipment or office machines by all Departments of the Government of Canada.

(Sgd.) A. D. P. HEENEY,
Clerk of the Privy Council

Mr. GOLDING: Mr. Chairman, in yesterday's Evening *Journal* there is a paragraph here which reports the proceedings of this committee in which it states, referring to Mr. Thompson, "He was able to cite only two examples, one of a \$175 rug for Mr. Justice J. T. Thorson and the purchase of another rug at \$400, also for the same office." This was in rather large type. In this morning's *Journal*, in much smaller type, it says, "In the report of the committee session yesterday. *The Journal* was in error in relation to the evidence as to rugs purchased for the office of Mr. Justice J. T. Thompson.

The erroneous report had been that two rugs had been purchased. Then it goes on to give the evidence given by Mr. Thompson in reply to questions by

Mr. Green. I just want to point out that this statement which went out to the people is recognized now by *The Journal* itself as being in error.

Mr. HOMUTH: Even a newspaper can make a mistake. That is what you are trying to infer, is it, Mr. Golding?

Mr. GOLDING: That is what I want to point out.

Mr. GREEN: Mr. Chairman, I asked yesterday for the production of the letters to which Colonel Thompson had referred, dealing with rugs. The proceedings in regard to that were as follows:

Q. Did you write to the Minister of Public Works, Mr. Fournier, asking for a list, with prices and locations, of the rugs that had been purchased during the past two years for government offices?—A. Yes.

Q. Did he reply?—A. No. I received a letter from General LaFleche

Q. You received a letter from General LaFleche?—A. Yes, asking me what I wanted to know for, and I replied to him that I wanted to know because the rugs were very expensive, and that certain officials had rugs which would not be allotted now which would save purchasing new ones.

Q. Did you receive any reply from General LaFleche?—A. No.

I should like to see those letters that have been produced here.

The CHAIRMAN: What page is that which you are reading from?

Mr. GREEN: It commences at the foot of page E-4 of the transcript. Could I also see the orders in Council?

The CHAIRMAN: Yes. The clerk will hand them to you.

Mr. MCGEER: There is not an extra copy of them, is there?

The CHAIRMAN: Do you want another copy?

Mr. MCGEER: There is not an extra copy of them, is there?

Mr. MCGEER: Yes. Otherwise it is going to be pretty difficult to follow.

Mr. GREEN: Mr. Chairman, in these letters which are produced, there is no letter from General LaFleche to Colonel Thompson. I would ask that that letter be produced.

The CHAIRMAN: I might say, Mr. Green, that last night I saw General LaFleche and asked him to get me copies of any letters he had in his office. They will probably be sent in this morning.

Mr. GREEN: That letter is very important. We must have it before the committee.

The CHAIRMAN: I am afraid I cannot facilitate the matter any further than that.

Mr. GREEN: This, apparently, is from the file of the Department of Public Works.

The CHAIRMAN: Yes.

Mr. GREEN: But there is nothing here from the Department of National War Services.

The CHAIRMAN: I do not know whether the deputy minister is here this morning or not. I do not see the Deputy Minister of War Services here.

Mr. GREEN: Mr. Chairman, will you ask for that letter?

The CHAIRMAN: I will see that you get it, yes. All right, Mr. Green.

Colonel JOHN THOMPSON, Recalled.

By Mr. Green:

Q. Colonel Thompson, there is no doubt, I suppose, that under the order in council setting out the authority of your office, the Minister of National War Services had power to check the rug situation?—A. Well, that point never occurred to me.

Q. You took it that the order in council gave complete power to check the situation with regard to rugs, or any other furniture?—A. Of the person in charge of the economy division, yes.

Q. The whole basis of your power rested on delegation from the Minister, did it not?—A. Yes.

Q. In other words, this order in council which the chairman has read, the first order in council, gave all the power to the minister. Then it contains these words in paragraph 3: "The Director of Government Office Economies control shall perform such duties and exercise such powers under this order as are assigned or delegated to him by the minister." So that your actual power came by delegation from the minister?—A. That is right.

Q. Was it the receipt of information by you that a very expensive rug—I understand costing about \$500—had been provided for a junior officer in the air force that prompted you to write to Honourable Mr. Fournier, Minister of Public Works, for a list of rugs and the prices thereof and for the allocation of the rugs during the preceding two years?—A. I do not know anything about any \$500 rug for the air force.

Q. Why did you write Mr. Fournier?—A. Because, as I said, rugs were being indented for.

Q. I beg your pardon?—A. Rugs were being indented for.

Q. Yes?—A. I knew from an officer in one of the forces, who was instrumental in the checking of furniture in that department—rugs and so on—that in a lot of the older departments they had rugs which they could not get; and he proceeded then to put his house in order. As a matter of fact, it was the army.

Q. I beg your pardon?—A. It was the army.

Q. I cannot hear you very well.—A. It was the army, an army officer.

Q. An army officer?—A. Yes. And he was delegated apparently—that is what he informed me—by council there, just to put their house in order here and re-allocate the furniture and so on.

Q. In this file there is produced a copy of a letter from you to the Secretary of the Department of Public Works, dated December 18, 1942, which reads:—

I desire to have a statement showing all rugs purchased since the outbreak of war, showing department, date, description, cost, names of persons to whom supplied, name of building and room number.

Please also state what control is exercised by the Department of Public Works with respect to disposition of rugs once supplied, particularly when official leaves the service or is transferred from Ottawa.

Is that a copy of the letter you wrote to the Department of Public Works?—

A. I presume so. I can get you the copy on file in the office.

Q. I see.—A. I presume that is a copy.

Q. I wish you would check it, just to see whether these are accurate copies or not. Then the next document is a formal reply from the secretary, dated December 21, 1942, and addressed to the Director of Government Office Economies Control, Department of National War Services, Ottawa, and reads:—

Receipt is acknowledged of your memo. of the 18th instant relative to the rugs purchased by this department since the outbreak of war for the various government offices in Ottawa.

The matter will be given immediate attention and an endeavour made to supply the information desired with the least possible delay.

Did you get the original of that letter?—A. Very probably. I have no recollection of it. I have not the slightest recollection.

Q. You have no recollection of receiving the original of that letter?—A. No. I do not say it was not received; but I have no recollection of it.

Q. Then the next document is dated six weeks later, on February 6, 1943, and it purports to be a copy of a letter from the Minister of Public Works

to Major General the Honourable L. R. LaFleche, Minister of National War Services, and reads:—

My dear Colleague:—

This department is in receipt of a request from the Director of Government Office Economies Control, asking for a statement giving certain information regarding rugs purchased by this department in Ottawa from the outbreak of war to December 18, 1942.

For your information and transmission to the Director is attached list giving the information requested.

The statement, you will note, gives in most cases, as desired, the department, date, description, cost, the names of the persons to whom supplied as well as the designation of the building and room number. The statement also includes the rugs and carpets purchased for the House of Commons and the Senate. It likewise comprises rugs supplied to the British Supply Board, the British United Technical Mission and the United Kingdom Payments Office. It may be noted in this connection that, under existing arrangements, all these organizations are paying whatever office equipment is obtained through our department.

The disposition of the rugs once purchased varies according to circumstances. For instance, when an office is abolished, its equipment is returned to stock for re-issue, provided same is still in usable condition. In cases where an officer is transferred from Ottawa and the quarters are reallocated, equipment and rugs are left therein, depending whether the new officer enjoys similar or equivalent rank and suggestions in this respect are obtained from the departments concerned.

Did you get that letter or get the original of that letter or see it?—A. No.

Q. Did you know anything about such letter having been received by the Minister of National War Services?—A. I do not think so. I think the only thing I knew about it was a letter from General LaFleche.

Q. That is the letter which is not produced, Mr. Chairman. Then two days later, on the 8th of February apparently, you wrote another letter to the Secretary of the Department of Public Works, Ottawa. It reads:—

Will you please advise when I may expect to receive a statement of rugs purchased since commencement of the war, together with information as to control of disposition of rugs once supplied to the various departments, as requested in my letter of December 18th last.

Did you write a letter reading like that to the secretary?—A. I think so. There will be a copy on file.

Q. And, did you receive any reply to that letter?—A. I think not.

Q. I beg your pardon?—A. I think not.

Q. Because there is now produced here a copy of a letter dated three days later, February 11th, to the Director of Government Office Economy Control, Department of National War Services, Ottawa:—

With reference to your letter of the 8th inst., in respect of rugs purchased by this department since the outbreak of the war to December 18, 1942, I am to advise you that the information desired was forwarded by our minister to the Minister of National War Services in a letter dated the 6th inst.

(Sgd.) J. M. SOMERVILLE,

Secretary.

Did you receive the original of that letter?—A. I have no recollection of it. My evidence could be much more accurate on these points if I had the office files which would show everything which came in from the department.

Mr. GREEN: I wonder, Mr. Chairman, if we could arrange for the witness to have those files?

The WITNESS: I cannot remember all these letters. Everything will be on the file.

The CHAIRMAN: I have sent for the Deputy Minister of the department now. I understand he is here.

Mr. BOUCHER: Would it not be wise to have the office files, at least the files which Col. Thompson formerly had in his office, before him then he could check up and be able to give more certain evidence here. They would assist him in his recollection. I think it would expedite matters if we could have them right away.

The WITNESS: Where is Mr. Narraway? I understand that General LaFleche sent for that file and it is not in the office now.

The CHAIRMAN: That is the file I have asked for. It will probably be here in a minute or so.

Mr. GREEN: Col. Thompson, you did not apparently receive that letter from the Secretary of the Department of Public Works to you. Did you receive that letter from General LaFleche?

Mr. McGEER: Mr. Chairman, pardon me a second; I do not follow the suggestion that apparently he did not receive it. He says he does not recollect it.

Mr. GREEN: I will ask the reporter to read back what Col. Thompson said. Col. Thompson said he did not receive that letter.

The WITNESS: I said, I have no recollection of it.

Mr. McGEER: That is what I understood you to say; although the letter has been written apparently, and you must have received it, but you did not have any recollection of having received it.

Mr. GREEN: Mr. Chairman, am I to be allowed to proceed with my questioning; or, am I to be heckled all the time? I do not think I should be subjected to all these interruptions.

Mr. McGEER: I know; but my friend is forgetting all the rules of examination. We had an example of it yesterday in the mention of a rug costing \$100 which appeared in the press as being worth \$500—if my honourable friend wants to refer back to the record, all right. I think that was a fair interpretation of the Colonel's evidence; he said, well he didn't remember receiving the letter. The letter being an original letter his file would check it. And now, to proceed on the assumption that apparently he did not receive the letter is quite contrary to the evidence given.

Mr. GREEN: I must ask, Mr. Chairman, that I be not interrupted.

Mr. McGEER: You will be interrupted any time you should be interrupted.

Mr. HOMUTH: And the same thing goes for everybody else around here.

Mr. McGEER: That is quite all right, but it is proper that we proceed in an orderly way.

Mr. GREEN: Just so that we can get this matter straight, Mr. Chairman, I will ask the reporter to read back the questions and answers.

The REPORTER: Mr. Green, Col. Thompson's answer to your question was: "I have no recollection of it—"

Mr. GREEN: Will you just read the rest of the answer, please.

The REPORTER: "I have no recollection of it. My evidence could be much more accurate on this point if I had the office files which would show everything that came in from the Department."

Mr. GREEN: Would you mind going back a little further, to a question or two before that?

The REPORTER: The first question I have in my take is:—

Q. Did you receive a reply to that letter?—A. I think not.

Q. I beg your pardon?—A. I think not.

Q. Because there is now produced here a copy of a letter dated three days later, February 11, to the Director of Government Office Economy Control, Department of National War Services, Ottawa: "With reference to your letter of the 8th instant, etc." Mr. Green has the letter before him which he read. And he goes on to say: Did you receive the original of that letter?—A. I have no recollection of it. My evidence could be much more accurate on these points if I had the office files which would show everything that came in from the department.

Mr. McGEER: Well, there was something before that.

The REPORTER: That would appear on the part of the record taken by the reporter who preceded me on duty.

Mr. McGEER: Oh, well, the whole thing will be on the record. There is apparently no evidence that he did not get it there; he says he does not recollect it but the files will show it.

Mr. GREEN: If Mr. McGeer is satisfied, so am I.

The CHAIRMAN: So, we will proceed.

By Mr. Green:

Q. Well, whether you received that letter or not, you did receive a letter from General LaFleche?—A. Distinctly, I remember that.

Q. In that letter General LaFleche asked why you wanted this information about rugs?—A. Precisely.

Q. And, did you answer him?—A. Yes.

Mr. GREEN: Now, the answer, Mr. Chairman, should be produced.

By Mr. Green:

Q. And did you receive any reply after you had written that answer?—
A. No.

Q. Or, did you receive any instructions?—A. No.

Q. So that in effect that was the end of the inquiry into the rug situation?—
A. Yes, the end.

Q. And your rug inquiry was cancelled right there?—A. What do you mean by rug inquiry?

Q. In fact, your investigation into the rug situation died a natural death—or an unnatural death—right there?—A. That was the end of it. I heard nothing since.

Q. Well, there have been several new buildings erected in Ottawa in the last two or three years?—A. Yes.

Q. Government buildings; and I suppose most of them have new rugs, is that right?—A. Well, I have not been in many of them.

Q. I beg your pardon?—A. I understand so although I have not been in many of them and cannot certify to my own knowledge.

Q. Did you approve of the rugs in all of these new public buildings?—
A. No.

Q. For example, the rugs in the navy building?—A. No.

Q. Or the air building on Lisgar street?—A. No. I have no knowledge of them. They were not submitted to me.

Q. Why did you not approve them?—A. Because they have never come to me with any requests; they did not come under me.

Q. How did that happen when you were supposed to have the power and duty apparently of approving of these purchases?—A. I am speaking not of my

own knowledge but from information received; these buildings were furnished and equipped by Munitions and Supply in the same way that the Air Force stations were equipped by Munitions and Supply.

Q. By Munitions and Supply?—A. Yes.

Q. And you were by-passed on the buying of these rugs?

Mr. GOLDING: At what date?

The WITNESS: Well, a number of these buildings were contracted for before the economy branch was set up.

By Mr. Green:

Q. Before which?—A. Before the economy branch was set up.

Q. Yes; well, I am referring to the ones which were equipped after the economy branch was set up; the navy building, for example, was built after your branch was set up?—A. I think it was. I am not sure, but I think it was; but I had nothing to do with the furnishing of it.

Q. Your office was by-passed with regard to the equipping of these particular buildings with rugs? A. Any buildings that were equipped after the economy branch was set up were equipped without our knowledge.

Q. Without your knowledge?—A. Yes.

Q. Well, how were they able to do that?—A. I do not know.

Mr. McGEER: Well, were there any; do you know that there were any?

The WITNESS: I definitely know the Air Force stations were equipped without requisitions coming to us.

Mr. GLADSTONE: You said, Air Force stations?

The WITNESS: Not in Ottawa, outside of Ottawa.

By Mr. Green:

Q. Did the Army, Navy and Air Force or either or any of them submit accounts for these purchases in the making of which they had by-passed your office?—A. Oh, I do not know.

Q. You do not know if they did that?—A. No.

Q. But some way or other the rugs were purchased without your knowledge?—A. My information was prior to the setting up of the economy branch Munitions and Supply furnished all government offices, new offices; and that would lead me to believe that after the new set-up they continued to do so.

Q. They continued to do so in the same old manner without referring to your office?—A. Yes.

Q. Have you any idea of how many rugs your office did approve from the date of its opening?—A. I am speaking entirely from recollection; it is probably—Mr. Narraway could tell you more definitely—but I think about four.

Q. But during the period since the setting up of your branch, or your department, there have been hundreds of requisitions to purchase?—A. Well, I do not know.

Q. You could not say off-hand?—A. No.

Q. There have been a large number?—A. I do not know.

Mr. GLADSTONE: Mr. Chairman, how does Mr. Green make the statement that hundreds of rugs were purchased?

Mr. GREEN: Well, Mr. Chairman, anybody who looks at the government buildings now going up would not need to be very intelligent to know that quite a large number of rugs must have been purchased.

Mr. HOMUTH: They would not need any magnifying glass either.

Mr. CRUICKSHANK: Mr. Chairman, is this all going into the record?

The CHAIRMAN: The record will speak for itself.

The WITNESS: I might say that I just consulted Mr. Narraway; he is the representative of the Public Works Department—and under that order in council

was the person to whom the economy branch would refer and send copies of orders, and so on; I might say that he has been very helpful to me. He would come over with all the requisitions made to Public Works every morning, and we would go through them together and so on; and with regard to the rugs he said, not more than four or five.

By Mr. Green:

Q. Not more than forty-five?—A. Four or five.

Q. Four or five; were they approved by your department?—A. Yes.

Mr. CRUICKSHANK: Mr. Chairman, I would like—I want to read back in this record to the point where Mr. Green said, "Yes". I want to make sure it is in; he said, "Yes", definitely. I said, "It is good policy to have put in the record for political purposes"; and he said, "Yes".

Mr. GREEN: Well, Mr. Chairman, I think that is carrying things a little bit far.

Mr. CRUICKSHANK: Well, it is in the record.

Mr. GREEN: Well, if it is in the record, I would ask that it be struck out.

By Mr. Green:

Q. Have you any idea of the difference in the cost of rugs and linoleum for the various government offices?—A. I haven't the slightest idea.

Q. Which would be cheaper to equip these offices with; rugs or linoleum?—A. I do not know.

Q. You have made no inquiries on that score?—A. No. With regard to linoleum, Mr. Narraway informs me that is off the market now; and with regard to a number of these buildings, I am informed that linoleum was provided for in the original contract; and in that case, especially where the department concerned erected buildings themselves, Public Works would have no knowledge of the linoleum that was placed in them.

Q. The Department of Public Works would have no knowledge?—A. No.

Q. And now, under the provisions of this order in council authorizing the setting up of your department we find this provision,

8a: "The Minister of National War Services shall be charged with the duty of controlling and directing:

(a) the publication and distribution of all publications issued by all departments of the Government of Canada

and, as you are no doubt aware, the definition clause sets out that the departments of governments include all boards and governmental bodies; including therein the limitation of the matter to be produced, the style of make up, the mode of publishing, the manner of distribution and the methods of storage thereof, but not including the control of the placing of orders for printing and the actual printing thereof, and the printing, storage or distribution of any official document under the control and direction of the King's Printer by virtue of the provisions of the Public Printing and Stationery Act or by any order in council;

so that under the provisions of Paragraph 8a the Minister of National War Services had very wide powers of control and directed the publication and distribution of all the different publications, did he not?—A. Yes.

Q. And the Minister could have had direction and control over the Wartime Information Board under the provisions of that paragraph; could he not?—A. Well, I do not know.

Q. You do not know?—A. I understand they were specially exempt.

Q. They were specially exempt? Now, under the order in council which has been produced there is no mention whatever of a Wartime Information Board; was there any order in council passed exempting them from the control of the Minister of National War Services and yourself?—A. I understand so.

Q. What was that?—A. I do not think I have a copy of that.

Q. When was that passed?—A. I could not tell you.

Mr. GREEN: I wonder, Mr. Chairman, if we can get a copy of that order in council?

The CHAIRMAN: Mr. Green, anticipating that is what you would ask for I have procured a copy.

Mr. GREEN: I think you might have let me know. Is there a copy of it there?

The CHAIRMAN: Yes.

Mr. McGEER: Would you let me look at it a while, please, Mr. Chairman?

The CHAIRMAN: Yes, Mr. McGeer.

Mr. McGEER: I think, Mr. Chairman, if we are going to be able to make any use of material of this kind more than one copy should be provided; otherwise it will only mean that we will have to go over the ground again and again. I think it would save a good deal of time if we had a chance of looking at documents such as this one.

Mr. GREEN: Go ahead, Mr. McGeer, I had not seen it.

Mr. McGEER: If they would practise the same degree of economy elsewhere as they seem to with respect to providing copies of things for the use of committees—

Mr. GREEN: This order in council which has been produced; I would ask, Mr. Chairman, that it be printed in our proceedings.

The CHAIRMAN: Will you read the number into the record, please?

Mr. GREEN: It is Order in Council P.C. 9804; and it is described as an order in council exempting the publications issued or approved by Wartime Information Board from the provisions of P.C. 4428 of August 18, 1942, establishing the government office economies control; and the rest of the order in council reads:—

And whereas for these reasons, it is necessary that the authority of Wartime Information Board to undertake and approve the publication of such material be clearly established, and that, for this purpose, it be provided that publications issued or approved by the board be not subject to the control and direction of the Division of Government Office Economies Control.

Then there follows the operative part of the order in council which provides that:—

The provisions of Order in Council P.C. 4428 of the 18th day of August, 1942 and of any order made in virtue thereof by the Minister of National War Services, shall not apply to publications issued or approved by Wartime Information Board in the performance of the powers and duties of the said board under Order in Council P.C. 8099 of the 9th day of September, 1942.

So that after that date, Colonel Thompson, your division had no further control over the Wartime Information Board?—A. No.

Q. I believe that some time last fall there was some discussion in your division about the publication of a report made by Elliott Little, who was at that time the Director of National Selective Service. Apparently some question came up as to whether or not this report should be printed and circulated, the Department of Labour being anxious to distribute it to various unions across Canada. Did you at that time make any protest about the printing of this report?—A. Well, I have no recollection presently. If I did it will be on file. I just remember the occasion.

Q. Remember which?—A. I just remember the occasion of that request to have them printed, and I think it was printed. I could give you more accurate information if I had the file here.

Q. Could you check up and find out just how many issues you approved, that is, what number you approved?—A. How many copies?

Q. Yes, how many thousand copies were approved?—A. That would be with the Printing Bureau.

Q. Pardon?—A. That indent would be with the Printing Bureau. I doubt whether I would have a letter.

Q. Which?—A. I doubt whether I would have a letter to the Printing Bureau. I think it would be in the form of a requisition from the Labour Department for such a number which I would forward to the Printing Bureau.

Q. Are you able to find out how many you approved and how many were actually printed?—A. If I could get the requisition from the Printing Bureau I would know the number absolutely.

Mr. GREEN: I wonder, Mr. Chairman, if Colonel Thompson could be helped to obtain information of that type.

The WITNESS: If there is no correspondence on the file in my old office that would show the number I think that the King's Printer can tell you definitely how many were printed.

By Mr. Green:

Q. I want to find out how many you approved.—A. Yes.

Q. And how many were printed.—A. The requisition will show, and possibly a letter from me, but I think most probably it was in the form of approval of the requisition.

Q. Will you try to check that up, Colonel Thompson?

By Mr. Homuth:

Q. Would you have duplicates of all these requisitions on your file?—A. No.

By Mr. Green:

Q. Then, under the original order in council, paragraph 9 (4) you were also given wide powers with regard to the standardization of stationery and the style of stationery which was to be authorized and so on. That paragraph reads:—

For the purpose of carrying out the duties imposed upon him by this order the Minister may, with respect to any department of the government of Canada, by order, require stationery and office supplies, furniture and equipment and office machines to be standardized in style or quality and fix the standards to be adopted with regard thereto.

The following paragraph 9 (5) reads:—

prohibit or limit the purchase, requisition or use of any class or type of stationery, office supplies, furniture and equipment or office machines;

Then there are various other powers given farther down in the order in council. Did you examine the type of letterheads being used by the different departments?—A. Yes—not personally. I had on loan from the Canadian National Mr. G. U. Stapleton from Montreal. He is the economist of the Canadian National Railways. I had him on loan part time without any remuneration other than his out-of-pocket expenses, and he is the one who has been dealing with that sort of work since the inception of the board.

Q. Will you just tell us what you found and what you did with regard to this situation?—A. It is pretty difficult to give it in a simple answer. We changed the quality of the paper. We changed the size of the letterheads; that is the paper itself. Of course, there was a stock in hand of the old size

letter paper and this was to be used first. Then we stopped embossing letterheads. We stopped putting names on letterheads. Suppose there was a board of commissioners; they would all have their names on. Then if one died or retired all that paper would be scrapped, so we left off all the names.

Q. Were they all using embossed paper?—A. Not all.

Q. By the way, what is the difference in the cost of embossed paper and printed paper?—A. I cannot speak of my own knowledge about that.

Q. Have you any idea about how much it would be?—A. Well, I think very much more expensive.

Q. Very much?—A. Yes. Then we changed the size of the paper very little, but it made a big difference in the sum total of the number of sheets issued in a year because there was no waste when the paper that came from the mill was cut up into a better size.

Q. Did you order that the purchasing of this embossed paper be discontinued?—A. I do not know whether I issued an order or not, but I changed it on the requisitions.

Q. You changed it on the requisitions?—A. Yes. As a matter of fact, I wrote to every cabinet minister and asked whether he wanted vellum paper as they had been accustomed to and whether they wanted embossed. Those were the only ones we gave vellum paper or embossing to.

Q. What response did you get?—A. I think all but one or two agreed.

Q. There were one or two who did not agree? Which ones were they?—A. I do not remember. That is just my recollection.

Q. You would not say offhand which ministers did not agree to that change?—A. No, but the file will show what ministers did agree to it and if they did not agree or did not answer we gave them embossed vellum paper.

Q. Then, can you tell us to which ministers you had to continue giving embossed paper?—A. The file will show.

Q. Pardon?—A. The file will show.

Q. You would have to get that?—A. Details of that sort were not impressed on my mind.

Q. You can get that information for us from the file?—A. I think so.

Q. Do you remember whether the Minister of Public Works objected?—A. I have not the slightest idea, but Mr. Narraway informs me that the Minister of Public Works agreed to cut out the expensive paper.

Q. He which?—A. The Minister of Public Works agreed to the cheaper paper.

Q. You will get that information?—A. And to eliminate the embossing.

Q. You will get that information, will you, as to which ministers did not?—A. Yes.

Q. This order in council also gave you power to prevent waste in the use of equipment. Did you make any investigation with regard to the use of typewriters in the various camps across Canada? I understand that in some of these stations or camps there would be perhaps two or three or four different kinds of typewriters, that there would be an inspector for each type of machine, and that the inspector for that type of machine would have to go to every camp where there was one of his machines and, of course, that would mean if there were three different types of machines in one camp there would have to be three different inspectors servicing those machines. Did you make any inquiries about that matter?—A. I never had a requisition for repairing typewriters. I understand your information is correct on that point, that there might be in some air force station or some other station other than the air force—I do not wish to emphasize the air force—there might be three different machines and there would be three different travellers.

Q. Three different travellers?—A. Three different travellers at different times dropping in to put them in shape.

Q. And did you do anything about that?—A. No, not up to the time I left.

Q. Did you make any attempt to reduce that waste?—A. Yes.

Q. What attempt did you make?—A. While discussing it with various officers of the various branches I suggested that in one station or one place, one camp, as the case may be, they should be standardized, that is, Remington in one place, Royal in another and Underwood in another, and so on, but there were so many details I had no opportunity to follow up.

Q. Were you successful in getting that change made?—A. I do not know. What I did attempt to do was to have all machines, say in Ontario, repaired by the Printing Bureau or a small organization. I thought it could be done very much cheaper than paying these agents to do so. Then on the redistribution or sending them back we could send to each station or camp, as the case may be, the type of machine which they had most of, so gradually they would have all one type of machine in one place.

Q. I suppose these travellers would each have to be paid their expenses in going around to the different stations?—A. I do not know what they were paid. I never saw that.

Q. Did you make any progress with putting in force economies with regard to these typewriters?—A. I have discussed it and I had conflicting opinions about it. The Printing Bureau thought it would be more expensive. Others thought it would be less expensive. The Canadian National Railways repair their own at considerably less expense. They have got their own repair department. That is the way the matter stands at the present time.

Q. At the time you resigned?—A. Of course, it was something which I hardly had any power to do, have the Printing Bureau establish a repair department for, say, the whole of Ontario and part of Quebec, and then it was a question of getting personnel to do it, to do the repairs.

Q. Get what?—A. To do the repairs, to hire the personnel necessary to make the repairs, and necessary to possibly erect a building.

Q. Would you suggest that some plan such as that be initiated now in order to effect a saving?—A. Presently that is my opinion, although I am not absolutely convinced about it, but I am favourably impressed with the argument that it could be done cheaper in view of what the Canadian National Railways have done.

Q. You think economies could be effected in that way?—A. I think so.

Q. Then, on the 17th of November, 1942—

Mr. McGEER: While you are looking that up do you mind if I interrupt? There is one matter on the rug situation that I would like to clear up.

Mr. GREEN: I have what I want here.

Mr. McGEER: If you would not mind?

Mr. GREEN: Mr. Chairman, I must ask that I be allowed to finish.

The CHAIRMAN: I wonder if it would not be just as well for Mr. McGeer to correct the record and get it in now?

Mr. GREEN: We made a ruling yesterday that we would be allowed to finish. If that is the basis we are working on I should be allowed to go on. I do not want to be interrupted in the middle.

The CHAIRMAN: I understand he simply wants to correct one item.

Mr. GREEN: If that is allowed anybody else can do the same.

Mr. McGEER: Just pardon me a second; he has dealt with the rug situation and left that. He has gone into typewriters and now he is moving to something else. I do not think there ever was any understanding that the committee was to be turned over to Mr. Green to deal with the whole field. I mean to say item by item as they come up we should be able to deal with them.

Mr. GREEN: Mr. Chairman, on a point of order; I have long since left the question of rugs, and have dealt with publications, then dealt with type-

writers. I submit that I should be allowed to finish and not go off on other subjects which completely upset our plan. Then everyone on the committee can talk about rugs.

Mr. CRUICKSHANK: Your plan.

Mr. GREEN: Then everybody on the committee can talk about something else. I do suggest to you that we should follow the plan which was laid down yesterday.

The CHAIRMAN: I simply suggested that if there was one item he wanted to refer to in connection with rugs that, while it was fresh in everybody's mind, it might be a good thing for the committee if he did that.

Mr. DOUGLAS: We all want to ask questions about rugs, too.

Mr. McGEER: Let us deal with one thing at one time.

The CHAIRMAN: If you object—

Mr. GREEN: Mr. Chairman—

The CHAIRMAN: All right, go ahead.

Mr. McGEER: Mr. Chairman, I want to point this out; on the question of rugs, which has been dealt with rather extensively by Mr. Green and has been left in a certain way, in reference to that matter I want to put some facts on the record, that are in this exhibit and which Mr. Green did not deal with. I think it is very important to the record as it stands. The right to deal with it subject by subject in an inquiry of this kind must be conceded to this committee, and if you rule against me then I must appeal from your ruling and have that right settled so that any member of this committee may deal with any subject matter brought up before it is left and we go on to some other subject matter. I have never heard of an inquiry being conducted in this manner. The opposition are here, of course, to get out the facts, as we all are, but to take up one subject and then go on to another and leave the first one in the air is contrary to all rules of procedure, and I want the right to deal with that.

Mr. GREEN: Mr. Chairman, dealing with the subjects Mr. McGeer has hardly put them in the right way. We are dealing with one subject now and that is Colonel Thompson. We are dealing with Colonel Thompson. Provision was made that subsequently we would deal with the Noorduyin contract, and so on and so forth. It is not as though we only had one reference that we were asked to investigate, one particular thing. Then I agree with Mr. McGeer you would have to deal with it step by step, but surely your ruling is not going to be that each time I, or any other member of the committee, mentions, for example, typewriters, that then we are going to go ahead and drop everything but typewriters.

Mr. McGEER: That is exactly what I am suggesting.

Mr. GREEN: And battle that right out; if that is done you cannot possibly get any continuous story from Colonel Thompson. We should go right through and have his complete story. It simply means chopping the thing all to pieces. On the questions of rugs, we have not yet had General LaFleche's letter produced or the reply from Colonel Thompson to General LaFleche. I do submit that I have the floor here, and there is no reason why I should be knocked down simply because I happen to be a member of the opposition. That is what it will amount to. We might just as well bring it right out into the open. I had the floor yesterday. I had to take the onus of getting up. Government members—and I think perhaps they were right—were in the position of sitting back, and it being up to us to go ahead and see what Colonel Thompson had to say. I submit that, in all fairness, I should be allowed to continue, and should not be forced to sit down while I am right in the middle of trying to work out the picture.

The CHAIRMAN: Mr. Green, I have listened both to your argument and the argument of Mr. McGeer. I must say that there are two points that appeal to

me very strongly. First, as chairman of this committee, I should like to impart that there is no opposition and there are no government members or C.C.F. members. We are a committee of inquiry. I think that the object of each and every member of this committee is to bring out evidence and facts that will be beneficial to the operation of the departments of government and evidence as to what has taken place during the tenure of Colonel Thompson's office. I think we should look at it from that angle. The next thing that strikes me with particular force is this. I want to be as fair and as lenient as possible, but the question that arises in my mind, with, its ramifications, is—and I am sure my honourable friend will agree with me—that, after all is said and done, we have got to be very careful that we do not create a record and do not produce a record for public consumption every day that is monopolized by any one member of the committee. I think that is only fair.

Mr. McGEER: Hear, hear.

The CHAIRMAN: The next point that strikes me with particular emphasis is this. We are all free, white and twenty-one, sitting in a committee for a certain purpose, and I think we should endeavour to the best of our ability to co-operate and inject as much flexibility into the discussions as possible, in order to complete the record in its objective. I really think that is a fair analysis of the situation. I really do not think that, if Mr. McGeer wants to come back and ask a question or two on rugs, there should be any very strong objection. It will not clutter up the record. It will probably keep the record clear for the day. I appeal to your judgment and fairness. I do not want to put it to a vote of the committee, but I appeal to you from the chair to permit me to rule that the honourable member proceed with his questions in connection with rugs. I will assure you that I will see you will not be interfered with unjustly or unfairly, Mr. Green.

Mr. GREEN: Mr. Chairman, is it then to be your ruling that everybody can talk on rugs?

Mr. McGEER: Do not make a ruling. Deal with the matters as they come up.

Mr. GREEN: I simply want to know whether that is what you have in mind, Mr. Chairman; because if that is what you have in mind, then there is no use of my proceeding.

Mr. McGEER: I will be very short.

Mr. GREEN: There is no use in my trying to get out a coherent story. It is simply impossible.

The CHAIRMAN: Mr. Green, I had not any intention of making any ruling. I am appealing to you in this way. If you leave it to the chair, I will give my assurance that there will not be any undue disorganization of your evidence or any infringement on the fact that you had the floor. I think we can get on. You and I have done it before, on a much more serious occasion; and I believe we can accomplish our objective if you permit our friend Mr. McGeer to ask his questions.

Mr. GREEN: I must say, Mr. Chairman, that I have great faith in your fairness.

The CHAIRMAN: Thank you.

Mr. JOHNSTON: Mr. Chairman, if we are going to allow one member to interject—and I have no particular objection to Mr. McGeer doing so if he wishes—and get up and question on rugs, I think the same privilege should be allowed to every member of this committee.

The CHAIRMAN: I expected that.

Mr. JOHNSTON: I do not want there to be the inference that, once Mr. McGeer had spoken, then Mr. Green would be allowed to go on uninterrupted, because that would be hardly fair.

The CHAIRMAN: No, there was no such inference as that. There was not an inference, ruling or established precedent. I was hoping we might get over this particular episode, without any thought in the world of favouring Mr. McGeer or any other member of the committee, by allowing Mr. McGeer to ask these questions, with the right of everybody to do the same unless we ruled against it. If it comes to that, and we want to clear this point, I can make a ruling; but probably the ruling will be much more satisfactory if the committee makes its own ruling.

Mr. McGEER: Every member surely has the right to be heard.

Mr. GREEN: Mr. Chairman, I admit that if I had sat down and then tried to get up again, and somebody had got up in the meantime, I certainly would not have any rights. But here I am in this position; I am on my feet in the middle of my examination, and Mr. McGeer gets up and tries to interrupt me. That is exactly what he did. Mr. McGeer can probably have the whole morning to-morrow and the next week. I urge that I be allowed to go ahead. You mentioned something about publicity, Mr. Chairman. I am not here for publicity. It does not make any difference to me out on the Pacific coast; not a bit. You can take that as a gospel fact:

The CHAIRMAN: I do not want my honourable friend to think I was referring to him.

Mr. GREEN: I think it is going pretty far when one member is on his feet and has the floor, that another member can get up and have him put down. That is not right. That is no way to run a committee.

The CHAIRMAN: Mr. Green, please do not misunderstand me. When I used the word "publicity", it was not with the intention of applying it to you.

Mr. McGEER: The public is getting it.

The CHAIRMAN: The committee is getting publicity. You see the array of press talent here. It gets publicity every day. I only wished to point out by that statement that I wanted to be absolutely fair in the situation. If you strenuously object, I think I shall have to rule in your favour, Mr. Green. I can see Mr. Johnston's point; it is well taken and it would apply to every member of the committee whether it is Mr. Johnston, Mr. Douglas or any one else. They have the right, if it is ruled that way, or if the committee decides that way, to interrupt a member of the committee in cross-examination. But that right would apply, if one member did it, to each and every member. I think I am bound under the circumstances, in view of the fact that you are cross-examining Colonel Thompson, to rule that you proceed uninterruptedly, Mr. Green.

Mr. McGEER: Then, Mr. Chairman, if you rule that way, I appeal from your decision on the ground that if we do that we are merely turning over the public accounts committee to Mr. Howard Green, and that he can go on and put anything on the record without correction or anything of that kind. If that is your ruling, then I appeal to the committee to overrule it.

Mr. GREEN: On that point, Mr. Chairman, may I say that I regret very much that Mr. McGeer has seen fit to bring in the personal element.

Mr. McGEER: You are turning this committee over to Mr. Howard Green.

Mr. GREEN: "Turning this committee over to Mr. Howard Green!" I do not think that is a worthy comment. I have nothing more to say about that.

Mr. McGEER: That is the result of the ruling.

Mr. GREEN: I have some things here I want to question Colonel Thompson about; then, when I finish with them, somebody else can go ahead. The point here is not as Mr. McGeer states it at all. The point is whether, as a member who is cross-examining and asking questions, another member can get up and say, "Here now, I want to have something to say about that" and can make

the man who is on his feet sit down. That is the point, and I submit that is no way for any British country, any British parliament or any committee in the British Empire to run its business.

Some Hon MEMBERS: No, no.

Mr. WARD: Mr. Chairman, I think Mr. Green is taking himself much too seriously in this committee. We are not sitting here and taking that sort of thing. We are in a British country, and the committee is being conducted in the light of the opinion of this committee. Our good chairman is in the hands of this committee, and I think we should proceed on that basis.

Mr. DOUGLAS: Mr. Chairman, it is not a matter of whether or not Mr. McGeer be allowed to ask his questions. It is a matter of what will be the *modus operandi* of carrying on this investigation. It can be done in one of two ways. Either each member can examine Colonel Thompson and ask what information he wants, finish and then sit down and let another member do it, or you can break the investigation down into a lot of topics, as Mr. McGeer has suggested. Then everybody asks questions on rugs, on stamps, on envelopes and so on; and it seems to me you are going to get into an endless welter of confusion.

Mr. McGEER: You will at least have each topic finished.

Mr. DOUGLAS: I am quite in agreement with the course you suggested when you said we would take up the inquiry, having each member allowed to examine until he thought he was finished, when he would sit down and allow another member to go on. I think Mr. Green should be allowed to go on. But if he is going to be stopped now, and Mr. McGeer is going to ask questions about rugs then I want to ask about rugs and every other member will want to ask about rugs. Then we will come back to typewriters and I will ask about typewriters. Then somebody will want to come back to rugs again. I think Mr. Green should be allowed to finish his questions. Then Mr. McGeer can question as long as he likes, and somebody else can question afterwards. It should be understood that when a member has asked questions, he ought to allow some of the other members to ask questions, without coming back with a second series of questions until all the members have finished.

Mr. McIVOR: Mr. Chairman, I am not a lawyer and I have not got a quick mind. But there are certain questions I should like to have asked up until now; but to go back again and bring in those questions, which were not very important, I think would be just foolish. If the committee can have the opportunity of asking questions when they come up, and decide them right there, I think that would serve the purpose. But if this is just a legal argument, I do not think it is going to do me much good in my attitude towards finding out the price of these rugs or any extravagance that has taken place.

Mr. ROSS (*Souris*): I think we have more or less got to decide on the matter of procedure. I agree with what Mr. Johnston said, and I thought we had an understanding yesterday morning. Everybody seemed to be in a pretty fair frame of mind yesterday when we discussed the matter of procedure in this committee; and I am not sure, but I thought Mr. McGeer was one of those, too, who understood that one man would be allowed to proceed until he finished questioning Colonel Thompson and then another would proceed uninterrupted. That was my understanding yesterday, and nobody objected from any corner of the meeting. I think, as Mr. Douglas has put it, that we have got to decide upon one of two methods of procedure, either that we continue as was decided and agreed on by the committee yesterday, or as an alternative, we are going to take it item by item. There is not any reason in the world that I can see why Mr. McGeer or any other individual should ask his questions and then Mr. Green proceed, because if he asks his questions I, as well as many other members, have questions I wish to ask concerning particular items. I think if we have become dissatisfied since agreeing on procedure yesterday, then we

have surely got to decide on some definite form of procedure. Otherwise we are simply going to be all tangled up from all directions. I thought we were unanimously agreed yesterday morning. I feel that Mr. Green should proceed, then Mr. McGeer, if he wishes to raise an argument, without interruption; and then we would all get our chance.

Mr. CRUICKSHANK: Is this to be a two-man committee?

Mr. BOUCHER: Mr. Chairman, I have a suggestion by way of pouring oil on troubled waters. I should like to point out one thing. As we are going through this the members are asking questions. It is just a matter of time; that is the basis for this whole disagreement, which has arisen here to-day. In other words, if Mr. Green has the floor and asks questions all the other members of the committee have the right to ask the same questions or other questions when their time comes. But this idea of all trying to get their get evidence or their questions on the record at one time would make an inquiry of this kind appear as though the members of the committee were giving evidence instead of extracting or getting evidence from the witness on the stand. I would suggest, therefore, that in substantiation of your own suggestions and your ruling, Mr. Green be permitted to ask his questions and that Mr. McGeer or any other member of the committee later submit their questions; and it is just a matter of time; because for one member of the committee to interrupt another member of the committee in his examination will not, I feel, enable us to make the progress which we as a committee would desire to make.

Mr. CRUICKSHANK: I thought you were not putting evidence in.

Mr. GOLDING: I think everyone wants to bring out the evidence as fairly as they can, and I agree pretty much with what Mr. Boucher says. The point at the present time is this: We have two members with information about rugs before them but none of the other members of the committee know anything about the rugs. I know I haven't got that information before me. And I think Mr. Green will be fair to agree to this; that after he has presented the facts as he has them before him in connection with rugs Mr. McGeer has a statement before him; why, surely to goodness he is not going to object to Mr. McGeer calling attention to something in that report.

Mr. GREEN: I have not had a chance to look at that at all as yet.

Mr. McGEER: I have had an opportunity of looking at it, and I think the information which it contains should be before the committee. As a matter of fact, Mr. Chairman, had I been allowed to proceed I would have been through half an hour ago, and the committee would have had much more information; information which I think should be before the committee now, about certain things that are being dealt with.

Mr. HOMUTH: Mr. McGeer is the only one who has had an opportunity of studying that list of rugs, or whatever the information is. After all, the Public Accounts Committee is pretty much a court of inquiry and must be carried on in that way. Now then, it is no use saying here in this committee that Mr. McGeer is not going to have the opportunity now of interrupting Mr. Green's examination if so I think your ruling should be supported, that no further interruptions will be permitted; because, every member has the same right as Mr. Green or Mr. McGeer, and they can interrupt at any time they wish.

Mr. CRUICKSHANK: That is just the point.

Mr. HOMUTH: Surely, that is the only way to carry on inquiries such as this. After all, it is not an inquiry as to particular items, but as to the general economy control that Col. Thompson is supposed to have put into force. What we are trying to get at is the picture of his whole activity—typewriters, rugs, stationery and everything else. You cannot get that picture unless somebody is going to be allowed to carry on the continuity of questioning. Yesterday morning when this committee started to function, no one had anything to say,

no member got up to question Col. Thompson. Mr. Noseworthy I think was the first one to get up to say something. Then the committee sat there and I think a minute or a minute and a half went by before anyone made any move whatever to question Col. Thompson and bring out the evidence that this committee might want to get. Then Mr. Green got up—someone had to do it—and took the responsibility of doing so; and taking that responsibility surely he is entitled to continue the inquiry to a logical conclusion, and I do not think there should be any interruptions whatever.

Mr. JOHNSON: Mr. Chairman, just before you give your ruling I should like to say this; I have no objection whatever to having Mr. Green go ahead with his argument; in fact, I think that is the proper way to do it; and I just wanted to ask your opinion. In regard to other members getting up and interrupting the speaker, I think that would lead to a great deal of confusion. And now, I asked you right at the first to read the order in council on the proceedings so that the rest of us would have an opportunity of knowing what is contained in it. Up to the present time no member of the committee has had an opportunity of going over these orders in council and no member of the committee has had an opportunity of reading that list which Mr. McGeer has in regard to the cost of rugs, except Mr. McGeer and Mr. Green.

Mr. GREEN: I have not had a chance either.

Mr. JOHNSON: Mr. Green says he has not had a chance yet. I agree with Mr. Green that he should be allowed to go ahead and complete his examination; because if we are all going to interfere with a questioner when he is dealing with rugs, for example, I think the only logical conclusion would be that we should go head and deal fully with one subject when we are on it and finish with that subject. Then the minister, or the department having to do with rugs, for instance, could be called and examined, and we could deal with that subject completely. You could do that very well; when Col. Thompson has given his evidence on rugs all the other ministers would be required to be in here and get up in their turn and give their evidence in regard to rugs; that, naturally, would be their contention, at least. So I suggest that Mr. Green be allowed to continue his story on this subject until he is finished; and then I have no objection whatever to Mr. McGeer following next and completing his examination in regard to Col. Thompson. I think it should be done in a logical way and I suggest that Mr. Green be allowed to go ahead.

Mr. NOSEWORTHY: Mr. Chairman, I am rising to support what I consider to be your ruling, and which I understand Mr. McGeer intends to challenge; or, has challenged. Yesterday, when I rose to ask a question of Col. Thompson some members suggested that after you had given an opportunity to members to question Col. Thompson—some member in the committee suggested that Col. Thompson should be permitted to give an outline of the story of his work with the government; and on that understanding and in compliance with that request I sat down. Mr. Green secured the floor before I was able to do so after Col. Thompson had finished; otherwise, I had a considerable list of questions to ask Col. Thompson. Mr. Green is bringing out much of the information that I would have tried in a much less able way to have brought out. I am quite content to let Mr. Green proceed to extract this information. I would have been just as well satisfied to have Mr. McGeer do the same thing; or any other member of this committee. If you are going to permit one member of the committee to interrupt the questioner to get his point of view on the record on a particular day or at a particular time then I cannot see that we have much choice but to allow the same privilege to any other member. I think your whole inquiry is just going to be a beer garden if one member is going to be fighting with another to get quoted on the record.

Mr. CRUICKSHANK: Let us run it.

Mr. NOSEWORTHY: If one member is to vie with another in getting his point of view on the record, I suggest that your ruling, Mr. Chairman, is fair and reasonable, and will bring out a continuous story. When Mr. Green has finished some other member of the committee can take the floor and proceed. I would support your ruling on that.

The CHAIRMAN: In view of the fact that my ruling is going to be challenged by my honourable friend I have this to say: I have listened very attentively to representations of every member who gets on his feet, including my good friend the member for Vancouver-Burrard; and I want to repeat just two things I said a few minutes ago; first, I ask and plead with this committee to at least rely on the limited judgment of its chairman as to the fairness he shows and wishes to extend to every member of this committee; secondly, it seems to me—and I submit this from a farmer's viewpoint—it seems to me that if we are going to make any headway on this inquiry we must adhere to the established principals and established basis; and I suggest the ruling I made a minute ago be extended to this extent, that it conform to the procedure we follow in the chamber; that is, that any member who is conducting an examination, or who has the floor, permit another member on request to ask a question, or interrupt or interject; and that, otherwise, the member be permitted to proceed with his examination. I think that that is a fair attitude to take in connection with it and that is why I appealed to Mr. Green in connection with Mr. McGeer's interjection—and I am thinking of the ramifications that might be incurred in connection with matters which each member might want brought out—that Mr. Green permit Mr. McGeer to interject or to ask a question. I do not see how you can conduct this inquiry unless we adhere to some more or less rigid rule which will permit a member who has the floor to proceed. Otherwise, I do not see how you are going to have any continuity. As I said yesterday, let one member proceed at a time, without interruptions from others. I do not see in fairness that I could give any other ruling than the ruling I have made; that the member who has the floor be permitted to finish his examination; and leave it to the Chair to stop a member if he feels that he is monopolizing the committee, no matter who the member may be. I would also suggest that any member has the privilege of asking a question, or asking for information, subject to the right of the member having the floor to accede to the request or refuse it as he wishes at the time; that such interruptions be confined to immediate relation to the subject under discussion; and that such a question having been asked and disposed of the member having the floor be permitted to proceed with obtaining the evidence he may wish brought out. And now, gentlemen, I feel that those are the two important factors. Personally, I appeal to members of the committee to permit me as Chairman some latitude in decisions; and, consequently, I cannot see how I can rule differently from that.

Mr. McGEER: Would you mind letting me say a word on that?

Mr. NOSEWORTHY: Just one question: do I understand your ruling to be that a member is to proceed with his questioning without interruptions; that any interrupter must have the Chairman's consent?

The CHAIRMAN: He can appeal to the Chair and the Chair can ask the examining member if he wants to permit the interruption. And now, that is one point; the next thing is, as I say, if we just each and everyone of us make up our minds that there is going to be some flexibility in the discussion we can get along all right.

Mr. McGEER: Just a minute, if I may say a word. This is not a parliament of debate, this is a committee of investigation; and every man on this committee sits here not as an advocate or counsel but as a judge; and this committee is charged with the responsibility of investigating facts and forming conclusions on facts and reporting their conclusions to parliament, instead of

being, as the Chairman suggests, a committee of debates, as parliament is. It is nothing but a judicial body, just as a jury secures through the assistance of counsel and witnesses the facts, every jury man always has the right to inquire for more information; just as members of the bench will interject and say, we would like to have some more information upon that point as it is being dealt with, so this committee has that right. And now, if the ruling of the Chair were to stand, it is subject to the willingness of a member of this committee to give way; then there would be no possible way of keeping the record straight. I am not suggesting for one moment that Mr. Green is in any way interfering with a correct record.

Mr. GREEN: I wan to say this, Mr. Chairman; had I been permitted to proceed I would have been through by now.

Mr. McGEER: There are some facts here that I think to be important.

Mr. HOMUTH: Just a moment, before Mr. McGeer goes on with the statement he has before him—

Mr. McGEER: Surely, Mr. Chairman, I have the right to deal with the point of order.

Mr. HOMUTH: If Mr. McGeer is going to go ahead and discuss that list he has on his desk before him—

Mr. GOLDING: No, no; he is not going to do anything like that—

Mr. HOMUTH: If he is going to read what he has there in his hand, I rise to object because I want to say something with respect to that particular matter; and if he is going to discuss that now on the excuse that he is dealing with your ruling, I am going to object right now to anything of that kind.

Mr. McGEER: I am not doing anything. You see no member has the right to anticipate what another member is going to do.

Mr. HOMUTH: It is always easy to anticipate what Mr. McGeer is going to do.

Mr. McGEER: What I suggest is this, in this inquiry we are dealing with the matter of rugs; now, going back to the minister's office, and probably to the Public Works Department, there were some things I wanted to suggest to Colonel Thompson, more for the purpose of getting some other information in addition to that which has been asked for; and for that purpose I wanted to ask him just three or four questions.

Mr. HOMUTH: Now, Mr. Chairman, Mr. McGeer can go to Col. Thompson when the committee rises. I am not going to sit here and have Mr. McGeer start discussing some other matter. You have made a ruling, Mr. Chairman; and the exact position is this, that Mr. McGeer is the only member of this committee who has been able to study that sheet. No other member has had an opportunity of doing so. We do not know what it contains. We do not know anything about it. And we want an opportunity of seeing it.

Mr. CRUICKSHANK: How did you ask all these questions then?

Mr. HOMUTH: That was produced in this committee this morning, and no member other than Mr. McGeer has had an opportunity of reading it.

Mr. CRUICKSHANK: I do not think any member of the committee saw it before this morning.

Mr. McGEER: I have looked at it now.

Mr. HOMUTH: I would say this, that is one of those documents which should have been filed so that every member of the committee would have had the privilege of looking at it or making a study of it in the office of the committee chairman.

The CHAIRMAN: May I interject to say that copies of these documents are being made this afternoon for the convenience of all members.

Mr. DOUGLAS: Might we have your ruling and get on?

Mr. GREEN: I might remind you, Mr. Chairman, that there were proceedings in the Public Accounts Committee some years ago where we went into the Bren gun question—

Mr. McGEER: That has nothing to do with this.

Mr. GREEN: You will remember that at that time Mr. McGeer carried on the examination and he had the handling of the witnesses. I have been put in that position to-day. I did not want it, but I have been put in that position; and I think I should be allowed to finish. I would have been through by now had I not been interrupted.

Mr. McGEER: During that time I never refused the right to Mr. Green or any other member of the committee to interject, and he knows that very well.

The CHAIRMAN: I agree with that statement; as Mr. McGeer says, he would respect the right of any member of the committee to interject; in other words, he would give permission. And now, I am just asking that this ruling carry, with the right to the member on his feet to refuse or permit another member to interject or to ask a question.

Mr. McGEER: And if he refuses it is in the hands of the committee to say that the interjection shall be allowed.

The CHAIRMAN: Let me put it to you this way, Mr. McGeer, that I listened to your legal presentation; but listening in a few times when I have been in court I recall that the examining counsel dealing with the witness is usually permitted to continue until he has finished.

Mr. McGEER: Not necessarily.

The CHAIRMAN: Well, I am only a farmer.

Mr. McGEER: That is evident.

The CHAIRMAN: And I am rather proud of that.

Mr. BOUCHER: On that very point, if it comes to procedure in court of law, I think Mr. McGeer very well knows that counsel examining a witness examines on many points before the opposing counsel re-examines; and if he were the jury, he is not extracting evidence, he is listening to the evidence that is extracted by the man who is on his feet, namely, counsel; so here the argument in so far as the committee is concerned is equally applicable to this case, only in the reverse to the way in which he put it.

Mr. CRUICKSHANK: Is this committee a couple of lawyers against each other?

Mr. ROSS (*Souris*): Did I understand you to say we are going to have copies of these things before we proceed?

The CHAIRMAN: We are each going to have copies this afternoon.

Mr. ROSS (*Souris*): Each member. I understand that we are proceeding under your ruling?

The CHAIRMAN: Mr. McGeer has objected to the ruling so I have obviously got to put the ruling to the committee.

Mr. ROSS (*Souris*): It is one o'clock now.

The CHAIRMAN: The question is on the Chairman's ruling to the effect that Mr. Green be allowed to proceed with his examination without interruption unless he agrees to interruptions or question.

Mr. DOUGLAS: Would you change that to any member instead of Mr. Green? It is not a personal matter with Mr. Green; that any member has the right to proceed with questioning until he voluntarily gives the floor to someone else.

The CHAIRMAN: We are just enlarging the question before the committee.

Mr. SLAGHT: Mr. Chairman, may I be allowed to have a word on this? That suggestion is not at all in accordance with court procedure, attempting to emulate court procedure in this committee, if you follow it through to its conclusion, and I know Mr. Green will not understand me to suggest that he would take advantage of a dictatorial right to proceed until he consented that somebody might interrupt.

Mr. GREEN: As a matter of fact, the Chairman has said himself he wanted to have the right to say when a member was monopolizing the committee.

Mr. SLAGHT: Mr. Chairman, I was making it clear to Mr. Green that I am not, in what I am going to very briefly put to you as to court procedure, insinuating that Mr. Green, if this resolution becomes effective here, would take advantage of it for improper purpose, but in court if counsel is cross-examining a witness ordinarily he goes through to the conclusion, but if counsel on the other side desires to interrupt him and address the court and in so doing to suggest that he is being most unfair, that he is putting irrelevant questions, that he is abusing his privilege, there is always the right of interruption. Never in any court is counsel examining the witness accorded the right to be the judge and jury as to whether he should proceed on any given question, even if it is not a question of having a general right-of-way. I claim that any member here has the right to interrupt any other member who is putting an unfair or improper question, and to do so at once. We are surely not going to allow in this committee the right for one man to be his own judge as to whether he is fair or unfair, and proceed along dictatorial lines, and again I do not refer to Mr. Green.

Mr. GREEN: On a point of order, Mr. Chairman, I think it should be made absolutely clear.

The CHAIRMAN: That is what I want to do.

Mr. GREEN: I do not know whether Mr. Slaght was here at the time. I do not think that Mr. McGeer suggests for a moment I was putting an unfair question, or anything of that type. There was no suggestion of that type. He simply said "I want to ask these questions about this subject."

Mr. SLAGHT: I do not know anything about it, but to make it perfectly clear, in a court of law counsel on the other side do not have to wait—if there is another side in this matter; we are all one inquiry, I hope, but possibly there are slants and angles—counsel on the other side do not have to wait for the judge to interrupt to say that whoever is examining the witness is being unfair. They have the right to interrupt and intervene and make a submission to the court or to the chair, in this case, that the man must stop because he is being unfair. This resolution as worded will deprive any member of this committee of the right of invoking your ruling. That should not be.

The CHAIRMAN: Let me answer Mr. Slaght. I have endeavoured now for an hour to do exactly what you have said. I have asked to have it left to the chair. I have asked that if a member gets up and objects to what is being asked by the examining member that we should proceed as we have proceeded before and leave it to the chair to either permit or stop the examining member.

Mr. SLAGHT: If that is the meaning, or if you word it that way, it would be free from objection as far as I am concerned, but as I listened to it, if a member is examining unless you of your own motion interrupt him any other member is out of order who gets up and wants to interrupt him to submit to you that he must stop that sort of thing. He would be out of order automatically under the wording of that and have no right unless you on your own motion interfered. I do not think it is right that any such principle should be laid down.

Mr. GREEN: I agree with you. The attempt here was not to stop me because I was asking an improper question. The attempt was made by

Mr. McGeer to get up and ask a question himself. That is an entirely different matter.

Mr. DOUGLAS: A point of order is always in order. A member can rise at any time and appeal to you. It is a question of your ruling whether a person who is asking questions shall continue to ask questions. A person can interrupt if he is out of order; he can object to a question; he cannot begin a series of questions without the permission of the examiner.

The CHAIRMAN: That is exactly the focus I have been trying to get this committee into for an hour. Let me appeal to the committee once again. Why not proceed and leave it to the ruling of the chair whether a member should be permitted to go on or whether it is not proper for him to go on, and not clutter up the record? I have appealed to you individually and collectively that if you will permit me to conduct the committee it will be done in all fairness, as I have assured. Nobody's toes will be stepped on. If our legal talent does not get in conflict we are going to be all right, but can the committee not proceed along those lines?

Mr. GOLDING: Just a minute; for Mr. Slaght's benefit—he was not in here—Mr. Green had been dealing with rugs and then he went on to typewriters and something else, and Mr. McGeer just wanted to make a statement in regard to rugs before that matter was finally disposed of.

Mr. HOMUTH: He wanted to ask a question.

Mr. SLAGHT: That is a matter for the committee's discretion.

Mr. McGEER: Absolutely, and that is all I say.

Mr. HOMUTH: I move we adjourn.

Mr. McGEER: I suggested during the time that Mr. Green was looking up an Order in Council that he should allow me to ask a question or two of Colonel Thompson with reference to rugs. Mr. Green said "No," that he wouldn't. I then suggested that the rug situation having been dealt with we were going on to stationery and typewriters and that there were one or two things I would like to deal with to clear the record with regard to the rug situation. I would have only been two or three minutes. I think we gave Mr. Green a very free hand. I was very much surprised that Mr. Green refused my request which I thought was quite reasonable.

Mr. GREEN: If I allowed you to do it where would I be?

Mr. McGEER: Mr. Green said, "I won't have anything interrupt my presentation of the examination of Colonel Thompson."

Mr. HOMUTH: No, he did not say that at all.

Mr. McGEER: "I do not want any interruption; I do not want any interference until I am completely through," and then nobody has the right to put anything on the record at all. If the committee wishes to turn over the examination of Colonel Thompson to Mr. Green for an indefinite period of time that is up to the committee.

Mr. GREEN: That is not the suggestion at all. That is unfair.

Mr. McGEER: I think that what I suggested was in accordance with correct committee procedure. I am not here as counsel and I am not bowing to Mr. Green as counsel.

Mr. GREEN: I am not asking you to.

Mr. McGEER: You are only a committee man here the same as all the rest of us. Every member of the committee has got the same rights, and I object to the judgment of this committee being placed upon the basis that we are here as counsel and that our conduct as members of this committee must be circumscribed by the rules and regulations that govern the conduct of counsel in court. That is where the Chairman is entirely wrong in his decision. I, as a member

of this committee, am here as an appointee of the parliament of Canada to investigate, not to advocate.

Mr. HOMUTH: I move we adjourn.

Mr. SLAGHT: I may say that yesterday morning the very same thing happened to me. Colonel Thompson was in the box and I interjected a question in order to identify a transaction as to whether it was dealing with lead pencils or not and I was promptly sat on by Mr. Green who was conducting affairs here and who said, "You have no right to interrupt me. I will go forward until I am through". As far as I am concerned I am not going to submit to any dictatorial action of that kind.

The CHAIRMAN: Gentlemen, we have had an hour of this and I think enough points have been brought up to clarify it. Mr. Homuth suggests that we adjourn until tomorrow morning at 11 o'clock, and personally when I come into this chair tomorrow morning at that time I am going to make the rulings and if the committee on appeal do not vote against those rulings they are going to stand. I think that is the only fair thing.

The committee adjourned at 1.10 p.m. to meet on Thursday, April 8th at 11 o'clock a.m.

HOUSE OF COMMONS,

April 8, 1943.

The Standing Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, if you will come to order, we will proceed. I should just like to make one or two observations before we go on with the business today. I hope the committee will recognize the fact that Colonel Thompson is appearing here as a witness and not as an official of any department of government. I think we should bear in mind, when Colonel Thompson is asked about where letters are or where his files are, that they are not accessible to him in his present position, and he will probably be unable to answer questions of that kind. I just want to bring out the fact that he is not an official of the government. He is appearing here as a witness before this committee.

Gentlemen, when we adjourned yesterday Mr. Green had the floor, after some argument. Will you proceed, Mr. Green.

Mr. GREEN: Mr. Chairman, I understand that the letter from General LaFleche to Colonel Thompson concerning rugs, and the reply from Colonel Thompson, have now been produced to the committee.

The CHAIRMAN: Let us get that particular point straight, Mr. Green. When you speak of the letter from Colonel Thompson to General LaFleche, I presume you are referring to the letter of December 11, the letter you have in your hand?

Mr. GREEN: Yes.

The CHAIRMAN: That is what you are referring to?

Mr. GREEN: Yes.

The CHAIRMAN: And the reply you are referring to is the reply of February 23?

Mr. GREEN: February 18.

The CHAIRMAN: Is that the one you are referring to?

Mr. GREEN: Yes.

The CHAIRMAN: You have the copies?

Mr. GREEN: I have copies here. I would move, Mr. Chairman, that the originals of all this correspondence be produced.

Mr. DOUGLAS: That letter from General LaFleche is not in the material we have.

The CHAIRMAN: No. I have only three copies.

Mr. DOUGLAS: We can have a copy later to put in our files?

The CHAIRMAN: I am going to table a copy, if Mr. Green will read it.

Mr. GREEN: Yes.

Mr. DOUGLAS: Read it into the record.

The CHAIRMAN: If anybody wants to see these copies, he can.

Mr. GREEN: Mr. Chairman, I should like you to take that as a motion, that the original documents be produced in all these cases. I move for the production of the original letters.

The CHAIRMAN: Mr. Green has moved for the production of the original letters. Is that your pleasure, gentlemen?

Mr. GREEN: Of these letters and any others that are referred to.

The CHAIRMAN: Is that the pleasure of the committee?

Motion agreed to.

Colonel JOHN THOMPSON, recalled.

By Mr. Green:

Q. The letter of February 11, 1943, is headed, "Memorandum to Colonel John Thompson, Director, Government Office Economies Control." It reads:—

The Minister of Public Works has informed me that some time ago you asked his department for some information concerning the purchase of rugs by his department in Ottawa, from the outbreak of war to December 18, 1942.

Would you please let me know to what purpose such information would be put.

(Signed) L. R. LAFLECHE.

(Filed as Exhibit No. 7.)

Q. Is that a copy of a letter you received, Colonel Thompson?—A. Yes. That is right.

Q. Then there is produced a copy of a reply dated February 18, 1943, and headed "Memorandum to Major General the Honourable L. R. LaFleche, D.S.O." It reads:—

Reference your memorandum of the 11th instant, the information requested from the Department of Public Works with respect to the purchase of rugs and control thereafter, is in accordance with Order in Council P.C. 4428, Section 9 (7).

Rugs are now very expensive and, therefore, I am only authorizing the purchase of them in very exceptional circumstances. It occurs to me that rugs already supplied to employees who would not at present be eligible to receive them, might be redistributed where they are more urgently required, instead of purchasing new rugs. In view of the fact that several cases have been brought to my attention where an employee has left the Service, or has been transferred from Ottawa or to another Branch of the Service, his furniture, including rug, has been transferred to somebody else without any authority from this office.

From this you will see the necessity for an inventory, particularly of rugs purchased within recent years and which, therefore, should be in excellent condition.

Then there is also produced copy of a letter from General LaFleche to the Minister of Public Works.

Mr. SLAGHT: What is the date of that?

Mr. GREEN: It is dated February 23, 1943.

It reads:

My dear Colleague:

Further to my letter of the 11th instant, concerning rugs purchased by the Department of Public Works from the outbreak of war to December 18, 1942, I quote hereunder a statement by the Director of Government Office Economies Control, which is self-explanatory:

Reference your memorandum of the 11th instant, the information requested from the Dept. of Public Works with respect to the purchase of rugs and control thereafter, is in accordance with order in council P.C. 4428, Section 9 (7).

Rugs are now very expensive, and therefore, I am only authorizing the purchase of them in very exceptional circumstances. It occurs to me that rugs already supplied to employees who would not at present be eligible to receive them, might be redistributed where they are more urgently required, instead of purchasing new rugs. In view of the fact that several cases have been brought to my attention where an employee has left the service, or has been transferred from Ottawa or to another branch of the service, his furniture, including rug; has been transferred to somebody else without any authority from this office.

From this you will see the necessity for an inventory, particularly of rugs purchased within recent years and which, therefore, should be in excellent condition.

Please say whether you wish me to forward the list of rugs purchased to Colonel Thompson.

Yours sincerely,
(Signed) L. R. LAFLECHE.

(Filed as Exhibit No. 7.)

And then, on the file there is the copy of the letter dated March 4th, 1943, from the Minister of Public Works to General LaFleche:—

My dear Colleague:

With reference to your letters of February 11th and 23rd, this Department was requested by the Director of Government Office Economies Control, under date of December 18th, to furnish a statement showing all rugs purchased since the outbreak of war (copy of direction attached).

As this office is under the jurisdiction of your Department, the statement was forwarded for your information and transmission, if considered in order.

Yours faithfully,
(Signed) ALPHONSE FOURNIER.

(Filed as Exhibit No. 7.)

and on the copy handed to me there is the following notation:—

Note for file:—

Handed to me by the Minister of Public Works to-day (23-3-43).

(Signed) L. R. L.

and that is after the date of the resignation of Colonel Thompson. We could have the originals of these letters, I suppose?

The CHAIRMAN: You have made a motion for that purpose.

Mr. McGEER: Did you refer to the letter of December 18th also?

Mr. GREEN: There is also a copy of the letter dated December 18th, 1942, from Colonel Thompson to the Secretary of Public Works—and I think that is a copy that was read into the record by me yesterday.

(Filed as Exhibit No. 7.)

Mr. McGEER: But you did not refer to the letter of December 21st, or the letter of February 6th.

Mr. GREEN: Well, they are not on this file.

Mr. McGEER: I would like to put those on the record to keep the record straight, if I may.

Mr. GREEN: I read those yesterday.

Mr. McGEER: No, they were not read and I want to put them on the record now; because they are part of this and I think it is to the interest of the committee that they be put in now, Mr. Chairman. I would like to read them. You all have copies. Apparently on December 21, 1942, Colonel Thompson, he received a letter from Mr. J. M. Somerville—

Mr. GREEN: Mr. Chairman, that letter I read into the record yesterday.

The CHAIRMAN: I think, Mr. Green, in view of the fact of what I said at the opening of the meeting—this is simply a matter of correcting the record on this point.

Hon. Mr. HANSON: What is the source of the letter?

The CHAIRMAN: I think, in view of the fact that it is important to keep the record straight, at this point Mr. McGeer should be permitted to read those letters.

Mr. McGEER: That letter drew your attention to the fact that the information was being prepared, I believe; and then on February 11th—

Mr. DOUGLAS: Which letter are you referring to?

Mr. McGEER: To the letter of February 11th, 1943.

Mr. DOUGLAS: And how about the one before it, you were going to read that too.

Mr. McGEER: The original letter from J. M. Somerville, Secretary of the Department of Public Works, to the Director of Government Office Economies Control, Department of National War Services:—

With reference to your letter of the 8th inst., in respect to rugs purchased by this department since the outbreak of the war to December 18, 1942, I am to advise you that the information desired was forwarded by our minister to the Minister of National War Services in a letter dated the 6th inst.

(Sgd.) J. M. SOMERVILLE,
Secretary.

(Filed as Exhibit No. 8.)

Do you remember getting that letter Col. Thompson?

The WITNESS: Which letter?

Mr. McGEER: That was the letter of February 11th.

The WITNESS: Yes.

By Mr. McGeer:

Q. In which you were advised that the information had been forwarded by the Deputy Minister of Public Works to the Minister of National War Services; and I take it that the statement filed yesterday as exhibit 4 I think was the statement containing that information, was it not?—A. Yes. I had the original file looked up yesterday afternoon and that letter from Mr. Somerville which I said I did not recollect was in the file.

Q. So, you now say you received it?—A. Yes.

Q. There is no slightest conflict as to the facts?—A. No.

Q. There seemed to be the impression that there was?—A. Oh, no.

Q. I have looked over the statement, Col. Thompson, and I find that since your appointment and during the time of your regime, in so far as this statement was concerned—

Mr. GREEN: Now, Mr. Chairman, this is exactly what happened yesterday; this is not a matter of straightening the record, this is a matter of cross-examination.

The CHAIRMAN: All we want to do now, Mr. Green, is to get the record clear at this point, and then we will be over it and get on. That is a matter of importance and it will only take a minute or so to do it.

By Mr. McGeer:

Q. What I wanted to get at Col. Thompson, is this: have you got that statement before you or a copy of it?—A. No.

Q. You mentioned in your evidence four or five rugs; and I have looked over this list and I find—you took over from what date?—A. The 1st of September, about.

Q. The 3rd of September?—A. The 3rd of September, I think.

Q. 1942?—A. Yes.

Q. After that date I find these rugs purchased: U.K. Payments Office, October 2, 1942, one Wilton rug and pad, 9 x 15 feet, \$65.25; for 139½ Sparks street, Col. Ransford—you will find it about the middle of page 3.

Mr. GOLDING: What size was that?

Mr. McGEER: It was 9 feet by 15 feet.

By Mr. McGeer:

Q. You had that item?—A. Yes.

Q. Did you find any fault with the purchase of that rug?—A. No.

Q. Now, the next one is—A. Might I explain?

Hon. Mr. HANSON: Would you speak a little louder, please; we cannot hear.

The WITNESS: Might I explain that this United Kingdom Payments Office pay for what they get.

Mr. McGEER: Yes, I understand that.

By Mr. McGeer:

Q. The next one is U.K. Payments Office, Oct. 2, 1942; at 139½ Sparks street, Mr. Pownall: you did not have any objection to make in regard to that one?—A. No.

Q. The next item is Transport, Nov. 3, 1942; one Red Rug and pad; 9 x 12, \$55.20; N.P.O. Bldg., Deputy Minister: was there any objection in connection with that item?—A. No, I authorized it. There was none.

Q. I mean, do you now recall any objection to a \$55 rug for the Deputy Minister?—A. No. I do not recollect any particular items.

Q. I mean, is there any objection to this item as far as you know?—A. As far as I know, no.

Q. The next item is Transport, November 3, 1942; one Red Mottle Wilton and pad, 9 x 12, \$55.20; New P.O., Ernest Dufour; no complaints about that purchase made by you?—A. I do not remember any.

Q. The next item is: Exchequer Court, December 18 1942; one rug and pad, \$192.60; Old Supreme Court; Mr. Justice J. T. Thorson— —A. I authorized that.

Q. Was there any objection to that?—A. No.

Q. I went through this list and I can find no rug involving an expenditure of \$400 or \$500, since you came into office, that was purchased through you?—A. No. That is right.

Q. Well now, where did this suggestion of a \$400 rug, or a \$500 rug, made by Mr. Green originate?—A. I do not know.

Mr. McGEER: There is absolutely no grounds for any such suggestion.

Hon. Mr. HANSON: Mr. Chairman, that is going too far.

Mr. McGEER: I mean as far as you know.

The WITNESS: So far as I know, no \$500 rug was purchased through me.

Mr. McGEER: Or no \$400 rug?

The WITNESS: Or, no \$400 rug.

Mr. McGEER: And you never made any complaint with regard to any such purchases?

The WITNESS: No.

Mr. McGEER: Well, that is what I wanted to put on the record, Mr. Chairman. And I do want to say to the members of this committee, that I want to extend to the opposition and to my colleagues the fullest co-operation in investigating, and in reducing costs—that, I think, is a primary responsibility—but I also want to go on record, Mr. Chairman, as stating that the exaggeration of facts out of any relation to the truth should be avoided whenever it is possible; because, I think if we are to—

Hon. Mr. HANSON: Thanks for the lecture.

Mr. McGEER: —if we are going to stand up in this committee and pass out to the press the suggestion that there have been \$400 and \$500 rugs purchased when there is not a bit of evidence to warrant it—

Mr. ROSS (*Souris*): Oh yes, there is; read the evidence of the first day's sitting.

Mr. DOUGLAS: Mr. McGeer rose for the purpose of reading two letters into the record to get it straight.

Hon. Mr. HANSON: Yes, to correct the record.

Mr. DOUGLAS: He is not reading the letters at all, instead he is giving us a lecture as to what our procedure should be in this committee. We can do without the lecture.

Mr. McGEER: I want to refer to the letter of December 6—

Hon. Mr. HANSON: Mr. Chairman, is this to be a general cross-examination; or, is he through?

Mr. McGEER: I want to complete these letters—I quite understand my friends not liking to have these corrections made.

Mr. HOMUTH: No, you would not understand.

Hon. Mr. HANSON: You would not understand anything. The Chairman is on his feet; would you sit down for a minute?

Mr. McGEER: My friend (Mr. Green) has not sat down all the time he has been here; apparently it is the case of not doing as the adviser does, but of doing as the adviser says. You are not running this committee.

The CHAIRMAN: Are you going to read those letters, Mr. McGeer?

Mr. McGEER: Thanks, Mr. Chairman; yes.

The CHAIRMAN: I don't want you to sit down until you have finished.

Mr. McGEER: This letter of February 6, 1943.

Mr. GREEN: Just what is the position?

Mr. McGEER: Just wait until I get through.

Mr. GREEN: I suggest, Mr. Chairman, that is going a little bit far.

Hon. Mr. HANSON: Oh, he is just taking charge of this committee.

Mr. CRUICKSHANK: You are the one who is trying to take charge of it to-day.

Hon. Mr. HANSON: I was not talking to you at all.

Mr. CRUICKSHANK: I know.

The CHAIRMAN: Gentlemen, in all fairness; we started this meeting this morning in a co-operative spirit; and I asked Mr. Green to permit Mr. McGeer to proceed with the reading of these two letters.

Mr. HOMUTH: Yes, the reading of the letters.

The CHAIRMAN: I am sure everybody will be satisfied if Mr. McGeer will adhere to the reading of those two letters.

Mr. GREEN: But he is not adhering to that at all.

The CHAIRMAN: I can see that he is wandering.

Mr. HOMUTH: You say he is wandering—he certainly is.

The CHAIRMAN: Mr. McGeer read those two letters; let's get on with those two letters and keep to the point.

Mr. McGEER: I am sure the committee will recognize that I have been moving to a good purpose. I think it will be recognized that every move I have made has been well considered, and I think probably I will get along all right with them. I referred to a letter dated February 6, 1943, addressed by the Minister of Public Works, the Hon. Alphonse Fournier to Major the Hon. L. R. LaFleche, Minister of National War Services, Ottawa:—

MY DEAR COLLEAGUE,—This department is in receipt of a request from the Director of Government Office Economies Control asking for a statement giving certain information regarding rugs purchased by this department in Ottawa from the outbreak of war to December 18, 1942.

Mr. GREEN: I read that yesterday.

Mr. McGEER: All right, I am reading it now.

For your information and transmission to the Director is attached list giving the information requested.

The statement, you will note, gives in most cases, as desired, the department, date, description, cost, the names of the persons to whom supplied as well as the designation of the building and room number. The statement also includes the rugs and carpets purchased for the House of Commons and the Senate. It likewise comprises rugs supplied to the British Supply Board, the British United Technical Mission and the United Kingdom Payments Office. It may be noted in this connection that, under existing arrangements, all these organizations are paying whatever office equipment is obtained through our department.

The disposition of the rugs once purchased varies according to circumstances. For instance, when an office is abolished, its equipment is returned to stock for re-issue, provided same is still in usable condition. In cases where an officer is transferred from Ottawa and the quarters are reallocated, equipment and rugs are left therein depending whether the new officer enjoys similar or equivalent rank and suggestions in this respect are obtained from the departments concerned.

Yours faithfully,

ALPHONSE FOURNIER.

(Filed as Exhibit No. 8)

This information was transferred to your minister for remission to you? There was no complaint about that?—A. That information was not transferred to me.

Q. But it was transferred from the Department of Public Works for remission to you and it was in your department?—A. I suppose so. I do not know anything about it.

Q. In any event, when we disclose the information, with the exception of Mr. Justice Thorson's rug of \$192 which you approved—A. Yes.

Q. There are two other rugs for \$65.25 and \$65.25 for the Transport Department; were they also approved by you?—A. I think so.

Q. So that there is not an item of rugs in this statement, or as far as you know, to which you objected and with regard to the purchase of which you have not approved since you came into office?—A. That is correct.

By Mr. Green:

Q. Colonel Thompson, did you at any time see this list of rugs from the Department of Public Works?—A. No.

Q. When did you first see it?—A. Yesterday.

Q. Pardon?—A. Yesterday.

Q. And did you at any time see this letter of February 6th from the Minister of Public Works to the Minister of National War Services which Mr. McGeer has just read?—A. No.

Q. And the day before yesterday when you were giving evidence I find at page E-6 of the transcript I asked you—commencing at the bottom of page E-5:

Q. How did you come to go into this question of rugs?—A. It was in connection with the general setup. Under the order in council we had power to move furniture from one department to another, from one branch to another, and so on. It came to my notice by a senior official that he only had a small table whereas every junior officials had something like a cabinet minister's desk, and when he moved around he was amazed how some of these older departments were furnished. I do not think we allotted more than half a dozen rugs altogether, but I think the last one was a rug for Mr. Justice Thorson.

That, I presume, would be the rug which is listed at \$192, would it not?—A. I thought it was \$170.

Q. I see. Well, it is shown in the list as \$192.

Mr. SLAGHT: Would my friend, Mr. Green, permit me to address the Chairman for a moment? My friend is reading from what he describes as a transcript. I have not seen any and I cannot find any other members who have. Is a transcript being furnished to Mr. Green and not to the committee?

The CHAIRMAN: What are you reading from?

Mr. GREEN: A copy of the transcript.

The CHAIRMAN: Where did you get it?

Mr. GREEN: From the clerk; you can see it there if you want.

Mr. SLAGHT: I am just wondering if we are all to be on the same footing.

Mr. GREEN: If you take the trouble to go there you can see a copy.

Mr. SLAGHT: See a copy?

Mr. GREEN: Certainly.

Mr. McGEER: What about the rest of the members?

Mr. SLAGHT: Is there any understanding that Mr. Green has preferential treatment for transcript or are we all on the same basis?

The CHAIRMAN: I did not know that Mr. Green had a transcript.

Mr. McGEER: I think we have a copy.

The CHAIRMAN: I will just clear up Mr. Slaght's point. We have not yet got authority for the evidence to be printed every day and we only have two or three copies.

Mr. SLAGHT: Perhaps Mr. Green will loan us his copy when we are dealing with it.

Mr. McGEER: There is a copy.

Mr. Green:

I do not think we allotted more than half a dozen rugs altogether, but I think the last one was a rug for Mr. Justice Thorson

Mr. SLAGHT: What page are you on?

Mr. GREEN: E-6.

We salvaged the old rug and had it cleaned, and so on, but the price was very high, and I was on the lookout for economy in view of what I had heard about furniture in these other older departments.

Do you confirm that evidence this morning, Colonel Thompson?

Mr. McGEER: Confirm what evidence?

Mr. GREEN: The evidence that I have just read.

The WITNESS: Yes, that is approximately correct.

By Mr. Green:

Q. "Q. What do you mean by very high?—A. Well, to my way of thinking they were very expensive." Do you confirm that answer?—A. Yes. I may not have spoken very accurately there but what I meant was I agreed to this rug but rugs generally were very high. That is my full answer.

Q. The next question is—

Mr. McGEER: Let him answer. I do not think you were through with your statement, were you, Colonel Thompson? That is, what you tell us it was because of the change in the price of rugs that you made that statement?

The WITNESS: Yes.

Mr. McGEER: Had you completed your statement on that? I did not think you had.

By Mr. Green:

Q. Had you completed your answer to my question?—A. I said I authorized the purchase of this rug for Mr. Justice Thorson. I thought it was \$172, but there might have been some under-lay for it.

Q. Some which?—A. Under-lay.

By Mr. McGeer:

Q. Pad?—A. Pad.

By Mr. Green:

Q. That would account for the difference of \$22?—A. Possibly.

Q. The next question was—

Mr. McGEER: Just a minute; let the witness answer.

By Mr. Green:

Q. Are you through?—A. Rugs are very high in price at the present time.

Mr. McGEER: And it was not because—

Mr. GREEN: Mr. Chairman—

By Mr. McGeer:

Q. It was because rugs had gone up that you were objecting?—A. Yes.

Mr. McGEER: You are trying to shut the witness off.

Mr. GREEN: You are trying to shut me off.

Mr. McGEER: No, I want the members of this committee to get the evidence that the witness wants to give, not the evidence that you want him to give.

Mr. GREEN: I am simply reading what he said the other day. If you do not want to hear that I do not wonder that you are not anxious to hear it.

The CHAIRMAN: I am watching both of you very carefully. I am quite certain that if you will just leave it to the chair for a few minutes—

Hon. Mr. HANSON: This is a very interesting conversation between the Chairman and Mr. McGeer but we cannot hear a word of it.

By Mr. Green:

Q. Now, the next question is:—

Q. What did they cost? Give us some illustrations?—A. Oh, I think the one for Mr. Justice Thorson that we allotted was about \$170 in his room, and somebody had recommended or indented for one a couple of hundred dollars beyond that.

Do you confirm that answer Colonel Thompson?—A. That may be so. I am speaking now from recollection. I do not know whether an indent came in for that. If it did it will be with the Department of Public Works.

By Mr. McGeer:

Q. Was there any such rug bought?—A. No such rug bought.

By Mr. Green:

Q. "Q. One that was worth about \$400?—A. Yes, I should think so."—
A. It was not intended for—

Q. Then—

The CHAIRMAN: Let him answer.

The WITNESS: Might I say Mr. Justice Thorson did not indent for the rug himself. Somebody from his office indented for it. We allotted one for about \$170. I think the one indented by this official was around \$300 or \$400. That is my recollection, but the indent will show exactly.

By Mr. McGeer:

Q. But it was not purchased?—A. It was not purchased.

Mr. McGEER: You see, this \$400 Arabian Nights rug is gone out the window.

Mr. GREEN: Wait a minute.

The CHAIRMAN: Order, gentlemen.

Mr. McGEER: I am very sorry the \$400 rug has disappeared, Mr. Chairman, but it is well to get it off the record.

Mr. GREEN: The \$400 rug disappeared because Colonel Thompson refused to approve it.

Mr. McGEER: That is what he was there for. That is what he was appointed by the government to do.

The CHAIRMAN: Order, gentlemen.

By Mr. Green:

Q. Colonel Thompson, the list of rugs which you have before you to-day, and which was provided by the Department of Public Works, does not include any rugs purchased for the army, the navy and the air force and for the war-time prices and trade board, does it?—A. No.

Q. Does it include rugs for the naval building on Cartier Square?—A. No.

Q. Or for the air building on Lisgar street?—A. No.

Q. Does it include rugs for the women's hostel?—A. Yes—well, I do not know. I do not know whether they are there or not.

Q. Can you look and see whether it does include them?—A. The Public Works Department file will show precisely what I agreed to with regard to the hostel. I agreed to quite a number of rugs there.

Q. Do you know if they are included in this list?

Mr. DOUGLAS: This list is only up to December 18th.

Mr. ROSS (*Souris*): It is only up to last December.

By Mr. Green:

Q. Can you answer that question?—A. The Public Works file will show precisely the date on which we authorized the various items for the hostel.

The CHAIRMAN: I have sent out for that file.

By Mr. Green:

Q. You cannot say they are included in this statement?—A. No.

Q. And does it include any rugs purchased for points outside of Ottawa?—A. I think not.

Mr. GREEN: Yesterday, Mr. Chairman, we asked for the production of the file showing how many copies of Mr. Little's report were authorized by Colonel Thompson and how many were printed. Is that available yet?

The CHAIRMAN: No, I expected to have that this morning but they phoned me about half-past ten last night saying that they could not complete it.

Hon. Mr. HANSON: May I point out that this list only goes down to August 4, 1942.

Mr. GREEN: No.

Mr. ROSS (*Souris*): December 18, 1942.

Mr. GREEN: Mr. Chairman, I understand that these various documents will not be produced by the departments, or should not be produced by the departments, unless there is a motion of the committee. I would move that these files be produced.

Mr. McGEER: Mr. Chairman, I do not know that we have any power to go into anything beyond Colonel Thompson.

Mr. GREEN: The clerk tells me he cannot ask these other departments for these letters unless there is a formal motion of the committee.

Mr. McGEER: I think that such a motion as that would have to be very carefully understood. We are examining Colonel Thompson now in connection with his administration of his office during the time he was there, and to go into something that is beyond the scope of his administration is not proper.

Mr. COTE: That would be hearsay evidence.

Mr. McGEER: It would be extending the scope of this inquiry.

Mr. GREEN: I am only asking that he be allowed to see the letters which concern himself, and the requisition, and so on. He said yesterday he would like to check them.

Mr. McGEER: I think he can get that without a motion of the committee.

Mr. GREEN: No, he cannot. He is no longer a civil servant.

Mr. McGEER: He will get the co-operation of the Chairman.

The CHAIRMAN: To keep the record straight, the production of papers for the committee requires a formal motion.

Mr. GREEN: I would so move.

Mr. McGEER: What papers are you moving for?

The CHAIRMAN: He is moving for the production of the letters that passed between Colonel Thompson and General LaFleche in connection with the publication of the Elliott Little pamphlet. Is that correct?

Mr. GREEN: No, I think perhaps it is Colonel Thompson's requisition, and the correspondence between the Printing Bureau and Colonel Thompson. I do not know that there is any with General LaFleche.

Mr. McGEER: Dealing with what?

Mr. GREEN: Dealing with the publication of Elliott Little's report.

The WITNESS: It is a requisition which went to the Printing Bureau.

The CHAIRMAN: As Colonel Thompson explains, that requisition went direct to the Printing Bureau. That probably accounts for the delay in getting the documents you asked for yesterday.

Mr. GREEN: Could we include in that motion letters having to do with the embossing of letter paper?

The CHAIRMAN: Mr. Green, Colonel Thompson informs me that no correspondence passed in connection with that.

By Mr. Green:

Q. With regard to this question of letter paper, Colonel Thompson, what is the difference in the cost?

The CHAIRMAN: May I interrupt the hon. member just to put this motion? Is it the pleasure of the committee that the motion carry?

Mr. COTE: Please read it as it stands now.

Mr. TRIPP: With members of the committee on their feet we cannot hear back here just what is going on.

The CHAIRMAN: Mr. Green has moved for the production of the correspondence in connection with the publication of the Elliott Little pamphlet. Is that correct, Mr. Green? Your motion is that the correspondence be produced?

Mr. GREEN: And other papers.

The CHAIRMAN: And other papers in connection with the publication of the Elliott Little pamphlet.

Mr. GREEN: That is right.

Mr. McGREER: Agreed.

Some Hon. MEMBERS: Agreed.

Mr. DOUGLAS: That includes the requisition form that went to the King's Printer?

Mr. COTE: And other papers.

Mr. GREEN: "Other papers" will cover that.

Motion agreed to.

By Mr. Green:

Q. What is the approximate difference in the cost of a sheet of letter paper embossed and a sheet printed?—A. I cannot tell you that precisely; but I can tell you that the difference between the cost of vellum, which is a very expensive paper, embossed, and the ordinary sulphide which is generally used now, is about 70 to 80 per cent.

Q. Your suggestion was that that change be made from the vellum embossed to ordinary sulphide paper?—A. That was taken up by Mr. Justice Davis.

Q. By whom?—A. Mr. Justice Davis. He called a meeting of all the representatives as they are called. There were forty or forty-two. Mr. Stápleton, from the National Railways, who was on loan without salary, made an address to the forty-two and discussed this question of paper and showed how savings could be made. The representatives all agreed that unembossed paper was satisfactory, and that cabinet ministers might be requested—

Q. We cannot hear you, Colonel Thompson. Could you speak a little louder.—A. They agreed that cabinet ministers be requested to indicate what they require. We would give them vellum paper and embossed if they wished it. I understand that Mr. Heeny, Clerk of the Privy Council, wrote to the cabinet ministers and asked what their wishes were. At any rate, to the Privy Council we are supplying vellum and to the Governor General and to cabinet ministers, although not all, because some notified us that they wanted ordinary paper; and instead of being embossed, they just wanted the department printed on it. Mr. Fournier was one who wrote in and said that all he wanted was ordinary paper, printed.

Q. Are you in a position to say which ministers said that they wanted ordinary printed paper and which said they did not, but that they wanted vellum?—A. No. You will have to get that from the Printing Bureau.

By Mr. McGeer:

Q. Generally speaking, the recommendation of Mr. Davis and the others was carried out and the economy effected?—A. Yes.

Q. By the Deputy, Mr. Davis? A. Yes.

Q. That is the situation?—A. In consequence of this address.

Mr. McGEER: The government is entitled to a little credit.

The CHAIRMAN: In order to keep the record straight—

Mr. GREEN: I was going to read these.

The CHAIRMAN: I was going to take you back a little bit. Colonel Thompson can now answer that question in connection with rugs for the women's hostel. I have information now, if you want to put it on the record.

Mr. GREEN: Yes. Can you tell us now about the rugs for the women's hostel?

Mr. McGEER: The battle of the embossed paper ought to be one of great importance.

The CHAIRMAN: Will you repeat your question, Mr. Green?

By Mr. Green:

Q. Colonel Thompson, are you in a position to answer with regard to the rugs for the women's hostel?—A. I have the list here which we authorized for the hostel.

Q. Yes.—A. The hostel, instead of being carpeted with carpets, was furnished with rugs; that is, the living quarters.

Q. And was that list included in the list furnished by the Department of Public Works?

The CHAIRMAN: I have not checked it.

The WITNESS: I do not know.

Mr. DOUGLAS: If there are not too many, would the witness read them into the record. Are there many?

The CHAIRMAN: May I read them?

Mr. McGEER: Would you mind letting me have a look at that list? I have not seen it.

Mr. GREEN: I have not seen it either.

Mr. DOUGLAS: Nobody has seen it. Read it into the record.

The CHAIRMAN: Nobody has seen. I just now got it in my hands. If it is the pleasure of the committee, I will read it and everybody will be familiar with it.

Mr. GREEN: Put it in the record. It is very hard for us to hear you.

The CHAIRMAN: I will try to oblige in that connection.

These rugs were purchased on January 19, 1943:

4 Rugs, 9' x 19'6" }	\$372.00	4 Rugs, 9' x 19'6" }	} \$190.00
1 Rug, 9' x 12'6" }		1 Rug, 9' x 12'6" }	
1 Rug, 9' x 15' }	\$108.00	1 Rug, 9' x 15' }	
8 Rugs, 9' x 12' }	\$668.00	8 Rugs, 9' x 12' }	
12 Rugs, 6'9" x 9' }	\$ 74.00	12 Rugs, 6'9" x 9' }	
1 Rug, 9' x 13' }		1 Rug, 9' x 13' }	

(Filed as Exhibit No. 9)

There is a total of fifty-two rugs. I was trying to divide it here a minute ago. That would be an average cost of \$24.16, I think.

Hon. Mr. HANSON: What is the total expenditure for the hostel?

Mr. HOMUTH: What is the total value of the rugs?

The CHAIRMAN: Just a minute. If my addition is correct, the total value is \$930.

By Mr. Green:

Q. Colonel Thompson, did the hostel committee recommend that the hostel be furnished with carpets instead of with rugs?—A. No.

Q. Where did that suggestion come?—A. These rugs?

Q. No; the suggestion that there should be carpets instead of rugs.—A. There was no suggestion there should be carpets.

Q. There was no suggestion?—A. No.

By Mr. McGeer:

Q. Was there any objection to that item? I mean, how many girls were in that hostel? Do you know how many were accommodated?—A. They are not there yet. There will be 300, I think.

Q. Would you, as Economy Officer, make any objection to furnishing that place on that basis?—A. For those rugs?

Q. These rugs for the girls.—A. I approved that for the girls.

Q. I wonder if my friends were objecting to that.

Mr. GREEN: I was not objecting to it.

Mr. McGEER: I would hardly think so.

Mr. ROSS (*Souris*): He is asking for information.

Mr. McGEER: Why bother the committee with it, if it is not a matter of objection?

The CHAIRMAN: Order. Mr. Green has the floor.

By Mr. Green:

Q. There are two letters produced to-day, Mr. Chairman, or copies of two letters. One is from the Associated Deputy Minister of National War Services, Mr. Justice Davis, to Mr. Heeney, Clerk of the Privy Council, and the other purports to be a copy of a letter addressed to each of the ministers by the Clerk of the Privy Council. The first one is dated September 26, 1942. These letters have to do with the use of stationery.—A. That is what I was referring to with regard to the quality of the paper desired by the ministers.

Q. This is headed: "Re: Division of Government Office Economies Control" and reads:—

The Advisory Committee provided for in the Order in Council setting up this new Division, P.C. No. 4428, dated August 18th, 1942, has now been set up.

The Committee is one of five, and is as follows:

Watson Sellar, Auditor General (Chairman),
T. P. Murphy, Post Office Department,
P. L. Young, National Revenue Department,
Paul Fontaine, Justice Department,
B. J. Roberts, Harbour Board.

The Committee has had its first meeting.

The Committee acts in a dual capacity, first as a Court of Appeals from decisions of the Director, and secondly as an adviser to the Director in respect to those matters he may seek their advice about.

The Director indicated to the Committee that a very great saving could be effected throughout the Government Service if stationery, letterheads, second sheets, etc. were reduced from the present size, 8" x 10", to 8" x 9½". This enables letterhead to be cut out of stock without any loss whatsoever, and will effect a very great saving throughout the Service throughout a year.

Different Departments now may have different size letterhead, and we propose to standardize it at this size.

We also propose to change the type of paper from the present type to a No. 7, Sulphide paper, twenty pounds. This is a technical term which I do not understand personally but I have seen the proposed paper to be used, and it is good enough for anybody.

It has also been decided that no names shall appear on letterheads, but only the name of the Department, and if the Department also wants the name of a division to appear thereon, it shall be done, if the Department so decides.

We furthermore recommend that no letterhead be embossed hereafter, except for Ministers.

The Committee considered these recommendations and approved of them, and it was suggested that I might write to you and tell you what was going to happen in order that you might intimate the same to the members of the Government at an early meeting of the cabinet.

It may be that the Ministers would desire to cut out embossed letterhead in their own offices and also use the lower grade paper which we now propose to use throughout the Service in place of the fine grade paper presently used in the Ministers' offices.

We are also cutting out all long foolscap stationery, and leaving this type of stationery to be used only in Ministers' offices.

Will you please sound out the Ministers and let me know what their opinion is in order that instructions may go forward.

In the meantime we are proceeding right along to carry out our plans in connection with letterhead for other Departments of Government, except the Ministers' Offices.

Yours truly,

T. C. DAVIS,
Associate Deputy Minister.

Mr. McGEER: What is the date of that again, please, Mr. Green?

Mr. GREEN: September 26, 1942. The other is a copy of a letter sent out by the Clerk of the Privy Council to the ministers dated October 2, 1942. It reads:

P. C. 4428, August 18, 1942, established a Division of Government Office Economies Control in the Department of National War Services. The Director of this Division in consultation with the Interdepartmental Advisory Committee has made the following decisions in regards to government stationery:

- (1) A standard size of 8" x 9½" is to be adopted for all departments and offices.

By Mr. Green:

Q. Was that done, by the way?—A. Was that done by what?

Q. Was that change made in the size of the letterhead?—A. As I say, there is quite a bit of old stock on hand. But that is exhausted or has been exhausted, and as it has been exhausted the new size will be used.

Q. The new letterhead will be the reduced size?—A. Yes. I might say that that letter was written after Mr. Justice Davis called that meeting of all these representatives and heard a dissertation or lecture by Mr. Stapleton, with illustrations and so on with regard to letter size and the cost of paper, etc. Following that, this letter was written.

Q. Mr. Justice Davis held a meeting of representatives of all departments?—A. Yes; and asked their advice and got their vote at the time and so on—their expression of opinion.

Q. Then he wrote the letter?—A. That is right.

Q. To the Clerk of the Privy Council?—A. That is right. I think there were about forty of them there.

By Mr. McGeer:

Q. And all agreed?—A. What is that?

Q. They all agreed?—A. Yes.

By Mr. Green:

Q. Continuing with the letter, it reads:—

- (2) The type of paper is to be changed to No. 7, Sulphide, 20 pound weight. This type of paper is to be used in all communications by all departments and offices of the government, except for interdepartmental and intradepartmental correspondence, when Manila Special of the same size is to be used.
- (3) No letterhead is to be embossed hereafter.
- (4) Long foolscap stationery is to be cut out entirely, for either correspondence or memorandum purposes.
- (5) Kraft envelopes will be used henceforth.

These decisions do not apply to stationery used in the offices of Cabinet ministers. At the request of the Director, however, the matter was referred to Council on October 1st to ascertain whether the ministers desired to adopt any of the above changes. Council decided that each minister should be notified of these suggestions and requested to inform the Division of Government Office Economies Control of his decision regarding them.

(Filed as Exhibit No. 10)

Did you get a letter from each one of the ministers in accordance with this suggestion, informing you of his position with regard to the use of these embossed

letters?—A. I think so; anyway, I would have to look that up. That was something which I would merely glance at and pass on to Mr. Stapleton or Mr. McCartney. Mr. McCartney was on loan from the Printing Bureau and would advise me in regard to paper and printing; something I had very little knowledge of myself—as to what class of paper would be desirable for a cabinet minister.

Mr. McGEER: I think we should file the statement the Chairman read.

Hon. Mr. HANSON: Let's look at it.

Mr. McGEER: I want to file it as an exhibit; after all, it reduces the cost per head of this hospital to \$3.

Mr. HOMUTH: You don't have to make these political speeches now, you can make them afterwards.

The CHAIRMAN: Order, gentlemen. If this statement is to be used, I just want to correct my figure as to the average cost; the clerk tells me that it should be \$17.25, instead of \$24.

Mr. McGEER: But the cost per head is down to less than \$3.

Mr. DOUGLAS: But you don't use a rug on your head.

Mr. McGEER: I know you don't.

By Mr. Green:

Q. I want to ask you a question about the purchase of books and magazines and various publications?—A. Yes.

Q. By the different departments or boards of the government; apparently in the order in council which was passed on the 17th of November, 1942, and which changed your powers to some extent there was a new paragraph inserted which reads as follows:—

that section 9 be further amended by adding thereto the following, as section 13:—

(13) survey the purchase or requisition by any department of government of books, publications, periodicals, magazines or newspapers.

Did you get out such a survey?—A. I wrote to the Minister and said that I considered it was meaningless.

Q. Why?—A. As to what the survey meant; it gave me no power of objection or cancelling any proposed purchases; the only thing I could think of doing was to make a note of every requisition and the cost of the supposed publications. I then sent these requisitions to the Printing Bureau with the observation—

Q. You were not satisfied with the power given you by this amendment?—A. I was not satisfied or dissatisfied; I simply said that I thought it was meaningless and the only thing I could do or think of doing was to make a note of the costs as these things came to me. I had no power to question them. I was not dissatisfied. It was immaterial to me as long as—

Q. How did this matter first come to your notice?—A. When I saw the order in council.

Q. Was there some discussion about the cost of these various magazines, books and so on?—A. Not that I know of.

Q. Before the order in council was passed?—A. No. But before that was passed, as a matter of fact, I rejected quite a number of these purchases of books and magazines.

Q. Yes?—A. Quite a number of them. Then the order in council was passed and I was given power to make a survey. That is all I know about it.

Q. Before the passing of the order in council you did actually reject some of these subscriptions?—A. Quite a large number.

Q. How much is involved in the way of subscriptions and publications to newspapers, magazines and so on by the government each year?—A. Oh, I do not know; it runs into a large amount of money.

Q. You say it runs into a large amount of money; have you any idea how much?—A. I know in one department last year—that is the year before we took over—for newspapers and so on it ran into nearly \$10,000.

Q. Which department was that?—A. Agriculture.

Q. Agriculture?—A. Yes, I happen to know that, but I do not remember the others.

Q. As I understand it there have been nearly \$100,000 involved in this?—A. I should think so, yes; because now it extends to all the boards.

Q. They all have their own subscriptions to magazines, newspapers, publications and so on?—A. Oh yes; and they all come through the Economies Branch under this survey; I understand.

Q. Was there any distinction made between magazines and other publications?—A. It included all sorts; newspapers, and everything.

Q. What did you say, Colonel?—A. It included newspapers and everything.

Mr. WOOD: What percentage would be fiction and what percentage would be technical?

The WITNESS: Most of it was fictional.

Mr. GREEN: Can you say what the proportions would be, Col. Thompson? Or, could you give us any idea of what type of publications they were?

The WITNESS: Everything.

Mr. GREEN: Everything?

The WITNESS: Now, I mean specifically—these magazines such as Reader's Digest and that type; then the photographic and printing magazines.

Mr. GREEN: Were there any others, Colonel?

By Mr. McGeer:

Q. They would possibly be publications containing advertising material issued by the department, would they not?—A. I know of one sporting magazine taken by an art gallery—an inexpensive one—but, I mean, that had nothing to do with advertising I think.

Q. Tourist trade and sporting publications would carry advertising for the public in them. I can quite understand that, and I may say, Mr. Chairman, that is a thing which I heartily endorsed. It was inaugurated by the present administration through an appropriation of I think \$200,000 a year, most of it being spent on advertising in the journals and publications generally which were supposed to carry the tourist attractions of Canada to the travelling public of the United States.—A. There was just that one department that I happened to remember, in fact.

Q. In any event wherever there was practical economy to be carried out recommendations were made, I suppose?—A. That is right.

By Mr. Green:

Q. Did you reject these subscriptions say for Reader's Digest?—A. Well now, when I say the Reader's Digest; I know it was some small one, some small magazine of that nature, do you see. I rejected quite a number.

Q. You rejected quite a number of them?—A. Yes. Then, the order in council passed and these things were resubmitted, of course.

Q. I see; under the original order in council of August 18 you had the power to reject these subscriptions?—A. Yes.

Q. And you did reject quite a few of them?—A. Yes.

Q. Then an amendment was made on November 17, under which you only had the power to survey; and then, after that amendment was made you simply surveyed the magazines, you did not reject?

Mr. McGEER: I object to his (Mr. Green's) putting a statement into the mouth of the witness.

Mr. GREEN: That is what I understood him to say.

Mr. McGEER: There is a way to examine a witness without telling him what he did; you can ask him what he did in regard to it, you cannot tell him.

Mr. GREEN: Could I have the answer completed?

The CHAIRMAN: Would you mind repeating your question?

Mr. McGEER: Mr. Green knows the rules.

By Mr. Green:

Q. Under the original order in council which was passed in August of last year you had the power to reject these subscriptions?—A. Yes.

Q. And you did reject quite a few—A. Yes.

Q. Then in November an amendment was passed under which your power to reject was taken away and you were only allowed to survey?—A. Yes.

Mr. McGEER: And recommend—

Mr. GREEN: I know you don't like this. Just let me finish my question.

Hon. Mr. HANSON: Order.

By Mr. Green:

Q. From that time you simply noted the requisitions that came in and did not attempt to reject them at all?—A. I had no power to reject them.

By Mr. McGeer:

Q. Did you have any power to recommend to the committee in charge?—A. You mean the committee set up at that time?

Q. Yes.—A. No, not that time.

Q. When was this committee set up?—A. That was—oh, there were various committees.

Q. And did you make your survey and report on it to your minister?—A. I did not make any report. It has only been going about three or four months; but I have the records of what was submitted.

Q. Were any recommendations for cancellations of subscriptions made by you and were not carried out?—A. I did not make any recommendations for cancellations.

Hon. Mr. HANSON: You had no authority.

Mr. McGEER: You had prior to that order in council?

The WITNESS: Yes, but not afterwards.

Mr. McGEER: Not afterwards?

The WITNESS: No.

Mr. McGEER: What type of magazines came before you then? What did you have it in mind to do?

The WITNESS: Afterwards—practically all those that I had rejected before.

Hon. Mr. HANSON: You should not be asked that; what is in a man's mind is not evidence.

By Mr. Green:

Q. Under this order in council of the 17th of November there was also a provision, number 12, for a survey. You were given powers "to make a survey of all practices employed by and the costs incurred in government office communications by telephone and telegram, both incoming and outgoing, and direct

any changes necessary to effect an expense reduction and establish an expense control over the use of these services". Were you able to get started on that economy program?—A. Just got started, we were making a sort of survey and we went over the telegrams and the accounts for telegrams.

Mr. GREEN: Mr. Chairman, I cannot hear. There is a lot of talking.

The CHAIRMAN: Order, please.

The WITNESS: We went over the accounts on telegrams and long distance calls from a number of departments for a certain month so that all would be approximately the same month. They were taken in hand by Mr. Stapleton. He made a note of the amounts in each case. Beyond that we had no opportunity to progress because we had not the staff; and I did not know nor did we know where we could get the proper man—we wanted a man who knew something about setting up a system.

By Mr. Green:

Q. Did you get these reports that you sent for from the departments?—

A. Yes, they were handed in.

Q. They were produced?—A. Yes.

Q. Your difficulty there was that you were not able to get personnel?—

A. Yes.

Q. Is there much saving possible on these items of telephone charges and telegram charges?—A. I should think it would be quite a lot.

Q. Have you any idea as to how much could be saved in these two charges, these two types of expense?—A. No.

Q. It would have run into several thousands of dollars a year?—A. I should think so.

Q. You should think so?—A. The Munitions and Supply bill for a particular month was \$50,000.

Q. For one month?—A. Yes.

Q. Is that for telephone or telegraph?—A. Telephones and telegrams; the largest items were long distance telephone calls.

Q. I beg your pardon?—A. The largest items were long distance telephone calls.

Q. The bulk of that charge of \$50,000 was long distance telephone calls; and, did only you have a check for that one month?—A. In each case, yes.

Q. Did you ask for any help to carry out this checking?—A. No. Mr. Stapleton tried to find help. I wanted somebody to line it up who knew something about the telephone and telegraph business and who could set up a system for us, some central system by which those making calls and so on could be passed through—exactly as they do in the railways as I understand it.

Q. Have the Canadian National Railways, for example, some checking system whereby all long distance telephone calls and all telegrams are checked before the expense is incurred?—A. I think so.

Q. I see.—A. They have in regard to telephone calls I am sure. Mr. Stapleton could tell you actually about that. I mean, I am not sure that is so.

Hon. Mr. HANSON: But they (the Canadian National Railways) use their own service in regard to telegrams and do not have to pay for it.

The WITNESS: Yes.

By Mr. Green:

Q. You were hoping to establish some check of that sort?—A. Yes. For instance, I think in connection with the air force—I am not sure—an officer would put in a call and the time he put in the call would be noted, the time that he ended would be noted, and the person to whom he was talking would be noted. It gave all the information.

Q. Was that the sort of check you wanted initiated?—A. Yes. We found that from the examination of a lot of their sheets. We got very surprising results. For instance, in a small place in the west there was quite a large number of telephone calls, long distance, in the surrounding country, but perfectly justifiable.

Q. The purpose of which?—A. It was perfectly justifiable because the person telephoning from the station was endeavouring to locate a lost airplane. It looked like extravagance at first sight, but it wasn't.

By Hon. Mr. Hanson:

Q. Was there any system such as a complete commercial company has?—
A. No.

Q. There was no system. That is the point.—A. Nothing was uniform.

Q. Pardon?—A. There was no uniform system any place.

By Mr. Green:

Q. Do you think it would be possible to set up some efficient system.—
A. I think so.

Q. By the way, this \$50,000 incurred by the Department of Munitions and Supply in one month, was that for Ottawa alone or did that include the branches of that department outside Ottawa?—A. I think it included just Ottawa alone.

Q. Only Ottawa alone?—A. Yes. As to whether they had the charges reversed when somebody telephoned to them I do not know.

Hon. Mr. HANSON: Not likely.

By Mr. Green:

Q. Did you have any experience personally of having a long distance phone call from one of the young men in the services on the Pacific coast during the Christmas holidays?—A. I heard about it. I do not know anything about it.

Q. What was that story? Will you tell us, please?

Mr. GOLDING: What good is hearsay?

Mr. GREEN: Mr. Chairman, I would point out to the member that nobody is questioning—

Mr. GOLDING: What evidence is hearsay?

Mr. GREEN: I think there can be a tremendous saving made here for the country. It is not a question of blaming people or blaming the government. There is a chance here to do something.

Mr. COTÉ: We want to have only the true facts.

Mr. DECHÊNE: More headlines for the papers.

By Mr. Green:

Q. Will you tell us about that?—A. This is from hearsay. I did not hear the telephone message and I did not see the bill so I cannot tell you personally.

Q. Can I put it in this way— —A. I have heard so many rumours about so many things I pay no attention to them.

Q. Did you have a check made with the Bell Telephone Company regarding the cost of a long distance call from one of the men in the forces in British Columbia in which he phoned on to ask how the skiing was in the Gatineau?—
A. No, I did not.

Q. Did you have inquiries made with regard to a phone call of that type?—
A. No.

Mr. McGEER: Where did you get that information?

By Mr. Green:

Q. Was there any system of preventing a call like that being placed?—
A. I do not think so.

Q. Pardon?—A. I do not think so, unless a department or board instituted its own system.

Q. Unless a department or board which?—A. Unless a department or board instituted such a system on its own account.

Q. You know of no system in the government service to prevent a call of that type being placed and charged to the government?—A. No.

By Hon. Mr. Hanson:

Q. Did you try to set up a system such as the big commercial companies have?—A. I never got as far as that.

Q. You did not get as far as that?—A. No.

Hon. Mr. HANSON: Of course, that is very important because may I say that all commercial companies have to watch that very closely with employees. It seems to me that one of the finest things this committee could do to-day would be to make a recommendation that with respect to long distance telephone calls there should be a system set up whereby a man can only use the long distance telephone on urgent matters. We have to watch that in a big company. I know it is a grievance all the time.

Mr. McGEER: I quite agree with the member for York-Sunbury on that. I do not think we should be facetious about it. I mean to say an officer phoning about some skiing proposition is hardly the way to develop that because if we go into it that way I might ask the question, did he check on whether there were any phone calls from the Winnipeg Convention?

Hon. Mr. HANSON: The government would not pay for them.

Mr. McGEER: Might I, with the consent of Mr. Green and while I am on my feet, file as an exhibit a statement with reference to the women's hostel rugs?

Hon. Mr. HANSON: Mr. McGeer and I conferred on that a moment ago. This, of course, is not an original document. It does not prove itself.

Mr. McGEER: I agree with that.

Hon. Mr. HANSON: We ought to have somebody to sort of identify the document. May I say that we have agreed on this fact, that there were twenty-seven rugs or mats only.

Mr. McGEER: Rugs and mats.

Hon. Mr. HANSON: Rugs and mats, and twenty-seven pads underneath these rugs and mats at a total cost of \$932 as appears by that unidentified document. These were not expensive rugs at all.

Mr. McGEER: The rugs cost \$742 and the mats underneath them \$190.

Hon. Mr. HANSON: Somebody ought to give evidence as to that.

Mr. McGEER: What I wanted to do—and I think you will agree with me—this document having been referred to, not as proof of these facts, but having been referred to and dealt with by the committee we should identify it now for further proof.

Hon. Mr. HANSON: Oh yes.

Mr. McGEER: Of course, the important fact is it shows the economy. The rugs per girl in the hostel run to \$3.10.

Mr. HOMUTH: Wait; don't get something on the record that is wrong. In the first place, Mr. Chairman, I think we ought to clear up this question, and I think it is in order to make the thing quite plain. Originally you will find it in evidence that we said there were fifty-four rugs. There were not fifty-four rugs. There were twenty-seven rugs and mats and the twenty-seven rugs and mats cost \$742. Then there were twenty-seven pads that went under these rugs at a cost of \$190.

Mr. McGEER: \$932 all told, and my understanding is that \$932 divided by 300 girls, which was the number which the hostel was arranged for, is \$3.10 per girl.

Mr. HOMUTH: Mr. McGeer was talking about being facetious.

Mr. GREEN: How much of a rug did each girl have?

Mr. McGEER: I merely divided the number to be housed into the total cost of the rugs and I found it came to \$3.10 per head.

Mr. JOHNSTON: Would that include the hired help?

Mr. McGEER: It would reduce it down again.

Mr. DOUGLAS: Has Mr. McGeer checked the girls? Does he know how many there are?

Mr. McGEER: I do not understand the hon. gentleman's question. He mentioned a minute ago that we did not put carpets on our heads but if some of us were to give the matter consideration we would find our brains were in our feet and not in our heads.

The CHAIRMAN: Order, gentlemen.

Hon. Mr. HANSON: All you can do is to mark it for identification.

Mr. McGEER: That is all I request.

Mr. GREEN: You mark it personally, Mr. Chairman.

The CHAIRMAN: I might tell the committee that I took out that from under the original so I can verify this.

Mr. McGEER: File the original.

The CHAIRMAN: I will have the original filed.

Mr. McGEER: The original will be attached to that copy.

By Mr. Green:

Q. Colonel Thompson, I am going to another subject now. Under paragraph 8 (b) of the original order in council you were given the power of controlling and directing the purchase, requisition, storage and use of stationery and office supplies, furniture and equipment or office machines by all departments of the government of Canada—and this is the part I want to bring to your attention—and the re-conditioning, salvage and disposal thereof. Then it goes on to exclude the King's Printer and the Department of Public Works, but did you do anything in the line of the re-conditioning, salvage and disposal of stationery and office supplies, furniture and equipment under that particular section?—A. We salvaged quite a large number of sheets of paper which were obsolete in various ways. They were printed on one side and the other side would make good pads for scribbling. They were obsolete because the names of the commissioners or deputies, or whoever they were, were printed on the sheets of paper and the official in question had died or moved away and therefore they were obsolete, and we had them padded.

Q. You had which?—A. We had those cut up, these letterheads or whatever they were, cut up and made into scribbling pads.

Q. Was there very much saving involved in changes of that type?—A. In changes of that type?

Q. In the use of old equipment in that way?—A. Well, it saved having new pads made.

Q. And did you carry on with that type of saving throughout the whole period that you were in office?—A. Wherever we were notified that there was any salvage of that nature.

Q. I ask you that because when the amendment to your order in council was brought in in November of 1942 that paragraph 8(b) was repealed and in its place we find that you were given power for the examination, power, consideration and approval of any requisition for stationary, office supplies, furniture,

equipment or office machines by all departments of the government of Canada. In other words, this reconditioning and salvage work is cut out. Was that done designedly or was the new section intended to cover the power?—A. I have no idea.

Q. You have no idea about that?—A. No.

Q. By the way, when you were first given the office was there a draft order in council to which you agreed but which has not yet been produced here?—A. I would not call it a draft order in council. It was a mere outline, the sketchy details of the proposed order in council.

By Hon. Mr. Hanson:

Q. And that was satisfactory to you?—A. Yes.

Q. When Mr. Thorson submitted the real order in council it had been pared down, had it not?—A. Yes.

Q. In what respect?—A. Well, it is difficult for me to speak from recollection now.

Mr. McGEER: The orders in council will speak for themselves.

The WITNESS: I am talking about the draft—not the draft; but the sketchy outline of the thing.

By Hon. Mr. Hanson:

Q. Did it give you full power?—A. The only matter I was concerned about was that nobody could stop me saying yes or no.

Q. What happened in the order in council?—A. And secondly that nobody could stop me appealing to the Minister of Finance if the advisory committee was against me.

Q. What happened in the order in council itself in that regard?—A. Well, that was satisfactory.

Q. Were your powers impaired?

By Mr. Green:

Q. By the order in council as it was finally passed.—A. That was satisfactory to me as finally passed.

Q. Can you produce the draft order in council?—A. No, I never saw it.

Q. Was that saved? Is it on record anywhere?—A. This was a sketch of the proposed order in council which apparently had been sent around to the various departments and initials were on it. That was all. That was what was shown to me.

Q. The order in council as finally passed was pared-down to a degree as compared with the sketchy notes, was it?—A. Well, it is very difficult for me to express it in a clear manner. There were a lot of provisions which, of course, were not in the sketch which was merely an outline.

Q. Do you remember what provisions were not in it which were in the sketch?—A. No.

Q. You do not remember that?—A. No. I was not interested in any of those details at all except that there was nobody over me—and I was assured of that by Mr. Thorson—to hamper me, and that nobody could stop me from appealing to the Minister of Finance if the advisory committee was against me. Those were the only two items I was interested in.

By Mr. McGeer:

Q. As far as the minister was concerned, you were given wide-open jurisdiction and authority?—A. Yes.

Q. And that continued under General LaFleche?—A. That continued, except where they amended it. I cannot state positively, but I think inadvertently they took away the power of objection.

Q. That was by order in council?—A. Yes.

Q. As far as General LaFleche is concerned, the same attitude prevailed as with the former minister?—A. Yes.

Q. Wide-open authority?—A. Yes.

By Mr. Green:

Q. This order in council of November 17 was the one which contained the provision that you could only examine, consider and approve?—A. Yes.

Q. And could not reject?—A. Yes.

Q. And it was because of that restriction that you handed in your resignation in November?—A. Yes.

Q. Apparently the power to reject was given you by the further order in council some two months later, on the 14th of January.—A. Yes.

Q. That is correct?—A. Yes.

Mr. DOUGLAS: Before you leave that, could I ask the witness one question there, Mr. Green?

Mr. GREEN: Yes.

By Mr. Douglas:

Q. With respect to the power to go to the Minister of Finance even when the advisory committee was against you, may I ask if that was retained in the Order in Council that was finally passed?—A. Yes.

Q. You had that power?—A. Yes.

Q. Throughout the time you were in office?—A. Yes.

By Mr. Green:

Q. Any department complaining could also go to the advisory committee, could they not?—A. Oh, yes. There was no cause for me to go to the advisory committee at all.

Q. But any department could?—A. Because the complaints would be on the part of the departments or boards.

Q. Did any department or any board go to the advisory committee?—A. Yes.

Q. Which department?—A. Statistics.

Q. I beg your pardon. I cannot hear you.—A. Statistics.

Q. Did any other department or board go to the advisory committee?—A. No.

Q. What did the statistical department or the Bureau of Statistics go to the committee for?—A. Because I had objected to the printing of a lot of their stuff.

Q. You had which?—A. I had objected to the printing during the war of a lot of their books on statistics which I thought was not necessary. They had all the statistics collected there, and I did not interfere with—

Mr. DECHENE: Mr. Chairman, we cannot hear.

Mr. GREEN: There is a lot of talking going on.

The CHAIRMAN: Order, gentlemen, please.

By Mr. Green:

Q. Just go on with that, please, Colonel Thompson.—A. There was a large number of books with various statistical information. I objected to these being printed during the war, because the statistical branch was collecting this by sending out questionnaires; as they would have all the information in their files, all this could be printed after the war. It would not be breaking the continuity of their statistics. I think the amount I disallowed might be \$50,000. It is over \$40,000. I think it was nearly \$50,000.

Q. How much?—About \$50,000, roughly.

Q. That is the amount involved?—A. Yes.

Q. Yes?—A. There were three appeals.

Q. By the bureau?—A. By the bureau, allowed by the advisory committee; that is out of the whole lot.

Q. The advisory committee allowed the appeals of the Bureau of Statistics?—A. And I appealed to the Minister of Finance.

Q. And then what happened?—A. I appealed to the Minister of Finance. They were small publications, and two of them he allowed the printing of. The third he allowed, but with a check attached. That is what was called the "Handbook of Canada" or "Canada Handbook". He allowed it, but instead of allowing an unlimited number to be distributed all over the country to school children and so on, he allowed one to each member of parliament and one for the trade office; all the others have been sold.

Q. So that?—A. So that there was a profit made on those.

Q. I see; the protests from the Bureau of Statistics were allowed with the exception that in this one case the number of publications was reduced?—A. Yes. There were three appeals altogether from all sources; and they were from statistics.

By Mr. Gladstone:

Q. They are available for 25 cents each?—A. I think so.

By Mr. Green:

Q. Just let us finish this answer, he had not completed his answer about the three appeals.

The WITNESS: There were three appeals and they came from the Bureau of Statistics. The matters in respect to which they appealed were not extensive publications. The third one was the Canada Handbook; I think there is a profit made on that.

By Mr. Isnor:

Q. What is the cost of Canada Handbook?—A. I could not tell you. Mr. McCartney from the Printing Bureau stated that there would be a bit of profit on what was charged—approximately 25,000 copies printed, and with the exception of perhaps 300 or so they were all sold. The year before that 40,000 copies were printed and distributed free all over Canada.

By Mr. McGeer:

Q. Mr. Chairman, I just interject here because I have a House of Commons return which I would like to put before the witness if you have the statement he has just made. I have here also a statement which appeared in the press in which it says:—

Mr. Ilesley has heard a number of appeals, one recently involving publications of the Canada Handbook. Previously 40,000 copies of this booklet had been printed annually and distributed free of charge. This year, Thompson ruled out publication of the booklet and on appeal, Mr. Ilesley decided it could be printed with free distribution limited to members of parliament—

A. That is right.

Q. That, I understand, is the statement you are making here today?—

A. That is what I am referring to now.

Q. Let me give you the answer which was filed in the House, in reply to this statement.

Hon. Mr. HANSON: Is there any difference between the Canada Year Book and the Handbook?

Mr. McGEER: This is the Handbook. This is the question.

Questions:

1. How many copies of the "Canada Handbook" have been printed by years, for the past five years?

That is the one you are referring to?—A. It is a small book.

Q. And it goes on to say:—

2. By years, how many were given away and how many sold in the above period?

Answers:

1. The following numbers (combined total English and French editions) were printed:—

1938	49,157
1939	39,093
1940	41,529
1941	31,199
1942	43,176

2. (a) The following (total free distribution for English and French combined) were distributed free of charge to public libraries, leading newspapers, contributors and the list authorized by order in council, etc.,

1938	5,552
1939	6,681
1940	5,935
1941	5,915
1942	6,042

(b) The numbers (combined total English and French editions) sold more:—

1938	43,495
1939	38,374
1940	38,339
1941	24,552
1942	31,188

(This last figure covers sales to Sept. 1942, when sales were still in progress.)

The larger part of the balance left on hand, at that date, has since been sold, mainly to the United States public.

(Filed as Exhibit No. 11.)

And so, the statement that some 40,000 were distributed free apparently is incorrect?—A. That is correct, my information was incorrect but that was definitely my information.

Q. This is a return made to the House of Commons by a responsible minister and I do not suppose you have any reason to quarrel with it?—A. No, I am just telling you what my information was.

Q. So that this information that 40,000 were distributed free to the public, and published in the press, was without foundation in fact; if this return is correct?—A. Quite so. I should get further information about that.

Q. I think that should be brought to your attention, Col. Thompson.—A. Yes. I am glad you did.

Mr. McGEER: This is a return of the House of Commons.

Hon. Mr. HANSON: Is it an official return?

Mr. McGEER: It is an official return. I will file it as an exhibit.

Hon. Mr. HANSON: Is it signed by the minister as an original document?

Mr. McGEER: It is a copy of the original.

Mr. GREEN: If it is going to be filed, I think we should have the original.

Hon. Mr. HANSON: If you had intended reading it you should have had the original. You have been reading from a copy. You have pulled some pretty sharp stuff here.

Mr. McGEER: I will stand that correction.

Hon. Mr. HANSON: As a matter of fact, what you read from is something that purported to be a copy, without any proof at all. If you are getting down to brass tacks, it is not fact at all.

Mr. McGEER: I accept responsibility for it.

Hon. Mr. HANSON: Your accepting responsibility does not help us at all.

Mr. McGEER: I would not expect my honourable friend to accept me. I did that because it was handed to me by the member of the House of Commons, who asked the question and received the answer; and I would not expect that Mr. Winkler would hand me anything that was not correct.

Hon. Mr. HANSON: No one is suggesting that he would. But, do not try to put on the record a return which is not an original return.

Mr. McGEER: My thought in producing this was that it would help to put the record straight as to the statement made by the witness.

Hon. Mr. HANSON: Let us have Mr. Thompson's explanation as to what information was given to him by the department.

Mr. McGEER: You see, it is just like your \$400 rug; it disappears into thin air.

Mr. HOMUTH: Oh, no.

Mr. GREEN: You cannot check that carpet off that way.

The CHAIRMAN: Go ahead, proceed.

By Mr. Green:

Q. Will you explain what information was given to you by the department with regard to these Canada Handbooks?—A. That they were distributed free—to members of parliament, to all high schools, public schools and so on—that was one argument why it should be done.

By Mr. McGeer:

Q. Who told you they were distributed free? who told you that 40,000 copies were distributed a year free? Let's get straight on that.—A. That came to me from my officials in the Printing Bureau.

Q. Who told you they were distributed free; let us get straight on that.—A. Oh, possibly Mr. McCartney—he said there was no charge made for them.

Q. For all of them?—again, you are giving hearsay evidence; you are a lawyer—who told you that? Who was the man? We want to know.—A. Well, Mr. McCartney told me that they were distributed free.

Q. Mr. McCartney, who is Mr. McCartney?—A. He is from the Printing Bureau.

Q. Well?—A. He is from the Printing Bureau—

Q. What place does he hold at the Printing Bureau?—A. I do not know. He is on loan to the Economies Branch.

Q. I see; and, did you check that with the minister, or with the department who distributed them?—A. No.

Q. Apparently somebody else has; and, had you any reason for disbelieving Mr. McCartney on that report?—A. No; but I should check up on it.

Q. And you now appreciate that you are subject to correction on that account?—A. Yes.

By Mr. Green:

Q. Did some member of the Department of National Defence on the Pacific Coast place an order for the printing of a code book with some firm in British Columbia?—A. Yes.

By Mr. Isnor:

Q. If we are going on to another question, I want to ask a question relating to the Canada Handbook—so as to keep a certain amount of continuity in the record. Col. Thompson, did you know or had you any idea as to the cost of the printing of the Canada Handbook?—A. I know nothing about that.

Mr. ISNOR: Mr. Chairman, I understand that the cost to the department is eight cents per copy; to individual members, those who require a large number—I remember I purchased 800 and sent them to the school teachers throughout Halifax county and I am quite safe in saying that the price charged to me was 10 cents per copy, as per regulations—or \$80 for the lot; and they sell to individuals for 25 cents, those who want to buy one or two single copies.

Mr. JOHNSTON: That is a nice profit.

Mr. ISNOR: I want to point out to the committee this: it might be just possible that Col. Thompson was on sound ground financially from the business standpoint, when he recommended doing away with the publication of the extra number as stated by him. I want that on record so it can be checked at some future time, and perhaps we will have an opportunity of asking the witness as to whether he has since learned as to the actual cost of the printing per copy of the Canada Handbook.

Mr. HOMUTH: Not only the printing; it is the paper and everything else. You could never do it for 8 cents and you know that.

Mr. ISNOR: Mr. Chairman, perhaps we will get that information at a later date.

The WITNESS: I do not know anything about that.

Mr. BOUCHER: On that particular point, if we are to take any evidence as to the cost of any book we should bring it in from an authoritative source so we will know exactly what the cost is and not take it as 8 cents or what one member may state it is. We should get the exact figures and that should be done by a departmental witness.

Mr. ISNOR: Certainly.

Mr. GREEN: Colonel Thompson apparently does not know the cost of this printing. I wonder if I could go on.

Mr. MCGEER: If you would permit me to ask one or two questions in connection with the handbook; you turned the publication of that handbook down as a publication?—A. Yes.

Q. And the department publishing it appealed from your decision to the advisory committee?—A. Yes.

Q. And the advisory committee refused to accept your recommendation?—A. Yes.

Hon. Mr. HANSON: That is not what he said.

By Mr. McGeer:

Q. The advisory committee refused to accept your recommendation?—A. Yes.

Q. And it was then appealed?—A. By me.

Q. From the advisory committee's decision to the Minister of Finance?—A. Yes.

Q. Or to the Treasury Board?—A. The Treasury Board.

Q. And then the Treasury Board upheld the advisory committee?—A. No.

Q. What did they do?—A. They allowed the printing of it with this string on it that they were to be charged for it.

Q. So that there was a recommendation that the publication to school children which was going out for 10 cents be raised to 25 cents; is that not correct?—A. I do not know that.

Q. That was one of the items that you were complaining about?—A. One of the items.

Q. That is, the sale of these books at 10 cents and not at 25 cents?—A. No, no. I objected to the printing because I thought it was not necessary during the war, and then the Treasury Board allowed the printing of it but with the exception of a few copies the others had to be sold.

By Mr. Douglas:

Q. May I ask a question on that? Was your objection to the printing of the book at all or merely to the free distribution?—A. I objected to the printing of anything that was not necessary for the forwarding of the war.

Hon. Mr. HANSON: And in that respect you were over-ruled.

By Mr. Douglas:

Q. The decision as it stands at present and as finally made by the Treasury Board was this, that the free distribution should be reduced, that the schools who used to pay 10 cents should now pay 25 cents and the general public continue to pay 25 cents?—A. I do not know anything about the price.

Q. All you know is they agreed to print it with certain restrictions?—A. Yes.

Mr. Ross (*Souris*): Just while we are on this statement and in connection with what Mr. Isnor said a moment ago, I think there was a great free distribution of these books. I know that every member of the House was entitled to ten copies in English and ten in French which would run into some thousands of copies which were distributed free. I am not arguing against the advisability of doing that.

The CHAIRMAN: Order, gentlemen.

By Mr. Green:

Q. I was asking Colonel Thompson one question and he just started to answer. I wonder if he could finish that. Colonel Thompson, you said that some member of the Department of National Defence posted in the Pacific command placed an order for the printing of a code book without your approval?—A. Yes.

Q. Will you tell us about that?—A. The first thing I knew about it was in connection with an account for \$1,000.

Q. Was which?—A. Was an account for \$1,000 from the official printer in British Columbia in connection with the code book. An officer stationed here had been sent out to prepare a code apparently, as I understand it, which he did, and then on his own bat had it printed by the King's Printer in British Columbia and then the bill was presented to us. I objected to it.

Hon. Mr. HANSON: Because it had not been authorized.

By Mr. Green:

Q. Did you approve the bill?—A. He came in to see me and he said it was a matter of great urgency for distribution among the various units out in British Columbia and I thereupon approved of that instalment, namely \$1,000. I said, "Are there any more to come?" He said, "There will be more printed." I said, "I will not approve of them out there. You have got to get them printed here in Ottawa."

Q. At the Printing Bureau?—A. Because the navy have a lot of their secret codes printed here under proper precautions.

By Hon. Mr. Hanson:

Q. You thought it should not be printed by every Tom, Dick and Harry?—

A. Exactly.

Hon. Mr. HANSON: For secrecy's sake.

By Mr. McGeer:

Q. Who was it printed by in British Columbia?—A. The King's Printer.

Mr. McGEER: Is the King's Printer of British Columbia every Tom, Dick and Harry?

Hon. Mr. HANSON: Let us get away from that.

Mr. McGEER: You are the man who said that. It was the King's Printer of British Columbia, not every Tom, Dick and Harry.

Hon. Mr. HANSON: I did not know that.

Mr. McGEER: He said it.

Hon. Mr. HANSON: All right, let us get this thing straight.

The CHAIRMAN: Order, gentlemen.

Hon. Mr. HANSON: Even the King's Printer there should not be allowed to print a secret code. It should be printed here. I do not care who printed it. Colonel Thompson's idea is that it should be only printed under proper supervision here. Is he right or wrong?

Mr. McGEER: Probably if he came from British Columbia he would have a different idea.

Hon. Mr. HANSON: I do not know.

The CHAIRMAN: Order.

Mr. McGEER: It is not every Tom, Dick and Harry, and I think the hon. member should withdraw that remark.

Hon. Mr. HANSON: I will not withdraw anything.

Mr. McGEER: Of course you wouldn't, but you are not putting that kind of stuff over.

The CHAIRMAN: Order, gentlemen.

The WITNESS: Might I add that with regard to all secret documents they are not printed by the King's Printer here; they are printed under extraordinary precautions at one of the bank note companies.

Hon. Mr. HANSON: So they should be.

By Mr. Green:

Q. What happened finally?—A. I allowed that account of \$1,000 but I said I would not pass any other.

Q. What happened after that?—A. That is only the other day.

Mr. McGEER: The printing came east.

By Mr. Green:

Q. Were there further accounts incurred?—A. In connection with that code?

Q. Yes.—A. No.

Q. Colonel Thompson, the other day I asked you about complaints having been made against you by the hostel committee. You said at that time you did not remember there having been a list of about twenty complaints made. Have you checked over that situation since then, and can you say whether or not there were complaints against you by the hostel committee?—A. No. I have no means of checking anything on that. I never received any communication from the hostel committee. Any observations they had to make were made to the Department of Public Works.

Q. Did your minister tell you that there had been complaints filed with him against your recommendations with regard to the hostel?—A. No.

Mr. McGEER: Mr. Chairman, it is 1 o'clock.

Mr. GREEN: I have just one suggestion to make, Mr. Chairman, in conclusion. I meant to ask Mr. Thompson if he could give the committee any suggestions now for economy in the future.

Mr. McGEER: I think that would be a long matter. We will get that on Monday.

Mr. GREEN: I will not ask for that now. Perhaps, in the interests of economy, the Colonel could prepare some statement along that line.

Mr. McGEER: That is a very good idea.

Mr. GREEN: And let us have it when we meet again.

Mr. ROSS (*Souris*): I move that we adjourn.

Mr. GOLDING: I move that we adjourn to meet at the call of the chair.

The CHAIRMAN: Is that the pleasure of the committee?

Mr. GREEN: Could you not meet to-morrow, Mr. Chairman?

Mr. McGEER: No. Some of us have to go away.

The CHAIRMAN: I question whether we would get a quorum together. It is satisfactory to me, however.

Mr. ROSS (*Souris*): I think we should meet.

The CHAIRMAN: Personally, I should like to meet.

Mr. McGEER: Well, if it can be arranged.

Mr. GREEN: Mr. Chairman, the house is adjourning a week from to-morrow.

The CHAIRMAN: I will tell you what I will do. I will check up and ascertain the number of members who are going to be here. If it is possible to have a meeting, the clerk will send out notices this afternoon. But I think we should also consider Colonel Thompson.

Mr. GREEN: He will probably be glad to be through.

The CHAIRMAN: I think my honourable friend was getting a little bit ragged with all the cross-questioning.

The committee adjourned at 1 o'clock p.m. to meet again at the call of the chair.

HOUSE OF COMMONS,

MAY 11, 1943.

The Special Committee on Public Accounts met this day at 11.00 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, we have a quorum, so if you will come to order we will proceed.

The Clerk now has a copy of the documents, the originals of the documents, that were asked for at our last meetings. They are as follows:—

1. Requisition *re* E. M. Little's pamphlet filed as *Exhibit No. 12*.
2. Certified copy of answer to question in the House of Commons *re* Canada Handbook—added to *Exhibit No. 11* already filed.
3. Original letter from Clerk of Privy Council to Cabinet Ministers respecting embossed letterheads—added to *Exhibit No. 10* already filed.
4. Original letter from Board of Management of Women's Hostel to Secretary of State—added to *Exhibit No. 6* already filed.

5. Original of letter from Chairman of Board of Management of Women's Hostel to Deputy Minister of Public Works and order for purchase of rugs—added to *Exhibit No. 9* already filed.

6. Office files of Colonel Thompson—*Exhibit No. 13*.

7. Originals and copies of correspondence of Office of Economies

Control filed as *Exhibit No. 14*.

The secretary has all these documents now.

Before proceeding Col. Thompson wishes an opportunity to make a correction in his evidence as recorded on April 8th.

Col. JOHN THOMPSON, recalled.

The WITNESS: I had been asked by Mr. Green with regard to subscriptions by the various departments and boards, and I stated that Agriculture had an application for about \$10,500 worth; then I was asked, fiction or ordinary publications. I am down as saying, most of them were fictional. I do not know how I could have possibly said that.

Mr. GREEN: What date is that on?

The WITNESS: It was on April 8th, page E3. With regard to agriculture, I think they were all for subscriptions for newspapers and for scientific periodicals dealing with agriculture; and I do not think there were any fiction at all.

Mr. GREEN: The fiction magazines and paper were purchased by the other departments, not by agriculture.

The WITNESS: No, not by agriculture; they were all scientific publications or subscriptions to newspapers.

Mr. GREEN: That is so far as the Department of Agriculture alone was concerned.

The WITNESS: Yes.

The CHAIRMAN: Do you wish to proceed now Mr. Green?

Mr. GREEN: I have finished now, I think, Mr. Chairman. But at the conclusion I asked Col. Thompson one question. I meant to ask Mr. Thompson if he could give the committee any suggestions about further economies in the future, and suggested that he prepare some statement along that line; and Mr. McGeer agreed to that suggestion. That was just as we were breaking up at the meeting on April 8th; and I would ask now that Col. Thompson give us any suggestions he has in mind for economies and also suggestions with regard to improved methods of purchasing which would lead to economies. After his experience with the work of this branch which he headed he must have many ideas as to ways in which improvements could be made, and I think it would be of benefit to the committee and the country if we could get any suggestions from him along those lines.

The CHAIRMAN: I presume that is entirely a matter of what Col. Thompson wishes to do. If you asked him on April 8th to prepare such a statement and give us a resume of economies such as he had in mind to suggest—do you want to deal with that, Col. Thompson?

The WITNESS: I do not know what the set-up or organization is in any of the departments. I am not familiar with them. We did endeavour to get two trained office economists early in the organization.

Mr. GREEN: It is very hard to hear, Mr. Chairman.

The CHAIRMAN: Speak a little louder please, Col. Thompson.

The WITNESS: We did endeavour to get two first-class economists just after the Office was formed; no amateur or no ordinary accountant would be of any use at all. It is a profession now this office organization; and there are

thousands of companies in the United States which have thoroughly reorganized the set-up of their business. These men were not available. There are such, I imagine, in Canada; other than the two first-class I endeavoured to get. I do not know what if any economies can be effected as I say because I have not been in any of the departments or boards. In view of what we endeavoured to do I suggested that two, three or four first-class professional economists, that is office economists, be engaged to see whether the set-up in the various departments is the most economical that can be arranged. It may be found that in some of the departments no changes would be advisable; in others that there may be. This would of course apply to government departments that have outside offices.

Mr. GREEN: You say, outside offices?

The WITNESS: Outside offices; that is, in the different parts of Canada. But I consider it is absolutely useless having anybody in the nature of an amateur make the examination at all of a department with a view to any economies; it may not be possible and it may be—that could only be discovered after a thorough investigation.

By Mr. McIvor:

Q. Have you any idea of what the cost of these specialists would be?—
A. Not the slightest. The two we had in view, I think were going to be on loan, part time on loan; with people of their own choosing, or such as we could engage, to do the spade work after they had laid out the system or made a report on what they wanted.

By Mr. Marshall:

Q. Are you prepared to give the names of the men you had in mind?—
A. I would rather not. I can assure you they were first-class men.

Mr. PURDY: Why would you say it would be useless for an amateur to try to do that work?

Mr. HOMUTH: Perhaps because he sees so many in the government.

Mr. PURDY: Perhaps he sees them in the opposition too.

The WITNESS: Because from what I have seen in regard to the reorganization of companies in the United States.

Mr. PURDY: Then you would say that on the whole you regard the set-up as very efficient?

The WITNESS: I do not know anything about it.

Mr. PURDY: And you say that the present arrangement is quite good—

Mr. HOMUTH: You should not be putting words into his mouth.

By Mr. Green:

Q. You did mention about there being no check on long-distance calls and wires and so on in the Department of Munitions and Supply and that the expense ran very high—I forget how many thousands of dollars it was in one month. Have you any suggestion to make as to ways in which that expenditure could be checked?—A. We were endeavouring to set up a central office through which all such calls would go. As to whether it was possible or not I am not in a position to say at the present time; but we never got around to it.

Q. How do you mean; all calls would have to be approved by the central office before they were made or just what did you have in mind?—

A. They would all be noted; from whom to whom, and the subject matter; who was calling, what the matter was about, and when it ended and so on.

By Mr. Homuth:

Q. In other words, Colonel, if there were five or six calls to one party or one office in a day you would wonder why they could not all have been made at one time, and so on; that was the idea?—A. That is right; then, I mentioned in my evidence the last time, I think it was the air force—it was the air force, as a matter of fact—accounts were examined by my assistants. There was one out west, an out-of-the-way place where there were quite a number of calls from this small station in the same day or in the next day. Now, as a matter of fact they were quite justified because this station was trying to locate an airplane which had not returned to its base and they were trying to find out by these long-distance calls if they had any information as to its whereabouts. So you cannot tell just by the number of calls from any one place or by any one man or official as to whether they were justifiable or whether it was just a matter of chit-chat and poor organization.

By Mr. Slaght:

Q. May I ask, are you putting it to the committee that you found that there were any unnecessary calls that were paid for?—A. We only examined, I think, a couple as to what the bills were; a couple of accounts as to what they amounted to; but we had no opportunity of criticizing any calls or where they went to.

Q. That is all I was interested in; you are not putting it to us that you discovered any single unnecessary call?—A. Quite so, I did not say that.

Q. Just one other point; did you discover any calls that were paid for with government money that was not a call from government business?—A. I know nothing about that at all.

By Mr. Homuth:

Q. In fact, you did not have an opportunity to investigate?—A. Quite so.

By Mr. Green:

Q. You really did not get started to investigate telephone calls?—A. No, I did not get started. At that time we just wanted to get an idea of what the calls amounted to in money.

Q. As I understand it, the suggestion was that you thought there would be a great saving if there was some check on these calls?—A. That I am not able to say.

By Mr. Slaght:

Q. Is that not a factor that would have regard to the volume of business that the department had to transact; whether their bills were large or small surely depends, I suggest, on the volume of business being done?—A. Oh yes, that is right.

MR. HOMUTH: That of course would depend entirely on whether they were calls with respect to business of the Department of Munitions and Supply, that they made with respect to business; various other departments, as you say, might show that many calls were just chit-chat.

THE WITNESS: Yes, that is right.

By Mr. Cote:

Q. And we are to understand in your opinion that there is no control of any sort on the long-distance telephone calls to or through the department; or, do you mean to say, that there was not adequate or efficient control?—A. I do not know whether there is any control or not.

Q. You do not know?—A. No.

Q. And now, in your opinion you say that the control of these telephone calls should check up with the names of the parties using the telephone and the subject matter of their conversations?—A. That is right.

Q. Don't you think that at this time of war especially where certain important departments are concerned such a control would not be advisable to the extent that you have in mind; as I understand it certain subject matters being dealt with, for instance within the Department of National Defence, should be kept entirely secret, subject to not control of that sort?—A. That might be but could only be ascertained after further investigation. The reason that I make that suggestion with regard to it being ascertained from whom it was and to whom it was and what it was about and when it started is because with regard to the Air Force—and I cannot tell you the city or town—all those items were entered in the accounts as we saw them, who was calling, to whom he wanted to speak, the minute he started, the minute he closed off, and the subject matter.

Q. In the case of such control would you anticipate certain delays in making a call?—A. That is something dependent upon the organization.

By Mr. Ross (Souris)

Q. Following up the same discussion have you ever had any detailed conversations with the heads of departments about these calls or use of telephone service throughout Canada?—A. We never got any further than examining four or five accounts, I think it was, four or five departments for a certain month.

Q. Since we last met I have received a return on the Department of Munitions and Supply giving an expenditure of somewhat over half a million dollars in the past calendar year. In that it is set out they had their own private lines to Toronto and Montreal which I imagine was quite a saving to the country, and I am wondering if there might not be co-operation between departments. I do not think I am giving away any secret if I say that in the Department of National Defence they are considering their own private wires from coast to coast in Canada which would cover the point raised by my friend about secrecy, and so on. I think it would make a tremendous saving, too. I have a return also from the three departments of national defence, and I do not remember the figures but it runs considerably over half a million dollars in the three departments. I think if there was greater co-operation between departments a great saving could be made and also more efficient and quicker service would be rendered. I think the Department of National Defence are considering with the provincial governments the establishing of wires of their own right across Canada. I wish to ask Colonel Thompson a further question. What jurisdiction did you have during your term of office as to the fittings of these new offices throughout Ottawa? I have in mind some temporary buildings and this hostel which we discussed at the last sittings, for instance, in the procuring of venetian blinds and new equipment of that sort. Did those all come before you or your branch of the service?—A. The hostel all came before us up to the time that I left.

Q. Venetian blinds?—A. The hostel furnishings all came up before us for review.

Q. Any other temporary buildings in Ottawa?—A. Not that I know of; I think none. On behalf of the Department of Public Works we authorized the building of a cupboard or some alteration in the partition, something like that but not furnishings.

Q. They were all probably handled direct through the Department of Munitions and Supply?—A. Yes.

Q. You would not have anything to do with it?—A. No. I understand the Department of Munitions and Supply was the purchasing department as agent for the departments that requisitioned furniture.

By Mr. Isnor:

Q. Do you mean to say that you did not have any jurisdiction in regard to expenditures for furnishing of the hostel?—A. Yes, that is what we did up to the time I left. Anything that was purchased came before us.

Q. I thought you told Colonel Ross you did not order or had no supervision over the ordering of the venetian blinds for the hostel?—A. The hostel did not get venetian blinds unless they put them in since I left.

Q. If I remember correctly there was something like fifty odd beds purchased. Do you recall that transaction?—A. For the hostel?

Q. Yes.—A. There must have been over three hundred.

Q. You had the purchasing of those beds?—A. Yes.

Q. Would you tell the committee the procedure followed in that particular instance, whether tenders were called or you chose the type of beds to be used.—A. The recommendations of the hostel committee were before us.

Q. Who was the hostel committee?—A. Mr. Sommerville of the Chateau Laurier.

Q. What is his position?—A. I think he is the manager there. I am not sure.

Q. He would have a pretty fair ideas as to the type of bed?—A. Yes.

Mr. HOMUTH: Colonel Thompson cannot answer that question.

Mr. ISNOR: Yes, he can. Let me follow along. You can do your questioning in a minute.

Mr. HOMUTH: I am just correcting it.

By Mr. Isnor:

Q. Who else was on that committee?—A. Mr. B. J. Roberts of the Harbour board.

Q. He is a financial man who has had great experience looking after dollars?—A. I do not know.

Q. Who else?—A. Miss Belcourt.

Q. That was the committee?—A. I think there was one other but I do not remember his being present.

Q. It is fair to say that is a pretty good committee who would know something about that type of work, selecting beds. Now, did it make a recommendation to you in respect to a certain type of bed?—A. Yes.

Q. You approved of that recommendation?—A. I think not.

Q. That is what I would like to know. Would you tell us as to why you did not approve of that and the circumstances leading up to your disapproval and your selection of a different type of bed—A. Because it was a very expensive bed.

Q. What was the price of it?—A. Oh, I cannot tell you. It is all on the hostel file.

Q. Do you not recall the price of that?—A. No.

Q. If I were to suggest that it might be \$7.25 would that be anywhere near correct?—A. I should think that was a great deal under it.

Q. Do you recall the price that you finally decided upon?—A. Oh, no.

Mr. ISNOR: Mr. Chairman, I would suggest that Colonel Thompson be asked to provide us with the figures in respect to the recommendation as made by the committee concerning the purchase of these beds, and then the final purchase price.

The WITNESS: It is all on the file, right on the file.

The CHAIRMAN: That can be procured from the files.

Mr. HOMUTH: Mr. Chairman, I would just like to suggest here that apparently members of the government have knowledge of things that have happened that for some reason or other members of the opposition have not.

All you have to do is follow Mr. Isnor's questioning. Apparently he has a brief with respect to the purchase of beds. It might be well if all members of the House were supplied with the same information.

Mr. ISNOR: Mr. Chairman, may I answer that? I have no brief whatsoever. I have not been prepared with any brief. I am using the same tactics as used by Mr. Green and Mr. Homuth and others in the opposition, using information that is provided me by the man in the street.

Mr. COTE: I might say we had the very same impression but on the reverse side when Mr. Green was conducting his examination. The way he was putting his questions was very suggestive, sometimes including the answers which he was looking for, and it led a few of us to believe that he was in possession of a certain amount of information which we did not have.

Mr. HOMUTH: We were, too.

Mr. GLADSTONE: I think it is absolutely unfair for Mr. Homuth to suggest that all members of the government on this committee are in possession of information that is not given to the opposition.

Mr. HOMUTH: I did not say all of them.

Mr. GLADSTONE: You said all members of the government party.

Mr. HOMUTH: I would exclude you.

Mr. GLADSTONE: Thank you.

By Mr. Ross (Souris):

Q. Colonel Thompson, in connection with the fittings of this new navy building, did any of those come before your department?—A. No.

Q. Nothing whatever?—A. No. We did authorize the putting up of a cupboard or two. That is quite recently though, but we had nothing to do with the furnishings.

Mr. GLADSTONE: Mr. Chairman, I do not know just how far this committee is expected to go in connection with one subject that has been introduced. War demands speed. Consequently expenditures may be justifiable in times of war that would not be justifiable in ordinary business transactions. Take telephone calls; it may be quite justifiable for a member of the Department of National Defence or the Department of Munitions and Supply to pick up the telephone and call Vancouver or Washington or New York whereas in a business a day letter would serve or even an air mail letter. I do not know whether it is our duty to inquire into situations like that. No doubt it is the responsibility of someone in the departments to check unnecessary use of long-distance telephone service. I imagine that dealing with so many individuals frequently the telephone may have been used when some other means of communication might have answered although at other times a delay even of a few hours would be unfortunate.

By Mr. Green:

Q. Some mention was made at the last sittings of the fact that the Canadian National Railways have a system of checking on all long-distance calls?—A. Yes.

Q. And presumably the Canadian Pacific Railway. Would it not be possible for the government to set up some similar system of checking? I think that regardless of party we are all anxious to see some saving here. I think we have all had examples of waste by way of long-distance calls where one of these men, perhaps in the Department of Munitions and Supply, picked up the 'phone and 'phoned Vancouver or Victoria.

Mr. SLAGHT: There is no evidence of that at all.

Mr. GREEN: I am saying that personally you have probably run across cases of that type.

Mr. SLAGHT: You are saying that gentlemen in the Department of Munitions and Supply pick up the telephone. That is a slur upon men who are not here. I think that ought to be withdrawn. If you have any evidence to support it my friends should produce it.

Mr. GREEN: You are very keen to pick up slurs this morning.

Mr. SLAGHT: Keen, if you like, to see that civil servants who are probably overworked and underpaid are not slurred in their absence with no details given so that we can have them here to protect their reputations. That is all.

By Mr. Green:

Q. Would it not be possible to undertake some such check as they have in the two great railways?—A. That occurred to us as a possibility but as to whether it is possible or not I am not able to say.

Q. You did not get so far as to investigate the C.N.R. system or the C.P.R. system of checking?—A. No.

By Mr. McNiven:

Q. Do you know if the Canadian National has any such system?—A. I am told so.

Q. Do you know what the system is?—A. No.

Q. No information with respect to it at all?—A. No. I was told by my assistant who was the C.N.R. economist.

By Mr. Homuth:

Q. You did not have an opportunity of checking it up?—A. No.

Q. You were not there long enough?—A. No, and there may be complications because that is one organization whereas with the government there would be all the various boards and various departments and it might complicate matters and make it impossible to establish a uniform system.

Mr. SLAGHT: Mr. Chairman, if it would not conflict with the public interest in disclosing secrets I think before Colonel Thompson leaves us he ought to indicate where these trout streams are.

Mr. ISNOR: Mr. Chairman, I am going to come back to this bed question. May I say, Mr. Chairman, without being too critical of yourself as chairman, that it would be nice if you could keep to one subject until we have completed that particular item. Mr. Green or some other person will start off a series of questions. He will do his questioning and receive the answers of which he wishes to have a record, and then immediately—I am not referring particularly to Mr. Green, to opposition members of the committee—

Mr. HOMUTH: Order, gentlemen.

Mr. ISNOR: And then immediately launch into an altogether different subject before we have had a chance to do a little cross-questioning.

By Mr. Isnor:

Q. Coming to this bed question, Colonel Thompson stated that it was very much higher than the figure I quoted. I quoted \$7.25. I see there were 385 beds purchased and the committee's estimate was \$2,949.10 which would show a cost of \$7.66 per bed.—A. That does not count the mattresses.

Q. I am speaking of the beds.—A. I had in mind a complete bed outfitted.

Mr. HOMUTH: Just a minute; let us get this clear. Mr. Isnor is apparently talking about just the frame work of the bed. Colonel Thompson is talking about the mattress and springs and other things that go with beds. Let us get that clear.

Mr. ISNOR: If you will allow Colonel Thompson and myself to decide what we are talking about—

Mr. HOMUTH: You are not doing a very good job.

Mr. ISNOR: Just keep your—

Mr. HOMUTH: Shirt on.

Mr. ISNOR: Yes.

By Mr. Isnor:

Q. I am dealing entirely with the beds, not the mattresses, not the pillows, not the sheets, not the slips, simply the beds, the type of bed, not even the springs.—A. I thought you were referring to the bed and the mattress and that was more expensive according to their requisition than what we authorized.

Q. And naturally it would be.—A. As to the mere frame I am not in a position to say.

Q. Here is the information which I have before me. The bed which was recommended by the committee would have averaged \$7.66 and you for some reason best known to yourself—perhaps you will give us that reason when I am through—decided that was not a proper type of bed frame and you chose one of a cheaper make. I see the cost of the one approved by Colonel Thompson was \$2,675.75 which would show an average cost of the individual bed of \$6.98, a difference of 68 cents per bed. Now, there must have been some reason for your turning down the recommendation of this, I would say, well qualified committee, a committee which should know the type of bed particularly fitted for that kind of institution or hostel, and for you to select another type of bed. Would you give us that reason?—A. I cannot tell you now. If I had the file I might. I do not recollect that.

Q. Perhaps I may be allowed to pursue the same course as has been pursued by others and suggest to you—and it might refresh your memory—that the bed they suggested was a good strong iron bed such as used in girls' institutions, something that would withstand—

M. HOMUTH: Let us have some evidence as to that.

Mr. ISNOR: Colonel Thompson will give that in a minute.

Mr. HOMUTH: You are suggesting it.

Mr. ISNOR: I do not know that I ever interfered with any of the other members when they were endeavouring to bring out certain points. Certainly Mr. Green appreciates that point and he is quite gentlemanly—

Mr. HOMUTH: And I am not? Go ahead.

Mr. ISNOR: Now, Mr. Chairman, after that interruption, may I proceed. The bed as recommended by the committee I understand was a very substantial bed such as used in girls' colleges and institutions where girls will come in one beside the other at night and perhaps jump on the bed, and it was to stand such use that this type of bed at \$7.66 was suggested. Instead of that type of bed Colonel Thompson said "No, that bed is not the type that I think is necessary. We will make a saving there", so he chose one not nearly as strong at a saving of 68 cents.

Mr. McIVOR: How much?

Mr. ISNOR: Sixty-eight cents. After having refreshed Colonel Thompson's memory in that connection perhaps he will recall the transaction and correct me if I am wrong and give another reason for having selected this cheaper, inferior and I would say poorer value bed which would not serve the purpose as well as the one recommended by the committee. Would you enlighten us on that?

The WITNESS: I do not know whether it is inferior or not but my recollection is that we supplied a bed approximately the same as you will find in the Y.W.C.A., Jeanne d'Arc and the Civic Hospital.

Mr. ISNOR: My point, Mr. Chairman, is—and I am placing it before the committee—that the cheapest article is not always the cheapest in the long run and it is not true economy to recommend a bed of inferior quality for a certain purpose if a qualified committee who should be familiar with this particular subject has already recommended a bed which they felt would better suit the purpose. I am leaving that because I am going to bring it up at a later date in regard to other items. I am just questioning the statement which was made by the Colonel a little while ago in respect to bringing in these expert economists. I believe we have men in our government departments who have had experience—such as in the Department of Public Works and other departments—who, by their long experience and long years of contact with purchasing, are in a very much better position than are these expert economists who are suggested by Colonel Thompson.

Mr. HOMUTH: Mr. Chairman, may I just follow up what Mr. Isnor has said by saying this. If the government felt that they had these competent men in the various departments, then why did they set up this committee of men entirely outside of the government to decide on what should be purchased? This committee, consisting of Mr. Sommerville and the rest, were not men from the departments. They were men from outside of the civil service altogether. They were set up by the department to deal with the furnishings of these various buildings. That in itself refutes Mr. Isnor's statement that they have men in the departments who are competent to do this, because they asked men outside of the department to decide on it. With regard to Mr. Isnor's statement that the beds may have been of inferior quality, may I say that we have no evidence of that. The only evidence you can get is when the wear and tear is figured in, so that you can decide whether or not these things have been as good as what the higher priced ones would be. I do not think Mr. Isnor should be allowed to put that evidence on record without having it denied.

Mr. ISNOR: Is it not that you should take me upon that point without knowing whereof you speak?

Mr. HOMUTH: I have no evidence before me.

Mr. ISNOR: I have no evidence beyond the statement of Colonel Thompson wherein Colonel Thompson said that Mr. Sommerville was the general manager of the hotel system of the Canadian National Railways.

Mr. HOMUTH: That has nothing to do with the government.

Mr. ISNOR: Still you attack that report and criticize their report every year, or Mr. Harris from your party does. But the fact remains that it is closely identified with the government. Secondly, Mr. Roberts—and we all know Mr. Roberts—is on the treasury board. He is on the Harbour Commission.

Mr. HOMUTH: What does he know about beds?

Mr. McNIVEN: Ask him and find out.

Mr. ISNOR: This committee set up by the government are all civil service employees as far as I know, at no cost to the country at all, simply loaned for this particular purpose because of their qualifications. It is because of that that I bring this matter before your committee, Mr. Chairman, namely the question as to whether or not it was economy for Colonel Thompson to turn down their recommendation and purchase, as far as price is concerned, a cheaper product.

By Mr. Cote:

Q. To follow up the question raised by Mr. Isnor, I should like to know from Colonel Thompson whether it has been his policy during the time of his functions to always consider the lowest price, without giving too much attention to the quality of the product. Was that the ground of his policy of economy?—A. Not necessarily.

Q. Not necessarily?—A. No.

By Mr. Gladstone:

Q. May I ask Colonel Thompson if he saw the two beds?—A. I did not.
Mr. HOMUTH: We might ask the committee whether they saw them.

The CHAIRMAN: Are there any further questions now on this subject while we are at it?

By Mr. Noseworthy:

Q. I should like to know if this division of government office economy control provided for in the order in council we have before us is still functioning, or did it come to an end with Colonel Thompson's resignation? Is there now such an organization exercising control under the set-up that was provided?

The CHAIRMAN: I do not think the Colonel can answer that question.

The WITNESS: No, I do not know. I understand that a director has not been appointed, but that the office is functioning. I have had no communication with it since.

The CHAIRMAN: Are there any other questions on this bed subject?

By Mr. Cruickshank:

Q. I have a question I should like to ask Colonel Thompson. At one of the previous sittings you said you had an assistant.—A. Yes.

Q. Who was your assistant?—A. Mr. G. U. Stapleton of Montreal.

Q. Did you have any other assistants?—A. He is economist of the Canadian National Railways.

Q. Did you have any other assistants?—A. I had a staff.

Q. I mean, any that had confidential access to your records?—A. I think not.

Q. Did you have an assistant go on leave or secure leave about the 1st of December?—A. I do not think so.

Q. You would not say you did not have?—A. There was only Mr. Stapleton, my secretary and the office girl.

Q. I beg your pardon? Did you say your secretary?—A. Yes.

Q. What was her name?—A. Mrs. Cooper.

Q. Did she secure leave, do you know?—A. She got no leave. She was away approximately at that time when her mother died, for three days.

Q. She was away about the 1st of December, was she?—A. I cannot tell you when it was now. I know her mother died and she was away for three days.

Q. Possibly it could be checked up as to whether or not she was away about the 1st of December. I am curious, and I want to know. I do not begrudge the lady getting her leave, but I want to get this clear. If my information is correct she went as far as Winnipeg.—A. Oh, I think not. I am pretty sure Mrs. Cooper did not, no.

Q. I understand that she did.—A. No, no.

By Mr. Ross (Souris):

Q. Could you give us any idea as to the cost of these venetian blinds we have on some of the offices in this building, for instance?—A. No. I have no idea.

Q. You have no idea of the purchase price of any venetian blinds for the government in any respect whatever?—A. That is venetian blinds?

Q. Yes.—A. No. I have no idea about that at all.

Q. They have never come before you for the equipment of any office in Ottawa?—A. No.

Q. In any respect whatever?—A. No.

By Mr. Marshall:

Q. I should like to ask Colonel Thompson a question. It is based upon an editorial which appeared in one of the papers in my constituency. This editorial dealt with a number of items which supposedly came under Colonel Thompson's review. I want to read No. 1 and ask Colonel Thompson if he would care to make any comment. No. 1 reads as follows:

The R.C.A.F. required 100 filing cabinets. One civil government department occupying two floors in an office building was asked to report the number of filing cabinets it could loan the air force. The answer came back: none.

Then some officials high in the department made a tour of the two floors and 71 cabinets were found which could be loaned. Many of them contained little more than tennis racquets and balls and sports clothing. When these cabinets were rounded up and sent to the air force the answer came back they weren't acceptable. They were second-hand.

Has Colonel Thompson any knowledge with respect to that matter? Would he care to enlighten us on that?—A. They were not turned back in my time. I believe that to be true. I was so informed, but it is hearsay. I was informed by one of the departmental officers of that department.

Q. That is all the information you have with respect to that?—A. Yes.

Q. The second one is this—were you going to say something further?—A. I do not know about steel cabinets, but we supplied a lot of second-hand furniture to various departments.

Q. You do not know whether this department of government obtained new cabinets or whether those old cabinets were used?—A. I do not know what happened.

Q. You have no information?—A. No. It was before my time.

Q. The second quotation reads as follows:—

One of the military establishments, it is said, wanted a tabulating machine to do a particular type of work. The machine is not made in Canada and the American manufacturer does not sell them—it rents them. The yearly rental is the astounding amount of \$24,000. It is being granted.

Had you anything to do with that?—A. Yes.

Q. Will you tell the committee what you know about it.—A. This requisition came in and I was astounded, of course, at the tremendous price or at the amount of the rental. I made very careful inquiries and eventually we authorized it for overseas.

Q. What was the tabulating machine and what was the particular type of work that was to be done by the machine?—A. It was with regard to the records of members of the forces, so that all records with regard to any incident that happened to a man would be identical. If I might explain in a very rough layman-like sort of way, suppose a man had myalgia, which is rheumatism. It used to be myalgia, rheumatism, or as the case may be, giving the thing several different nomenclatures. The idea was that these should all be similar, so that there would not be any difficulty with regard to diagnosis if a man made a claim for disability afterwards. I was assured by very economical members of the department that they were really worth while.

Q. So that you, as economic adviser, believed that the expenditure was quite reasonable and fair?—A. On this advice that I received. I knew nothing about it myself.

Q. The third quotation reads as follows:—

In the United States there is published a dictionary of occupations. The Unemployment Insurance Commission wanted 400 or 500 purchased to supply each one of its offices and sub-offices, Colonel Thompson said it would have to get by with 140.

Would Colonel Thompson care to make any comment on that and give whatever reason he deems necessary as to why he cut from 400 or 500 to 140?—A. Because they could supply the information from the main office or the main sub-offices in the various parts of Canada. They were content with it eventually.

Q. Then we come to No. 4 which reads:—

The army wanted binders for its army lists and orders of the day. Binders valued at \$3 were requisitioned. Colonel Thompson said that just as good binders could be purchased for 50 cents apiece.

Would you enlarge on that and tell us how many binders they needed, the type of binders that they proposed buying for \$3 and the binder that you suggested they should have?—A. The amount was a little more than \$3. I think it was \$3.50 or something like that. We allowed, as far as my recollection goes, something at 70 cents instead of \$3.25 or \$3.50, and they were perfectly satisfied with it.

Q. That is all I wanted.—A. I should like to observe this. Young Officers would come in with something in the way of a binder or whatever it might be, from their departments, the sales agent having said that this is what you want; that is, to the departments or these sub-offices. But when they were shown something cheaper which would be quite satisfactory, they accepted it right at once, and they made no demurs to this at all.

By Mr. Tripp:

Q. There was a difference in the construction of these binders?—A. Oh, I presume so.

Q. You do not mean to tell the committee that binders which could be procured for 50 cents—A. 70 cents.

Q. All right, 70 cents. You do not mean to tell the committee that those binders were as good value as far as construction is concerned as those at \$3.50.—A. It depends on what it was wanted for.

Q. Yes. From the point of view of the binder itself, the 70 cent one might serve the purpose as well; but there was a difference in the construction of the binder.—A. Oh, yes.

By Mr. Ross (Souris):

Q. Colonel Thompson, I think at an earlier stage you said that all departments of government came under your jurisdiction to some extent. Is that right?—A. Yes.

Q. I wonder if you would say now what types of equipment and furnishings within these departments came under your jurisdiction; that is, that they had to put in a requisition to your department for?—A. Well, the order in council sets it out—office supplies and office furniture generally.

Q. It is rather strange to me, if it sets out office supplies, furniture and so on. I do not know whether you call blinds, for instance, fittings or part of the building, as it were. You said you had not any knowledge of what any of these cost for any department of government at all. You know nothing whatever about the installation in recent months of any of these blinds in Ottawa.—A. That is venetian blinds?

Q. Yes.—A. They must have been all in before we ever took over; at least, I presume so. At any rate, they never came before us.

Q. You do not think they came under your jurisdiction?—A. It was not a question of that. But I never saw any requisition for such.

Mr. CRUICKSHANK: He said they were in before they came in. Ask him about the one in your office.

Mr. ROSS (*Souris*): For the benefit of my friend, I may say that there is not one in my office. I am just one of those ordinary farmers without any of this equipment. I think I can take him to some offices in Ottawa where they have been installed, and I was anxious to know the difference in cost between these and ordinary blinds that might have been installed at a time like this. I am not taking it as lightly as some people seem to be. I am not talking about going fishing or anything else. I am a citizen. I am not talking party or anything else. I think there has been waste, and it is only logical that there should be in starting into a war effort such as we have had. Some of these wastes have been overcome by heads of departments. I think it is our duty to try to offer suggestions wherever suggestions can be made for the more efficient prosecution of our war effort. I think it is idle for members of the committee to be talking about fishing trips and all sorts of things of that nature. I am satisfied that the Department of Munitions and Supply, as a result of questions on the order paper, has received recommendations for savings and the more efficient prosecution of our war effort which have been made and are being made to-day, in the same way as I pointed out this morning in the Department of National Defence, in the scheme which they now have before the various provincial governments in this country, making a saving and more efficient conduct of their telephones from coast to coast in Canada. Surely it is our duty as a committee to give what information we can with regard to efficiency, in order to make what savings we can for the taxpayers. That is all I have in mind at this time when I am asking these questions and trying to find out from Colonel Thompson what jurisdiction he thought he had in this office of his of economic director.

An Hon. MEMBER: You do not get very far sometimes.

Mr. ROSS (*Souris*): True enough, you do not get very far sometimes; but I think there has been too much evidence on the part of some members here to gloss things over.

Mr. CRUICKSHANK: Two of you have given all the evidence and asked all the questions.

Mr. ROSS (*Souris*): Go ahead and ask some yourself.

Mr. CRUICKSHANK: I will ask mine at the right time.

The CHAIRMAN: Are there any further questions? Is the committee finished with Colonel Thompson?

By Mr. Noseworthy:

Q. Did I understand Colonel Thompson to say that his office had no jurisdiction over any government offices outside of Ottawa?—A. Oh, no. We had applications for furniture from Vancouver, as a matter of fact, and various places.

By Mr. McNiven:

Q. And Halifax?—A. Montreal and Halifax; all over.

By Mr. Noseworthy:

Q. Were there certain departments of government whose offices outside of Ottawa did not come under your jurisdiction?—A. I do not know of any.

By Mr. Green:

Q. Mr. Chairman, I had my innings before Easter. If anybody else has anything to say, I will sit down. If not, there was one question that came up at that time which had to do with the printing of the proposed order in council

drafted by Mr. Elliott Little. Apparently this was circulated quite widely by the Minister of Labour to the different labour unions, and I asked Colonel Thompson how many he had approved for printing, the suggestion being that he had approved some 4,000 and that then there had been an additional 5,000 or 6,000 printed without his approval. The Colonel said he could only tell about that if he saw the requisitions. And the requisition has been produced this morning along with various other documents which I have not had a chance to check yet. But I wonder if Col. Thompson would look over this requisition, and if he would just give me an answer to that question. It is dated November 26th, 1942, and it reads, in the original typing—covers 4,500 proposed order in council recommended by E. M. Little. Then there is the stamp of the Director of Government Office Economics Control, and the same date—November 26th, 1942; with Col. Thompson's signature. Then there is the addition in ink; this is being printed at the request of the Hon. H. Mitchell as per telephone of his secretary, John Thompson. Then, in red ink there are the words; 5,000 reprint copies November 31st, 1942—there is no such date—that is in red ink; then there is a further note in red ink; 2,000 copies in French—per letter December 28th, 1942. What I would like to know from Col. Thompson is whether or not he approves the printing of these additional copies?—A. If my signature is on it, it must have been so.

Q. If you look at the requisition?—A. I approved of this—these additional ones—that was my note there, that I wrote in—it looks like my writing and I have no doubt I made it; I must have, there it is. There is a notation by Calloran down there under the date December 28th, 1942.

Q. Does the writing apply to the 4,500 or to the 5,000?—A. That is assigned by me at the very beginning—it will be printed, and so on—my signature; and I evidently wrote this down below at a subsequent date—my office stamp but with a signature.

Q. The one signature is November 26th?—A. Yes, that is right. That is the first one of all.

Q. Well then, is your other signature subsequent to that or is it not?—A. It must have been.

Q. Have you any way of checking it?—A. I haven't any way of checking it now.

Q. You really did not say whether you approved of it or not, the additional quantity—

Mr. McNIVEN: He has said he did approve of it.

Mr. GOLDING: He said it twice.

Mr. GREEN: I mean that is a fair question, is it not?

The WITNESS: That stamp there would be put on by my secretary, Mrs. Cooper. She had sole possession of it. Nobody else had access to it.

By Mr. Green:

Q. That was put on on November 26th.—A. Oh, I could not say; it might have been put on that first item. It may have gone through on my signature up above.

Q. Pardon?—A. The first items on the requisition may have gone through on my signature. I very seldom sign anything personally.

Q. You mean that your writing may have applied to the first order?—A. Yes.

Q. Then, in that case, there would have been no approval of that requisition by you of the additional?—A. The two subsequent ones—it was approved there by the office stamp.

Q. The office stamp is dated in November, November 26, 1942.

The CHAIRMAN: December 28th.

The WITNESS: No. November 26th, that is right. I cannot explain that additional 2,000, as to how it came to be put there or why we put it in.

By Mr. Green:

Q. You cannot explain it?—A. I cannot explain it now.

By Mr. Rickard:

Q. Is it not your writing?—A. It looks so, yes; I have no doubt about it at all.

By Mr. Green:

Q. Pardon?—A. I have no doubt that that is my writing.

Q. As I read it, there is no date on your writing, and the question is whether all of the writing applied to the original 4,500 or to the additional 5,000. Then, there is the additional 2,000 in French. And now, what I want to know is, where on that requisition you have approved of this additional 5,000 and of the additional 2,000. I do not care what your answer is, but I want to know whether you can say you did or you did not.—A. The two dates are different but they are close together. I think that probably the requisition was sent in to us the way it was made out, on the 26th very likely—it was somewhere around the 28th when that would get to us and possibly it might have been brought over by Mr. Calloran.

Q. Who is he?—A. He is the chief of the service—of Unemployment Insurance—and in the interval of two days—whatever it was—found that they required more so that before that requisition was sent out—the requisition for the 5,000, he came over and asked for the additional amount.

Q. You are not sure how it was done or what was done?—A. As to the exact order in which these occurred, I do not know; and I am quite sure, I am satisfied, that Mr. Calloran did either come over or telephone.

Hon. Mr. MULOCK: And you approved?

The WITNESS: Yes.

Mr. GREEN: Did you approve of the letters with that requisition; did you know of the letters at the time?—A. Oh yes, that would be the foundation for the whole—

By Mr. Cruickshank:

Q. Mr. Chairman, I would like to ask one question and in doing so I want to say that I entirely agree with the statements made by Mr. Ross, and I think every member of this committee agrees—I do not know what the reference was to a fishing expedition, or what it was that occurred here prior to the Easter adjournment. I presume the Colonel is coming back again later on, is he?

The CHAIRMAN: That all depends on when the committee is going to release him.

Mr. CRUICKSHANK: I would like a little information because I am particularly interested from the economy point of view, and from the point of view of the welfare of the staff here. I would like if the Colonel would find out for me just exactly what and if Mrs. Cooper got her leave, and how long she had; and I would particularly like to know how long she had and when she secured her leave—I am very, very sorry to hear of the death of her grandmother—

The WITNESS: It was her mother.

Mr. CRUICKSHANK: I would like to know when she got her leave, how long she had; where she went on leave—

The CHAIRMAN: We will have to procure that from the records.

Mr. CRUICKSHANK: I would like to have that information.

The CHAIRMAN: The Colonel has not access to these records.

The WITNESS: She did not apply for any leave. Her home, she lives here in Ottawa with her mother; and the first thing I knew about it—

Mr. CRUICKSHANK: How are you going to refresh your memory if you have not access to the records?

The WITNESS: As a matter of fact she was in the office on this particular morning and she answered the telephone and came to me and said, "My mother is dead." She was away three days, that was all.

Mr. CRUICKSHANK: Well then, might I refresh your memory again; did you have any confidential assistants when you were there?

The WITNESS: There was Mrs. Cooper, an office girl, with Mr. McCartney on loan from the Printing Bureau, Mr. Stapledon, a man named Joyce from the Transport Department; and at a later date there was a Mrs. Pilley.

By Mr. Cruickshank:

Q. As far as your memory goes, do you remember which one of them secured leave, we will say between the 1st of December and the 15th?—A. There was no application for leave to me.

Q. Have you any recollection of any of them being away between these dates?—A. I cannot tell you the dates, Mrs. was away for a few days; when, I do not know.

Q. Somewhere around the 7th of December.—A. I could not tell you that.

Q. I see.—A. But she has not been in Winnipeg; they live somewhere up around Arnprior, I think.

The CHAIRMAN: Are there any further questions, gentlemen? What is the wish of the committee? Are we finished with Col. Thompson?

Mr. McNIVEN: Mr. Chairman, I would move that we extend a vote of thanks to Col. Thompson for his presence here and express the hope that he may enjoy his fishing.

The WITNESS: Thank you.

Mr. GREEN: Before Col. Thompson goes: we have this file of correspondence here now and Mr. Isnor brought up the question of the Women's Hostel. There is a memorandum here from Col. Thompson to General LaFleche which I think should be read into the record. It reads:—

5th March, 1943.

Memorandum to Major-General the Hon. L. R. LaFleche, D.S.O.

Re: Women's Hostel (Kent House), Ottawa.

Reference your memorandum of the 8th February, with attached letter from the committee containing their complaints and criticisms against this office, I should like to say that there has been absolutely no co-operation, help or criticism offered to me by the committee. At meeting after meeting I asked the Deputy Minister if the Hostel Committee were coming, and he said "No", although he had telephoned to them advising them of the meeting; and eventually he said that they had practically washed their hands of the affair. Again, I say they offered no criticism, suggestion, or any observations whatsoever on any of the materials or equipment authorized or eliminated from the committee's list but, for your own information, I should like to draw your attention to the following remarks in answer to the criticisms which they have made to you:

1. In regard to the materials sanctioned by this branch, no materials sanctioned, so far, will fail to give reasonable service for at least a period of three years. We have been assured by reliable firms that the same material has given five years' service without complaint.

2. In regard to the second paragraph of the committee's letter, I may say that the decisions were made by me after consultations with, and having received advice from persons well experienced in the management and equipment of such institutions. This applies more especially to the comment of the committee in regard to the equipment of the kitchen.

3. The committee's ill-informed observations, especially in regard to the possibility of the glassware being unsanitary unless washed in a special glass washer, seems at least odd, as surely the committee in charge of such a hostel must know the civil and governmental regulations in regard to all places catering to the public in restaurants, cafeterias and the like, more especially to persons engaged in war work. For the committee's information, I may say that the regulations are very strict; all utensils used in such places must be inspected by the proper authorities, and come up to their standard of cleanliness. They insist that the washing of such utensils and dishes be done in disinfectant, as well as ordinary soap and water. There is, therefore, no need for the committee to worry unduly about sanitary conditions, as these are insisted upon by the authorities.

4. Taking up the committee's complaints, as stated in their letter, I make the following comments:

The committee charges that single tables for the single rooms would have been cheaper. It was found that single powder tables would cost 25 to 30 per cent more than double powder tables for single rooms because, as the committee must know, it is cheaper to buy a large number than a few, namely, twelve. This office eventually ordered a chest with three drawers and a mirror, and this saved \$90 over the double dressers in single rooms; also saving the purchase of benches. The Public Works Department agrees that this is so. The committee appears to have been ill-informed on the matter. No doubt you are aware of their refusal to be present when the subject of furniture for the isolation ward was discussed.

5. The committee criticizes the coffee urns and the lack of coffee bags. It is pointed out that the bags are furnished with the urn, and additional bags and rings are also supplied with the urn. Again, the committee appears to have been ill-informed.

6. In regard to the glass washer, I have already answered the committee's criticism. The committee also criticizes the lack of washers and boilers for eggs. It is pointed out that these are not allowed, as they are off the list and prohibited. It seems odd that the committee have not taken the trouble to inform themselves on this matter before making their criticism.

7. In regard to the sufficiency of the kitchen equipment, I have availed myself of the experience and advice of the heads of various institutions well known for their efficiency and useful service to the community. In their opinion, the equipment authorized by me was amply sufficient. Furthermore, I have implemented some of the articles which were suggested by the committee, where my information was that the items suggested by the committee were not sufficient. It is worthy of notice that the committee have criticized items which have been cancelled by me, but have ignored items which were added for the greater efficiency of the hostel. They have made no reference whatsoever to the items which this branch has added to the committee's insufficiency of implements, but items which this branch has eliminated are conspicuously displayed in the list furnished by the Public Works Department.

8. In regard to the flat tableware authorized by this department to be used at Kent House, it amazes me to read that the committee does not consider that the cutlery supplied by the government and used by our fighting forces is not considered by the committee good enough for the young lady residents of Kent House.

9. In regard to tables and chairs authorized by me to be purchased for the cafeteria, the committee have again made the statement which, obviously, they would not have made had they attended, as certainly it was their duty to do, the meetings where these matters were discussed. The fact is that the tables ordered were *not* square ones as stated by the committee, but round tables as suggested by the committee themselves. The hostel committee desired to purchase cafeteria tables for two persons at \$32 each. This office considered this an unwarranted price. Instead of this, we authorized thirty-five 36-inch tables at \$8.80, and thirty oblong tables at \$6.30. Please note the difference in the price between those recommended by the committee and those allowed. The committee complains that there will be maintenance on the cheaper table. Even if this be so, it would take a great many dollars in maintenance to equal the \$32 tables recommended by the committee. I wish to observe that a number of the materials asked for by the committee were struck off the market at the request of the government, as the same were required for the war effort. Furthermore, the tables authorized are the equivalent of those, in quality, in use in similar institutions, such as the Y.W.C.A., and the armed forces.

10. In regard to the coverings for the furniture used in the hostel, the committee maintains that the material originally selected was "the minimum in quality that could be expected to retain its appearance". This office considers this statement to be absolute nonsense. I again refer you to the advice which we have received from absolutely reliable experienced firms that a much cheaper article than that selected by the committee could be counted on to give good and durable service.

11. In regard to the committee's contention that this office has delayed and held up the purchasing of furniture and equipment for the hostel, I most emphatically deny this being so. The delay is entirely due to the committee.

That is your memorandum, is it, Colonel Thompson?—A. Yes.

Q. And that memorandum was submitted to your Minister in answer to complaints made by the hostel committee of which Mr. Sommerville and Mr. Roberts—and who was the other?

Mr. ISNOR: Miss Belcourt.

By Mr. Green:

Q. —were members?—A. Complaints were made to Public Works and Public Works reported to me.

Q. And that answer of yours was on the 5th of March, 1943?—A. It covered everything.

Q. That was earlier in the month during which you resigned?—A. Yes, that is right.

By Mr. Isnor:

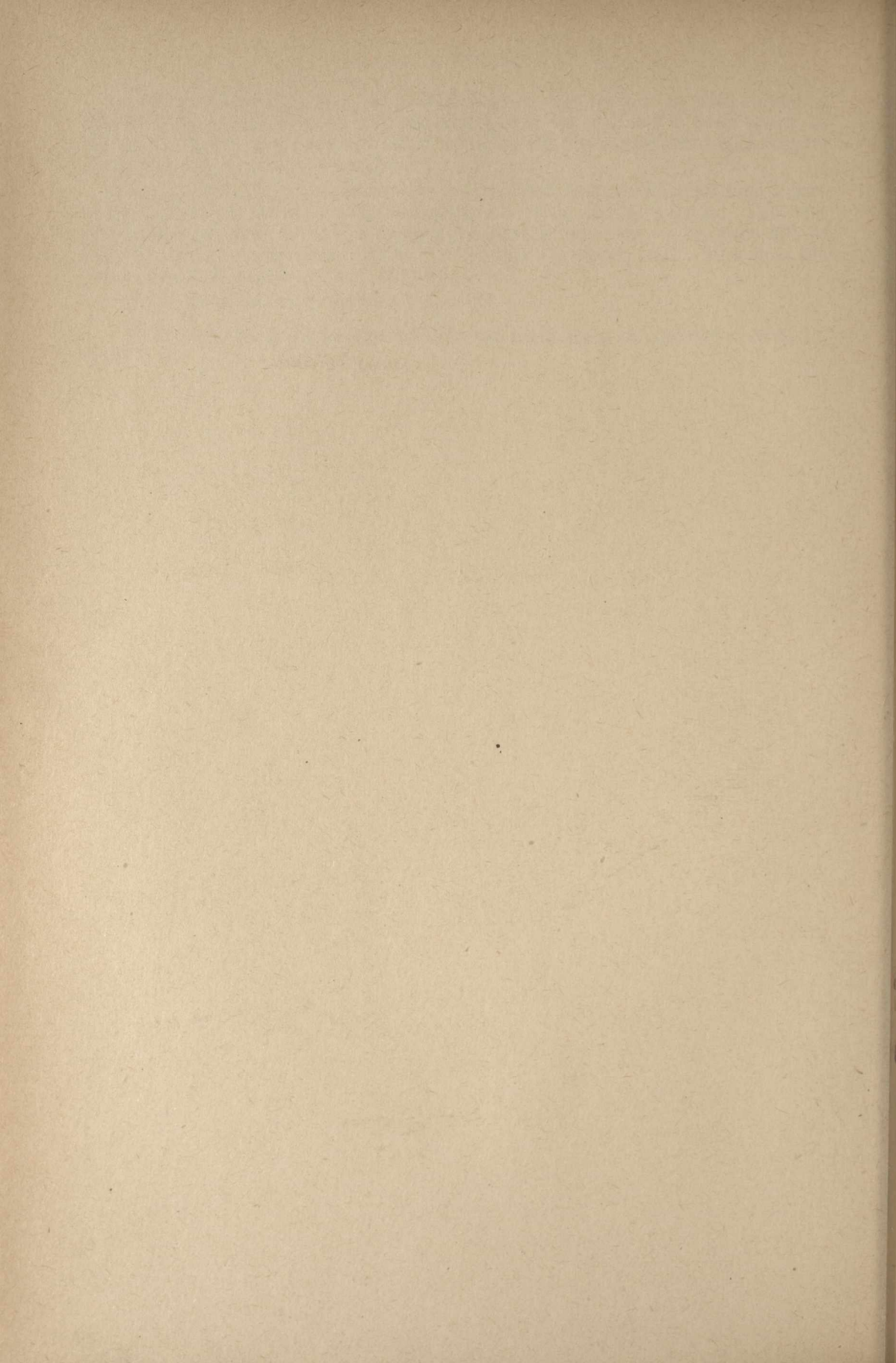
Q. That was over a month after the report as tabled by the committee was presented to you. They sent their report on the second day of February and your reply was on the 5th day of March?—A. Yes.

Q. Notwithstanding that they had pointed out to you in their letter of February 2nd that unless immediate action was taken likely a good many of the articles as recommended by them would be off the market, and such apparently was the case from your letter.

The CHAIRMAN: The committee has released Colonel Thompson so I presume that we are finished with that particular item on our agenda. The next item is the payment to the Noorduynd Aviation Limited shown on page 501 of the Auditor General's report for the year ending March 31, 1942. How does the committee wish to proceed with that item?

(Discussion as to procedure followed)

The committee adjourned at 1.10 p.m. to meet again on Thursday, May 13, 1943.



SESSION 1943

HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, May 18, 1943
WEDNESDAY, May 19, 1943
THURSDAY, May 20, 1943

WITNESSES:

- Mr. W. L. Bayer, President of the Noorduyn Aviation Limited, Montreal, Que.
Mr. Ralph C. Bell, Director of Aircraft Production, Munitions and Supply.
Mr. C. Fraser Elliott, Commissioner of Income Tax, National Revenue.

OTTAWA
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
EDMOND CLOUTIER

1943

MINUTES OF PROCEEDINGS

TUESDAY, May 18, 1943.

The Standing Committee on Public Accounts met this day at 11 a.m., the Chairman, Mr. Fraser (*Northumberland*), presiding.

Members present: Messrs. Boucher, Clark, Côté, Dechêne, Ferland, Fontaine, Fraser (*Northumberland*), Gladstone, Golding, Green, Hanson (*York-Sunbury*), Isnor, Johnston (*Bow River*), McCubbin, McDonald (*Pontiac*), McGeer, McIvor, McNiven (*Regina City*), Marshall, Matthews, Mullins, Mulock, Noseworthy, Purdy, Rhéaume, Rickard, Ross (*Hamilton East*), Ross (*Souris*), Tripp, Ward and Winkler. 31.

The Chairman read a letter dated May 12, 1943, from the Clerk of the Committee to the Assistant Deputy Minister of Munitions and Supply requesting the production of documents concerning an item of the Auditor General's Report for the year ending March 31, 1942.

Mr. W. L. Bayer, President of the Noorduyn Aviation Limited was called. He was assisted by Mr. R. B. C. Noorduyn, Vice-President and General Manager of the Noorduyn Aviation Limited.

Mr. Boucher proceeded with his examination of the witness.

The witness tabled certain contracts and it was agreed that the Committee decides at the next meeting whether these documents be filed as Exhibits.

Mr. Boucher filed with the Clerk a copy of a Sessional Paper dated March 18, 1943, which was marked as *Exhibit No. 1*.

With the consent of the Committee, Mr. Cleaver, a non-member of the Committee, was allowed to take part in the proceedings.

Mr. McGeer read and filed as *Exhibit No. 2* a letter from the Minister of National Revenue dated March 19, 1943, addressed to Mr. Cleaver.

The witness quoted a letter dated March 4, 1943, addressed to Messrs. Matthewson, Wilson and Smith from the Inspector of Income Tax at Montreal and a copy was added to Exhibit No. 2.

The witness was retired.

At 1.15 o'clock, the Committee adjourned until Wednesday, May 19, 1943, at 11 a.m.

WEDNESDAY, May 19, 1943.

The Standing Committee on Public Accounts met this day at 11.00 o'clock, the Chairman, Mr. Fraser (*Northumberland*), presiding.

Members present: Messrs. Boucher, Côté, Denis, Ferland, Fontaine, Fraser (*Northumberland*), Gladstone, Golding, Green, Isnor, Johnston (*Bow River*), McCubbin, McDonald, (*Pontiac*), McGeer, McIvor, Marshall, Mullins, Mulock, Noseworthy, Purdy, Rhéaume, Rickard, Ross (*Hamilton East*), Ross (*Souris*), Slaght, Tripp, Ward, Winkler and Douglas (*Weyburn*). 29.

The Chairman tabled documents which were produced at the last meeting by Mr. Bayer and these were marked as *Exhibits Nos. 3, 4, 5, 6.*

Mr. W. L. Bayer was recalled. He was assisted by Mr. R. B. C. Noorduyn, Vice-President and General Manager of the Noorduyn Aviation Limited.

Mr. Boucher resumed and concluded his questioning.

Mr. Bayer was released.

Mr. Ralph C. Bell, Director of Aircraft Production, Munitions and Supply, was called and made a brief statement respecting the Noorduyn Aviation Limited.

Mr. Bell filed a photograph showing 100 Harvard airplanes at the Cartier Airfield of the Noorduyn Aviation Limited. (Marked as Exhibit No. 7.)

The witness was retired.

On motion of Mr. Slaght, the Committee adopted a vote of thanks to Mr. Bell.

The Chairman thanked Messrs. Bayer and Noorduyn for their appearance before the Committee.

Before adjournment, Mr. Bayer supplied Mr. Boucher with certain data which he requested in the course of his examination.

At 12.45, the Committee adjourned until Thursday, May 20, when either Mr. D. M. Martin or Mr. C. Fraser Elliott will appear before the Committee.

THURSDAY, May 20, 1943.

The Standing Committee on Public Accounts met this day at 11.00 a.m., the Chairman, Mr. Fraser (*Northumberland*), presiding.

Members present: Messrs. Black (*Yukon*), Boucher, Bourget, Dechêne, Denis, Ferland, Fontaine, Fraser (*Northumberland*), Fulford, Gladstone, Golding, Green, Isnor, Johnston (*Bow River*), McCubbin, McDonald (*Pontiac*), McGeer, McIvor, Marshall, Mullins, Mulock, Noseworthy, Purdy, Rhéaume, Rickard, Ross (*Hamilton East*), Ross (*Souris*), Slaght, Thauvette, Ward, Winkler, and Douglas (*Weyburn*)—32.

The Chairman informed the Committee of the following communications:

1. Telegram from the Clerk of the Committee to Mr. D. M. Martin;
2. Telegram from Mr. Martin to the Clerk;
3. Telegram from Dr. Gray, Mr. Martin's physician, to the Clerk.

Mr. C. Fraser Elliott, Commissioner of Income Tax, was called and examined on the question of Income Tax inasmuch as it relates to the Noorduyn Aviation Limited.

The proceedings were then suspended to enable the witness to answer an important telephone call.

Mr. Elliott having returned, the Committee resumed its proceedings.

The witness cited, at the request of Mr. McGeer, Income Tax cases from Gordon's Digest of Income Tax.

The witness was commended for the frankness and clearness of this evidence and the Chairman expressed the thanks of the Committee to him and his assistants, Messrs. Stikeman and Alec. Gray.

The witness was retired.

At 1.15 p.m., the Committee adjourned to the call of the Chair.

ANTONIO PLOUFFE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

May 18, 1943.

The Special Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: In view of the request of the committee at the last sitting, Mr. Plouffe wrote a letter to Mr. Pettigrew, Assistant Deputy Minister of Supply, asking for a copy of the contracts, for a copy of the items on page 501, with regard to the Noorduyn Company. Mr. Pettigrew advises that it would take weeks to get copies of these contracts. If we require any particular files, he will send them over; but he has asked the committee to bear in mind that, to get all those contracts copied and get them over here is a big job of work, and unless there is some purpose to be served, he would prefer to send over any particular one you require.

As a result of the last meeting and the desire of the committee, Mr. Bayer of the Noorduyn Company is here this morning, ready to answer any questions within the scope of this inquiry. I might mention, gentlemen, before we begin this morning that, as each and every member of this committee knows, this investigation or the inquiry of this committee up to the present time is confined to the items on page 501 of the Auditor General's Report for 1942. So I would ask the indulgence of every member of the committee, to bear that in mind and not place the chairman in the position where he has to suggest that we get back to our articles of reference.

Mr. JOHNSTON: Mr. Chairman, on page 501 of the Auditor General's Report, under the heading of "Noorduyn Aviation Limited", I take it that these are just subcontracts let by the Department of Munitions and Supply on behalf of Noorduyn?

The CHAIRMAN: On behalf of Noorduyn, yes.

Mr. JOHNSTON: Then you are not going into a complete investigation of Noorduyn. You are going to stay just on these items here?

The CHAIRMAN: We must.

Mr. JOHNSTON: These are just subcontracts.

The CHAIRMAN: They are subcontracts let by the Department of Munitions and Supply for the construction of the Noorduyn plant.

Mr. JOHNSTON: I take it from what you said, Mr. Chairman, that the committee is confined solely to these subcontracts listed on page 501, and this is not a complete investigation into Noorduyn at all.

The CHAIRMAN: The authority of the committee as it stands now, without reference to the house, obviously is confined to that.

Mr. JOHNSTON: It is very limited in scope, is it not?

The CHAIRMAN: Yes, it is limited in scope. What I am trying to convey to the committee is that we shall have to be governed by the development this morning, as to just how far the committee or the chairman of the committee feels we should go.

Mr. JOHNSTON: So far, you cannot take anything except what is listed on page 501, and that has mostly to do with other companies rather than Noorduyn.

The CHAIRMAN: Except the fact that it is capital expenditure on behalf of Noorduyn.

Mr. JOHNSTON: Yes.

Mr. W. L. BAYER, President, Noorduyn Aviation Limited, called.

By Mr. Boucher:

Q. Mr. Bayer, you are, I believe, president and managing director of Noorduyn Aviation Limited of Montreal?—A. President; not managing director.

Q. You are president. You are not managing director?—A. No.

Q. How long have you held that post?—A. Since August, 1938.

Q. Previous to that, the president was whom?—A. W. R. G. Holt.

Q. And shortly after the outbreak of war, contracts were received by your company for the manufacture of aeroplanes?—A. Not shortly after; considerably after.

Q. You say "considerably". How long would you say?—A. I would say eighteen months.

Q. Is it not a fact that you got a contract early in January, 1940?—A. I say eighteen months. I meant the large contract was eighteen months.

Q. I beg your pardon?—A. I said eighteen months. We had some contracts immediately after the outbreak of war.

Q. Is it not a fact that you got a contract on November 2, 1939?—A. I am at a loss to answer that without referring to the actual contracts, and the figures I have in my office. I can answer you from memory as much as I can, but I cannot say it is a fact.

Q. From your memory then.—A. Yes. From memory, I would say we had a contract.

Q. Yes. And another one in January of 1940; quite a substantial one in January of 1940?—A. January, 1940, yes.

Q. And another one in May of the same year, and September of the same year, substantially?—A. Yes.

Q. And in order to complete that contract, government assistance was required. Is that correct?—A. That is correct.

The CHAIRMAN: Excuse me a minute, Mr. Boucher. You asked a question there, "in order to complete that contract."

Mr. BOUCHER: To complete those contracts, government assistance was required.

The CHAIRMAN: "Those contracts."

Mr. BOUCHER: Yes.

The CHAIRMAN: All those contracts?

Mr. BOUCHER: And subsequent ones too.

The CHAIRMAN: I was wondering where you were beginning with the government assistance.

By Mr. Boucher:

Q. When did government assistance first come into being in your company?—A. By government assistance do you mean the furnishing of equipment and buildings?

Q. I might make myself clear by quoting to you a return made in the house, order No. 87, Votes and Proceedings No. 18, at page 89.

The first question was: What assistance, if any, has the government given Noorduyn Aircraft Corporation towards its securing bank or other loans?

The answer was: \$2,000,000.

The second question was: When was such assistance given? Have such loans or credits been paid off?

The answer was: August 31, 1940; February 5, 1941, and August 1, 1941. The amount of the guaranteed bank loan as at February 28, 1943, was \$900,000.

A. Yes.

Q. Can you give us any particulars as to those items?—A. Well when you say “particulars”—the guaranteed bank loan was brought about through the fact that we had attempted to sell notes, to get money for the company. The security market was such that we could only sell part of those notes. We put out an issue of \$500,000. The public took up \$317,000.

Q. When was it that you put out that issue?—A. That was in 1940—February 20, 1940. We went out to the public to get that money, with the result that we could only sell part of the issue, the security market was so disturbed. Then it became necessary, as we could not carry on to the extent of getting the supplies in as quickly as we would like to, to present the situation to the government as to what we were up against, with the result that they guaranteed a bank loan of \$400,000 based on the payments for material and payroll, and as approved by the controllers of the government.

Q. When did they guarantee that first bank loan of \$400,000?—A. You had the date there yourself.

Q. That would be the first one?—A. That is right.

Q. August 31, 1940?—A. That is right; when we found that we could not sell the issue.

Q. On February 5 of the following year, 1941, a further guarantee was given.—A. That was brought about through the expansion of business and the necessity for further inventory.

Q. How much was that?—A. That went to \$910,000.

Q. And another guarantee was made the following August—August 1, 1941.—A. That extended the credit to \$2,000,000. That is the maximum credit, which has never been taken up.

Q. That has never been taken up?—A. No.

Q. And besides that, in answer to another question—“what is the expenditure to date by the government on tools, machinery and equipment for this corporation”, the answer is “\$1,278,395.05”.—A. That is something that the government know themselves. I could not answer that question, because we have no control over it, aside from the recommendation of the necessity for having certain equipment to produce the aircraft.

Q. That is the expenditure by the government?—A. Of which the government knows.

Q. On tools, equipment and machinery, placed in the Noorduyn plant for the production of war materials, all of which is known by the government.—A. That is right.

The CHAIRMAN: Could the honourable member get to the same point by making reference to the items here?

Mr. BOUCHER: I am going to refer to that as a means of finding if any portion of that is in the estimates of 1942. But, Mr. Chairman, may I point out to you that, according to the Public Accounts committee’s authority to investigate the public accounts up to March 31, 1942, our power is granted to lay a base for that, for a previous financial set-up of the company, at which point I am now coming.

The CHAIRMAN: I was trying to get you over to that base.

Mr. BOUCHER: Right. I think, by virtue of the past history of the company that I am just coming up to that point.

By Mr. Boucher:

Q. That being the case the government, you say, did spend \$1,278,395.05?—

A. No, sir. I did not say they spent it. I do not know what they spent.

Q. You do not know what they spent?—A. No.

Q. But they did supply certain materials?—A. They supplied certain materials, tools, equipment and buildings that were required to carry out our contracts.

Q. Can you give us in detail what the company had itself when it got this first contract and got the first guaranteed loan as of August 31, 1940?

The CHAIRMAN: I wonder if that is a proper question?

Mr. BOUCHER: I would say it is quite proper, by virtue of finding out the position of the company at the time the expenditures were made, even before the Auditor General's Report of 1942.

The CHAIRMAN: All right, go ahead.

The WITNESS: Well, we had in common stock \$400,000 odd, and in notes outstanding \$300,000 odd, plus a guaranteed amount that an individual guaranteed, of another \$100,000.

Q. The notes not having been sold?—A. Yes, \$300,000 odd of notes had been sold. I said the \$500,000 was not all taken up at that particular time. There was a guaranteed bank loan of \$100,000 by an individual who, I understand, had to put up securities for it and who received absolutely nothing from the company for doing it. It was actually a patriotic duty on his part; plus \$417,000.

Q. Was the \$417,000 actually cash on hand at the time?—A. No. It would not be cash on hand. It would be part of the assets of the company.

Q. Just how was that \$417,000 made up?—A. Again I tell you I will have to have a balance sheet before me. I did not know that I was going to be asked these questions to-day.

Q. Can you not get the balance sheet now?—A. The balance sheet as of—

Q. As of the latter part of 1939 or the early part of 1940?—A. I would not have the balance sheet on that particular score unless it is in my office and they can get it.

Q. Let us be specific about it. Did the company own any real estate?—
A. No.

Q. The real estate was, as I take it, rented from—I believe I have the answer to that—in reply to a question of mine, order for return No. 86, Votes and Proceedings No. 18, page 89:

“Who owned the property in which they operated?”

The answer was:—

The information given by the company was that the property in which the company operated at that time was leased from Montreal Aircraft Industries Limited and from Dominion Bridge Company.

A. That is correct.

Q. So actually the Noorduyn Company owned no real estate whatsoever?—A. No, aside from the fact—talking about capital again—that the lease on the Dominion Bridge was again guaranteed personally by an individual.

Q. For what length of time was that lease of property from Dominion Bridge?—A. Five years, with a renewal clause of five years.

Q. Is the same thing true of the Montreal Aircraft Industries?—A. No, that was more or less on a month to month basis.

Q. What machinery and equipment for the manufacturing of planes did the company have at that time?—A. The building of the Montreal Aircraft Industries was a building and equipment that was owned years back by the Curtiss Reid Company, and we leased the building and the equipment, plus the fact we put up some equipment of our own which was reasonably enough for small orders, so that they had enough equipment at that particular time to take care of a nominal contract.

Q. What equipment of your own did you put in or that you then had over and above that lease?—A. Again I would have to have my accountant alongside of me with the details of the equipment as we put it in there.

Q. Can you give us an estimate?—A. I would not attempt to.

Q. Can you get that material for us?—A. Yes, sir.

Q. I will ask that a break down be produced of the \$417,000 as to what it was composed of as of the first of January, 1940.—A. Why the first of January, necessarily?

Q. I am picking that out as the date. Actually as to the commencement of proceedings you will notice that your first order for planes was November 2, 1939, when the order was for a small number of planes of your own manufacture. How many planes did your company manufacture before the first of January, 1940?—A. I could not give you that answer without looking at the facts before me. I would have to have those facts from the office to be able to answer that. I do not want to give you an answer unless I know exactly what I am telling you.

Q. If I recall rightly you stated to us on a previous occasion it was twenty-seven or twenty-eight planes?—A. I would say it was in that neighbourhood but it may be a few more or less.

Q. In order for return No. 86, Votes and Proceedings No. 18 at page 89, the question was asked:—

What capital did the Noorduyn Aircraft Corporation of Montreal have when the government placed the first contract with them?

The answer as given in the House was:—

“\$417,000.”

“Who owned the property?”

I have already answered that.

Was any sales commission or compensation in lieu thereof paid to any person?

The answer was:—

No sales commission or compensation in lieu thereof to any person has been allowed as an item of cost in respect of any such government contract.

I take it that a sales commission or an amount in lieu thereof was allowed other than as an element of cost. Can you give us the details of that?—A. Sales commission?

Q. Or an amount in lieu thereof.—A. Which contract are you speaking of?

Q. The question asked was:—

Was any sales commission or compensation in lieu thereof paid to any person?

The CHAIRMAN: That is the question asked in the House.

The WITNESS: I want to get this thing clear. That is based on the contract for the small number of planes?

By Mr. Boucher:

Q. Any contract? You surely did not pay more than one sales commission or amount in lieu thereof, did you?—A. No, but there was a sales commission—not a sales commission—there was a contract that was being carried out, handled by the sales department which was later cancelled entirely, so when you say do I pay sales commission on a specific order it is difficult to answer you on that. I would say that on the first order there were certain payments made in accordance with a blanket contract. Whether you might call that sales commission on a specific order—I would not say so.

Q. I take it from that you had a blanket contract to pay sales commission on all the company's production?—A. We had a blanket contract for an outfit to handle all our sales and take care of all sales expenditure in connection therewith, such as stenographers, billing and items of that kind.

Q. Give us the particular details of that?—A. The particular details of the contract the company had?

Q. Yes.—A. The present company, under Dominion charter, was formed in July, 1938; it was the successor of a company under Quebec charter formed early in 1935.

Q. Give us the name of the company.—A. Aircraft Industries Limited was the name of the company which was to handle all the sales of Noorduyn Aviation Limited and handle all sales expenditure, and were only to be paid when, as, and if sales were made. That was a five-year contract that was entered into in July, 1938.

Q. Have you a copy of that contract?—A. I have.

Q. You have?—A. I have.

Q. I wonder if you would produce it.—A. I am trying to keep these papers straight. It is not an easy job. The 29th day of July, 1938.

By Mr. Johnston:

Q. Is this what is commonly known as the Martin contract?—A. Yes.

Mr. BOUCHER: *Exhibit 1.*

By Mr. Boucher:

Q. I understand that contract was later varied or assigned. Have you a copy of the assignment?—A. Assignment the second day of January, 1940, to D. M. Martin personally who owned all the outstanding stock of the Aircraft Industries.

Q. I understand that subsequent to that again this contract was re-assigned by D. M. Martin to Noorduyn Aviation Company Limited. Am I right?

The CHAIRMAN: I think I should draw to the attention of the hon. member this fact, that what we are really doing now is placing as a public exhibit documents that are the property of the Noorduyn Aviation Company.

Mr. BOUCHER: They are under investigation just the same.

The CHAIRMAN: They are only under investigation, as I pointed out before, under our scope of reference. I think that in justice to the company itself there is a very great question whether we should ask that these documents be filed as exhibits because they are documents that are the property of the Noorduyn Aviation Company.

Mr. BOUCHER: You have an investigation here of an item in the public accounts showing the expenditure to a number of different people of an amount something like \$2,353,000.

The CHAIRMAN: Quite true.

Mr. BOUCHER: By virtue of that this Public Accounts Committee, according to my submission, has the right to investigate conditions of the Noorduyn Aviation Company on whose behalf this money was expended, and therefore I say that what we have is very much in point.

The CHAIRMAN: I think that is a very fine line of demarcation.

Mr. BOUCHER: I cannot possibly agree with you. I think it is very material. Here we have a company which according to the evidence already given had a subscribed capital of \$417,000 with a \$2,000,000 guaranteed loan, having something like \$4,000,000 advanced on their behalf by way of machinery and equipment held by the government, and buildings put up by the government with no land held other than by way of a lease.

The CHAIRMAN: May I draw to the attention of the hon. member that what we are attempting to do is this; we are not investigating the policy or operation of the Noorduyn Company as a private company. We are investigating the basis on which certain advances were made as covered by the Public Accounts. What we are doing—and this is exactly the situation which I was afraid that we would get into—is bringing into the orbit of this investigation internal matters of a private company.

Mr. BOUCHER: All of which has to do with the basis of the situation of the Noorduyn Company under which the government advances were made.

The CHAIRMAN: May I draw this to the attention of the hon. member, that if we proceed along that line or on that theory there is no limit to how far we can go in this investigation. You can start and ask Mr. Bayer, for instance, what salary the Noorduyn company pays him or you could ask how much salary they pay their chief accountant, or you could go into an inquiry as to their method of accounting or bookkeeping.

Mr. BOUCHER: Just as important is what the company's assets and liabilities are to enable it to pay such a salary.

The CHAIRMAN: Quite true. There would be no objection to investigating the annual statement or asking questions based on the annual statement published by the Noorduyn company but what we are doing now is we are placing as a public record internal documents of the Noorduyn company.

Mr. BOUCHER: Quite right; what objection is there to that? If we are investigating the company set-up, investigating the wisdom, correctness or incorrectness of government expenditures then this other must follow along the line.

The CHAIRMAN: Without further authority from the House itself we are really confined in our investigation at the present time to the items on page 501 of the Public Accounts or Auditor General's report. As I say, it is quite easy for a capable lawyer to cross-examine a witness in such a way that you will involve all the information, internal or otherwise, in the possession of the company.

Mr. BOUCHER: And I say quite properly. Again I repeat from the Auditor General's report it shows that \$2,353,133 was spent by way of construction and equipment. From the evidence given by the witness approximately \$4,000,000 was advanced by way of machinery and equipment and up to \$2,000,000 by way of guaranteed loan to the company for the manufacture of planes. As an integral part of the picture I submit that we have the right to investigate what the company had of its own to complete the picture that would warrant or lay the foundation for such government expenditure.

The CHAIRMAN: I follow along with you to a very great extent in what you say but my objection now is that I do not feel that this committee should ask the company to table internal documents. That is what we are doing now. I do not object to you asking the questions. With regard to this particular item I object to the company being asked to table these particular internal documents.

The WITNESS: There is one thing about these documents; our first contract was entered into far before the beginning of war. That contract with Mr. Martin was entered into far before the beginning of the war.

Mr. BOUCHER: Yes, the liability was outstanding at this time.

By Mr. Johnston:

Q. When was it first entered into?—A. July 29, 1938.

Q. The war broke out in 1939?—A. Yes.

Q. So it would not be very far before?—A. No.

By Mr. Golding:

Q. Were these contracts at a firm price or cost plus contracts?—A. The contracts in the Department of Munitions and Supply were at a fixed price and always subject to the audit clause of the government. We still are subject to the audit clause in all our contracts.

Q. If it is a fixed price what business is it what expenditure you had in connection with the managing of your affairs?—A. Pardon?

Q. If it is a fixed price what business is it of any person what expenditure you had in connection with the management of your business if you delivered the planes at a fixed price?—A. That is a surprise to me, sir, why this contract, which was something that was entered into prior to the war and was fixing our cost of operation, should ever be a matter of controversy but nevertheless, as I have wanted to do, I want to co-operate in every way I possibly can. There was approximately \$835,000 cash put into this business, and these contracts were understood by the people who put the cash into the business and they were satisfied with them.

Q. I think that you should file the contracts for these planes.

Mr. BOUCHER: We are not investigating contracts for manufacturing planes. It is not within the Auditor General's report. We are investigating government expenditure to a company; that is what we are doing. The contract for planes is another issue altogether.

By Mr. Boucher:

Q. You have no objection to filing this contract, have you, Mr. Bayer?—A. Well, I do not like to see any of our contracts go out of our files. The particular difficulty with that is that I think with all due respect that the man with whom the contract is made should be considered. I am filing a contract with an individual who will have just cause for criticism against the company. It was a contract before the war. That is the problem I have.

Q. Then, we will come to a contract that was made after the war, not this particular contract.—A. It is the same contract all the time.

The CHAIRMAN: May I have a look at those two documents?

By Mr. Johnston:

Q. Did this involve the expenditure of government money?—A. None whatsoever.

Mr. CLEAVER: Now, that is a fixed price contract.

Mr. JOHNSTON: We are investigating an expenditure of \$2,500,000 of government money; that is what it says in the estimates of page 501.

Mr. GOLDING: How does that come into the picture?

Mr. JOHNSTON: I take it now that Mr. Boucher is only trying to find out how that money was spent.

Mr. CLEAVER: They had a fixed price contract to build so many planes at so much per plane; if the company were foolish enough to pay that out to their office boy there was nothing to prevent them—what are you worrying about?

Mr. JOHNSTON: The company are not that foolish.

Mr. CLEAVER: It was a fixed price contract.

Mr. JOHNSTON: Mr. Boucher wants to know how this money was spent.

Mr. BOUCHER: And, under what conditions.

Mr. GOLDING: What has the terms of the contract got to do with how the money was spent?

Mr. JOHNSTON: It will probably bring that out.

Mr. BOUCHER: If I were to answer I would say that a business man if he were loaning approximately \$9,000,000 to a company, either by way of loans,

advances or purchase of the raw material, would want to find out what the company's assets and liabilities were before he made any such loan.

Mr. GOLDING: Which they did.

Mr. BOUCHER: That is what I am trying to find out now.

Mr. CHAIRMAN: The point with which we are confronted now is this, as I see it: we have two documents, the one dated July 28th and one dated January of 1940; these are internal documents as made by the Noorduyn Company and Aircraft Industries of Canada Limited; and I submit to this committee that in my opinion you can ask questions, but I do not think these contracts, or copies of these contracts should be filed as an exhibit.

Mr. BOUCHER: Mr. Chairman, there was no objection taken to it, and I say it is still an integral part of the process by which government money was spent.

Mr. JOHNSTON: Well, we are all trying to win this war, you know.

The CHAIRMAN: In other words, Mr. Boucher, your contention is that these contracts were in existence when the government started to advance the moneys for capital expenditures?

Mr. BOUCHER: Yes; and anybody who would guarantee loans or advance capital to the tune of \$9,000,000 would of necessity—or, would according to the dictates of good sound judgment and common sense—want to know what the assets and liabilities of the person to whom they were advancing this money were.

Mr. GOLDING: What do you mean by \$9,000,000?

Mr. CRUICKSHANK: Where is that \$9,000,000?

Mr. BOUCHER: There is \$2,000,000 guaranteed to loans; there is \$1,278,000 for tools and equipment—and I need to ask another question to complete that picture there—there is capital assistance owned by the government (according to a return tabled in the house) \$4,597,545; various capital assistance guaranteed by company's notes—and there is \$51,000 of capital advances made by the government for this enterprise.

The WITNESS: There were no capital advances made when that contract was in existence which you have there, the contract was cancelled.

By Mr. Boucher:

Q. When?—A. On August 26th, 1940; and the advances by the government were dated August 29th, 1940—when we went to the government, or in order to expedite the delivery of planes by making our financial position easier inasmuch as the security market was dead at that time. It was necessary for us to cancel that contract.

Mr. BOUCHER: Will you produce those documents along with the contract?

Mr. GOLDING: Before you leave that, let us get this \$9,000,000 loan cleared up.

Mr. BOUCHER: I did not say \$9,000,000 loans; I said \$9,000,000 of advances.

Mr. GOLDING: No, you said, "loans".

Mr. BOUCHER: I do not think so. I think I used the word advances; however, if I said loans, I am in error—it was \$9,000,000 of investment or advances.

Mr. GOLDING: Give us the items of that advance.

Mr. BOUCHER: What is that?

Mr. GOLDING: Give us the items in the advances; you add up there your list which makes up the total of advances and assistance.

Mr. BOUCHER: The facts are given in a return which you will find in No. 86 of Votes and Proceedings No. 18 at page 89. The first one was—

Mr. GOLDING: Just give us the figures.

Mr. BOUCHER: The next one was: "Who owned the property in which they operated"—and I have already read you the answer to that. Then, there is the answer to question No. 4:—

In 1940 officials of the Department of Munitions and Supply became aware that the company proposed making a settlement with one D. M. Martin in connection with a contract between the company and the said Martin, under which the latter held the exclusive right to the sale of all products of the company. The Department of Munitions and Supply took immediate steps to safeguard the crown's interests from the point of view of insuring that no payment under this contract or settlement would be incorporated as an element of cost or be made out of any financial assistance afforded by the crown to enable the production of aircraft by the company. The department also took the position that no payments should be made by the company on account of the settlement unless and until the financial position of the company, taking into account the earnings of the company including depreciation, was such as, in the opinion of the officials of the department, would permit such payments to be made, and provided the payments did not have the effect of increasing the bank loan which had been guaranteed by the government.

Question No. 5 was—"If so, what was the arrangement?" And it is answered by 4.

Then Question No. 6—"What capital assistance has the government given Noorduyn company to date?"

Capital assistance owned by government—\$4,597,545.05. Capital assistance granted by government but owned by the company or its landlord—\$51,000.

Mr. GOLDING: That is just assets.

Mr. BOUCHER: All right, this is advances.

Mr. GOLDING: No, sir.

Mr. BOUCHER: Capital assets owned by the company—

Mr. CLEAVER: Owned by the government.

Mr. BOUCHER: Let us not fight over something we agree about.

Mr. GOLDING: Give us that.

Mr. BOUCHER: Capital assets owned by the government \$4,597,545.05.

Mr. GOLDING: Those are the assets owned by the government.

Mr. BOUCHER: There is no dispute about it; sure, it is owned by the government.

Mr. CLEAVER: That is not a loan.

Mr. GOLDING: No, it is government owned.

Mr. BOUCHER: Capital assistance advanced by the government or owned by the company or its landlord—\$51,000.

Mr. CLEAVER: That is \$51,000.

Mr. GOLDING: Where did this \$9,000,000 arise?

Mr. BOUCHER: All right, I am coming to that; the other question was, what expenditures to date has the government made with respect to tools—and the answer is \$1,278,395.

Mr. CLEAVER: Who owned the tools?

Mr. BOUCHER: They were owned by the government.

Mr. CLEAVER: Yes.

Mr. BOUCHER: All right; the government guaranteed bank loans made by the company to the maximum or aggregate of \$2,000,000 which were advances made by the government in relation to this enterprise. We are not fighting about it.

Mr. CLEAVER: A guarantee is not an advance, they are not loans.

Mr. BOUCHER: No.

Mr. CLEAVER: No.

Mr. BOUCHER: But advances are credits, surely you will agree with me on that.

Mr. GOLDING: Let's get this \$9,000,000.

The CHAIRMAN: Will the hon. member file that document with the committee?

Mr. BOUCHER: The original order, yes.

Mr. GOLDING: Give us the other figures that go to make up that \$9,000,000.

Mr. BOUCHER: It is \$7,800,000 odd that it comes to.

Mr. GOLDING: That is like that \$400 or \$500 rug business.

Mr. BOUCHER: If you want to give evidence go into the witness box and I will cross-examine you.

Mr. GOLDING: You do not object to a correction; you make the statement that \$9,000,000 were advanced in loans when such is not the case, surely to goodness you do not object to that?

Mr. BOUCHER: I did not object to it.

Mr. GOLDING: Well then, I hope you will not go any further; I hope not.

Mr. BOUCHER: Now, may I proceed with my questions?

The CHAIRMAN: Yes.

Mr. BOUCHER: Will you table the documents terminating this sales agreement, Mr. Bayer?

The CHAIRMAN: What is your question again, please?

By Mr. Boucher:

Q. I asked Mr. Bayer if he would table the documents terminating this sales agreement; the question is, did the government investigate that contract? —A. I will read it again for you.

Mr. McNIVEN: Is the document which Mr. Boucher seeks to file related to any expenditure enumerated on page 501 of the public accounts?

The WITNESS: None whatsoever.

Mr. McNIVEN: Then I object to the document being filed. I might observe that we have given Mr. Boucher a great deal of leeway in his examination and I think it should be confined to the expenditures enumerated in the public accounts for the fiscal year ending March 31, 1942.

Mr. BOUCHER: Mr. McNiven, I think you will realize that in order to obtain the information one seeks, one first has to take the documents; and secondly, I think you will agree with my contention that if the government has advanced or has loaned or has guaranteed goods, material or credit to the tune of \$7,470,000, that we have a right to investigate and get the particulars of the assets and liabilities of the custodian of such advances, credits or materials.

Mr. JOHNSTON: And to scrutinize the security taken.

Mr. BOUCHER: And, to examine the security taken.

Mr. McNIVEN: It may be very desirable to have all that in the record and it may be that the Noorduyv Aviation Company should be investigated, but it

is not the power of this committee so to do. Our reference from the House of Commons is confined to the public accounts of 1942.

Mr. BOUCHER: And preceding.

Mr. McNIVEN: It does not say that.

Mr. BOUCHER: Where we have investigated the 1942 account we have a right to go ahead of 1942 and lay a foundation for it.

Mr. McNIVEN: Well, do you mean that you are going to find new witnesses to show that? This witness has declared that it has no relationship whatsoever to any of these expenditures.

Mr. BOUCHER: That is for us to decide.

Mr. McNIVEN: I object to that.

Mr. JOHNSTON: How can you defend that when we do not know what the expenditures were?

Mr. McNIVEN: That is a statement of the witness.

Mr. JOHNSTON: This committee has not yet had all the evidence before it.

Mr. McNIVEN: Has anyone yet shown us through evidence that this is in any way related to government expenditures?

Mr. JOHNSTON: Now, I think, that is up to the committee to decide.

Mr. McNIVEN: Then you will have to do that through witnesses other than this witness; because this witness has stated positively that this particular document was not in any way related to these expenditures.

Mr. JOHNSTON: I am not questioning the statement by the witness, but I say he is not the one to decide.

Mr. McNIVEN: Then you have to have other witnesses and we will have to hear what they have to say. The evidence with which we are face to face now is to the effect that the documents are not related to the subject matter of the reference to this committee.

Mr. BOUCHER: That is the information already before us, and I say while it is given with good intention I am not in agreement with it; and I think it is up to the committee to decide whether they find the documents relevant or not.

The CHAIRMAN: I must say in view of the fact that this is a return of a sessional paper in answer to a question asked in the house I cannot see why there should be any objection to filing it. It is public property now. This is simply a return of the house.

Mr. FERLAND: As I understand it, this document apparently contains some evidence or information which does not come within the scope of the evidence now before this committee.

The CHAIRMAN: I think all the pertinent information with respect to it has already been disclosed.

Mr. JOHNSTON: I have no objection to it.

Mr. BOUCHER: I submit, Mr. Chairman, that it is a most unusual situation if a member is prevented from tabling in this committee a return which has already been tabled in the House of Commons. I must admit that I cannot see the reason for any objection to such a course.

Mr. FERLAND: That is not the point we are discussing.

Mr. GOLDING: No, that is not the point.

Mr. BOUCHER: What is it then?

Mr. FERLAND: It is about this other document.

Mr. GOLDING: The agreement with the Noordduyn company and Mr. Martin.

Mr. BOUCHER: That is already filed.

Mr. GOLDING: It is as the witness says, it has no relation to these accounts.

Mr. BOUCHER: That is for this committee to decide.

Mr. NOSEWORTHY: I am not clear on one point: was this contract to which reference has been made in force at the time when the government assistance was given to the company?

The WITNESS: No, not that particular contract; no.

By Mr. Noseworthy:

Q. It was cancelled before any assistance whatever was given to the company?—A. Yes.

Q. Back in 1938?—A. No, no; 1940.

Q. The first assistance was given by the government when?—A. That was on August 29th, 1940, and this contract was cancelled August 26th, 1940.

Mr. BOUCHER: And, according to a return tabled in the house, it was cancelled for a purpose with the insistence and action of the department, and thereby becomes categorically a part of the advances. Here you have a cancellation dated August 26th, 1940, and a contract under which financial assistance is arranged dated August 29th; and you have a government return showing that before making the advances they insisted and saw to it that this was removed; therefore, I say, it is very integrally a part of the advances. I am just repeating the evidence already filed with this committee.

The WITNESS: The point I would like to bring out is this, that the negotiations for a cancellation of the contract with Martin was in June, and it was cancelled eventually in August. Getting the advances from the government was basically dependent on our getting rid of this contract.

Mr. BOUCHER: Then, let me ask you whether the government officials were instrumental in cutting off or in securing a cancellation of the contract?

The WITNESS: No, I would not say so.

By Mr. Boucher:

Q. Well then, can you tell me why a reply to the return of an order of the house was made in the form in which it was?—A. I beg your pardon, I did not get that.

Q. Do you mean to say that this return is false when it says as follows: "In 1940 officials of the Department of Munitions and Supply became aware that the company proposed making a settlement with one D. M. Martin in connection with a contract between the company and the said Martin, under which the latter held the exclusive right to the sale of all products of the company. The Department of Munitions and Supply took immediate steps to safeguard the crown's interests from the point of view of insuring that no payment under this contract or settlement would be incorporated as an element of cost of be made out of any financial assistance afforded by the crown to enable the production of aircraft by the company. The department also took the position that no payments should be made by the company on account of the settlement unless and until the financial position of the company, taking into account the earnings of the company including depreciation, was such as, in the opinion of the officials of the department, would permit such payments to be made, and provided the payments did not have the effect of increasing the bank loan which had been guaranteed by the government."—A. That is perfectly sound; that does not contradict what I said.

Mr. GOLDING: You would not object to that.

Mr. BOUCHER: I am not objecting.

The WITNESS: What I said was that we did this, arranged the cancellation of this contract, because the government insisted on that being done in order to safeguard the payments as far as they were concerned under the contract; and the government insisted that no payments were to be made in respect of this contract until we were in a financial position which was satisfactory for the purpose.

By Mr. Boucher:

Q. Mr. Bayer, may I put this to you: were not any of the government officials present when the actual arrangement for the cancellation of this contract was made?—A. Definitely, no.

Q. Definitely, no?—A. No.

By Mr. Noseworthy:

Q. Just one more question, going back to 1939; do I understand from the evidence that the company received a contract from the government late in 1939?—A. Yes.

Q. And it was in force at the time that Mr. Martin had this contract?—A. Yes, sir; that was a fixed price contract.

Q. And the sales made in 1939 must have been made through the agency of Mr. Martin in accordance with his contract?—A. That is in accordance with the contract.

Q. In accordance with his contract?—A. Yes.

Q. Would not the price that Mr. Martin—or, the money that was paid to Mr. Martin enter at all into the price charged for the property sold?—A. Yes, it would enter into it. As a matter of fact, it did; and the contract resulted in a loss.

By Hon. Mr. Hanson:

Q. In what?—A. A loss.

By Mr. Noseworthy:

Q. What amount?—A. I could not tell you offhand, I would have to have my figures on that here.

By Mr. Cleaver:

Q. The company had a loss?—A. The company had a loss, definitely.

Mr. NOSEWORTHY: Would you say there was any money received for the sale of these airplanes paid out under this contract in 1939?

Mr. CLEAVER: By whom, the government or the company?

The WITNESS: The company did pay Mr. Martin under the contract, definitely.

By Mr. Noseworthy:

Q. Money paid to the company from the government?—A. I beg your pardon?

Q. Where did the company get the money it paid out?—A. This was a fixed price contract. We got the money in the way that any operating company gets its money—capital, plus sales, plus operation.

Mr. JOHNSTON: Then, why did the company insist that this contract had to be cancelled?

By Mr. Noseworthy:

Q. Would the commission not enter into the fixed price contract at all?—A. If a commission was due, it would enter into any contract. You would have to calculate it, when you calculated your price, which we calculated. As a matter of fact, big aeroplane business at that time was in its infancy, and it was difficult to arrive at a fixed price. We had to arrive at a fixed price there, regardless of what the commission was, or what was going on in there, to get established into bigger production and to stay in business. The commission was secondary at that particular time, to get on with the job. We did not want to big a contract at that particular time, due to the fact that we did not know where this fixed price was going to go.

By Mr. Noseworthy:

Q. Was the commission there an element in the fixed price of the contract?—A. Exactly in the same way as the rent was on the property, in the same way as interest would be on a bank loan. But the interest on those loans would not be allowed as an element of cost any more than this would be allowed as an element of cost. It would be assumed naturally that we were going to make a profit.

Q. My point is that the incidence of that contract in 1939 definitely affected the cost of the contract with the government?—A. Yes. I agree with that. But getting back to what the chairman had to say, I do not see how that affects this capital assistance.

By Mr. Boucher:

Q. Do you not agree with me that Mr. Henry Borden, Mr. Watson Sellar, Mr. McIntyre and Mr. Bell were actively interested and actively worked to secure cancellation of the Martin contract?—A. Mr. Boucher, I said positively no. You can phrase the question in any way you want to, but Mr. Borden had nothing to do with the cancellation of the contract. The first time Mr. Borden knew anything at all about that was when it was necessary to get \$400,000 from the government; I said "I want to disclose to you that I have made a settlement on a contract", and at that time I was told by the Hon. Gordon W. Scott, who was the man whose office I was in—Mr. Borden was just there for legal end at that particular point; and Hon. Gordon W. Scott said, "You can make no payment on that until the \$400,000 bank loan is paid off." Then from that point on the government had asked us to take more and more business with the result that Martin's contention was that in taking more business, we were not fair with him, when we had made a settlement for an amount that was less than what he would have got if he had carried on; and consequently something further should be done on payments. At that time, the matter was taken up further with the authorities that be, to the effect that if, as and when the earnings would permit, other than an element of the cost of the contract, we could eliminate that liability; because after all, we still have to think of the people who put their money into the company too.

Q. Is it not a fact that on April 23, 1941, the money was frozen in your company's hands until an arrangement was made with the department as to payments out?—A. Oh, definitely.

Q. Yes, definitely. The result is the government did see fit to freeze the money in the company's hands by virtue of this contract.—A. Until the company was in the position to take care of it, and no payment was ever made until they were.

Hon. Mr. HANSON: Payment was made out of profits out of the government contract.

By Mr. Boucher:

Q. Payment was made out of the profits made out of the government contract or out of the capital? Is that right?—A. Payment was made out of the earnings.

Q. How much was the settlement with Martin?—A. Is that a fair question?

Q. Sure it is a fair question.—A. \$250,000.

Q. A quarter of a million dollars.—A. That is right.

Q. How much of that was paid out by April 23, 1941, when the money was frozen?—A. \$75,000.

Q. \$75,000 was still to be paid or had been paid?—A. Had been paid.

Q. How much was paid out by March 31, 1942?—A. \$135,000.

Q. \$135,000 further?—A. No; \$135,000, including the \$75,000.

Q. \$60,000 was paid between August 23, 1941 and March 31, 1942?—A. At the end of our fiscal year in 1941, as we saw what the position was, we paid out \$50,000 on that contract, of which \$25,000 was payable during the year at \$5,000 every two months and an additional \$25,000 was paid off at that time.

Q. As I understand it, at the time the government froze the money in the company's hands and immediately after, as well as immediately after the settlement was made, about August 29, 1940, the government insisted that the company could only pay Martin on account of the settlement anything over \$25,000 per year with the government's consent. Is that not right?—A. That is right.

Q. In other words, in any one year, the government permitted you to pay \$25,000. But if you paid any more, you had to get the consent of the government?—A. Yes; based entirely on the company's operations.

Q. And between August 1, 1941, and March of 1942, the government did consent to payment of an additional \$35,000?—A. No, an additional \$25,000. You have got to consider that the \$25,000 a year was payable as we went along anyway. You are bringing another fiscal year into it. In other words, that \$10,000 would have been paid regardless of the permission to pay the \$25,000. So it was \$25,000 that we paid with the government's permission. The other \$25,000 was a contractual matter. The other \$10,000 also. You follow me?

Q. No part of that money was a part of the cost of production except in so far as it was figured as a component part of the fixed price. Is that right?—A. You bring in the words "component part of the fixed price". The only component part of the fixed price would be the \$25,000 a year; because everything in excess of that depended entirely on the way we made money or we did not make money.

Q. But Mr. Bayer, when you are arranging a contract with anybody for the production of anything, you figure the actual cost and you figure the profit. Is that not right?—A. Naturally, sure.

Q. Apart from the excess profit, I say that the payment to Martin was not a part of the cost of production.—A. No, sir. I cannot get over to you that the only part that was a fixed obligation of the company—unless we worked out satisfactorily by operations of reducing costs, buying better or getting better operation, there was not any part of that other than \$25,000 a year, that, when we calculated what the price should be on an aeroplane, we had to take into consideration anything above that. It was in the same category as paying dividends or something of that kind. It was not like bank interest that we had to pay. We only had to pay Martin on that when, as and if the earning position of the company plus its general financial position was in a position to do it.

By Mr. Johnston:

Q. Other than the \$25,000?—A. Other than the \$25,000. The \$25,000 admittedly was a fixed expense that we had each year.

Q. To be considered as a cost of production?—A. Well, it had to be considered, the same as salary or anything of that kind.

Q. Correct.

By Mr. Boucher:

Q. Bearing in mind the fact that you had certain private capital in the undertaking of your own, can you tell us upon what figure your normal profit pays excess profit tax?—A. It has not been fixed.

Q. It has not been fixed?—A. No.

Q. Consequently, so far as payments made to Martin were concerned, they were made before the excess profit tax was calculated?—A. Yes.

Q. And as a result of that, if your excess profit tax assessed by the government amounts to 90 per cent, then the government gets that much less in excess profit tax by virtue of the payment to Martin. Is that right?

Mr. CLEAVER: Mr. Boucher—

Mr. BOUCHER: I want to get the answer in words, rather than nods.

The WITNESS: I am sorry, I did not mean to do that. Certainly, the same as any other expense.

Q. Certainly

Mr. CLEAVER: Before you go on, Mr. Boucher—

Mr. BOUCHER: Just a minute. I want to finish this without interruption. Consequently, any excess profit tax that is levied by the government against Noorduyn Aviation Limited is levied on such sums left after the payments to Martin have been made?

The WITNESS: That is correct.

Mr. BOUCHER: That is correct.

Mr. CLEAVER: Now you have that clear.

Mr. BOUCHER: Quite.

Mr. CLEAVER: I know that you do not want anything on the record that is not accurate. Do you not think you should call Mr. Fraser Elliott and get evidence from him as to whether the Martin liability was a deductible item before computing excess profits? The witness apparently is under the impression that it was. My information is distinctly to the contrary, and I think yours is too.

Mr. BOUCHER: Well, do not think too seriously, Mr. Cleaver, because you have the right to call Mr. Fraser Elliott before this committee to correct any misunderstanding there may be, and you will be privileged to do so. But kindly do not interject it now or suggest what my thoughts are.

Mr. CLEAVER: No. This witness is not an expert on income tax or excess profits. If you want the truth, you will follow my suggestion. Of course, if you want information to go abroad across Canada that is absolutely untrue, why, carry on as your are.

Mr. BOUCHER: If you want to get in there and say it is untrue, I will put you in the witness box. If you want to cross-examine Mr. Fraser Elliott, you are privileged to do so.

Mr. CLEAVER: I am suggesting that you should call Mr. Fraser Elliott as to matters of income tax and excess profits, and that you should examine this witness as to the facts within his knowledge.

Mr. BOUCHER: You do it yourself. You have equal rights.

Mr. CLEAVER: If you want to broadcast across this country, with a war on, a statement which you yourself know is absolutely incorrect, you have to take the absolute responsibility.

Mr. BOUCHER: Do not start telling me what I know to be absolutely incorrect.

Mr. CLEAVER: I say you have in your possession right now a letter from Mr. Fraser Elliott giving a definite ruling that it is not a deductible item for the purpose of payment of excess profit tax.

Mr. BOUCHER: You are very rash, Mr. Cleaver, because that is positively an untruth.

Mr. CLEAVER: I say I handed it to you, and I have a copy of the same letter.

Mr. BOUCHER: Well, I have not got it and I do not know about it.

Mr. CLEAVER: I say that I handed it to you.

Mr. BOUCHER: Well, bring in your letter and give evidence.

Mr. CLEAVER: I shall be very glad to get the letter.

Mr. BOUCHER: Do so

Mr. JOHNSTON: Surely the president of the company knows whether that has been entered into for that purpose or not. Mr. Cleaver, with all due respect to him, is not the person who compiled the information or the figures for the company. I would rather take the president's word for it than that of a member of this committee, in a matter of that kind.

The CHAIRMAN: I think the point is one which is probably not very clear between the honourable member and the witness.

Mr. GREEN: Louder, please, Mr. Chairman.

The CHAIRMAN: I think the whole point is one that is not very clear between the honourable member who is questioning and the witness; in other words, it is a technical question of the breakdown of excess profits before or after the \$25,000 have been paid to Mr. Martin.

Mr. JOHNSTON: Surely the president of the company is in a better position to know what the company is doing than a member of the committee.

The CHAIRMAN: He might or might not. He has answered the question as he knows it.

Mr. BOUCHER: If the president of the company is wrong, and you bring in a witness to prove he is wrong, I shall be very pleased. But that does not interfere with the president of the company answering my question as he sees fit. I think the president of the company is inherently honest, and I think he is inherently capable of looking after himself.

The CHAIRMAN: All right. You go ahead with your cross-examination.

Mr. JOHNSTON: He is doing a fairly good job of it.

The CHAIRMAN: I still do not think the question is clear, between the honourable member and the president. I wonder if you would repeat your question to the witness.

Mr. NOSEWORTHY: How many government members does the president need to assist him?

The CHAIRMAN: I did not catch that.

Mr. NOSEWORTHY: I say how many members of the government does the president need to bring out this evidence in his own favour? The general impression, I gather, is that this committee is sitting to hide evidence rather than get it out.

Mr. DECHENE: That is an entirely unwarranted comment.

The CHAIRMAN: Order, please. If we can clarify matters between the honourable member asking the question and the witness, I think we should do so. Would the honourable member repeat his question to the president?

Mr. JOHNSTON: Surely if the present is confused, he is the one who knows whether he is confused or not, and he should be the one to make that request.

Mr. BOUCHER: I have done it twice, but I will do it again. I am the most agreeable man in the world.

The CHAIRMAN: Ask the question again, for the benefit of the committee.

By Mr. Boucher:

Q. Mr. Bayer, was this payment or were these payments made to Martin by virtue of the settlement made on his sales contract agreement, made before excess profit tax is calculated on your company?—A. Made before excess profit tax. Payment was made before excess profit tax was calculated.

Q. And when excess profit tax is calculated, is that included in your profits?—A. Now you are getting into this question again. Our tax problem at the present time has not been settled with the government. I do not know what it is: We have not got our standard profits yet.

By Mr. Johnston:

Q. Have you had a ruling from the income tax department on that?—A. On what?

Q. Whether this would be included as an item for excess profits or not?—

A. We have a ruling from the income tax department that it is a deductible expense. Beyond that, I do not know what they are going to do with it. If you have had experience with the income tax department, you will know that you never know until your account is audited exactly where you are getting off.

Q. You say you have had a statement from the income tax department?—

A. That it is a deductible expense.

Mr. BOUCHER: That it is a deductible expense. There is our answer. Where is all the argument?

Mr. CLEAVER: I have a letter which you stated—

Mr. BOUCHER: If you want to produce a letter, you can do it later but do not butt in on my examination putting in extraneous evidence.

Mr. CLEAVER: I am putting in a statement of fact which you made, and which I say is absolutely incorrect. I say that you have in your possession a copy of this letter.

Mr. BOUCHER: Mr. Chairman, if he wants to make a speech, let him say so; but let me have the floor for a minute.

Mr. CLEAVER: This is a letter which I received from the Minister on the 19th of March in which the Minister of National Revenue says, "The Company will not be permitted to charge the \$250,000 as an operating expense."

Mr. JOHNSTON: Mr. Chairman, the witness says he has had a report from the income tax stating that it will be allowed.

Mr. GOLDING: He said it is not finally settled.

Mr. BOUCHER: He said he had a statement from the income tax department that it is a deductible expense, as plain as anything can be.

The CHAIRMAN: Order, gentlemen. There are two points that have arisen here. One point is that the honourable member has the floor. The other point is that I think we should adhere to the proper procedure in that the honourable member who is reading the letter, not being a member of the committee, should have the consent of the committee to place the evidence on file.

Mr. BOUCHER: Is Mr. Cleaver brought in as an expert witness before this committee?

The CHAIRMAN: Are you asking me that question?

Mr. BOUCHER: Yes. He is not a member of the committee.

The CHAIRMAN: I regret to inform my honourable friend that I cannot answer that question.

Mr. BOUCHER: He is not a member of the committee. Mr. Chairman, will you tell me how it comes that Mr. Cleaver, not being a member of this committee, is taking an active part in it?

Mr. CLEAVER: I am a member of the House, and I am a member of the war expenditures committee, and I am familiar with this transaction. I am not going to let you away with a mis-statement of fact.

Mr. NOSEWORTHY: He should have the permission of the committee to speak.

The CHAIRMAN: Order. Just a minute until we get this whole thing cleared up.

Mr. JOHNSTON: If I have the permission of the chair, I should like to ask Mr. Bayer to put on the record the copy of the letter which he received from the income tax department. I think that would settle the question.

Mr. McGEER: May I deal with that matter now. It seems to me that nobody will object to this letter which is in dispute going on the record. It is dated March 19, 1943, is from the Minister of National Revenue, and is addressed to Mr. Cleaver.

Mr. BOUCHER: I object to that. I think if we get any reply, we should get it in from the witness before this committee, not by virtue of any letter brought in by any member who is not a member of this committee. If we do that, we might as well throw the committee open and let every Tom, Dick and Harry on the street bring in any evidence he may want to.

Mr. McGEER: We have had Toms, Dicks and Harrys here before.

The CHAIRMAN: Mr. Boucher, may I convey to you that the honourable member who is now on his feet is a member of the committee; and in order to get continuity of evidence on the record, in view of the discussion that has taken place over the evidence given by the witness, I think it is quite in order that this honourable member place on the record this letter, if he wishes. Go ahead.

Mr. McGEER: I think you will agree that any president who knows what is going to happen in the way of his corporation taxes, either income tax or excess profit tax, would be a pretty lucky man; and I do not suppose this particular president is any luckier than most of them to-day. But for the purpose of clearing up this point, Mr. Chairman, I suggest that this letter be put on the record. The letter reads as follows:—

MINISTER OF NATIONAL REVENUE

CANADA

OTTAWA, March 19, 1943.

Dear Mr. CLEAVER,

Re: Noorduyn Aviation Limited, Montreal and D. M. Martin

I have your letter of March 9th asking certain questions in connection with the Agreement between the Noorduyn Aviation Company of Montreal and D. M. Martin.

The following are the answers to the questions which you ask:—

- (1) Under date of March 4, 1941, the Inspector of Income Tax at Montreal wrote to Messrs. Matthewson, Wilson & Smith, Barristers and Solicitors, Montreal, the legal representatives of the Company, that the matter had been given consideration by the legal branch of the Income Tax Division and, in the result, it is considered that Noorduyn Aviation, Limited, should be permitted to deduct for tax purposes, the sum of \$250,000 paid to, Mr. Martin, but that Mr. Martin is not taxable thereon.
- (2) The Company will not be permitted to charge the \$250,000 as an operating expense for a further period than the year in which the contract was cancelled.
- (3) Mr. Martin will not be charged Income Tax on the \$250,000 received by him under the settlement.

Yours sincerely,

COLIN GIBSON.

HUGHES CLEAVER, ESQ., M.P.,
Chairman,
Subcommittee No. 1,
War Expenditures Committee,
The House of Commons,
Ottawa.

(Marked as *Exhibit No. 2*)

Mr. BOUCHER: Is that the letter Mr. Cleaver spoke about?

Mr. McGEER: Yes.

Mr. BOUCHER: In order to keep the record clear, may I say upon my honour, as well as he said upon his, that I have never seen that letter, read it, heard of it or anything else to that effect. If Mr. Cleaver states that he handed it to me, it is certainly beyond any possible recollection of mine.

Mr. CLEAVER: I handed it to you right in your own office, and within the last four weeks.

Mr. BOUCHER: Well, as a matter of fact, I will flatly repudiate that.

Mr. McGEER: Surely we have enough to do—

Mr. BOUCHER: That is not a fact.

Mr. McGEER: Surely we have enough to do without settling disputes between members.

Mr. BOUCHER: I do not want a member who is not a member of this committee coming and telling me that he handed me letter when I, with the utmost sincerity, say that I never saw it, do not recollect it or know anything about it.

Mr. McGEER: I quite agree; and I am sure members of this committee will accept both your statement and that of Mr. Cleaver, but you will have to settle it elsewhere.

Mr. JOHNSTON: To keep the record straight, should we not have the letter that the witness received from the income tax department?

Mr. BOUCHER: Let me go further with that letter, and say that letter is just a verification of what Mr. Bayer has said.

The CHAIRMAN: That is the way it sounded to me.

Mr. BOUCHER: Certainly it is. It is not what Mr. Cleaver said at all. It verifies the statement that payment came out. This \$250,000 is payment made on which excess profit tax is not levied. And furthermore, that the money paid to Martin, the quarter of a million dollars to be paid to Martin, is free of income tax.

Mr. CLEAVER: No.

Mr. BOUCHER: That is what it says.

Mr. CLEAVER: No; only for the year 1940; and that is restricted to profits earned for 1940.

Mr. BOUCHER: Right. That is enough.

Mr. CLEAVER: It is not enough. You have to find out first what profits the company made.

Mr. BOUCHER: Are you going to give evidence before this committee or are you not?

Mr. CLEAVER: Are you going to stick to the truth or are you not?

Mr. BOUCHER: I am sticking to the truth.

The CHAIRMAN: Order, gentlemen.

Mr. JOHNSTON: Mr. Chairman, I should like to have that letter the witness referred to put on the record.

The WITNESS: The letter I have is simply an extract from that letter.

By Mr. Johnston:

Q. Would you read it?—A. This is a letter from the Regional Inspector, Mr. A. H. Rowland, Inspector of Income Tax. It reads as follows:—

P.O. Box 900, PLACE D'ARMES,
MONTREAL, QUEBEC,
4th March, 1941.

Attention: Mr. Smith

Messrs. MATTHEWSON, WILSON & SMITH,
275 St. James Street West, Montreal.

Re: Noorduyn Aviation Limited—Donald M. Martin

Dear SIRs,—Referring to our recent conferences your representations have been given consideration by our legal branch and in the result it is considered that Noorduyn Aviation Limited should be permitted to deduct for income tax purposes the sum of \$250,000 paid to Mr. Martin, but that he is not taxable thereon.

Yours faithfully,

A. H. ROWLAND,
Inspector of Income Tax.

(Added to Exhibit No. 2.)

Mr. NOSEWORTHY: The government got no income tax on that item from the company or from the individual.

Mr. BOUCHER: Or no excess profit tax either. Correct?

The WITNESS: No. We hope that sticks, from the company's point of view.

By Mr. Boucher:

Q. As a matter of fact the company, hoping that it would stick, made a settlement?—A. That is right.

Q. It was anxious to pay Martin.—A. It was anxious to claim for any expense under income tax.

By Mr. Golding:

Q. Was this settlement made after you got that letter?—A. No. The settlement was made before that letter.

Mr. GOLDING: Why does Mr. Boucher say because of that you were anxious to get that settlement?

The WITNESS: Settlement was made before that letter.

Mr. BOUCHER: I asked him if he was, and he said yes.

Mr. GOLDING: Of course he did. You put it that way, which you knew was not true, or was not the true situation.

The WITNESS: The date on the letter protects us.

Mr. BOUCHER: Your opinion and mine may vary, Mr. Golding.

Mr. GOLDING: You know that was not true.

Mr. BOUCHER: I do not know that it was not true. I refer to what Mr. Bayer said before the war expenditures committee, if you want to file the evidence and see what he said there.

Mr. GOLDING: Did you not know the settlement was made before they received that letter?

Mr. BOUCHER: I know Mr. Bayer made certain statements before the war expenditures committee to the same effect; and if you like, you can file the evidence taken before that committee in camera; which will verify my opinion.

Mr. GOLDING: You go and read what you said a few minutes ago. You know better than that. Of course you do. You have a smooth way of putting things over.

By Mr. Boucher:

Q. Mr. Bayer, can you give us any details as to any change in company capital and assets within the last two years?—A. How do you mean, change?

Q. Well, the government returns show that the capital of the company on January 1, 1940, was \$417,000. What is it now?—A. The capital of the company, as I stated before, from my calculation of capital is the outstanding notes, plus the guaranteed bank loan plus the \$417,000.

Q. That is not capital, is it?—A. I would consider it such. You and I disagree on that; but anybody that gives me money to put into a company, I consider capital invested.

Q. Have you the financial statement, or the profit and loss statement for the year ending the 31st of December, 1941?—A. Did you say 1941?

The CHAIRMAN: He has 1942.

The WITNESS: I have 1942 here.

The CHAIRMAN: 1942 will give it to you.

Mr. BOUCHER: Have you one for 1941 also?

The CHAIRMAN: There is no 1941 statement here. The one he has before him I think will give you what you want.

Mr. JOHNSTON: Have you any extra copies of that?

Mr. BOUCHER: You might file that.

The WITNESS: I am sorry, that is the last one I have.

Mr. BOUCHER: Mr. Chairman, am I right in saying that you ruled that the witness could not file the contracts, or the agreement terminating the sales contract?

The CHAIRMAN: No, I would not say that I ruled that; but I appealed to yourself and members of the committee that I felt it was going pretty far in justice to the company to have them filed publicly before this committee. I did not rule that they should not be filed. It is simply a matter of consideration for the company. You have got the particulars out of them that you want. Is there any reason why we should spread on the record a lot of information about this company's operations in which we are not directly concerned?

Mr. BOUCHER: I think it is important in so far as this is concerned. I would like to insist on that.

The CHAIRMAN: And I say I would not want to go as far as to get a rule against the committee if the committee wishes them filed, but I still feel from the company's standpoint that it would be an injustice to file them as public documents set before the committee.

Mr. JOHNSTON: They are filed now.

The CHAIRMAN: Yes.

Mr. BOUCHER: You see, we have filed now the original contract between the Aviation company and Mr. Martin and what I am asking for now is a copy of the agreement terminating that, or transferring it actually from Martin to the Noorduyn company.

The WITNESS: I beg your pardon, what was that?

By Mr. Boucher:

Q. Could you file the agreement terminating or reaching a settlement of the sales contract with Mr. Martin; or, the cancellation of this contract with Noorduyn?—A. No. You have one of them I think, you have one of the Martin contracts right there in front of you, sir. You see, that was the Aircraft Industries—

Q. The one from the company to Aircraft Industries?—A. Yes, you have that—

Q. And then Aircraft Industries turned that contract over to Martin personally; Aircraft Industries was really a private company owned by Martin?—

A. That is right.

Q. And this private company then signed a new contract?—A. You have it there.

Q. Then as to the termination or the settlement made between Martin and Noorduyn, have you that?—A. I have that.

Q. Will you file that?—A. It is just a question as to Mr. Martin's view of it.

Mr. GOLDING: Before you go any further with that, and the matter of these expenditures, that is strictly an internal matter of the company and has no bearing on this committee whatsoever.

Mr. BOUCHER: I am sorry that I do not agree.

Mr. McGEER: Would you mind letting me have a look at that contract, Mr. Chairman?

Mr. BOUCHER: That is being filed as an exhibit.

Mr. McGEER: We haven't decided that yet. Might I look at it?

By Mr. Noseworthy:

Q. While this matter is being decided there is one question I would like to put: reference was made to \$417,000 of assets at the beginning of these transactions; how much of that was the company's own capital—I did not get your statement as to that?—A. It was cash paid into the company, \$417,000 cash paid into the company for stock; \$100,000 of guaranteed bank loan cash, and \$300,000 odd of 5½ per cent notes paid in cash—they were sinking fund convertible notes.

By Mr. Boucher:

Q. As a matter of fact, getting it on to the record, your financial statement or balance sheet as of the 31st of December, 1941, shows that your initial capital was \$417,000; and, similarly, the same thing is shown on your financial statement for the period ending in 1942—is that correct?—A. Financial capital, as you calculate it is stock only—paid in stock. I would say not financial capital, but you and I disagree on that.

Q. The only thing you had other than paid-up stock were these notes that you are attempting to sell?—A. But those notes could be converted, you know; they were convertible notes.

Q. But just the same they were the notes you were attempting to sell?—A. That is right.

Q. And there was no security other than the capital stock of the company and your actual compensated business, your goodwill as it were?—A. Contemplated business, the assets that were purchased with the money. As a matter of fact, had the security market been right we would much rather have kept on selling notes than getting government assistance given to us.

By Mr. Golding:

Q. Mr. Bayer, did you have any profit at all in 1940 to pay excess profits tax on?—A. No, we had a loss of \$22,808.

Q. That is what I thought. Did you have any excess profits to pay in 1941?—A. I could not answer that.

The CHAIRMAN: What does the 1941 statement show?

The WITNESS: You have that statement before you I think, Mr. Boucher.

Mr. BOUCHER: Apparently it is the same thing.

Mr. GOLDING: They had a loss in 1940.

The WITNESS: We have, before a calculation of excess profit taxes,—because we have not any idea yet of what our standard profits are—there is \$83,000. We have that, but are the rulings going to work—this is just calculated on the basis of an estimate.

By Mr. Golding:

Q. This \$83,000 is before excess profit taxes?—A. That is right, before any taxes.

Q. And you had a loss in 1940?—A. That is right.

Q. And that amounted to \$22,000.—A. Yes. Pardon me, I see there was an estimate for taxes in there of \$160,000.

By Mr. Purdy:

Q. And may I ask in what year the loss of \$22,000 was?—A. That was in 1940.

Q. And, might I ask in what year the payments to Mr. Martin were deducted from the earnings of the company?—A. I can give you how those payments were made: in 1940 there was \$75,000 paid on the execution of the contract; in 1941 there was \$50,000 paid, in 1942 the balance was paid.

By Mr. Boucher:

Q. Mr. Bayer, did Mr. Martin have anything to do with getting this contract from the government?—A. That, again, is a difficult question to answer. I would say, on these contracts, no; but Mr. Martin prior to the war was trying to sell our materials all over; I mean, as far as selling airplanes were concerned to the government or otherwise.

Q. As a matter of fact, Mr. Martin was at one time a director of the company?—A. I do not think so. At no time when I was there was he.

Q. Do you agree with me that he was a director of the company until the day he took out the sales contract when he resigned from the directorate and took out the sales contract on the same day or about the same time?—A. I would say no; offhand.

Q. You mean, subject to correction?—A. That is right, subject to correction.

Q. Would you check that up and let us know?—A. Mr. Noorduyn who is sitting alongside of me now says; no, he never was a director.

Q. What was his position with the company previous to the sales contract?—A. He was in charge of sales.

Q. But previous to getting this sales contract—what did he do up to that time?—A. That was when the company was founded. I only came into this company in August.

Q. Could you give us a financial statement showing the liabilities, the profits or losses of the company for say the last three years?—A. You have two there now, and I will be glad to give you the third one.

By Mr. Johnston:

Q. You say Mr. Martin was in charge of sales; did you get any sales profit on the 26 or 27 planes which the company made before the government entered into the picture?—A. Definitely. Mr. Martin was the founder of this company. Mr. Martin was the man who brought Mr. Noorduyn up into Canada and into the company with a view to making airplanes to be used up in the bush country. The thought was that Canada was behind in the kind of planes which could be used in developing and exploiting the north country; and he got hold of Mr. Noorduyn and brought him up; and the Norseman which we make was designed 100 per cent by Mr. Noorduyn and our own organization; and Mr. Martin's entire set-up was that he was never to take any compensation out of the company until he went out and sold the goods of the company; also, he brought capital into our company. I got into the company when it got a little further advanced. I came into the company at the instigation of certain people who were putting money into it.

Q. What other planes did they make besides the Norseman?—A. None.

Q. Later On?—A. Later on they made the Harvard. They had bought the licence for the manufacture of the North American Harvard prior to the war.

Q. And the Harvard was to be used for, what?—A. As a trainer.

Q. As a military trainer?—A. Yes.

Q. That was before the war started, so Mr. Martin had it in mind that there would be quite a sale for the army trainer plane?—A. Naturally, when he went into that he was in touch with that development.

Q. And then he resigned from the company; or, of course, that is what he would claim now; to take on this sales company after that?—A. No, he has always had that. Mr. Martin, as I say, for the last ten or fifteen years has been in the airplane business in Canada and he has been closely associated with the airplane business in both Canada and the United States; frankly, this company was very fortunate having him, as far as that goes; and the getting together of an organization now running into 9,300 employees—in order to do a thing like that you had to have someone who knew people all through the United States and other places where they are producing airplanes. That is the point, Mr. Martin took a lead in that development. And an important thing which we are overlooking is that Mr. Martin never got anything out of this company until the company was selling airplanes, regardless of the government; that was his gamble on the entire situation.

Q. And when they started to make Harvards for trainer planes he started to make really a substantial profit?—A. That is the reason we got him out of the contract.

Q. From his point of view it was good business. I am not complaining about it at all. When he saw the way things were developing and the war shaping up he stood to make a considerable amount of money as the result of the company's operations, and then the company came along and said we will have to change that.—A. Well, I do not know if I am permitted to say anything off the record, with the permission of the chairman I would like to do so.

(Witness made a statement off the record)

Q. And then you bought him out for \$250,000 and this contract was cancelled?—A. Well, the government did not enter into that contract at that time. The only time the government entered this, Mr. Johnston, was when we had to get capital assistance. Prior to that it was simply a company matter.

Mr. GOLDING: No.

Mr. JOHNSTON: And then some government officials found, the government itself with some of its officials as I understand it from what Mr. Boucher said a moment ago, participated in the cancellation of the agreement between Mr. Martin and the company.

Mr. GOLDING: No.

Mr. JOHNSTON: And they insisted that this contract should be cancelled.

The WITNESS: I suggest that I said three or four times, definitely, no.

A MEMBER: Let us get back to the evidence.

Mr. BOUCHER: Are these exhibits filed?

Mr. McGEER: After what Mr. Bayer says of the contracts, I think these contracts might very well go in. His statement now is that this contract for the sales agency was cancelled between the company and Mr. Martin, but not as a result of intervention on the part of the government at all and before any government assistance was extended. Now, I do not know just how that would be—

Mr. BOUCHER: The evidence, Mr. McGeer, of Mr. Bayer is that this contract was rescinded on August 26th, 1940, and government assistance was given on August 29th, 1940; and the return tabled in the house states that the government—it said in effect that the government was concerned about this agreement.

Mr. GOLDING: But is was still before they got any capital assistance. That was clear.

Mr. BOUCHER: Surely, it was cancelled within three days.

Mr. McGEER: Before we pass into that there is one matter which I think should be cleared up, and that is the matter of excess profit taxes. Now I understand—

Mr. BOUCHER: I think we should have a ruling as far as the exhibits are concerned.

The CHAIRMAN: In connection with this agreement; frankly I feel and I have expressed myself before on this point this morning, that we have carried the examination of this witness pretty far up to the present time; and I think members of the committee would probably agree with me that I might appeal to the witness and ask him if he is agreeable to having this filed. Personally, I do not see any reason why they should not be filed.

Mr. BOUCHER: Can we get over the fact that this agreement was executed on the 26th of August. Financial assistance is not given over night; it could and was given on the 29th of August, three days later; therefore, it cannot be said that the cancellation of this agreement is not an integral part and parcel of the basis upon which financial assistance is given at this stage; so, we cannot rule it out—and, in view of the government return filed in the house as well.

The CHAIRMAN: The point I am making is this: we start with one agreement and now we have four company documents on the table at the present time. Now, as I say, it has been brought out in evidence this morning, these agreements have been tabled, and it has been shown that the business transacted was internal business of the company prior to any government assistance. I think in fairness to the company—if the company is willing that these agreements be filed I will not object.

Mr. BOUCHER: The company did not object at all when the matter was brought up, it is only now that Mr. Bayer is objecting.

The CHAIRMAN: The company is not objecting now, I have not asked them. I do not know what Mr. Bayer will say when I ask him; but I simply put it to the committee that I think in justice to the company we should ask the company if they are agreeable to the filing of these documents with the committee.

Mr. BOUCHER: You mean, before you give your ruling.

The CHAIRMAN: Yes.

The WITNESS: It is one of those things that is a matter of company policy. Before I hand out confidential documents like those I would like to have the matter before my own board of directors. I am taking a lot on myself as president here before this committee as it is; and the way matters stand, I think I will have to object to handing them over.

Mr. GREEN: The documents have been produced, and having been produced surely they are open for review by any one member of the committee?

The WITNESS: That I am perfectly in accord with.

Mr. GREEN: It is simply a matter of completing the record, and I suggest that they should go on and be filed as an exhibit the same as any other document. Surely you are not suggesting for a minute that we cannot read these documents today or tomorrow, whenever we have time to do so. They have been produced and are available for the committee, I fail to see what possible objection there can be to them becoming a part of the record; it is simply a matter of completing the record; they are available to the members.

Mr. GOLDING: Now, Mr. Chairman, Mr. Green was one of the members who was very much offended when I suggested when this investigation was to be held that we would have to confine the investigation to these items; and he was very much perturbed and offended because I said, "Now don't try to bring something else in", and I think we made that perfectly clear, and my friend immediately made a protest for my even suggesting that.

Mr. GREEN: Not for that. You said something a great deal more offensive than that.

Mr. GOLDING: What was it?

Mr. GREEN: I am not going to repeat it.

Mr. GOLDING: Tell the committee what it was?

Mr. GREEN: Those who were here heard it.

Mr. GOLDING: They will vouch for the truthfulness of the statement I have made, and if you have any other complaints to make come and stand up here and tell the committee about it.

Mr. GREEN: You made some insinuations.

Mr. GOLDING: Tell the committee what it was. That is the fact, and you know that, Mr. Chairman.

The CHAIRMAN: In reply to Mr. Green may I say that my feeling is still this, that I can see his point, but I think we are going pretty far when we ask the president of the company, or when we force the president of the company against his wishes, to leave these company documents open to public scrutiny—when I say public scrutiny I am not so much referring to the members of the committee, but once we file these documents they are open to the press, anybody. Surely we can bring out in our examination of the witness any facts that are contained in these documents; and, again, he is very agreeable to meeting us to that extent. I am trying to look at the matter from the standpoint of the company, and I am sure my hon. friend will also; and if I were in the same position as Mr. Bayer is in at the present moment—he walks into this committee without knowing what he is going to be confronted with and he is asked to leave as exhibits private documents belonging to the Noorduyn Company, documents which I think you will agree with me are not within the exact scope or jurisdiction of this committee because of the terms of its reference—I think if Mr. Bayer objects to leaving these documents as exhibits before this committee I should agree with his view and comply with his request.

Mr. GREEN: You mean that we are not to have a chance even to look at them ourselves.

The CHAIRMAN: I do not mean that.

Mr. GREEN: That is what amounts to.

The CHAIRMAN: A number of the members of the committee have already read them.

Mr. GREEN: Mr. McGeer I see has had a look at them. He has a copy there now.

The CHAIRMAN: And Mr. Boucher read them. We will pass them over to you now, will that be satisfactory?

Mr. McGEER: With the idea of there being filed with the clerk of the committee but not appearing in the records; is that satisfactory?

The CHAIRMAN: I do not think that the committee rules that way. If you want to read the documents we shall hand them over to you.

Mr. GREEN: I think we should all have a chance of going over them.

Mr. JOHNSTON: I think it is very unsatisfactory to allow one or two members only to read them.

The CHAIRMAN: Suppose we retain them with the clerk of the committee and not file them as exhibits.

Mr. JOHNSTON: They are public documents.

Mr. BOUCHER: I do not want to embarrass Mr. Bayer in any way, particularly because of his position; but here is a point we are getting away from, here is the government making advances and supplying material of considerable

value to a company with no real estate assets and \$417,000 capital stock subscribed and notes outstanding—as Mr. Bayer would say. And here is a contract which may or may not be in the public interest. And here is the Public Accounts Committee investigating—how can we investigate without the accounts upon which the government says that these advances were made; that basis would definitely include the liabilities by way of contractual obligations with respect to it. And I do think as a committee on Public Accounts representing the House of Commons we have the responsibility of going into this, and if it is gone into in camera I do not think that we are doing ourselves, or the public, or Noorduyn, or Martin, or anybody connected with the obtaining of the advances any good. I think myself that the filing of the contract in camera as it were, open only to this committee, the members of which may go and look at it, only creates a more difficult situation; makes confusion worse confounded—and I should say, suspicion more rampant.

Mr. GREEN: Mr. Chairman, there is another matter also, the War Expenditures Committee and their report—Minutes of Proceedings No. 3 of last year on page 96—had these words to say with regard to this very contract:—

In its investigations the sub-committee found in one instance that an aircraft producing firm agreed to pay a salesman for release of an existing sales contract an amount equal to 50 per cent of its firm capital and which agreement the sub-committee believes to be an improvident agreement and should not have been entered into had the facts been brought to the attention of the department promptly.

that ties it in with the Noorduyn Company and it ties in this agreement. And now, surely, it is not a question whether the company wish or do not wish to have these documents tabled. There it is securely tied in by the War Expenditures Committee and I submit that the agreement should be filed and should be made an exhibit.

By Mr. McGeer:

Q. Might I make this suggestion; I have read these contracts—Mr. Green can read them, I am sure—the only factor in that contract, is the payment of \$250,000?—A. That is right.

Q. You have already given that in evidence?—A. That is right.

Mr. GREEN: Then, there should be no objection to filing them.

Mr. McGEER: I suggest to you, Mr. Bayer, this: there is nothing in this contract of 1940 when the cancellation was made which covers anything but that payment of \$250,000 which you have already made, outside of the terms of payment.

The WITNESS: Sure.

Mr. McGEER: What objection there can be to filing that contract now I do not see. There is no incursion into the rights of the company. I would ask you to consider that, and at a later meeting, after Mr. Boucher and Mr. Green have read it, you might consider having it filed with the committee. There is one other item which I would like to clear up and it is this; the contract was cancelled in 1940. The ruling as to the letter, filed, says that you are limited to charging the cost of that contract to that year, 1940, when the contract was cancelled, I mean, you may not agree with the Income Tax Department; but in so far as that letter is concerned that is the ruling to date?—A. I am not positive how that ruling is going to work out.

Q. Neither am I. In any event, at the moment that is the ruling the committee has before it. You took a loss that year of \$22,000? That is the statement?—A. Yes.

Q. Now, if you can only charge that operating expenditure to your excess profits in that year when you dropped \$22,000 you are not going to get the benefit of that charge at all, are you?—A. Not if that ruling sticks.

Q. In so far as the committee is concerned they are subject to what change there may be in the decision of the Income Tax Department. The government loses nothing and the company gets no benefit in the matter of taxation from that payment up to now; is that correct?—A. Up to now inasmuch as we have not . . .

Q. You may be hopeful.

Mr. GREEN: Let him finish his answer.

The WITNESS: Up to now inasmuch as we have not settled with the tax department.

By Mr. McGeer:

Q. But in so far as the ruling of the tax department is concerned you are out of luck to date?

Mr. GREEN: Your ruling may be right or wrong.

Mr. McGEER: I am only dealing with the evidence of the Minister's letter which is now before the committee.

Mr. GREEN: It did not sound that way to the rest of us.

Mr. McGEER: What he says is he is hoping but as far as that ruling is concerned I do not think there is any question about it. The proper witnesses who can clean that matter up would be the officials of the tax department who will have to be called if there is a dispute about it.

Mr. BOUCHER: We are in this stage of the proceedings now that I do not know yet whether these are going to be filed. I do not know whether the letter from the Income Tax Commissioner to Noorduynd has been filed. I think it should be.

The WITNESS: It was read into the evidence complete, the complete letter without any reservation. I only have a copy of it with me. (Copy filed by Clerk.)

The CHAIRMAN: To clear this matter up I would suggest that these agreements that we have got tabled now be left in the custody of the clerk of the committee and available to all members. That will serve the purpose.

Mr. BOUCHER: And withhold your ruling until such time as Mr. Bayer may tell us whether he can definitely file them or not. I do not want this as the termination, because I do think, and I must insist, on this being filed as part of the record of this Public Accounts Committee if we can do so.

The CHAIRMAN: In the meantime the agreements will be held by the clerk and available to every member.

Mr. GREEN: I understood Mr. McGeer to say that he thought the letter should be filed, that the agreement should be filed.

Mr. McGEER: I did not say any such thing. What I did say was this; I suggested to Mr. Bayer that all the facts of any significance in the agreement had already been disclosed. There is nothing in the agreement outside of the agreement to pay \$250,000 which Mr. Bayer has given in evidence. I do not think the agreements have any place before the committee at all but for the purpose of peace in the committee I suggest to Mr. Bayer that he take time before the next meeting to consider whether or not he wants to object to them.

The WITNESS: There will be no objection.

Mr. McGEER: My suggestion to him is that he will on consideration and on the advice of his counsel or associates probably agree that there is no harm in filing them.

The CHAIRMAN: Do you want to leave it that way?

Mr. BOUCHER: That is all right.

The CHAIRMAN: If not we will table the agreements and read them in the meantime. Gentlemen, it is after 1 o'clock. We will adjourn until 11 o'clock tomorrow morning.

The Committee adjourned at 1.15 p.m. to meet again on Wednesday, May 19, 1943, at 11 o'clock a.m.

HOUSE OF COMMONS, May 19, 1943.

The Special Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, we have a quorum and we will proceed. Mr. Bayer has acquiesced in filing these agreements and amendments as exhibits. (*See Exhibits 3, 4, 5 and 6.*)

Mr. GREEN: Before you go on could you say when you intend to move concurrence in the report?

The CHAIRMAN: To-day at 3 o'clock, as I told you yesterday. Are you going to proceed with the witness, Mr. Boucher?

Mr. BOUCHER: Yes.

By Mr. Boucher:

Mr. W. L. BAYER recalled.

Q. As I understand it you have consented to the filing of the original contract with the aviation company.—A. With the concurrence of Mr. Martin who was the other party to the contract.

Q. And the assignment from that sales company to Mr. Martin personally?—A. You have already got that.

Q. That is already filed?—A. Yes, you have got all the contracts.

Q. Also the agreements, as it were, terminating that sales contract?—A. That is right.

Q. Mr. Bayer, yesterday you said that you had not the particulars of the breakdown of the \$417,000 capital stock that the Noorduyn Company had in the beginning of 1940 or thereabouts, and where it was listed in your financial statement as a capital asset. Have you any further particulars on that?—A. I have not got a complete breakup, but what I did get for you, as at July 31, 1940—that is before the guaranteed bank loan or assistance of the government—we had \$531,215.62 worth of machinery and equipment at cost. I thought that was the figure that you were after.

Q. Machinery and equipment at cost?—A. Yes. That is aside from the equipment we had leased from the Montreal Aircraft which was part of the rental.

Q. Which in effect represents the capital stock of the company as set out in your financial statement of the year 1940?—A. It represents machinery. As far as capital stock is concerned you have to take the balance sheet on that. Capital stock, as you know, is the cash that is in the business, how it is spread over on the other side; whether it happens to be engineering or jigs, tools, dies, cash or accounts receivable, capital stock is something that cannot be identified on the other side of the balance sheet at any time that I know.

Q. You realize when the company sets up a financial statement it puts as capital assets the total figure of its real assets. The result is from that deduction, if I am correct, that the very substantial portion of the \$417,000 reported to the government as being assets of the company was composed of tools and

equipment?—A. No, no; there was not any report to the government on \$417,000. That is a figure of your own, sir.

Q. It is really a reply that the government gave by order for return as being the amount of capital assets represented to them by Noorduynd as being property—A. \$417,000 is the original investment in cash in the business. That was the original investment, and then the notes and the guaranteed bank loan were subsequent to the \$417,000. That was the cash that was put into the business. As to the analysis of where that cash went naturally I cannot give you that because that is offset with accounts receivable and accounts payable and both sides of the balance sheet. I can file with you the balance sheet as of December 31, 1940, which is self-explanatory.

Q. The balance sheet of December 31, 1940, does not show any breakdown of the \$417,000?—A. Well, breakdown—there is no such thing as a breakdown of capital stock.

Mr. CLEAVER: He wants a list of the shareholders.

Mr. BOUCHER: No, I do not want that.

By Mr. Boucher:

Q. When capital stock is subscribed to a company you have actually had a subscription of \$417,000 to the assets of the company. I was wondering how that was applied once the company had it as a means of determining what tangible or property assets the company had. You have already explained to us that the company did not own any land, had rented land and some machinery and was in production to some extent.—A. Well, as a consequence when cash comes into a company, if we have got to get the economics of cash coming into a company in the form of stock on one side of the balance sheet then the other side must of necessity have machinery, cash, accounts receivable or whatever the case may be. I have not got that breakdown for you. If you want the balance sheet as of December 31, 1939, I will be glad to send it to you.

Q. I should be glad to get that with that breakdown.—A. It will show the assets and liabilities and you will have to analyze it the way you want to because I do not analyse a balance sheet on the same basis that you do, apparently.

Q. Have you any particulars as to the number of planes the company had manufactured previous to the first of January, 1940?—A. You gave me the figure yesterday, twenty-seven to twenty-nine.

Q. That is substantially correct?—A. That is substantially correct.

Q. In yesterday's evidence you stated that to date, as I understood it, no tax had been either paid or settled with the government; is that right?—A. I did not say that. I said that no tax has been assessed. We have paid income tax. Of necessity you have to pay income tax as you go along but we have not had standard profits fixed for us and consequently we do not know what the tax problem is.

Q. Can you give us particulars of what taxes you have paid to the government in the years 1940, 1941 and 1942?—A. I have not got those figures before me. I will have to get them from our accountant.

Q. You can get those and supply them to us. In checking over the evidence you gave yesterday at page C-9 in reply to a question of mine you answered:

The point that I would like to bring out is this, that the negotiation for the cancellation of the contract with Martin was in June, and it was cancelled eventually in August. Getting the advances from the government was basically dependent on our getting rid of this contract

At page C-10 again you say:

What I said was that we did this, arranged the cancellation of this contract, because the government insisted on that being done in order to safeguard the payments as far as they were concerned under the contract.

I take it that is correct, is it?—A. What page is that?

Q. Pages C-9 and C-10, about the middle of page C-9.—A. Whereabouts on page C-10?

Q. About the middle of page C-10.—A. That is what it says there, but the point was I was trying to get over in that answer, Mr. Boucher, that on the cancellation of the contract, the government did not want to make any payments until the \$400,000 was paid back. Whether the phraseology is just correct in that, apparently the continuity—the way I said it—was not carried out, but that is the intent. The intent was that the \$400,000 should be paid back before payment beyond what had already been paid prior to the signing of the contract.

Q. From the statement that you made there I gathered that the government or officials of the government did insist upon a settlement of this contract before they would advance you any capital?—A. No, that is the point. We seem to have a difference of opinion on that. The contract was settled. The government officials insisted that no payments could be made thereon until it was agreeable to them.

Q. That is not just what you said here.—A. That is not what is reported to be said there, no.

Q. Here you say:—

Negotiation for a cancellation of the contract with Martin was in June, and it was cancelled eventually in August. Getting the advances from the government was basically dependent on our getting rid of this contract.

Mr. GOLDING: Read in your evidence where you did say exactly what you are saying now.

The WITNESS: Is that further on? I am not an attorney and I am trying to give these answers to you as honestly and carefully as I can by giving you all the information required.

Br. Mr. Boucher:

Q. While I cannot refer to it in the evidence, to be perfectly fair to you I did understand from you yesterday that the government did not know anything about the existing sales contract until that contract had been cancelled. That was the impression that I got from you yesterday, and then on checking over I find that you say that the giving of capital advances was basically dependent on cancellation of this contract. I want to reconcile those two statements or have your explanation.—A. The thing I am trying to explain to you and have you understand is that negotiations for the cancellation of that contract were finished in detail with Martin in June.

Mr. McGEER: What year?—A. 1940.

Q. June of 1940?—A. June of 1940. The security markets and so forth were such that in order to get out airplanes we had to get working capital. We did not have sufficient to take care of the situation due to the fact that at that particular time I think progress payments that we were receiving from the government for our airplanes were 75 per cent with the result that as we were going ahead with the work we were only getting 75 per cent cash back, and the business was expanding so that we could not carry it. Consequently, I presented the matter to the Hon. W. Gordon Scott at that time.

Q. What time would that be, after June?—A. Oh, yes, after June. Don't feel that when I say that we signed a contract with the government on August 31st that I went into the office and finished that up that day; because negotiations for that had been going on for perhaps a couple of months or six weeks before that; but at that time, when they gave me that loan of \$400,000—I wanted \$500,000 at least and they compromised on \$400,000—I disclosed to them then this sales contract.

Q. What was the first disclosure made by your company, that it had made to the government of this sales contract?—A. Exactly.

Q. Therefore, I take it from you now—

Mr. McGEER: That was after the sales contract was cancelled?

The WITNESS: That is right.

Mr. McGEER: And what you disclosed to the government was not the sales contract, but the terms of settlement which had been made in the cancellation of the sales contract.

Mr. GOLDING: That is the point.

The WITNESS: That is correct.

Mr. McGEER: That is where your confusion is, Mr. Boucher.

Mr. BOUCHER: I am not confused.

Mr. McGEER: I say it is not what you are trying to get at.

Mr. BOUCHER: Either the government knew before June; or, before August, when the advance was made, that there was this outstanding obligation of the Noorduyn company to a salesman, or they did not know. What I am trying to find out is, when this Noorduyn company first disclosed to the government the existence of a sales contract, or a cancellation of it.

Mr. McGEER: The cancellation of it was what they disclosed.

Mr. BOUCHER: If they disclosed the cancellation they also disclosed the fact that it had existed.

Mr. McGEER: I know all that, but the point was that they disclosed that in the settlement process a liability of \$250,000 had resulted, and the government then insisted—as it quite rightly should—that no payments should be made on account of that \$250,000 unless the advances to the government had been repaid.

The WITNESS: That is correct.

Mr. McGEER: And although the terms and dates of repayment of that \$250,000 were specified in the contract, the government insisted upon a new agreement whereby these payments would be deferred and the repayment of the government advances would be given preference.

The WITNESS: That is right.

Mr. McGEER: And that is why these contracts between Martin and the company were settled as of these dates.

Mr. BOUCHER: But, notwithstanding that, no disclosure I take it was made to the government or to any official of the government of the existence of a sales contract or of the existence of a liability to the settlement of a sales contract until after June of 1940 and until after the sales contract had been settled.

The WITNESS: That is substantially correct.

Mr. McGEER: No, not until the sales contract had been cancelled; it had already been cancelled.

Mr. BOUCHER: Put it "cancelled" then. As a matter of fact, the sales contract was in fact cancelled—it was assigned from Martin to Noorduyn, wasn't it?

The WITNESS: No. The assignment was from Martin—from Aircraft Industries to Martin, in which we intervened, or cancelled in advance of this settlement. That was the assignment of his complete contract. It was not an assignment of the settlement, the settlement was subsequent. You see, the settlement was in June—completely and thoroughly understood as to the details; but the written settlement was only in August.

By Mr. Boucher:

Q. But as I understand it, Mr. Bayer, if these payments had been made to Martin as a sales commission it would have come as earned income, but

having been paid to Martin as a settlement of a contract it got the interpretation of being a capital asset and not income; and therefore it relieves Martin from the responsibility of paying income tax; is that not correct, your understanding?

Mr. SLAGHT: Does he know about it?

Mr. BOUCHER: Let him answer the question.

Mr. McGEER: Now, Mr. Chairman, I submit that that is not a proper question. That is a question which could be properly presented to one of the officials of the Income Tax Department or a lawyer; but it is certainly an improper question to this witness.

Mr. BOUCHER: It is not an improper question; I submit that the witness should be permitted to answer it in his own way. If he does not think it is sufficiently clear, or if his answer is not satisfactory, I will follow that up with another question.

The WITNESS: I would just as leave answer it my own way, if I may be permitted to: the settlement of \$250,000, as far as we were concerned, had no question of income tax involved. The settlement was made to get out of what would have amounted to \$4,000,000 in the way of commissions.

Mr. GOLDING: Certainly.

By Mr. Johnston:

Q. How much commission would he have had?—A. \$4,000,000 as commission to date, and at that particular time the commissions would have been far in excess of \$250,000.

Q. Approximately \$900,000?—A. About \$900,000. We settled in the company at that time a \$900,000 liability for \$250,000—regardless of what Mr. Martin's situation was with the Income Tax Department—and that \$900,000 would have been a deductible item for income tax for us without any difficulty. Now, the other side of it is that we figured that we wanted to get out of the contract and Martin acquiesced.

By Mr. Boucher:

Q. As I understand it, the company found itself in a position whereby it had a sales contract with Martin exacting a sales commission on everything sold, whether Mr. Martin earned it or not, at such a rate as eventually would have come to an amount of say \$4,000,000?—A. That is on all of the business up to date.

By Mr. McGeer:

Q. Up to what time?—A. Now.

Q. That means, on all of the business done up to the present time.

Mr. BOUCHER: But it had not reached that on the date the settlement was made.

The WITNESS: No, it was approximately a million dollars, between \$900,000 and \$1,000,000.

By Mr. Boucher:

Q. At the time settlement was made the actual commissions to Martin under that contract you say amounted to \$900,000.—A. Approximately that.

Q. And without having been paid, through the settlement Mr. Martin cancelled all his rights over the contract for a quarter of a million dollars.

Mr. GOLDING: And you did that on the instructions of your legal adviser.

The WITNESS: Our legal advisers plus board of directors plus Mr. Martin.

Mr. BOUCHER: We still have a lot of people given evidence here; Mr. Bayer, I would rather have it in your own words.

Mr. McGEER: I understand it was done at your own request—

Mr. BOUCHER: Mr. Chairman, I think it is only proper that when a witness is asked a question the witness should be permitted to answer. I believe every member of the committee, and even some of the spectators are volunteering evidence. I must insist upon that right.

Mr. SLAGHT: My friend would be right if he were asking the witness a question, but he is not doing that; he is making an assertion of fact to the witness and trying to get a "yes" from him. Surely he knows the rules, and he knows that there is a proper way of framing it; what he says is, your legal advisers told you to do this, and to arrange that; that is an assertion by the gentleman examining. Let us have some questions.

Mr. GREEN: Of course, Mr. Slaght never asked such a question.

Mr. BOUCHER: No, Mr. Slaght never did that. I must insist on a ruling from the chair that the witness and the witness alone, be permitted to answer the questions asked of him.

Mr. McGEER: We all agree with that, provided the questions are proper.

Mr. BOUCHER: We take that as your firm assent, and as being binding on yourself and your party. As a matter of fact, Mr. Bayer, did you not in the examination for the War Expenditures committee—

Mr. McGEER: Now, Mr. Chairman—

Mr. SLAGHT: Order.

Mr. McGEER: I raise a point of order: if we are going now to go into the evidence taken from the War Expenditures Committee which was taken in camera, that means that we will have to review all of that evidence; and I offer the point of order that this examination must be conducted independent of the War Expenditures Committee.

Mr. GOLDING: Hear, hear.

Mr. BOUCHER: I think the member's point is well taken and I will bow to the objection.

The CHAIRMAN: I was just going to put it up to you if you had not.

Mr. BOUCHER: Mr. Bayer, on another occasion have you stated that no legal advice was sought on behalf of your company on the settlement with Mr. Martin?

The WITNESS: Legal advice on the settlement—that is, on the amount of money we settled, or on the contract?

Mr. GOLDING: On drawing up the settlement.

Mr. BOUCHER: On the settlement:

The WITNESS: The legal advice we took was on the basis that it was a sound and solid contract.

Mr. GOLDING: Yes.

The WITNESS: We sought legal advice on that. Now, as to the amount of money that we were to settle for, we did not take any legal advice on that anymore than we would take legal advice on how we would design an airplane.

By Mr. Boucher:

Q. Did you have legal advice as to the forms on which the minutes of settlement were drawn?—A. The minutes of settlement—you mean the minutes of the meeting of the board of directors?

Q. The agreement of settlement, the cancellation of the contract.—A. Certainly, our lawyers looked at the cancellation of the contract.

Q. Your lawyers drew up the cancellation of the contract?—A. Either they or Martin's; there were several drafts before us for consideration.

By Mr. McGeer:

Q. Was the contract drawn up in June?—A. No. The draft contract was looked at in June, the contract itself. There were several drafts drawn up but the actual contract—the time it was signed—the exact date when the first draft was drawn up I cannot give you but the deal was made with Martin in June; not the exact phraseology of how that contract was drawn.

By Mr. Boucher:

Q. Do I take it from you that your own legal counsel apart from Mr. Martin's legal counsel did draw up or peruse and advise you on that settlement.—A. Definitely. That is correct. Not the settlement, but the actual contract.

Q. On the actual draft agreement.—A. Yes.

Mr. McGEER: What do you mean by draft settlement?

Mr. BOUCHER: Just what it means—

Mr. McGEER: Surely it is drawn by a counsel.

Mr. BOUCHER: Again now you are giving evidence.

Mr. SLAGHT: What difference does all this make to the committee, Mr. Chairman; I think that we have wasted a lot of time here.

Mr. GREEN: If you stick around, you might find out.

Mr. SLAGHT: I have found out lots in the last five minutes.

Mr. BOUCHER: Well, Mr. Slaght, we will get in on the record where you can see it if I am permitted to ask some more questions.

Mr. SLAGHT: Now, Mr. Boucher, I was not asking you to make a speech.

Mr. BOUCHER: You don't want the answer so we will go ahead. Any time you do want it I will give it to you.

By Mr. Boucher:

Q. Did Mr. Martin have anything to do whatsoever with securing this contract from the government?—A. You asked that question yesterday and I answered you, no; and I still say, no.

Mr. BOUCHER: I did not understand you to have answered no; but that is it.

Mr. McGEER: But the fact is he had a great deal to do with the setting up of your early organization.

The WITNESS: That is right. I gave you the set-up of the company. He did set up the company, definitely; but as far as these particular contracts—no, he did not handle them.

By Mr. Boucher:

Q. Actually he did not do a solitary thing towards getting any of the contracts you ever had with the government, upon which you paid a quarter of a million dollars to him?—A. You say he did not have a single solitary thing to do with it—Mr. Martin was the man who founded this company; as I told you yesterday when you brought that question up—he was the governing factor in getting Mr. Noorduyn interested and in starting the company. Now, whether he directly came up and signed the contracts with somebody in Ottawa, or had something to do with that or did he go into the technical details which we had to give ourselves—I would say, no, he did not actually go up on this thing.

Mr. BOUCHER: As a matter of fact, this money was not paid to him as a sales commission but was paid to him in compensation for his having promoted this government contract.

Mr. SLAGHT: The contract speaks for itself.

Mr. BOUCHER: Let this man speak for himself.

Mr. GOLDING: That is the settlement with respect to the sales commissions only.

Mr. BOUCHER: We will have several witnesses answering this question before it is through.

The WITNESS: What was the question?

By Mr. Boucher:

Q. The \$250,000 paid to Mr. Martin was compensation for having promoted the organization of this company, is not that right?—A. Part compensation for having done that; the balance naturally is as per contract.

Q. Did Mr. Martin get anything else by way of fees, wages, salaries, bonus, commission or expenses out of the company besides this quarter of a million dollars?—A. Mr. Martin, as I explained to you yesterday, had this contract. He received his payments in accordance with this original contract for all the business we had up to the time of the cancellation of the contract. However, taking into consideration the last couple of years on which he would have received commission that was all obligated under but not all enumerated in the sales agreement. But he certainly received his payments, in accordance with the contract, on private airplanes we sold—such as for the Hudson Bay Company and others—he was paid in accordance with his contract.

Q. Can you tell us if any money outside of this \$250,000 was paid to Mr. Martin by Noorduyn for any purpose whatsoever since the 26th day of August, 1940?—A. Was any other payment made to Martin?

Q. Yes.—A. None whatsoever.

Q. Is Mr. Martin working with the company?—A. He is in an advisory capacity so far as the company is concerned, yes.

Q. He is still in an advisory capacity?—A. As we would get advice from anyone who had been with the company and who had closed out a contract with the company. I can confer with Mr. Martin when I require conference with him.

Q. May I take it then that although you came to a settlement settling the amount of compensation he was to get concerning any contract he had with the company at a quarter of a million dollars on August 26th, 1940, since then he has continued to work for the company through his own effort without any compensation, contract or agreement whatsoever?—A. No, he does not work for the company, when it comes to working for the company. If I want advice as president of the company from Mr. Martin I ask him for advice; but he is actually not working for our company. Mr. Martin is president or managing director of an engineering company in Montreal which makes airplane engines—I think it is the Curtis company, and he also has his own company. But I do not see how this has anything to do with this capital expenditure what Martin does. I may be wrong on that.

Mr. SLAGHT: It has nothing to do with it.

Mr. GOLDING: It has nothing to do with it, it has nothing to do with this statement in this auditor's report; it has not a single solitary thing to do with it.

Mr. BOUCHER: Again we have some more witnesses before the committee.

Mr. GOLDING: You know that as well as I do.

Mr. McGEER: Witnesses telling the facts.

By Mr. McGeer:

Q. Let me ask you this, you are producing a lot of planes, are you not, being sold to other than the Canadian government?—A. We are producing airplanes for the United States government.

Q. And those were included under Mr. Martin's original sales contract, he would have been entitled to commission on them?—A. He certainly would.

Q. But he has not been paid that?—A. Not at all.

Q. What part of your plant's output is going to the United States government?—A. Almost 100 per cent.

Q. Almost 100 per cent; now, take this Norseman plane originally developed by Noorduyn who was brought into the company by Mr. Martin, what part is that Norseman plane playing in your sales to the United States government?—A. The Norseman sales at the present time to the United States government amount to \$12,000,000.

Q. And this contract that you settled for \$250,000 includes the commission to Mr. Martin on all the planes that you produced and sold to the United States government.—A. To any one.

Q. And the sale of the production of that Norseman has meant that we have been able to co-operate in Canada in the production of a plane of a type that the United States government wants for army purposes?—A. And receive American funds—

Mr. BOUCHER: That is a very proper question, isn't it?

Mr. McGEER: Oh now, what you are suggesting is that everything that these people have done is bad; there are some features about it that are good, and these people should get the credit.

Mr. BOUCHER: I did not say anything was bad, Mr. McGeer; but you yourself rose a minute ago to object to my suggesting to the witness and then you come along and do the identical thing to which you objected yourself.

Mr. McGEER: Are not these facts the committee should know?

Mr. BOUCHER: Let us play ball one with the other then.

Mr. McGEER: All right.

By Mr. Boucher:

Q. Mr. Bayer, yesterday you filed a letter of your firm of solicitors dated the 4th of March, 1941, reading as follows:—

Referring to our recent conferences, your representations have been given consideration by our legal branch and as a result it is considered that Noorduyn Aviation Ltd. should be permitted to deduct for income tax purposes the sum of \$250,000 paid to Mr. Martin, but he is not taxable thereon.

and I take it from that that you set that out as a commitment by the income tax branch, the inspector of income tax, that this \$250,000 would be deductible from profits before arriving at the excess profits tax; is that right?—A. Before levying of excess profits tax.

Q. Or of income tax?—A. Yes.

Q. And to date neither income tax nor excess profit tax has been settled, although certain payments have been made.—A. That is correct.

Q. And you will forward to us those payments?—A. I will be glad to forward that.

Q. All right.

By Mr. Golding:

Q. Mr. Bayer, in regard to your contract with Martin and in regard to the plant that was manufacturing for this government, whether he made any sales or not or whether he had anything to do with sales, he would have got commission under the contract?—A. Definitely, yes.

By Mr. Douglas:

Q. May I ask Mr. Bayer a question just there, with regard to this sales contract with Martin which was cancelled, I understood the witness to say, in August 1940. When was that first signed?—A. The first contract?

Q. Yes.—A. July 29, 1938.

Q. 1938?—A. Yes.

Q. Have you any figures at all as to the total amount that has been paid on that contract between the time it was signed and the time it was cancelled in 1940?—A. The time the original contract was signed?

Q. From the time it was signed until it was cancelled.—A. I would have to get those from our records.

By Mr. Johnston:

Q. He would not have been paid commission on more than about twenty-five or twenty-seven 'planes, because that is all you manufactured.—A. He was paid on twenty to twenty-seven 'planes. He was paid commission beyond that on some other 'planes. Just what the commission was I do not know. I do not want to give you an answer on that until I get the exact figures.

Q. He could not have been paid on any more than that because that is all you had manufactured up to that time.

By Mr. Gladstone:

Q. The original arrangement with Mr. Martin was considered a wise business arrangement for an infant industry?—A. I am glad you asked that question.

Mr. GREEN: Louder, please. We cannot hear.

The WITNESS: I say that I am glad this gentleman asked that question. This company, when it was started, had an absolute fixed sales expense by having that contract with Martin—their contract was there—and it had declining percentages based on the amount. Martin was paid that, and had full charge—he and his organization—of all sales of the company. We had an absolute fixed charge on our sales. I consider that good in any business, if you know what your sales expense is going to be.

By Mr. Johnston:

Q. If you were president at the time that contract was entered into—A. No, I was not.

Q. I say had you been president, would you have entered into contract such as that?—A. I do not know whether that is a fair question to ask me, as to my opinion of what I would have done then. Let me give it to you another way. Hindsight is always better than foresight on these things.

By Mr. Gladstone:

Q. There could be no anticipation of charged conditions such as came through the war?—A. There was not any such clause in our contract.

By Mr. McGeer:

Q. Of course, there was this situation in the aeroplane industry generally, that the promotion of the sale of any particular type of craft was really the thing that would make the industry. The sales promotion, the development and the expansion of the industry, in developing the use of 'planes generally and of a particular type of 'plane, was the thing upon which the hope of this particular industry rested. Is that not so?—A. Definitely. Further than that, at that particular time when we had this contract, it was considered a good contract, particularly inasmuch as we were trying to build the aeroplane industry in Canada; and Martin should be congratulated on the work he did in the infancy of the aeroplane industry in this country.

Q. I remember when this thing was under development; the thing that they made was what became known as the flying box car.—A. That is right.

Q. It was designed to develop the northern Canadian mining industry. That was the idea Martin had, and that was the thing that he brought Noorduyn here to build.—A. That is correct.

Q. That was the flying freight car into the northern mining areas. It was Martin's job to promote the use of that by the mining companies and by the

exploration companies that were then operating, and he made a great success of that particular feature of the company's enterprise.

Mr. BOUCHER: Just a minute—

The WITNESS: Excuse me; if you want me to elaborate on that, I can just give some other information. That is correct. Further than that, that has been proven and borne out by the fact that the United States government came to Canada and have bought these ships due to the fact they were made as pay-load ships that could get a great pay—load into them, at a low cost of operation, to get into that northern country. That is the reason the United States has bought that ship from Canada. It is a 100 per cent Canadian-designed and built ship.

By Mr. Johnston:

Q. Is it not also true that the quarter of a million dollars had nothing whatever to do with commissions? The quarter of a million dollars was merely for the cancellation of the contract?—A. That is right.

Q. That is because Martin forgave a certain right?—A. That is right.

Q. So you gave him a quarter of a million dollars, not because he had sold any ships or not because he was entitled to any commission, but because he was cancelling his right as a salesman under that contract. Is that right?—A. Well, one part of it is incorrect. He would be entitled to commission under his contract.

Q. He would be entitled to a commission of \$900,000?—A. That is right.

Q. If he had collected on it?—A. Yes.

Q. But that commission did not enter into the agreement at all?—A. No. It entered into the cancellation of a commission that might be due him.

Q. But the quarter of a million dollars was merely for his cancelling the contract?—A. That is right; for breaking his contract with us.

Q. It had nothing to do with other commission?

By Mr. Boucher:

Q. As a matter of fact, further to Mr. McGeer's question, late in 1939, before the government gave the order, the company had just received \$417,000 subscribed; it had no buildings, no real estate, no assets. It had sold only twenty-eight 'planes, and was in an almost dormant condition. Is not that a fact?—A. As all aeroplane companies in Canada.

Q. All right. But is that a fact?—A. Yes.

Q. Therefore you cannot say that the marvellous success that Mr. Martin had made was due to anything other than government orders that followed the outbreak of war.

Mr. McGEER: The bulk of the orders came from the United States.

Mr. BOUCHER: Through the Canadian government, was it not?

The WITNESS: All orders are through the Canadian government.

Mr. BOUCHER: Yes, definitely.

Mr. McGEER: For the account of the American government.

Mr. BOUCHER: Even the ones to the United States came from the Canadian government.

The WITNESS: The United States to the Canadian government to us.

Mr. GOLDING: Twenty-eight 'planes was a marvellous success at that time.

By Mr. Boucher:

Q. Is not that right? All orders came through the Canadian government, even these—including these for the United States government?—A. That is correct.

By Mr. Douglas:

Q. I wonder if you would explain how it is that Mr. Martin had this sales contract? I understood it was for the purpose of repaying him for carrying on the sales promotion. In view of that fact, how is it he had nothing at all to do with the negotiating of this contract with the government? Would that not have been part of his function under this contract?—A. Under ordinary commercial sales, Martin would have handled it. But when it came to negotiating with the government, on this original contract, it was necessary to go into details of the stresses and strains, what the ship could and could not do; it was a technical matter at that time to be handled primarily by Mr. Noorduyn. We did not bring Martin into it. If it came to a private sale of a 'plane out west, or in Montreal or down east, that would have been Martin's. But the main point is we had a contract with Martin; and when the war came along, and it came to this larger business, we handled it direct.

Q. And you paid Martin a quarter of a million dollars to step out of the picture?—A. To cancel his contract, in order to eliminate further liability.

By Mr. Golding:

Q. And again I say you were advised by your solicitors that that was a valid and binding contract.—A. Definitely; by two solicitors.

By Mr. Noseworthy:

Q. The witness has said that since the cancellation of the contract Mr. Martin has appeared only in an advisory capacity when invited to do so by the president, but that he is also president of a company manufacturing engines. Will you tell us if there has been any business done back and forth?—A. None whatsoever. We do not do any business with Martin at all. We use the Pratt and Whitney engine and he has got the Curtiss engine. We do not use that engine in our ships at all. In other words, following what Mr. Boucher said to me, after the \$250,000 we have not paid anything whatsoever to Martin.

Q. You buy nothing from his company?—A. We buy nothing. There are not any inter-company transactions whatsoever. If his engine had been adaptable, we might have looked at it. But it is not adaptable to our ship at all.

By Mr. Boucher:

Q. In order to make the record perfectly clear, may I ask this. I understood you to have stated that no portion of this \$250,000 was paid out of government loans, but any portion that has been paid, amounting to \$135,000 to this date, has been paid out of profits earned by the company.—A. That is right.

Q. That is correct?—A. Yes. That is correct.

Q. And the profits were made out of contracts from the government since the outbreak of war?—A. Profits that have been made in the operations of the company; and of course, the government is our biggest customer.

By Mr. McGeer:

Q. I have not been here all the time, but I should like to clear up one point. I understood that the entire production of your plant purchased, as my friend Mr. Boucher has said, by the Canadian government, is on account of the American government, and that you are now a 100 per cent producer for the government?—A. Practically, but not 100 per cent. However, the largest proportion of it is for that account.

Q. What percentage would you say? I understand it is right up to the limit.—A. About 95 to 99 per cent.

Q. About 95 to 99 per cent of the output of this company goes to the American government?—A. That is right.

Q. And is paid for by the American government?—A. To the Canadian government who in turn pay us.

By Mr. Boucher:

Q. There is another point. You manufacture for the government exclusively, with largely government assistance by way of material, plant, equipment and guaranteed loans. If the government had taken the plant over and manufactured itself, there would have been no commission to pay to Martin whatever. Is that not right?—A. I would not say so. How would they get out of the contract?

Q. If the government had taken over the plant and manufactured as a government enterprise and paid Noorduyn on a managerial basis, there would have been no commission due to Martin?—A. Noorduyn would not have worked on that basis.

Mr. SLAGHT: Mr. Chairman,—

Mr. BOUCHER: Again I would like this witness to answer that question. I think this witness is quite competent to do so.

Mr. SLAGHT: You are making a suggestion again, and a statement of fact rolled into one. You say if the government had taken over the plant. You do not mean steal it. They would have to pay for it; and one of the things they would have to take into account would be that the company would have to have remuneration for their contractual obligations under the Martin contract.

Mr. BOUCHER: They would not. They did not have any obligation until they gave the contract.

Mr. SLAGHT: Have you never been in the Exchequer Court?

Mr. BOUCHER: They did not have any obligation until they gave the contract. The only obligation they had was for goods sold and delivered. Is that not right?

The WITNESS: No. We had obligations to the shareholders.

Mr. BOUCHER: To the shareholders but not to Martin.

Mr. SLAGHT: The company had obligations.

Mr. BOUCHER: I am asking this witness. Is the witness giving evidence or is Mr. Slaght giving it? The only obligation you owed to Martin was the obligation to pay him a commission on goods sold by the company.

Mr. McGEER: The contract speaks for itself.

The WITNESS: That is part of the contract. You have got the contract as an exhibit there. It explains just what it is.

By Mr. Boucher:

Q. But you understood the contract to that effect, did you not?—A. Right.

Q. That is correct.—A. It is correct that Martin would be paid in accordance with the contract we had with him, regardless. You asked me "if". I cannot answer "if." That is the same thing as asking if I was president of the company before, whether I would have entered into the contract. That is a matter of business that presents itself as it comes up from time to time.

Q. I did not ask you that, because I do not think you would have. But the fact remains that this contract only gives Martin commission on goods sold by the company. Is that not correct?—A. This contract for \$250,000 is a cancellation.

Q. I am speaking of the original contract that was in existence when you got your first government order in November of 1939.—A. That gave Martin a commission on all the aeroplanes and spare parts that we sold.

Q. Therefore if the government had taken it over, you would not have sold any and there would have been no commission owing to Martin?—A. I do not know. I cannot answer that "if".

By Mr. McGeer:

Q. Mr. Bayer, if they had taken over the banks, you would not have had to pay any interest to the banks?—A. That is correct.

Mr. McGEER: I suppose you would subscribe to that doctrine too?

Mr. BOUCHER: Yes; on your evidence as well, Mr. McGeer.

Mr. GLADSTONE: The government would not steal Martin's legal and moral right.

By Mr. Golding:

Q. In any case your company, operating that plant and carrying on that work, is entitled to a profit; and it is out of those profits you are paying Martin?—A. That is correct.

Q. Sure. The shareholders would have got those profits otherwise.

The CHAIRMAN: Gentlemen, I wonder if I might draw to the attention of the committee one or two things.

Mr. McGEER: We want to adjourn to hear Churchill. Do not overlook that.

The CHAIRMAN: Under the rules and regulations, we permitted the committee to wander pretty far afield and gave everybody a chance to cross-examine the witness.

Mr. BOUCHER: Order, please. We cannot hear.

The CHAIRMAN: We have not only two gentlemen here from the Noorduyn Company but there are a number of gentlemen in this room whose time is very valuable, and I think we should take that into consideration. If there are not any more direct questions, always avoiding repetition, I think we might release Mr. Bayer.

Mr. McGEER: Well, he is coming back on some other occasion, I understand.

The CHAIRMAN: He is going to mail in the information asked for.

The WITNESS: I will mail it, if that is agreeable.

The CHAIRMAN: Mr. Noorduyn is here and we have another hour left for this sitting.

Mr. McGEER: Oh, no, not to-day. Churchill speaks at 12.30.

The CHAIRMAN: Well, we have half an hour. Surely with the co-operation of honourable members we might be able to release both these gentlemen and perhaps release some of the other gentlemen in this room.

Mr. McGEER: Mr. Bell is here, and I suggest we might call him.

Mr. JOHNSTON: Was Mr. Martin supposed to be here to-day, Mr. Chairman?

The CHAIRMAN: As a matter of fact, I telephoned Montreal with reference to that. Mr. Martin is sick.

Mr. JOHNSTON: He is coming later, is he not?

Mr. NOSEWORTHY: Mr. Chairman, with your permission I should like to ask Mr. Bayer one more question before he leaves. I do not know whether it is a fair question or not, but Mr. Bayer can determine whether or not it is. Early in the evidence you told us that your original contract, the 1939 contract with the government, was a contract on a fixed price basis. Have all subsequent contracts with the government been on that same basis, namely, a fixed price basis?

Mr. GOLDING: A firm price, you mean.

The WITNESS: The contracts we have are all with this audit clause, "a fair and reasonable price". The original is a fixed price contract. In other words, the first 100 Harvards in January or the first Norseman were with the fixed price. The rest of them are based on the fair and reasonable cost. In

other words, as we make a certain number of planes, the government come in—and they are there all the time, as a matter of fact—and they audit and they fix the price for the next lot, the next lot and the next lot. It is not cost plus. We have not any cost plus contracts. It is a ceiling contract.

By Mr. Green:

Q. It is not what you call a fixed price contract?—A. It is a ceiling price contract which is subject to the Minister's decision.

By Hon. Mr. Mulock:

Q. It may be reduced but not increased.—A. That is right. It may be reduced but not increased.

By Mr. Boucher:

Q. Is it not fair to say that the price received by Noorduyn for their various productions is set by the government, and is cost of production ascertained upon checking over by government auditors, plus a reasonable profit to be agreed upon by the department and the company? Is not that a fair summation of the situation?—A. It is not even that.

Q. How would you describe it?—A. It is audit clause 2 which is the standard audit clause under which they check our costs. As far as reasonable profit is concerned, I do not think it is a reasonable profit, no. There are all these disallowables and items of that kind that come into it. But it is a ceiling price contract. There is a maximum that is there. It goes only one way, and that is down.

By Mr. Noseworthy:

Q. In other words, Mr. Bayer, the maximum price that you are allowed to charge must include both cost and profit?—A. That is right, and each one of the maximum prices comes down each time we get further orders.

By Mr. Douglas:

Q. Have they always come down?—A. Always.

Q. Never repeated the former price?

Mr. McIVOR: I find it easy to sit and listen when thundering lawyers are getting things straightened out but I would like to move a vote of thanks to the witness. He has convinced me, whether I am right or not, that he is a clear-headed honest business man and is not afraid of thundering lawyers or anybody else.

The WITNESS: Thank you very much, sir.

The CHAIRMAN: I am sure that the hon. member's sentiments are endorsed by everybody here. May we release this witness and call Mr. Bell?

Mr. GREEN: Is Mr. Martin here?

The CHAIRMAN: No, he is sick in bed. Mr. Bell is in the room and he wants to be released, too.

Mr. BOUCHER: Will we have Mr. Noorduyn now?

The CHAIRMAN: Mr. Bell wants to get away.

Mr. BOUCHER: As far as I am concerned I won't be very long with Mr. Noorduyn.

The CHAIRMAN: This committee wants to adjourn at 12.30 and I thought we would finish with Mr. Bell and let him away.

RALPH P. BELL, *called*.

The CHAIRMAN: I presume that everybody in this room knows Mr. Ralph Bell, the Director of Aircraft Production.

Mr. McGEER: They will know him better after this session.

The CHAIRMAN: He is the Director of Aircraft Production, Department of Munitions and Supply.

By Mr. Boucher:

Q. Mr. Bell, as Director of Aircraft Production I presume you are the man who gave the contracts to Noorduyn from the inception of their contracts with the government?—A. That is right.

Q. Do I take it that you did not know anything about an existing sales contract agreement until after that agreement had been settled in August, 1940?—A. That is correct.

Q. You had nothing to do with negotiating the settlement of that contract?—A. Never heard of it.

Q. Never had anything to do with it.

Mr. GOLDING: He said he never heard of it.

By Mr. Boucher:

Q. You on behalf of the government did not insist that contract be settled or disposed of before the government advances were made?—A. Just a minute; what is that?

Q. On behalf of the government you did not insist upon that existing sales contract being disposed of before capital advances were made by the government?—A. I have not got anything to do with capital advances. I think if you would permit me to make a short statement, Mr. Boucher, it might clear the air, if you do not mind. I think it would save a lot of time and clear the thing right up. If I say things that are in keeping with the rules of the committee I know that you gentlemen will forgive me for not appreciating just what the situation may be.

I take it from some remarks you made it might be expected that before the government entered into a contract with a plane builder they would expect that company to disclose to them all their private contracts. I do not conceive that to be the case at all. It is none of my business what Noorduyn's private contracts are so long as I make a good contract from the standpoint of the taxpayers of this country.

If it had not been for Martin there never would have been a Noorduyn Company and there probably never would have been a Canadian Norseman plane. That Canadian Norseman plane is bringing back to Canada to-day some \$20,000,000 in United States funds by way of contracts. Mr. Noorduyn or Mr. Bayer referred to \$12,000,000. I happen to know of another 300 Norseman planes the order for which is in process now in United States channels. So much for that.

I think, there is only one point in this whole question, and it is this: did any payment made to Martin become a cost to the Canadian government? It did not. That is the answer, and that is the whole answer.

There are just one or two other points that I would like to make because I want to clear up a couple of misunderstandings while I am on my feet. References have been made to the Noorduyn assets, and a great deal of time has been spent in trying to develop, as I understand it, the point that because the company had only \$417,000 of paid-up capital therefore it was not the sort of company to whom you should entrust millions of dollars of aircraft contracts. I should like to say to you as a business man that I do not care if Noorduyn did not have a cent. What I am concerned about is whether Noorduyn could or could not build planes for the war effort of this country.

I would just like to circulate that picture. (Marked as *Exhibit No. 7.*) That is a picture of one hundred Harvard aircraft on the runway at the Noorduyn plant less than six weeks ago waiting for pilots to fly them away. Suppose that Noorduyn never had built but twenty-eight planes in their life before. Is it not a great credit to Canada that we had in this country a handful

of men—and it was only a handful to start with—that could create an enterprise that could intelligently train and employ 9,300 people who can turn out ninety-seven Harvards and ten or twelve Norsemen a month, and who within a few weeks will hit a rate of one hundred Harvards and forty Norsemen every month. That, gentlemen, is a great accomplishment, and I want to tell you that Mr. Martin is entitled to the thanks of this country for having created the Noorduyn organization. That is my point of view on the value or lack of value of dollars and cents when it comes to an aircraft company today.

The next point is that there was a lot said about capital assistance to Noorduyn. With the exception of \$51,000 there was never one nickel given to Noorduyn, not one nickel of capital assistance. The term "capital assistance" as applied to companies in this country is a very, very bad misnomer, and I am strongly of the opinion that it has created a great deal of misunderstanding. People pick up the *Financial Post* and they see capital assistance given to the Noorduyn Company, \$4,500,000. It is no such thing. The government through its own construction department and through the Citadel Merchandising Company Limited decide to build and create certain facilities, the management and operation of which was entrusted to a company which had a background of aircraft experience. Except for \$51,000 which had to be spent on a rented plant which Noorduyn had in the east end of Montreal not one dollar of capital assistance was ever given to that company. That ends anything I have to say on that unless there are some questions that you want to ask me.

As to their contracts the contracts that Noorduyn have are of two categories. One is a fixed price contract, win, lose or draw. The government takes no chance except what price it pays. The other type of contract is a fixed ceiling contract over which Noorduyn cannot get a nickel. He may lose his shirt, and below that ceiling as he decreases cost we audit those costs and we take away from him, if he makes more money than we estimated the profit should be on that ceiling, leaving him a small portion in certain brackets as a reward for increased efficiency.

Let me make it clear to you. For the sake of argument we will say we have put a fixed ceiling on Harvard aircraft of \$20,000. That price includes 5 per cent profit. Let us say they would estimate they would cost \$19,000, for quick calculation. We then say, "If you build that plane for less than \$19,000 but over \$18,000 we will give you 25 per cent of that saving and we, the government, will take 75 per cent of the savings. For the next \$1,000 or \$2,000 that it drops in cost we will give you one-third and we will take two-thirds and in the next block, whatever it may be, \$1,000, \$2,000 or \$5,000 we will give you fifty-fifty." That is an incentive contract and it is a safe contract and it is a good business contract. Those are the two forms of contracts which Noorduyn have.

Apart from their repair and overhaul business, which I suppose was what Mr. Noorduyn or Mr. Bayer had in mind when they referred to Mr. McGeer's question, 100 per cent of their business is American. It is true that they do some repair and overhaul work for the Combined Commonwealth Airtraining Plan, but apart from that every dollar's worth of stuff is being paid for in United States dollars. I would rather the press did not take this down because, if they will just take my word for it, it will get us in trouble with the United States, but the Harvard planes they make are not only being paid for in United States dollars which are helping our exchange position but they are coming back to Canada for nothing, to be used in the airtraining plan through British lease-lend.

By Mr. McGeer:

Q. Mr. Bell, there is just one point we have had some discussion on, that Mr. Martin had nothing to do with the sales of these planes, and the point that I had in mind is sales to the United States. I understand that these planes they were building, these Norsemen flying box-cars, went into the north, and as a result of

their being in operation some distinguished men in the aviation world of the United States came north and saw them. Would you mind telling us in your own way the facts as to that?—A. I do not know them all but you always must have regard—if Mr. McGeer will pardon me for interjecting an observation or two before I directly answer his question I would like to put it this way. We have had a good deal to do with Mr. Noorduyn, Mr. Bayer and Mr. Martin since the war started, and I want to tell you, gentlemen, that in my humble opinion as a Canadian taxpayer I have never done business with men in industry who have been fairer or more generous in their attitude to any suggestion that was made. This company had an agreement with the North American Aviation Corporation of Inglewood, California, who are the designers of the Harvard aircraft. This agreement pre-dated the war. I presume that it was one of the contracts that Mr. Martin among other things helped to negotiate. North American Aviation was a great corporation of design experts and plane builders, and the link-up between Noorduyn and North American Aviation was a highly desirable connection. Noorduyn Aviation was entitled by that contract to 5 per cent on all Harvard planes that came into Canada. You and I as taxpayers would have to pay that amount. When we negotiated our original contracts with Noorduyn we said to him—we were then buying Harvards from the United States as well as trying to make them here in Canada—“Mr. Noorduyn, we think that you should voluntarily cut your commission. In fact, we think you should cut it on the first 100 aircraft we get from North American to two and a half per cent and we think you should wipe it out on the balance of 700.” If my recollection serves me there were 633. Noorduyn said, “All right, gentlemen, we will do it.” They took that reduction from 5 to 2½ per cent on 100 Harvards which was equivalent to maybe \$40,000 or \$50,000 and they gave up entirely their right to commission on 633 Harvards that came into the country which would run into quite a lot of money.

Let me give you my point of view about Martin. Martin runs the Canadian Wright which is an engine company in Montreal which represents Curtiss-Wright Aircraft engines in Canada. How many years has he been in Canada?

Mr. NOORDUYN: Around 28 years.

The WITNESS: He has been in Canada for a very long time and he has a perpetual contract from the Curtiss-Wright Company for a commission on every Wright engine that enters Canada. In conjunction with the British we wanted to bring a large number of Wright engines into Canada in order to do some preliminary and immediate work on them before they went into British tanks. That contract ran into a great deal of money and Martin was entitled to earn 5 per cent on that just the same as the Canadian General Electric or the Canadian Westinghouse or any other of our great companies are entitled to earn commission on any contract that they may have with the parent company in the United States. We went to Martin and we said, “We do not think that was ever contemplated when you got your contract with Wright, and it would make it a great deal easier and we would feel an awful lot better if you would wash that commission out.” He washed it out. Those are the two gentlemen who are being—I will not say attacked, but their bona fides and integrity in this matter are being attacked and I do not think it is fair. I think we have been doing business with a company that has treated the government fairly and honestly, that has established a great record as a plane builder in this country, that is turning out a little over 100 planes a month starting from nothing. The government has not advanced them anything with the exception of the rented plant in which we put \$51,000. That is the story.

By Mr. McGeer:

Q. There were twenty-eight planes in operation—I am speaking particularly of the Norsemen—and I understand that some distinguished men of the

aviation world of the United States came up and saw those planes in operation and recommended them?—A. Yes. I apologize for forgetting your question. The answer to that is this, that while it is true that the Noorduyn Company officially gets its orders from the Canadian government the man who actually sold the Norseman plane to General Hap Arnold of the United States army was Bernt Balchen, one of the famous flyers of the world, who went down to Washington and said, "Hap, there is only one plane that will fill your bill in the north country, in Greenland and Iceland and Alaska, and that is the Canadian Norseman." We in the Canadian government had no more to do with selling that bill of goods than nothing on earth. That is how it was sold, and it was sold on Bernt Balchen's experience.

Q. Bernt Balchen came up and saw some of these twenty-eight planes in operation?—A. That is right. He had flown them himself.

Q. A lot has been said about these twenty-eight planes having no value. It was the fact that these planes were in operation—

Mr. BOUCHER: We did not say anything about them having no value.

Mr. McGEER: As salesmanship in the work that Martin had done. What really happened was that these planes were in operation and Balchen and others came north and flew them.

Mr. BOUCHER: It was not a comment against the efficiency of the plane.

Mr. McGEER: I am not suggesting that. I do not want to quarrel with my friend but what I do want you to recognize is Martin's salesmanship on these twenty-eight planes grew into the actual salesmanship to the United States government.

The WITNESS: That is right.

By Mr. Boucher:

Q. Mr. Bell, you say, as a matter of fact, that it matters not what the assets of the company were?—A. That is right, as long as they have the ability to build planes.

Mr. McGEER: Do you mind if we mark this photograph as an exhibit, Mr. Boucher?

The WITNESS: I said that the real asset to the Canadian government was an aircraft company that could organize and build planes, not how much capital they had.

Mr. McGEER: And it put them into operation and proved them to be worthwhile.

The WITNESS: National Steel Car had plenty of cash and plant.

By Mr. Boucher:

Q. Would you say if 90 per cent of a quarter of a million would go to the government in excess profit tax?—A. I do not know anything about excess profits, not interested at all, although I have problems like that myself. I wish I had the letters they have; that is all.

Q. Would you say if the quarter of a million paid to Martin was a component part of the cost to the government?—A. But it is not.

Q. Let me go ahead. Would you say if the quarter of a million was a component part of the cost to the government of the production of planes in a plant almost entirely composed of government machinery, capital and buildings, that is not a saving that should be made to the Canadian people?—A. I do not even understand your question.

Q. Well, I will put it again. Would you say that if any part of the \$250,000 was in excess of what the plant and machines actually cost the Canadian Government that portion should not be saved?—A. I still do not understand the question. Honestly, Mr. Boucher, I do not understand what you are asking me.

Q. Let me put it this way. Evidence has been given before this committee that the payment made to Martin was deducted before the excess profits tax was collected. That has been given. If the excess profits tax was collected on these payments it would be about 90 per cent—

Mr. GOLDING: Where did you get that evidence?

Mr. BOUCHER: Including compulsory savings.

The WITNESS: What has that got to do with me, with making contracts to build airplanes?

Mr. BOUCHER: I am just asking the question.

The WITNESS: I am not answering a question like that, not on your life.

By Mr. Johnston:

Q. There is just one question that I want to clear up. You made a definite statement a while ago and said that the government did not pay any of that quarter of a million?—A. I certainly did.

Q. You heard the evidence a while ago—I think it was submitted by Mr. Bayer—where he said that a portion of this was deductible from the excess profits tax?—A. I do not know anything about that. I tell you this, that when the costs on planes manufactured by Noorduyn come to me from the Treasury Branch that I say what will be paid or what will not be paid, and that item will never be paid and has been denied from the outset.

Q. Regardless of that statement Mr. Bayer did put on the record a statement saying that a portion of this \$250,000 would be deducted from the excess profits tax or income tax. That being so—

Mr. GOLDING: He did not say that.

Mr. McGEER: He never made that statement.

Mr. JOHNSTON: I am asking him a question.

Mr. McGEER: You must state the facts correctly.

Mr. JOHNSTON: I am just asking a simple question and here two of them are butting in.

Mr. McGEER: No, not two of them, Mr. Chairman.

Mr. JOHNSTON: In all fairness I should get an answer from Mr. Bell.

Mr. McGEER: On a point of order—

Mr. JOHNSTON: It arises from the statement of Mr. Bayer.

Mr. GOLDING: You are making a statement. You are not asking a question.

Mr. McGEER: Making a false statement.

Mr. JOHNSTON: Have I got the floor?

The CHAIRMAN: Order, gentlemen. Mr. Johnston has the floor. Let him proceed.

Mr. McGEER: Have I no right to raise a point of order in this committee?

The CHAIRMAN: Absolutely.

Mr. McGEER: I have raised a point of order.

Mr. JOHNSTON: What is the point of order?

Mr. McGEER: The point of order is that the committee man is making a statement of fact which is not in accordance with the record. I do not recall Mr. Bayer stating that any portion of that \$250,000 would be charged either to excess profits tax or to income tax.

Mr. JOHNSTON: I cannot help what you understand.

Mr. McGEER: My information is—and I think the majority of the members of the committee will bear me out—that no such statement was ever made.

Mr. JOHNSTON: There was a letter produced here and it is on the record, and here it is right here.

Mr. GOLDING: That is not Mr. Bayer's statement.

Mr. JOHNSTON: It is a letter which was submitted by Mr Bayer, and it is what he read:—

Referring to our recent conferences—

Mr. McGEER: Who is the letter to?

Mr. JOHNSTON: The letter is:—

“P.O. Box 900, PLACE D'ARMES,
MONTREAL, QUEBEC,
4th March, 1941.

Attention: Mr. Smith

MESSRS. MATTHEWSON, WILSON & SMITH
275 St. James Street, West,
Montreal

Mr. McGEER: They are the lawyers of the Noorduyn Company.

Mr. JOHNSTON:

*Re: Noorduyn Aviation Limited,
Donald M. Martin*

Dear SIRs,—Referring to our recent conferences your representations have been given consideration by our legal branch and in the result it is considered that Noorduyn Aviation Limited should be permitted to deduct for income tax purposes the sum of \$250,000 paid to Mr. Martin, but that he is not taxable thereon.

Yours faithfully,

A. H. ROWLAND,
Inspector of Income Tax.

That will probably refresh your memory.

Mr. McGEER: That is not the statement that you made at all.

Mr. JOHNSTON: That is exactly what I said a moment ago. Mr. Bell stated definitely that the government did not pay any portion of that. I want to ask Mr. Bell this, that in view of the statement which Mr. Bayer has filed where the income tax department says it will be deducted, the money which the company would have paid in their income tax and excess profit tax would have gone to the government but because the company paid a portion of this \$250,000 to Mr. Martin the government did not receive that.

Mr. McGEER: Surely that is a matter of taxation, Mr. Chairman.

Mr. JOHNSTON: If Mr. McGeer will just permit me, surely it is evident then that the government lost money through their income tax and excess profit tax because of this contract and therefore the government did—

Mr. SLAGHT: What do you mean lost money?

Mr. McGEER: Is that not a proper question to put to the Income Tax Department?

The WITNESS: You do not expect me to answer that question.

Mr. GREEN: Order, Mr. Chairman.

Mr. JOHNSTON: Just so far as your statement is concerned; you stated definitely that the government did not get any of that \$250,000.

The WITNESS: I still say that the government did not pay any of that \$250,000 as cost on planes, and I am not concerned and I do not know anything—I think you would realize I do not know anything about income tax and excess profits tax rules, and I am not going to get involved in that sort of question.

Mr. JOHNSTON: That may be all right, but the evidence is here that the government did.

Mr. McGEER: Would my friend defer that until after Mr. Churchill gets through?

Mr. GREEN: This committee has a job to do, and just because Mr. McGeer wants to go and hear Mr. Churchill—

Mr. McGEER: I am going to hear him. If you prefer to hear Mr. Johnston against Mr. Churchill that is your privilege.

The CHAIRMAN: Is it the wish of the committee to adjourn or continue?

Mr. SLAGHT: I move we adjourn.

Mr. GREEN: Let him finish his question.

Mr. JOHNSTON: I just want to make it very clear, Mr. Chairman, that the government has lost money by this contract or this payment to Mr. Martin. To me it is most evident that the government has paid either directly or indirectly, and I want that clearly understood.

Mr. SLAGHT: On a point of order, the hon. member has abandoned questioning the witness and is now making a statement by way of argument as to his conception of things.

Mr. GREEN: He was just going to ask the question.

Mr. SLAGHT: He has just made a statement to go into the record and perhaps into the press that is not apropos of any question at all. I say there is a time for members to present their views to this committee and the time is not the present. If there are any more questions to be asked let us have them.

Mr. JOHNSTON: How many chairmen are there on this committee? You are the chairman, I presume? There was one other question that I would like to get clear. Mr. Bell stated that Mr. Martin did forego any rights as to royalties which he may have on these engines coming into Canada. Is it not also true that the royalties which might have been due other companies were foregone, too? I think as time goes on evidence will be given to bear out the fact there are a great number of companies who have foregone their royalties on goods coming into this country so that Martin is not any special example in that regard, and he should not be considered as that even if he did forego that right.

Mr. SLAGHT: Rising to a point of order, this is a speech at this time expressing my friend's views, which he is entitled to hold and express at the proper time, but should not be interlarded here. I think we ought to have question and answer.

Mr. JOHNSTON: I just want it to be made clear that Mr. Martin has no special claim on this \$250,000 even if he did forego certain rights on royalties which he may have been entitled to for these engines.

Mr. SLAGHT: Addressing the chair, my friend has a perfect right to that view and to put it forward at the proper time, but if he wants to argue that now I might want to spend ten minutes answering him, and I do not think the committee wants that.

Mr. JOHNSTON: Go ahead.

Mr. SLAGHT: Let us have questions and answers and get on.

Mr. GOLDING: There is a motion here by Mr. Slaght that the committee adjourn.

Mr. SLAGHT: I do not want to press that if the committee want to sit and not hear Mr. Churchill. I would not press that.

The CHAIRMAN: Has any other member any questions?

By Mr. Douglas:

Q. Mr. Bell in the closing part of his remarks at one time at the end of a sentence which I did not catch said that much of the plant was government

owned. Just explain that, or did I understand it is government owned?—A. The government owns the entire plant at Cartierville and everything in it.

Q. May I follow that up. Does that mean that the Noorduyn plants are operating under managerial fee?—A. I did not catch the question.

Q. Are the Noorduyn plants operating on a managerial fee basis?—A. No. They are not operating on a managerial fee any more than Boeing are operating on a managerial fee at the coast or any more than Vickers are operating under a managerial fee.

Q. The plant is owned by the government. Does Mr. Bell know what amount of money was put into that plant by the government?—A. I know, approximately, yes. Somewhere in the neighbourhood of \$5,000,000. But that does not comprise all the property that Noorduyn operates in.

Q. As I understood it, Mr. Chairman, from Mr. Bell's statement, the government has invested some \$5,000,000 in capital assets of this company.—A. The government has not one dollar invested in the capital assets of Noorduyn. The government has a plant at Cartierville which, equipped, cost—and these figures are not for the record because I am speaking without my figures in front of me—\$4,700,000 or something like that, to the best of my recollection. That plant is a government-owned entity complete.

Q. Operated by Noorduyn?—A. Operated by Noorduyn, on their contract.

Q. On a price ceiling contract?—A. That is correct.

Q. Then has the witness any figures of what the assets of the company itself are?

Mr. GOLDING: That is all on the record.

Mr. BOUCHER: Yes. It is all on the record.

By Mr. Noseworthy:

Q. There was just one question arising out of that, Mr. Bell, which I should like to ask. You stated that government has given nothing whatever or put nothing whatever into the capital assets of the company?—A. That is correct.

Q. I think we were told yesterday that the government had guaranteed a loan of up to \$2,000,000 to the company?—A. That is correct. But that is not putting money into the capital assets of the company.

Q. That is there for the installation of machinery and so on?—A. No, not at all. That is there to provide for inventory that no aircraft company in Canada could ever have financed, with the increase of business that developed.

Mr. DENIS: As far as your department is concerned, because the Noorduyn Company has paid its debt with its profits on the government contracts, there have been no bad effects on the machinery.

Mr. SLAGHT: May I move a vote of thanks to Mr. Bell, Mr. Chairman.

The CHAIRMAN: I think everybody will concur in that.

Gentlemen, if we adjourn now until to-morrow at 11 o'clock, is it the intention of the committee to examine Mr. Noorduyn?

Mr. DOUGLAS: Could we examine Mr. Noorduyn to-day and let him get away? I am thinking of his convenience, not ours.

The CHAIRMAN: I think that is a very practical suggestion, if we can do that and get finished with him. We do not want to hold him until to-morrow unless it is necessary to do so.

Mr. JOHNSTON: I think we should go ahead.

The CHAIRMAN: Right away? Is that satisfactory to the committee? Have we a quorum?

The CLERK: We still have a quorum, Mr. Chairman.

Mr. JOHNSTON: It just means Mr. Noorduyn will have to come back again if we do not go ahead.

Mr. BOUCHER: As far as I am concerned—of course I do not know whether any other members of the committee have any questions to ask of Mr. Noorduyn—I think Mr. Bayer has given us nearly everything which Mr. Noorduyn can give us.

Mr. JOHNSTON: I have nothing to add.

The CHAIRMAN: There is nothing Mr. Noorduyn can add to the evidence.

Mr. BOUCHER: I do want to have Mr. Martin and Mr. Fraser Elliott.

The CHAIRMAN: We will get in touch with Mr. Martin through Mr. Plouffe. What is your wish now? Do you want to call Mr. Noorduyn or will you release him?

Mr. GOLDING: I do not think there is any evidence he can give which has not been given.

The CHAIRMAN: What do you say, Mr. Johnston?

Mr. JOHNSTON: I have nothing.

The CHAIRMAN: Mr. Boucher?

Mr. BOUCHER: No, I have nothing.

The CHAIRMAN: Then we will release both these gentlemen. I should like to take the opportunity, before the committee adjourns, to thank these two gentlemen, not only for their consideration in coming here to-day, but for the frank manner in which they have answered the questions of the members of the committee.

Before we adjourn we should decide what we are going on with at the next sitting, and when the next sitting will be. Have you any other witnesses that you want called?

Mr. BOUCHER: I want to call Mr. Fraser Elliott on this thing.

The CHAIRMAN: We will get in touch with Mr. Martin direct and see if it is possible to have him for tomorrow. If we cannot get him, we will call Mr. Elliott for 11 o'clock tomorrow morning.

Mr. BAYER: There is just one further thing, Mr. Chairman. Mr. Boucher asked for some figures with regard to income tax paid, and which I have just obtained. If you would like to have them on the record, I can give them to you. In 1940 there was not any tax. In 1941 we paid \$160,000. In 1942 we paid \$350,000. That is what we have actually paid, but our tax is not finished.

Hon. Mr. MULOCK: For 1940 you said there was no tax?

Mr. BAYER: That is right. There was a loss in operation.

The CHAIRMAN: Your standard profit is not fixed.

Mr. DOUGLAS: That covers income and excess profit tax?

Mr. BAYER: That covers what we have paid on account of all taxes, not knowing what we are going to have to pay, because we have not got the standard profits.

The CHAIRMAN: That is as set up by your own bookkeeping.

Mr. BAYER: That is payment of taxes up to date. We do not know what they will be.

The committee adjourned at 12.45 p.m. to meet again on Thursday, May 20, at 11 o'clock a.m.

HOUSE OF COMMONS,

May 20, 1943

The Special Committee on Public Accounts met this day at 11.30 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, we have a quorum so we will come to order. In order not to delay Mr. Elliott and his colleagues I think before taking up

any other business we will start our proceedings by calling Mr. Elliott who has so kindly come over this morning to be with us.

C. FRASER ELLIOTT, K.C., *called.*

WITNESS: Mr. Chairman and gentlemen I am sorry I was late, and I tender to you my apologies for having caused you this inconvenience.

By Mr. Boucher:

Q. You are the Commissioner of Income Tax?—A. Yes sir.

Q. For the Dominion; and as such I suppose you are conversant with the taxation of Noorduyn Aviation Limited and D. M. Martin?—A. Yes.

Q. Can you tell us whether the income tax or the excess profits tax of the Noorduyn company has been settled for the year 1940?—A. No it has not been settled.

Q. It has not been settled; or for the subsequent years?—A. Not settled.

Q. And, can you tell us upon what capital invested the profits, in so far as excess profits taxes are concerned, will be settled in relation to the Noorduyn company?—A. Well, on the question of what is the capital employed in this business, this company goes before the board of referees and it is for them to determine what is the capital employed. They are charged with that duty; and, therefore, I cannot answer that, because it is not yet determined in a technical sense.

Q. It has not yet been determined by the board of referees?—A. That is right.

Q. You are conversant with the settlement of a quarter of a million made by Noorduyn Aviation Limited to one D. M. Martin in the year 1940.—A. Yes.

Q. As I understand it, an opinion was given by the inspector of income tax, Mr. A. H. Rowland, to Noorduyn Aviation Limited as follows:

Referring to our recent conference your representations have been given consideration by our legal branch and in the result it is considered that Noorduyn Aviation Limited should be permitted to deduct for income tax purposes the sum of \$250,000 paid to Martin; and, that he is not taxable thereon.

A. I have a copy of that letter here.

Q. Is that a definite ruling of the department?—A. That is a definite ruling of the department.

Q. Subsequently I notice a letter dated March 19, 1943, and I believe filed as an exhibit for this committee, addressed to Mr. Cleaver, re—Noorduyn Aviation Limited, Montreal, and D. M. Martin; and it reads as follows:—

“I have your letter of March 9th asking certain questions in connection with the agreement between the Noorduyn Aviation Company of Montreal and D. M. Martin. The following are the answers to the questions which you ask:—

- (1) Under date of March 4, 1941, the Inspector of Income Tax at Montreal wrote to Messrs. Matthewson, Wilson & Smith, Barristers and Solicitors, Montreal, the legal representatives of the company, that the matter had been given consideration by the legal branch of the Income Tax Division and, in the result, it is considered that Noorduyn Aviation Limited, should be permitted to deduct for tax purposes, the sum of \$250,000 paid to Mr. Martin, but that Mr. Martin is not taxable thereon.

That apparently is entirely consistent with the letter previously referred to.

Paragraph 2 of this letter to Mr. Cleaver states:—

The company will not be permitted to charge the \$250,000 as an operating expense for a further period than the year in which the contract was cancelled.

now, have you any comments to make on that subsequent statement?—A. That is just a fact; that is the decision of the department, that the company will not be permitted to charge \$250,000 as an operating expense over a period other than the year in which the contract was cancelled.

Q. Do I take it that you say then that, the contract having been cancelled in 1940, the whole of the \$250,000 could be deducted before the taxes are levied for the year 1940?—A. That is right.

Q. And no portion of that \$250,000, whether paid in 1940 or whether paid later, could be deducted for subsequent years?—A. It could not be deducted for subsequent years.

Q. Even though it had not been deducted for 1940?—A. That would be correct, yes; but it is the assumption as far as the file reflects that they are taking it for the year 1940. But if they were to decide that they did not want to do that, the ruling would still stand and nothing would be allowed in subsequent years.

Q. Then, Mr. Elliott, I take it as this, that if the company had not paid the whole \$250,000 in 1940 and if they had paid say \$50,000 in 1941, they would not be allowed to deduct that in the year 1940 or the year 1941 for their income tax for 1941.—A. That is correct.

Q. Or, subsequent years likewise.—A. Or subsequent years would not be allowed.

Q. And having been allowed \$250,000 in 1940, you cannot give us any statement as to the 1940 income tax chargeable or collectable accordingly?—A. Well, I can give you this much to help you. The profits and the taxes will largely depend upon the determination of the board of referees as to what capital they give and what standard profits they allocate; but this has not yet been determined. The problem arising out of this agreement, however, has been determined, as we have just covered in our conversation.

Q. And can you, in the matter of the policy of the government, give any explanation why this \$250,000, according to a return tabled by the government, is not allowed as a cost of producing airplanes; and why, not being allowed as a cost in the production of airplanes, it should be allowed as a deduction from profits before levying the excess profits and income taxes?—A. I do not think it is a matter of policy; it is a question of law. The legal problem arises by reason of the agreement—I take it you are all familiar with it—which was made in 1940, whereby the company had to obligate itself for \$250,000; and, I repeat, whether that would or would not be allowed is not a question of policy, as you put your question, but is a question of law; and, in the light of our understanding of the law, we believe it is an allowable deduction in the year 1940.

Q. I see; and now, in relation to the amount paid to Mr. Martin, the \$250,000 payable to Mr. Martin, does the same ruling so far as the deduction of 1940 apply to the income tax payable by Mr. Martin on the \$250,000?—A. Well, paragraph 3 in the letter: Mr. Martin will not be charged income tax on the \$250,000 received by him in the settlement—again, it is a question of law; and having reference to the decided cases and our interpretation in the light of these decided cases, we believe Mr. Martin received a capital sum which would not be subject to income tax.

Q. Would you say it would not be subject to income tax for the year 1940 but would be subject to income tax if any portion of it were received by him in the subsequent years?—A. It would be immaterial when he received payment.

Q. You say it would be immaterial?—A. Yes. The question is that he received a capital sum, and if it was paid by several payments, that does not change the principle. It is still a capital sum.

Q. Could you differentiate between that ruling in so far as the time of payment is concerned with the ruling or the letter as you stated in so far as the excess profits or income taxes payable by Noorduyn applies.—A. Would you put that again please?

Q. Can you explain the difference in the ruling, or the letter, which says that it is immaterial when Martin gets the \$250,000 so far as his personal income tax is concerned, but is material in so far as when the company pays it in regard to their income tax and excess profits?—A. Well, I would explain it in this way. I think your question is probably a little in error. Might I suggest this, that we have said to the company, in making this contract you obligated yourself to \$250,000. That is an account payable by your company in the year 1940. We will allow that as a deduction to the company in determining its taxable income. If the company chooses to pay it by some instalment method or otherwise, that is simply the mechanics of payment; the contractual right arose in 1940. Therefore, when you say, differentiate between the terms of the settlement made by the company—I think that is where your question is in error, because the whole problem is dealt with as a contractual right in the year 1940; and we say to the company that in that year you will get it as a deduction because you ought to. Now, turning over to the income of Mr. Martin, we say to Mr. Martin, you have a capital sum coming to you of \$250,000. Having determined that is capital, we lose our interest as to whether it is paid by instalments or whether it is paid in lump sum, or converted into any other form. We just say, we are not interested because it is a capital receipt by him; and I repeat, whether he got it that year or whether he got it over several years, it is still a capital sum and the mechanics of payment does not touch it at all.

Q. And you say then that there is a difference in the payment of the settlement as a liability to the company who owes it, and the one to whom it is paid—

The CHAIRMAN: Pardon me, Mr. Boucher, might I interrupt? Mr. Elliott is required to answer an important telephone call. With the consent of the committee, we will permit Mr. Elliott to retire and answer his phone call.

(Proceedings suspended).

Witness having returned, the Committee resumed.

By Mr. Boucher:

Q. You say, Mr. Elliott, therefore, that it having become a liability to the Noorduyn people in the year 1940, they are compelled to charge it as a liability in diminution of taxation in that year?—A. That is right.

Q. But that, it becoming a credit to Martin by the same transaction, he can charge it as a credit on capital in any year he likes?—A. That is right.

Q. And can you tell me whether or not the company did actually write off the \$250,000 in full in the year 1940?—A. I should like to answer that, and I think I shall. But I should like to indicate to the committee that discussing the affairs of a private taxpayer in what is a quasi public situation is a matter that I should like to develop with care. The care I should like to exercise is this: I believe—although I am not awfully well informed on the matter—that the Noorduyn Company have been here and have discussed all their profits, and that if I mention profits of that year, I am not disclosing anything further than that which has already been put before the committee.

Q. That is correct.—A. Is that correct, Mr. Chairman?

The CHAIRMAN: Yes, that is correct.

The WITNESS: In the light of that, I am discussing things already exposed. The returns showed a profit for 1940 of \$55,000. I am really going to give the whole resume to the committee now of what happened in our office. When the

matter was originally discussed with the company's officials by our officials in the district office in Montreal, the question arose of this \$250,000. Our assessors were inclined to the view that not only was it a proper charge but that it might be allowed over the years 1940, 1941 and 1942, in three amounts; if my memory serves me right, the first year was \$75,000 and the second year, 1941, was \$100,000 and the third year would be \$75,000. They made it known to the company that that was their recommendation as the original assessors in the field. They also made it known—and this I checked before I came up here this morning by long distance—to the company that that was merely the recommendation of the assessors in the field from the district office. When that came to the head office, the matter was referred to our legal division, and the legal division, after considering it, determined that the matter should be a charge in the year 1940 as we have just covered. We sent back, therefore, word to our Montreal office, on an inter-office form, that that was the manner in which the item would be dealt with. Administratively there is one other feature that developed, from our file, and it is this. The company was anxious to get before the board of referees, and we always try to facilitate that purpose. The \$55,000, therefore, was—

Q. May I stop you just at that point. Is that \$55,000 before this \$250,000 was written off?—A. Yes. It was before the \$250,000 or any other sum relating to this contract was written off. I say, "any other sum" because it was reported by the Montreal office allowing the initial \$75,000 charge as they suggested, so that it reached our office with a loss of \$20,000 showing on the documents. After giving Montreal our decision that we were going to charge the whole \$250,000, we let it stand momentarily in abeyance and said, "We will refer the matter to the board and find out their standard profits. Then when we come back, we will put the documents in motion again and strike out the \$75,000 as recommended by Montreal and substitute the \$250,000." So that at the very moment the standard profits claim for the company is before the board, the documents show a deficit of \$20,000. The decision of the commissioner is that it must be a \$250,000 charge instead of \$75,000, and that is the way the file stands at the moment.

Q. Consequently, 1940 has not been settled nor has it been definitely settled as to whether the whole \$250,000 is allowed?—A. Oh, yes. It is very definitely settled that the \$250,000 will be allowed as an expense so far as we are concerned; but it is in the process of putting that mechanically through.

Q. But it has been definitely and finally decided that it shall be allowed as an expense for the year 1940 only?—A. That is right.

By Mr. McGeer:

Q. And if there were no profits in 1940, there would be no advantage?—A. Well, there was a profit, I stated, of \$55,000, according to their submitted financial statements. Therefore, if we say that you can have a further charge of \$250,000 it means they get a benefit to the extent of \$55,000.

Q. I think the evidence we got the other day was that there was a loss of \$22,000 in that year.

Mr. BOUCHER: That was after the \$75,000 had been deducted, of this \$250,000.

Mr. McGEER: Oh, I see.

By Mr. Boucher:

Q. The picture as it stands now is that the Noorduyn Company have represented to the income tax department a profit of \$55,000 for the operative year of 1940?—A. According to their financial statements.

Q. And have presented a claim for exemption from that \$55,000, their profits, of \$75,000 of this \$250,000.—A. That is the way the documents appear.

Q. It is definitely settled that the whole of the \$250,000, if written off, must be written off in the operative year of 1940?—A. That is correct.

Q. But it is not definitely ascertained what the profit of the company is for the operative year as yet?—A. I would say that is still under review.

Q. Nor is it definitely ascertained what the standard investment is on which income and excess profits will be calculated?—A. That is right.

Q. Has the income tax division made any assessment or calculation of the profits of Noorduynd for the year 1940?—A. Well, the district office has made a recommendation to us, and that \$55,000 may be accepted as their financial statements reported. But that has yet to be surveyed, as to the charges that were taken in arriving at that \$55,000, by head office.

Q. The result is that the income tax department has not assessed them or made a temporary assessment on the 1940 profits, nor have they checked over their statement to see if this \$55,000 is a correct profit or not?—A. Head office is in the process of doing that now.

Q. This \$55,000 profit may eventually be considerably higher, according to what the income tax department allow or assess?—A. It may be considerably less, too.

Q. And it may be considerably less, too?—A. Quite so.

By Mr. Isnor:

Q. Mr. Elliott, if I remember rightly, this contract was entered into in 1938. Therefore this company would have made returns for the years 1938 and 1939. Would you be in a position to state as to whether or not any charge or commission paid to Martin in either of those two years, 1938 and 1939, was charged up as an operating expense?—A. It was charged up as an operating expense.

Q. I ask that question because of the next one. Did you deal with this total settlement of \$250,000 on the basis of service rendered or a charge in connection with commissions paid, or purely as a capital withdrawal?—A. Well, we dealt with the \$250,000 corporate-wise; because, when a company enters upon an obligation to reduce a continuing charge that would arise in future years, and as it were commutes that into a lump sum payment of the same character and kind, under the law we say that is an operating charge all in that year. Does that answer your question?

Q. Yes, except that I am going to follow it up a little further. I do not want any information given about any private company that you would feel is not fair to the company. But I was wondering as to whether the company, in its return in 1938 and 1939, showed any very large or substantial amount outstanding as a claim by Martin against the company?—A. My recollection is—perhaps recollection is not quite the right word to use there. My information is, in conversation this morning with my inspector at Montreal, in which he made the statement, that all the commissions due Martin had been allowed as an expense up to the completion of the contract. Whether it had been paid or not, I am not in a position to say. But it had been allowed as an operating charge.

Q. In addition to this \$75,000 which the Montreal income tax division had more or less agreed to as a definite charge, there would appear certain payments in the form of commissions to Martin?—A. There would be certain obligations. When you say "payments", I convert that word into "obligations", because we are not in the position to say whether he got his money or not. The company set up the obligation; and we take it that, having set it up to pay this commission, it being an obligation, we have to allow it. Whether it is actually paid, I do not know.

Q. They would have to show, under their expense account, any commission which had been paid?—A. That is correct.

Q. Or they would have to show it as an outstanding liability?—A. That is correct; and we would allow it.

Q. My question is: Do you recollect any such payments having been made or entered or any amounts shown as an outstanding liability?—A. Those obligations are shown in the return, and we are allowing them.

Q. But you cannot recall any such?—A. You mean the amount?

Q. Yes.—A. Oh, no, I cannot. I am sorry. I would have to look at the files, and then I am not sure that I would get it.

Q. The capital of this company as shown yesterday, I think, Mr. Elliott, if I remember correctly, was \$417,000. Have you that?—A. I will have to get the file.

Mr. JOHNSTON: That is the stock capital, I think.

The WITNESS: Oh, share capital. Let us have a look at the file. Which year are you speaking of?

By Mr. Isnor:

Q. Coming into 1940; we will say December 31, 1939.—A. According to the balance sheet at 31st December, 1939, as signed by Haskell, Elderkin and Company, Auditors, Montreal, on the 5th of February, 1940, the capital stock as issued is 83,500 shares of no par value, having opposite a value of \$417,000.

Q. For future years, with this deduction of \$250,000, would that mean that you would show this company capital investment at \$167,000?—A. You mean taking off the \$250,000?

Q. Yes.—A. It would have no effect on the capital.

Q. It would have no effect on the capital?—A. Not the slightest.

Q. That is why I was wondering as to your term "capital,"—the withdrawal of capital.—A. My term "capital" does not relate to share capital at all. It is a contra distinction between what is an income item and what is a capital item in the general economic field, as that economic field is developed from the decided cases in the courts. So that is the kind of capital I mean. Share capital would not be impinged upon at all by this item we are discussing.

Q. To clear that up, may I ask this question? I think one or two of the other members feel as I do in the matter in regard to this \$250,000 which has been paid to Martin or will be paid to Martin, say, in a lump sum. In view of your ruling, he will not be assessed for that?—A. No. He will not be assessed.

Q. No income tax will be paid. He will be charged, of course, in the future for any earnings on that \$250,000?—A. He will.

Q. That is the only interest you have in that \$250,000?—A. That is correct.

By Mr. McGeer:

Q. May I ask a question just here to clear up a point. The \$55,000 of profit in 1940, I understand, was wiped out by allowing a charge of \$75,000 against that \$55,000, which showed the company's result at the end of the year as a loss of \$20,000?—A. That is right.

Q. Could you give us, roughly, an estimate of what percentage of that \$55,000 would have been paid in taxes had the \$75,000 not been charged against it?—A. Let me see. There would have been first the 18 per cent income tax; and then, if my recollection serves me correctly, there would have been another 12 per cent under the excess profits tax. Then, depending upon what the board of referees ascribed as standard profits, if that \$55,000 should in some measure be larger than the standard profits ascribed, to the extent that it was larger than the standard profit, we would take substantially 75 per cent of that.

Q. There is 18 per cent and 12 per cent. That is 30 per cent?—A. That is right.

Q. That would give three-tenths of \$55,000. That would be roughly \$17,000. Then the balance would be in doubt until the standard profit was fixed.—A. That is a good summary of it.

Q. And if the profit was more than the standard profit fixed, then of that sum 75 per cent would be deducted?—A. If the profit of \$55,000 were above the standard, then to the extent that it is above, we would take substantially 75 per cent.

Q. You would take 75 per cent of the remainder; that is of the remainder after the 30 per cent was deducted?—A. That is right.

Q. And if the standard profit was not less than the remainder then there would be no tax on it at all. Is that right?—A. If you do not mind, I will re-state that to make sure that I understand it.

Q. Yes. A. If the standard profit were higher than \$55,000, then we take nothing more than the 18 per cent and the 12 per cent.

Q. And if the profits were higher than the standard profits, then you take 75 per cent of that?—A. No. I keep putting in the word "substantially" there, because there is a turning point where the 12 per cent on the total profits is equal to 75 per cent on the excess. So I say "substantially 75 per cent."

Q. But really, subject to the fixation of the standard profit related to the actual profit made, the amount involved here would be roughly \$17,000?—A. That is right.

Mr. BOUCHER: Mr. Elliott, I have one or two questions.

Mr. McGEER: That is a little different from \$55,000.

By Mr. Boucher:

Q. You say that the ruling of the income tax department is finally to the effect that the \$250,000 must be deducted in the year 1940. Have the company accepted that ruling or are they appealing from it?—A. The assessment has not been made, and when I say "finally" I mean finally so far as our determination is concerned. Of course, the taxpayer has his right to lodge an appeal and say our decision is in law in error, but so far as the determination for assessment purposes is concerned it is final, and when we give notice of assessment he will have the right to appeal if he disagrees.

Q. The result is that the company has not agreed to it and they still have the right to appeal against the assessment when made? The company has not agreed to it and have the right to appeal against the assessment whenever it is made?—A. The word "agreed" is not quite right. We do not agree to the amount, we will assess people. We take the profits and look at them and apply the law and we say, "There is your bill. You have the right to appeal if you disagree with that."

Q. I will substitute the word "accepted".—A. Well the assessment has not been made.

Q. I presume in the years previous to 1940 that Noorduyn in making their returns did deduct from their profits any payments by way of commission made to Martin?—A. Yes.

Q. And that Martin having received commissions from the Noorduyn Company, or any other company, previous to that did pay income tax on those; is that correct?—A. Whether they have paid income tax or not they are liable to income tax.

Q. They are liable for it?—A. Yes.

Q. And Martin himself was liable for any commissions he made from the Noorduyn people?—A. That is correct.

Q. And for income tax?—A. That is correct.

Q. The point is that the \$250,000 having been agreed as a settlement if taken as sales commission would have been taxable but having been taken as a settlement was taken as capital return and not taxable?—A. That is correct.

Mr. McGEER: You said \$900,000.

The WITNESS: You mean the \$250,000?

Mr. BOUCHER: Yes.

By Mr. Boucher:

Q. You say that the 1940 returns of the Noorduyn people showed share capital of \$417,000, but that is not the capital of their company for income tax purposes?—A. I think you mean for excess profits tax purposes?

Q. Or income tax?—A. Well, income tax really is not interested in the capital at all. We are only interested in the profits. That is, a company may have very large capital and have a very small yield. Another company have very small capital with a very high yield, but in each case we just say, "What are your profits for income tax purposes?" Therefore when you ask me a question about the capital being determined I suggest you mean for excess profits tax purposes.

Q. I see.—A. And I informed you that is before the board where they must determine that.

Q. You could not give us any particulars of the capital for excess profits tax computation in any year as set for the Noorduyn Company?—A. I would not like to answer that because I would be doing beforehand that which the board of referees are required by law to do.

Q. As I understand it the board of referees is only deciding what the capital is for excess profits tax purposes for the year 1940 and subsequent years?—A. For the excess profits tax law.

Q. For the whole excess profits tax?—A. Yes. The definition of capital they have to determine is contained in the Excess Profits Tax Act and they have to apply that. I would not like to make any comment as to how they would apply it before the event.

By Mr. Green:

Q. I understand from your answers that there will not be one cent assessed against Mr. Martin in respect of this \$250,000 he has got from Noorduyn Aviation?—A. That is correct.

Mr. McGEER: Do you suggest there should be?

Mr. GREEN: Did you hear me make any suggestion?

Mr. McGEER: You leave that on the record—

Mr. GREEN: It is in the record.

Mr. McGEER: I do not know whether or not the law is correct and I do not know whether or not the interpretation is correct but are you making any suggestion as to wherein that is wrong?

Mr. GREEN: I am not being examined, Mr. McGeer.

Mr. McGEER: I know that the hon. gentleman is putting his opinions on the record for future reference.

Mr. GREEN: If you want to give some of your opinions hop to it.

Mr. BOUCHER: Recall some of your objections of yesterday.

Mr. McGEER: I can say quite frankly that I have very decided opinions about the rate of taxation and I think parliament has got to deal with it before very long.

By Mr. Douglas:

Q. Mr. Chairman, I wonder if I might ask Mr. Elliott's question to clear up a point. Mr. Elliott is probably familiar with the evidence given yesterday by Mr. Bayer.—A. Do not presume that because I have not followed the evidence at all, not one line of it.

Q. Put it this way then; as I understand the situation Mr. Martin had certain contracts for commission with the Noorduyn Company and that at the time this contract was made terminating this agreement he would have had about \$900,00 coming to him in commissions?—A. I will accept your statement. I do not know.

Q. I think that is on the record; and that a termination contract was drawn up by which he settled for \$250,000. The only point that sticks in my mind, and which I will ask Mr. Elliott to explain, is that it seems to me that if that \$900,000 had been paid him under the sales contract which he had it would have been income, would it not, and would have been treated as such?—A. If it had been paid qua commissions then it would have been income.

Q. Would you explain why when he accepts a settlement of \$250,000 instead of \$900,000 it suddenly moves over from being commissions to being capital?—A. Yes, I shall try to explain that. Here is a gentleman who has a contract over a term of years entitling him to certain commission which is accepted by all as income. This contract as a contract and qua contract is the right under and by virtue of which he is to receive under prescribed conditions the commissions. That right, namely the contract, he cancelled, and in lieu of the contractual right he took money which takes the same form and character as the contract itself which was his capital right. Therefore the money is the capital right. He gave up his income under his capital right and he took capital in its place.

Q. In other words, Mr. Elliott, your department treated the \$250,000 not as a reduced amount of commission but rather as a payment made to Mr. Martin for certain rights which he surrendered?—A. That is right.

By Mr. McGeer:

Q. Are there any legal decisions on that type of thing?—A. Yes, there are decisions on that.

Q. I understand that the position is that here was a man who had an over-riding agency which included the payment of commission on all sales made by the company—A. Right.

Q. And at the time settlement was made the amount already earned was some \$900,000, and prospective business already indicated turned out to have, as Mr. Bayer told us yesterday, a commission agency value to the holder of that contract, had it been continued, of some \$4,000,000. The company decided to wipe out that whole liability, and the amount of \$900,000 was reduced to \$250,000 and that was accepted as settlement not for the commission earned but the consideration was the release of the company from the continuing liability. I am not in possession of the law but I understand that the courts have interpreted that type of transaction as a sale of a capital asset and not as income and that is the law as it stands today. If there are any authorities you might let us have them.

Mr. JOHNSTON: May I ask for information on that?

Mr. McGEER: May I get the authorities I wanted? I understand it is a matter of legal determination, and if the authorities have so decided then it might be a matter for this committee to recommend an amendment if we see fit to deal with that law as it stands at the moment.

Mr. JOHNSTON: Do I understand, Mr. McGeer, that you said that the \$900,000 commission rights that Mr. Martin had were reduced to \$250,000 and that \$250,000 was accepted as terminating the contract?

Mr. McGEER: What I said was the accrued commission at the date of settlement was \$900,000, that the business indicating at that time would substantially increase that again, and the evidence of commission would have been something in the vicinity of \$4,000,000. I say the contract was cancelled not in reduction of the amount of commissions but in settlement of the whole liability of the company and \$250,000 was paid but not as a reduction of income alone. That was part of it but the other part, as I understand it, was the release of the company from the continuing liability of the obligation in that contract.

Mr. JOHNSTON: The \$900,000 that Mr. Martin had coming in as income was all written off. He agreed to forego all his commission, \$900,000.

Mr. McGEER: Not only that but all future commissions.

Mr. JOHNSTON: Correct. He had \$900,000 coming in as commission and he agreed to wipe that off and then he got \$250,000 as a settlement for the cancellation of the contract.

Mr. McGEER: That is right. If we might get those authorities—

The WITNESS: They are available.

Mr. McGEER: Could we have them?

The WITNESS: Yes. May I, before answering, give you a modification of your statement, if I may suggest it, Mr. McGeer? When you said there was an obligation of the company for this estimated amount given you by some previous witness I suggest that it is a potential obligation. At the moment it is not an obligation for there is a prerequisite before Martin gets anything even in the future, and that prerequisite is the company must sell something. Therefore there is no obligation to pay Martin in the future until there are sales. It is under the terms of the contract related to the sales and by reason of the sales in turn being related to the terms of the contract the obligation then becomes a real thing, and that helps to explain to my friend who asked me how we made this contract and the \$250,000 correlated as capital. The contract is the basis in right and if, in the course of their business being carried on something is made and something is sold, by virtue of that commercial aspect there arises commission, and that is the distinction, that when he cancelled these potential commissions and also cancelled *ipso facto* his right to them, by cancelling the contract he took capital. With that slight modification, Mr. McGeer—

By Mr. Boucher:

Q. Before you go further may I just dwell on that one point so that we will understand it clearly? As I understand it at the time that this settlement was made in 1940 the \$900,000 was not a potential liability but was a definite liability under a definite contract and a liability that could have been put as a liability in the same way and I believe with the same status as the \$250,000 was as a settlement; is that not correct?—A. The terms of the contract, as I understand them, were, whether there was something more to be paid or potential rights to more, the contract qua contract was cancelled between the parties and in the light of that cancellation Martin was entitled to receive \$250,000.

Q. We will come at it another way. In my judgment the \$250,000 settlement made in August of 1940 was a settlement for two things, first earned commissions against which were the liabilities of the Noorduyn Company under an exclusive sales contract; secondly, the right to continue earning commissions. Now I say that \$900,000 the figure given to us, was given to us as actual earned commissions.—A. On sales.

Q. On sales actually completed, and a definite liability from Noorduyn to Martin. Beyond that there was a possibility of earning more commission under the same contract. Taking that I say the \$900,000 as earned commission was as much a liability in the year 1940 of Noorduyn as was the \$250,000, and Noorduyn had as much right to charge that up in diminution of profit as they had to charge the \$250,000; is that no correct, Mr. Elliott?—A. I am informed by Mr. Gray, our assessor, that there is no such liability as apparently the witness gave of some \$900,000 showing in the balance sheet of the 31st of December, 1940.

Q. This would be the 31st of December, 1941.—A. Let us look at that. Yes, the balance sheet of the 31st of December, 1941, shows an amount in accounts payable without further description, just accounts payable, of \$910,710.46. I repeat that has not any further description but I observe inventories of work in progress, material, supplies, as determined and certified

to by officers of the company, were \$5,086,847.69. Therefore accounts payable, so far as the face of the balance sheet is concerned, and without further inquiry, might relate to the unpaid accounts of the \$5,000,000 purchases.

Q. Yes, but irrespective of the settlement made in August 1940 for \$250,000 there can be set up by the Noorduyn Company in 1941 a liability to pay commissions under that contract of \$900,000; is that not correct?—A. If commissions had been earned by actual sales that certainly would be correct.

Q. Therefore, by the Noorduyn Company settling with Martin for \$250,000 they reduced their profits and did not reduce their liability to exemption. They could still claim exemption in the year 1941 for the commissions that were earned under that existing contract?—A. If the facts are as you indicate you would be correct.

Q. Then if the government accepted \$250,000 as— —A. You mean the company?

Q. If the company charged \$250,000 as a capital expenditure they could still charge the \$900,000 as a liability for sales commission.—A. There are two things in that. The \$250,000 was not charged as a capital liability; it was charged as a current obligation, and if the company had obligated itself under the terms under the prior existing contract on sales actually made they also would charge that as an operating expense.

Q. And the result is that until this settlement was made the company had the right to charge as a liability any commissions they actually owed on the contract to Martin?—A. I would say, if they had had sales; I would repeat again that that would be correct. But perhaps I might indicate to you that we have a communication from their lawyer, Mr. A. L. Smith, under letterhead of Matthewson, Wilson and Smith, dated December 10, 1940—and I read therefrom the following paragraph:

“It should be pointed out that at the time of the execution of the agreement herein mentioned Mr. Martin had been paid all commissions earned by him up to that time.”

Q. And he was entitled to claim for \$900,000 over and above the \$250,000; if this solicitor's letter is correct, and in the statement made to us, they owed him \$900,000 as of that time?—A. I am not giving any statements, they are made to you—because I have not read the evidence—but I am accepting your evidence on it, and I repeat paragraph here:

“Martin had been paid all commissions earned by him up to that time”

and “that time” is the agreement.

Mr. DOUGLAS: And the date of the agreement was in August.

Mr. GOLDING: The agreement was actually drawn up in June of 1940.

The WITNESS: Some time in August of 1940, I do not know when.

By Mr. Boucher:

Q. There is one other question I would like to put to you; did the income tax department or any official thereof have anything to do with the negotiations as to the settlement with Martin or make any commitment to Noorduyn or to Martin before that settlement was made?—A. Not the slightest. Probably I better qualify that slightly; when you say, “or commitment”; I take it at its full meaning. I would say that the subject was one of discussion between the company's officials and our field auditors; as is always the case; but there was no commitment or undertaking or anything that was in the slightest degree in the nature of an obligation on the part of the government.

Q. It was actually discussed before settlement?—A. Yes, of course it was. I said that in the earlier part of my evidence.

Q. There were numerous discussions with the income tax department before this first settlement was made with Martin?—A. With the income tax department, thereby meaning our field assessors in Montreal district but not head office.

Q. Not head office?—A. Right.

Q. But actually the income tax department, and I presume the head office, had knowledge of the existence of this contract?—A. After it was reported from Montreal to head office.

Q. Previous to the settlement being made?—A. Oh I would not think so; oh, definitely, no.

Q. But your Montreal office had, of course?—A. No, not before the settlement. The settlement would have been made and then the matter would come before our field auditor, not before.

Q. I understood you to say your field representative in Montreal did discuss with Martin and the Noorduyn company the situation before the settlement was made.—A. I am glad you put it so squarely, because the answer definitely is no.

Q. Definitely no?—A. Right.

Q. So that any knowledge of the head office of the income tax department, or any officials of the department, say apart from the field representative in Montreal, was subsequent to the settlement?—A. I repeat my answer for the income tax department.

By Hon. Mr. Mulock:

Q. A short time ago you said that pending settlement of the standard rate, standard taxes, about 75 per cent of approximately \$55,000 would go in taxes; now, if the \$900,000 had continued, had been paid over a period of years, you would have taxed Martin on what he was actually paid in each year?—A. That is right.

Q. And in that case the company would have been allowed to charge that as a deduction from operating expenses?—A. That is correct also.

Q. In other words then the amount, if they had a large profit, would be reduced to that extent each year, to a total of approximately \$900,000; that is, the company would have received the benefit for taxation purposes of approximately \$675,000, applying that ratio of 75 per cent to the figure of \$900,000?—A. Whatever the figures may be, that which they paid by way of commission to Martin would have been deducted by the company, and would have therefore reduced their liability commensurately.

Q. So that the Noorduyn company will lose the benefit—if it could be called a benefit—of the tax allowance for commitments on the cancellation of this agreement, and they will be taxed on the full amount of their profits without that deduction from now on?—A. That is right.

By Mr. Douglas:

Q. Mr. Chairman that amount of \$900,000, had it been paid to Mr. Martin would have been subject to income tax, would it not?—A. Yes.

Q. And then the government would have collected on that amount by way of income tax from Mr. Martin?—A. He would have paid income tax on it.

Q. So that whatever amount had not been collected from the Noorduyn company certainly would have been collected from Mr. Martin.

MR. NOSEWORTHY: The postmaster general (Hon. Mr. Mulock) has just indicated to us that the Noorduyn company did a great public good, served the public well, by cancelling this contract, but he left entirely out of the picture the fact that the company would have been in \$900,000 more profit by reason of the cancellation, less the \$250,000 they paid in 1940, less anything in 1941 and 1942.

Hon. Mr. MULOCK: It was not a question of doing public good; it was a question of the effect on the treasury of this company.

By Mr. Green:

Q. Mr. Elliott, there has been some suggestion that the company owed Martin \$900,000 for commissions for 1940; what would be the income tax payable on that amount?—A. Well, I would like to deal with that if I may in the theoretical field.

Mr. GREEN: We have been in the theoretical field for the last half hour.

The WITNESS: Yes; still I just want to make sure—

Mr. GREEN: It is not very theoretical, the amount you have to pay is indicated; it is \$900,000.

The WITNESS: When I say theoretical it is for this reason, that I have read a lawyer's letter which indicates that all commissions have been paid up to the date of the contract cancellation.

By Mr. Green:

Q. I am asking you this question, Mr. Elliott: if I had an income of \$900,000, how much income tax would I have to pay?—A. You are a married man—and how many dependents?

Q. I forgot about that. Well, give Mr. Martin the benefit of the doubt and say he is a married man.—A. A married man with no dependents and an income of \$900,000?

Mr. GREEN: Yes.

The WITNESS: I will give you the answer in about three minutes, because my accountant will work it out for me.

The CHAIRMAN: He would be in debt.

The WITNESS: Not quite; but it will be a remarkably small amount, what is left to him. Offhand I would say he pays about 96 per cent of that amount. It may be that that is a little high.

By the Hon. Mr. Mulock:

Q. If a man has a sales contract and has expenses in connection with the earning of that income; what happens? Suppose he is in business, is a real estate agent selling land; it doesn't matter what he is selling. Does he set off these other expenses against that income and base his tax on the net balance?—A. Yes, he has his expenses as deductions.

Mr. GREEN: You said about 96 per cent.

The WITNESS: My accountant tells me that I am thinking of the year 1942; therefore, I modify that statement.

Mr. JOHNSTON: In any event, your accountant will ascertain the amount.

The WITNESS: Quite so.

Hon. Mr. MULOCK: This is on the basis, you say, of 96 per cent, of no expenses.

The WITNESS: The premise as given states that he had an income of \$900,000.

Mr. GREEN: It has been said that Martin had nothing to do with the sales of the company.

Mr. SLAGHT: There is no evidence as to what sub agents he had, or as to what his expenses were or who shared with him in such profits as he might have.

The WITNESS: The question was premised that he would have an income of \$900,000; that would mean after expenses and everything else he had an income of \$900,000. That would be your question, Mr. Green?

Mr. GREEN: That is right.

The WITNESS: Well, we will give you the answer to that in a few minutes.

By Mr. Fulford:

Q. While Mr. Green is waiting for his answer I would like to ask a question: if settlement was made for \$250,000 on a contract worth \$900,000 which apparently was the total amount due Mr. Martin and if you deduct the amount of the settlement from that it will leave \$650,000. This is a hypothetical question. By the ruling of the board of referees there would be no doubt that that would be taken as excess profits tax and the company would have to pay 100 per cent, minus a 20 per cent deduction which would be returned to the company after the war. Is that not right?—A. I am not clear enough on your question, I am sorry; but might I ask you if you would mind putting it again?

Q. The \$900,000 which was owed to Mr. Martin and for which he made a settlement for \$250,000, would leave \$650,000 profit—A. Yes.

Q. To the company, I mean. They have saved \$650,000?—A. Yes.

Q. Would that be classed as profit and 100 per cent tax charged on that?—A. That would be part of their profit, surely.

The answer, Mr. Green, is \$710,000—very approximately.

By Mr. Green:

Q. So if Mr. Martin had been paid the amount of commission that is supposed to have been owing to him in 1940—that is, \$900,000—he would have to pay to you \$700,000 in income tax?—A. No, I would not answer that that way. The question was, if Mr. Martin had \$900,000 income that year, how much would he pay that year, that year being the year of the cancellation of the contract. My accountant works it out about \$710,000.

Q. So that he would have had \$190,000 left for himself?—A. On our example, yes.

Q. As it was, the way the basis of settlement was made, he got \$250,000 clear?—A. The settlement gives him \$250,000 non-taxable.

Q. And he gets it spread over a period of years—a substantial income of say, \$25,000 for ten years free of income tax?—A. I think I would put it this way: that, having only \$55,000 they only got rid of that much; because the balance of the \$250,000 deepens the deficit. The next point in your question was he, Mr. Martin gets, \$250,000 tax-free, and you state spread over the years.

Mr. GREEN: He is getting paid so much a year.

The WITNESS: That would not matter, as I said earlier in my evidence.

By Mr. Green:

Q. Actually, it is a pretty nice picture; Mr. Martin is much better off by getting it this way because he gets \$250,000 clear, and he is getting that spread over a period of years, income tax free.—A. All I wanted to indicate was that spreading does not change the principle.

By Mr. Boucher:

Q. Another hypothetical question, and this is another legal point: can we be assured that the Noorduyn company, having been allowed to write off \$250,000 in the year 1940 shall not be allowed to write off anything further relative to the commissions estimated at \$900,000, or any subsequent claim for commission?—A. I have to answer that, in the light of the evidence that I have here, Martin was paid all his commissions to which he was entitled up to the time of the contract. If that be a true statement—and I am inclined to accept it, but we will investigate it and find out if it is factually true—I would say that Martin will be taxed on all those commissions.

Q. And the Noorduyn Company cannot claim any further liability in deduction of profits?—A. That would be right.

Q. In connection with Martin?—A. On that set-up, that would be right.

Q. You cannot give us any particulars as to what deductions have been allowed the Noorduyn people by virtue of the commission paid to Martin up to that date?—A. Well, might I ask you if that has been placed before the committee; because your question is: How much income did Martin get qua commission?

Q. From Noorduyn only.—A. From Noorduyn only? I do like to leave in the minds of the public a confident feeling. When by law, you are required to tell us all your affairs, and there is a section which states that it shall be secret, I do like to let the people know that they are secret.

Mr. GOLDING: Hear, hear.

The WITNESS: I will assure you that all the commissions he got or gets will be taxable. I hesitate to break that very necessary and fundamental confidential relationship, and I suggest that I should not.

Mr. GOLDING: Hear, hear. That is Martin's business.

By Mr. Boucher:

Q. I understand that the company did give us some information to that effect, but they did not have the complete information to give us.—A. Does it not really cover it when I make the statement that I will assure you that all the commission he gets qua commission we will tax?

Q. It does not complete the picture. My idea in asking that question is this, if I might explain it. It was represented to us in the committee yesterday that Martin did a very generous thing in accepting \$250,000. To fully complete the picture and to fully appreciate that statement, we must know what commissions he got outside of that \$250,000.—A. I want to help you, Mr. Boucher, and I do not want to appear reticent where I can be frank. Therefore I will join with you in a general discussion of Martin's so-called generosity. In doing so, may I point out that whatever the commissions to which he might have been entitled on the future sales of the company, if the company had continued to have them, and the commissions as an expense, in July of 1942 this company, I am inclined to the belief, would be in the 100 per cent rate of tax. This company being in the 100 per cent rate of tax, we, the Crown, would take, due to the cancellation, 100 per cent of these commissions which, but for the contract, would have gone to Martin and been taxed to him as an individual at a rate of less than 100 per cent. That is a potential thing that was avoided and was a saving to the Crown. There is no doubt of that in my mind.

Mr. SLAGHT: The government is better off.

By Mr. Boucher:

Q. On the other hand, the loss to the Crown was the tax on the money, the \$250,000 paid to Martin?—A. Which, Mr. Boucher, against the loss that would have been sustained over the future years, would have been much less. Mr. Gray, my accountant, points out that due to the company having only \$55,000 of profits in the year of this contract, the company lost the benefit of \$250,000 less the \$55,000. That is, they lost the benefit of \$195,000. The only benefit the company got, therefore, was relief of taxes on \$55,000. When you think of that, in the light of the future sales that we apprehend would have been made on a reasonably sound expectation, there is no doubt that we got much more taxes qua the company than we ever would have got qua Martin.

By Mr. Douglas:

Q. Mr. Chairman, may I ask Mr. Elliott a few questions. A few moments ago, Mr. Elliott, you explained to the committee that your income tax branch

considered this \$250,000 paid to Martin not as income but as being a capital sum paid to him for the surrender of certain rights. Does the income tax branch make any study as to what they consider to be a fair figure for the surrender of such rights?—A. Not in these circumstances.

Q. If it had been a million dollars, it would not have made any difference? —A. No. We just take the contractual relation as between those whom we believe to be strangers; and we have so regarded the Noorduyn Company and Martin as strangers entering into a contract one with the other.

Q. Then suppose within any company, the parties within that company—say an agent and the company itself—have a contract and they make an agreement to pay, one to the other, a large sum of money for the termination of a contract which they have mutually agreed upon. Do you accept that figure?

Mr. McGEER: Not necessarily.

The WITNESS: I repeat we do take the stand with regard to a contract which is tantamount to a contract between persons who are collaborating with a view to minimizing taxes and not contracting for cold, business reasons, that we do not accept that kind of contract. But if strangers are making a contract, the best test of the value is that which they do between themselves, and we accept it.

By Mr. Douglas:

Q. In this case though, did you not consider Martin and Noorduyn to be collaborators?—A. I would regard them, or at least we have regarded them as strangers.

Q. In spite of the fact, for instance, that evidence was given to the committee yesterday that Mr. Martin organized Noorduyn Company in this country and was responsible for it?—A. The implication of your remarks is that this contract was done for the purpose of minimizing in a semi-fraudulent manner the revenues of the Crown. We have not looked upon the contract as such, more particularly in the light of the benefits that flowed to the Crown by virtue of the contract, as described in my remarks of a few minutes ago.

Q. Mr. Chairman, I hardly think that Mr. Elliott can put the implication on my remarks that I am suggesting that this was done for some fraudulent purpose. What I am trying to get at is what the safeguards are. I am thinking in general terms rather than in terms of this particular case at the moment. What safeguards are there in the income tax branch to prevent firms which have a large amount of money which might otherwise be taxed, paying it out in considerable sums on some pretext or other, such as the cancellation of some contract that they have made among themselves?—A. The Income Tax Act was amended—

Mr. SLAGHT: Mr. Chairman, are we, after all, charged with an investigation of the income tax department? I think my friend is going very far afield there.

The WITNESS: I do not mind answering the question.

Mr. DOUGLAS: Mr. Slaght may think what he likes, but after all this is a public accounts committee and I think Mr. Elliott will probably be more than glad to tell the committee just what precautions are taken to see to it that advantage is not taken of this particular provision, in order to allow companies to make gifts of large sums of money to people with whom they are doing business.

Mr. SLAGHT: Then I rise to a point of order, Mr. Chairman. My friend, the honourable member for Weyburn, premised his question by the words "aside altogether from Mr. Martin or this transaction," and went on to ask what precautions the income tax department take with regard to so and so. I listened very closely to him. It might be interesting and so on, but I do suggest to you that the committee's task is large enough, and this is not the time nor the place to begin an investigation as to the conduct and internal machinery of the income

tax department. My friend's question may evoke an answer that other members will want to explore, and we will be off in a cloud of dust on a matter that is quite irrelevant to our inquiry.

Mr. DOUGLAS: All right. With respect to procedure, may I suggest this?

The CHAIRMAN: On the point of order—

Mr. DOUGLAS: I am speaking on the point of order.

The CHAIRMAN: Well, I think perhaps I can save you some time. The witness has indicated that he has not any reluctance in answering that particular question. I think your point of order is well taken, but I think the committee will agree that if the witness does not object to answering that question, in this particular case the question should be answered.

Mr. DOUGLAS: The point of order is not at all well taken. May I point out to the committee that when the witness has told me what precautions are taken, I am quite within the ambit of discussion to ask if those precautions were applied to this particular case.

Mr. SLAGHT: Then why do you not ask that?

Mr. DOUGLAS: I am going to ask it, if my friend will just leave me alone.

The CHAIRMAN: Go ahead and ask your question.

Mr. DOUGLAS: The committee is very well supplied with counsel to help him stick in his oar.

Mr. SLAGHT: I might say that, the committee is also well supplied with Pecksniffs who are endeavouring to drag in matters which are quite irrelevant, if my friend wants to indulge in personalities.

Mr. BOUCHER: I think Mr. Slaght should take back his term "Pecksniffs".

Mr. DOUGLAS: I do not care whether he takes it back or not. Remarks made by Mr. Slaght and his type never worry me and do not make much impression on the public generally. I do not care about it. I should like to have the witness's answer to the question.

The WITNESS: Well, the question, as I understand it now, is what steps did we take—

By Mr. Douglas:

Q. What are the general steps and precautions taken?—A. Yes. I will answer your question, if I may, without offending my friend Mr. Slaght. We were apprehensive, many years ago, of certain transactions being set up, not for business purposes but for the minimization of tax purposes. Therefore in 1938 the law was amended with the intent that where such a transaction was entered into, the Crown could ignore it and refuse to give effect to it. That section was called "32A". Then in 1940 that section was strengthened by elaborating its terms more extensively and giving the right to refer any transaction that appeared to have no sound business reasons to the treasury board to ascertain whether or not it was a genuine transaction. Then in the present session of this parliament, section 32A was substantially extended again; and I will rely upon your memory that it was the subject of considerable discussion in the House of Commons. Under that section, if there is a transaction that has no reasonable business purpose other than the minimization of taxes, then the case can be cited by the income tax division to the treasury board and hearings can be had there. If the treasury board is of the view that the transaction was purely for minimization purposes, then they can raise the taxes which, but for the nefarious transaction, would have been payable. The subject still has his rights to go to the Exchequer Court by way of appeal from that decision. That is the generality of your answer. Then I come to the particular, what did we do in this case. In all cases where there is a substantial

sum in particular involved, we go into it. It was discussed thoroughly in the Montreal office, as I have described, by our field assessors; and the basis of the contract and the related circumstances were reported to head office. Head office did not agree with the view taken by the local assessors in Montreal and we believed, looking at the contract, that it was substantially between strangers. Certainly we could not say in this case that it was for tax minimization because, having regard to the future possibilities of the uncanceled contract—that is, if it were not cancelled—the Crown would lose more money. Therefore it was to our advantage, tax-wise, to assent to this contract and say, “Sure, let it go through”; because we were getting more money out of it. Therefore section 32 (a) was never even considered as an appropriate section to invoke, plus the last thing, that we were not only being given an advantage tax-wise but we did feel it was a contractual relation between strangers and Martin was getting the best he could out of it and the company were getting the best they could out of it and they did not jointly put their minds together with a view to beating the Crown’s tax. I think that answers both.

Q. I will just ask you one more thing. As I understand it the department felt that if these sums of money for commissions were paid to Martin that the amount the Crown would collect from Martin in income tax was less than they would collect if these sums of money were kept by the Noorduyn Company and taxed under the excess profits tax.—A. We believed that to be so very clearly.

Q. You would not have any approximate figures?—A. Because I would not know what the sales would be in the future except we apprehended with reasonable evidence due to the war expansion there would be a very substantial amount of sales.

Q. That is an illuminating point. For instance, it was stated yesterday if the commission contract had stayed in existence about \$4,000,000 would have been payable to Martin. As I see it now more of that \$4,000,000 would be collected from Noorduyn under the present set-up than if the \$4,000,000 had been paid to Martin?—A. We are dealing with the future and no one can answer your question with exactitude but you have to look at the developments that are expected and we inclined to the view on the two counts, first that it was between strangers, and secondly the Crown was not being defrauded or not having their tax minimized, and that is why we dealt with the matter as we did.

By Mr. Boucher:

Q. Mr. Elliott, we are all dealing on the thesis that it depends entirely on where the personal bracket goes because actually personal income goes as high as 90 per cent and corporation income only about 80 per cent. It could be the other way just as well?—A. That may be in 1942 but we are dealing with 1940, a year when the rates were very much lower.

By Mr. Slaght:

Q. There is a question that I would like to ask because of the absence of the officials. You have put it to us, as I understand, and my friend Mr. Douglas, that the department regarded the cancellation of the contract and the payment of the \$250,000 as working out, and that it would work out, advantageously to the department, but aside altogether from that being the reason why you did not endeavour to protest against it may I take it from beginning to end there was no evidence of fraud or improper dealing before your department to indicate that the making of that contract was anything but one that was regarded in the interests of the shareholders of the company and a proper one to be made; is that correct?—A. You may so take it.

By Mr. McIvor:

Q. I may not be well versed in this sort of thing but as I see it Mr. Martin did not have to cancel the contract, did he?—A. I would not really know the

answer to that. I do not know any compelling force. No man is forced to enter into a contract in our country. Circumstances commend the doing of a thing to his mind and he does it.

Q. He was a party to the cancellation of this contract of his own free will?—A. I would think so but I do not know if there was any coercion put on him or not. I could not give evidence on that.

Q. If he had not consented to the cancellation of this contract it would not have been so good for the Crown, would it?—A. I am inclined to that view.

The CHAIRMAN: Any other questions, gentlemen?

The WITNESS: I might add another thought, that I am inclined to that view because do not forget that not only do we take the corporate tax we have been discussing but whatever profit is still left has got to go out to the shareholders and again be taxed in their hands.

Q. You like to get all the taxes you can.—A. No, I quickly answer that very firmly no. All that we want to get is just what the law technically requires and no more.

The CHAIRMAN: Any other questions, gentlemen?

Mr. ROSS (*Hamilton East*): I move we adjourn.

The WITNESS: Mr. McGeer asked a question and if he were here I am sure he would ask it again, and perhaps I might respond to his request. He asked for some cases. Shall I put them on the record?

The CHAIRMAN: Yes.

The WITNESS: I think the best collection of them is in a book by Gordon, *Digest of Income Tax Cases*, and I read from page 213 where is reported Henry—that is the Inspector of tax—vs Arthur Foster and others. It is in 1932 and if you have not this book you will find it in the library in 16 Tax Cases, 605. The head note reads as follows:—

Appellants were directors of a limited company. Upon retiring each director who had held office for five years was entitled to a sum equal to remuneration received during the last five years. In cases one and two appellants resigned as directors and received compensation. In case three appellant desired to resign but was persuaded to accept a lump sum and to remain on the board at a reduced rate, waiving any further claim.

It was held in the court of appeal that the appellants in cases one and two were assessable; the appellant in case three was non-assessable. That is just the head-note. Then I would refer to Mr. Gordon's book again at page 248.

By Mr. Slaght:

Q. What court of appeal was that?—A. That went to the House of Lords, as a matter of fact. I refer to page 248 of Gordon, the Anglo Persian Oil Company Limited vs the Commissioner of Income Tax. That will be found in 6 Indian Tax Cases, 409. You will get that in the library. It is a decision in 1933.

Company paid agents 325,000 rupees to cancel agency agreement.

It was held the company was entitled to have that as a deduction. Then I would refer again to Gordon, page 260, the case of Vandenberghs Limited vs. Clark. Clark is the Inspector of Taxes. This is in 1935 Appeal Cases, 431.

British company of great size formed working arrangement with foreign competitors. During war arrangement could not be carried out and British company claimed £450,000 damages. Subsequently agreement was cancelled and British company received amount claimed.

It was held by the court to be non-assessable. That is again a cancellation of rights.

Then referring again to Gordon at page 246, the case of the Anglo Persian Oil Company Limited vs. Dale, Inspector of Income Tax, otherwise reported in 1932, 1 King's Bench, 124,

Company paid agents £300,000 to cancel agreement which had five years to run.

It was held the company was entitled to deduct the amount paid.

By Mr. Boucher:

Q. There is also the Fullerton case?—A. The Fullerton case was quite a different case. That is a Canadian case. The late hon. Mr. Justice Fullerton was chairman, as I recollect, of the Board of Railway Commissioners, and for reasons best known to the Crown they desired to have him retire and forfeit his right to sit on that board for the balance of the ten-year period for which each commissioner is appointed, I believe, and under statute has that right to sit for that term. An order in council was passed retiring him and in the order in council it was stated that he was to be paid the sum of \$30,000 and right in the order in council was incorporated a clause, "It shall be subject to income tax", or words to that effect. We in the income tax division following the order in council raised the assessment and Mr. Fullerton appealed the case and it went to the Exchequer Court. The late hon. Mr. Justice MacLean said it was immaterial what was contained in the order in council. The question was solely the \$30,000. Was it income or was it capital? The court held it was the payment of a sum in cancellation of a right to serve for the balance of his ten years over which balance he would have earned his salary, but that right having been cancelled and \$30,000 substituted for it was of the same character as the right itself and not subject to tax.

Q. Why I brought that up, Mr. Elliott, is that the Fullerton case, as I understand it, was simply the cancellation of a right.—A. That is right.

Q. But in the case of Martin it is not only the cancellation of a right but it is in satisfaction for earned commission as well. I may be wrong on that.—A. The contracts as we look at them—here is a contract and here is another contract which cancels the former contract and I read from the contract itself.

It is now therefore covenanted and agreed that:—

- (1) the transferor hereby sells, transfers, assigns and makes over unto the transferee, the latter hereby accepting, all of the transferor's right, title and interest in and to or deriving from the memorandum of agreement entered into between Aircraft Industries of Canada Limited and Noorduyn Aviation Limited on the 29th day of July, 1938, and/or the memorandum of agreement entered into between said Aircraft Industries of Canada Limited and the transferor on the 2nd day of January, 1940.

That was surely just a cancellation of a right.

By Mr. Douglas:

Q. I wonder if Mr. Elliott can tell us if there have been any cases similar to the one he has quoted that have come up since the war in which payments have been made for the surrendering of certain rights and privileges, and on the basis of which the payments were considered as capital rather than income?—A. I might answer that this way, that if you go into a chocolate store and say to the girl behind the counter, "How long have you been here," she will say, "Oh, I have been here only a week", and she will be able to tell you all the chocolates that are there, the different kinds and what they are, but after she has been there a year she says, "I do not know; they are just chocolates". So when you say to me, "Have there been many such cases," I do not take notice of them. It is a day to day thing and they all pass by and I do not remember them. I could not give any evidence on it that would be really sound.

Q. There have been other cases than this though?—A. I am informed by Mr. Stikeman who is advisor here, and who I may say for your edification—I would like to give him the praise—has written a splendid work on the income tax and one that is very useful to the public, that there is a case just like this in the House of Lords last year. It is *Wales vs Tilley*.

Q. What I had in mind was that in the Canadian set-up this particular treatment of Martin is not unique? There have been others treated in the same manner since the outbreak of war?—A. I am sorry, I did not get that.

Q. I was merely asking with reference to the Canadian picture, whether there were others who had been treated in the same manner?—A. I would think there would have been.

Q. Martin is not particularly unique?—A. No, I do not think so. I would expect we would have had others but I cannot remember them.

Q. You have no recollection?—A. Oh no.

Mr. McIVOR: Before he leaves I think that Mr. Fraser Elliott should be commended for his clearness and frankness and generosity in coming here.

The CHAIRMAN: I was just going to say to the hon. members that I feel the committee will agree with me when I express on behalf of the committee our appreciation, not only to Mr. Fraser Elliott but to his colleagues who have come over this morning and so agreeably and pleasantly and informatively answered questions for the members of the committee. We thank you for your presence here this morning.

The WITNESS: Thank you; again, I am sorry to have been late.

The CHAIRMAN: We have been amply repaid.

The WITNESS: That is very nice.

The CHAIRMAN: Now, gentlemen: yesterday our secretary was instructed to wire Mr. D. M. Martin. He did so, and I will read you the reply we received from Mr. Martin:

“Regret unable to appear committee public accounts May 20th attending physician wiring.”

Then there is a wire here from his physician, Dr. Gray:

“D. M. Martin recovering from attack phlebitis inadvisable for him to travel at present.”

Now, I suggest to the committee that we get in touch with this physician again and ascertain whether he could possibly appear before the committee at some date next week. Is that agreeable?

Mr. BOUCHER: I would say so, within a reasonable time.

The CHAIRMAN: The next matter, gentlemen, is the motion that has been handed to me by Mr. Noseworthy, seconded by Mr. Douglas:—

That this committee ask the House of Commons for permission to investigate the contract entered into between the Department of National Defense for Naval Affairs and the Winnipeg Winter Club on October 15, 1942, for the purchase of certain land, building and equipment from that club by the department.

That resolution is before the committee.

Mr. McGEER: What is it all about?

The CHAIRMAN: Mr. Noseworthy perhaps might want to speak to it.

Mr. NOSEWORTHY: I do not know how much of this I should give to the committee at this stage; but, there have been questions asked on the order paper and certain information given by sessional papers and Hansard—

Hon. Mr. MULOCK: Mr. Chairman, there is no quorum.

Mr. MCGREER: That is right, there is no quorum.

The CHAIRMAN: Mr. Noseworthy, I am afraid I will have to interrupt you. While I was quite aware that there was not a quorum, I endeavoured to get this resolution passed. And now that the members have mentioned the fact that there is not a quorum I am afraid that we cannot proceed.

Gentlemen, with your permission, we will adjourn until we have a definite word from Mr. Martin and his physician as to when he can appear and we will do our best to have the witness appear before the committee early next week.

The committee adjourned at 1.15 o'clock p.m., sine die.

SESSION 1943

HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

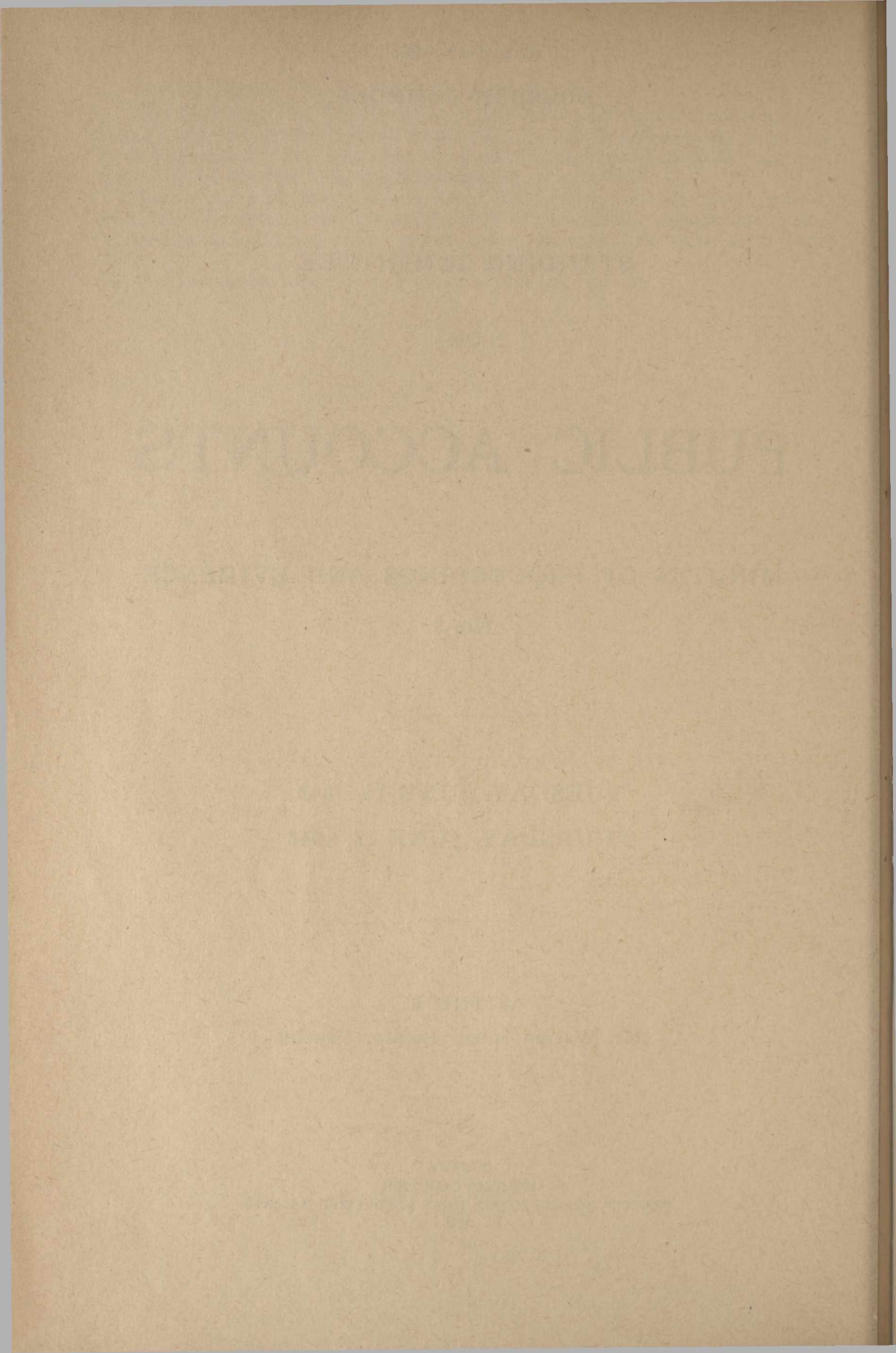
TUESDAY, JUNE 15, 1943

THURSDAY, JUNE 17, 1943

WITNESS:

Mr. Watson Sellar, Auditor General

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1943



ORDER OF REFERENCE

WEDNESDAY, June 16, 1943.

Ordered,—That the said Committee be empowered to investigate the contract entered into between the Department of National Defence for Naval Services and the Winnipeg Winter Club on October 15, 1942, for the purchase of certain land, building and equipment from that club by the said Department.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS TO THE HOUSE

TUESDAY, June 16, 1943.

The Standing Committee on Public Accounts beg leave to present the following as its

THIRD REPORT

Your Committee recommends that it be empowered to investigate the contract entered into between the Department of National Defence for Naval Services and the Winnipeg Winter Club on October 15th, 1942, for the purchase of certain land, building and equipment from that club by the said Department.

All of which is respectfully submitted.

W. A. FRASER,
Chairman.

(Concurred in on June 16, 1943).

MINUTES OF PROCEEDINGS

TUESDAY, June 15, 1943.

The Standing Committee on Public Accounts met at 11 a.m. Mr. W. A. Fraser (*Northumberland*), the Chairman, presided.

Members present: Messrs. Boucher, Bourget, Côté, Ferland, Fontaine, Fraser (*Northumberland*), Gladstone, Green, Isnor, Johnston (*Bow River*), McDonald (*Pontiac*), McGeer, McIvor, McNiven (*Regina City*), Marshall, Mullins, Noseworthy, Purdy, Rhéaume, Ross (*Souris*), Tripp and Winkler.—22.

The Chairman announced that Mr. D. M. Martin, who was to appear before the Committee, had died in Montreal.

On motion of Mr. McIvor, seconded by Mr. Mullins,—

Resolved,—That the Clerk of the Committee convey an expression of sympathy to Mrs. D. M. Martin and family respecting the passing of her husband which occurred in Montreal on Monday, June 14, 1943.

Discussing the business of the Committee and on motion of Mr. Green,—

Resolved,—That Mr. Watson Sellar, Auditor General for Canada, be called before the Committee to give evidence on his report for the year ended March 31st, 1942.

At the last meeting, Mr. Noseworthy had given the following notice of motion:—

That this Committee ask leave of the House to investigate the contract entered into between the Department of National Defence for Naval Services and the Winnipeg Winter Club on October 15, 1942, for the purchase of certain land, building and equipment from that Club by the Department.

Mr. Noseworthy made a statement on the basis of information obtained from correspondence he had with the City Clerk of Winnipeg, a return tabled in the House on March 8, 1943 and Hansard of March 25, 1943.

After discussion, the question was put and resolved unanimously in the affirmative.

At 12 o'clock, the Committee adjourned until Thursday, June 17, 1943, at 11 a.m.

ANTONIO PLOUFFE,
Clerk of the Committee.

THURSDAY, June 17, 1943.

The Standing Committee on Public Accounts met at 11 o'clock, a.m. Mr. Fraser (*Northumberland*), the Chairman, presided.

Members present: Messrs. Ferland, Fontaine, Fraser (*Northumberland*), Gladstone, Green, Golding, Hanson (*York-Sunbury*), Isnor, McDonald (*Pontiac*), McGeer, McIvor, Noseworthy, Purdy, Rheaume, Roebuck, Ross (*Souris*), Tripp, Winkler.—18.

With regard to the contract entered into between the Department of National Defence for Naval Services and the Winnipeg Winter Club, the Committee agreed, on Mr. Noseworthy's suggestion, that the valuator or valutors most readily available be requested to appear for examination on a day to be later determined upon.

Mr. Watson Sellar, Auditor General, was called and examined respecting his duties and matters relating thereto. Mr. Sellar will be further examined at the next meeting.

The Committee adjourned until Tuesday, June 22, at 11 a.m.

JOHN T. DUN,
Acting Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, June 17, 1943.

The Standing Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: We have a quorum now. Before proceeding with Mr. Sellar, as the members of the committee know, the house concurred yesterday in the resolution of Mr. Noseworthy which was presented. I presume that the policy that you wish to follow there is to procure the three valuers of that Winnipeg property. Is that what you suggest?

Mr. NOSEWORTHY: I think that would be the procedure.

The CHAIRMAN: We will have to find out the names of the men who valued this property, and as soon as we can get them we will have them come here. That will be the first move that you want to make, to examine these valuers?

Mr. NOSEWORTHY: Yes.

Mr. PURDY: You have a copy of the return?

The CHAIRMAN: No.

Hon. Mr. HANSON: Was there a return brought down in the house?

Mr. NOSEWORTHY: Yes.

Mr. PURDY: There were a number of returns and questions.

The CHAIRMAN: This is sessional paper No. 193. Is that the one to which you refer?

Mr. NOSEWORTHY: I have not it with me.

The CHAIRMAN:

1. Has the government purchased the property formerly held by the Winter Club, situated in the city of Winnipeg?

The answer was "yes".

2. If so, on what date was the purchase made and what price was paid?

The answer is:—

2. Deeds for the Winnipeg Winter Club property are dated 15th October, 1942, and were filed in the land titles office, Winnipeg, on the 6th November, 1942. The price paid for the land, building and equipment was \$256,000, which was the price arrived at after consultation between a member of the Montreal Real Estate Board, members of the Winnipeg Real Estate Board and the Real Estate Adviser, Department of National Defence. A condition of the sale was that the Winnipeg Winter Club would invest the total net proceeds in victory bonds and would undertake to retain and not to dispose of by sale at least 50 per cent of the said bonds for the duration of the war.

The third question is:

What was the assessed value of the above land, and the improvements thereon, at the time it was purchased?

The answer is:

The assessed value of the land and building only, exclusive of equipment, was \$129,365.

The fourth question is:

How many shares had been issued by the above mentioned Winnipeg Winter Club?

The answer is:

As of the 30th of April, 1942, the balance sheet of the club showed 734 shares subscribed.

The fifth question is:

What was the market value of the above shares at the time of the above purchase?

The answer is:

In common with many other clubs of this nature, it is believed that no real 'market' existed for these shares and any market which may have existed is not known.

Hon. Mr. HANSON: That was not a full answer at all. That only gives you the subscription to the stock. It was not a complete answer.

The CHAIRMAN: As of the 30th of April, 1942, the balance sheet of the club showed 734 shares subscribed. I presume you could interpret that as issued, too.

Hon. Mr. HANSON: Not necessarily.

The CHAIRMAN: It says "subscribed."

Hon. Mr. HANSON: They may have paid only 50 per cent.

The CHAIRMAN: It does not mean they were fully paid up. That is the sessional return.

Hon. Mr. HANSON: That is in the record? We have it in?

The CHAIRMAN: Yes. If it is the wish of the members of the committee we will go ahead and see how soon we can get these people.

Hon. Mr. HANSON: Colonel Goodwin Gibson is the real estate adviser to the Department of National Defence. He is here in Ottawa, and at Toronto.

The CHAIRMAN: Is he in Toronto or Hamilton?

Hon. Mr. HANSON: He lives in Toronto but he is here most of the time.

Mr. NOSEWORTHY: Probably he could be examined first without bringing the other men.

The CHAIRMAN: We should be able to examine him and this valuator from Montreal. It may take longer to get the chap from Winnipeg.

Mr. NOSEWORTHY: I think if you get those first then we can decide about the others.

The CHAIRMAN: We can go ahead and make arrangements right away and see if we can get those two men for the first of the week.

Mr. NOSEWORTHY: Has the committee all latitude towards calling any other witness who would be in a position to give an independent statement?

The CHAIRMAN: The committee can call any witness.

Mr. NOSEWORTHY: It was suggested yesterday that it might be well to have some independent witness, someone who is capable of appraising the value of a property of that kind.

Hon. Mr. HANSON: You had better advance a name. I do not know a thing about it. My suggestion would be that you advance a name.

Mr. NOSEWORTHY: We have that latitude if we so desire?

The CHAIRMAN: Yes. The Committee has full power to bring any witness before it.

Mr. NOSEWORTHY: I would suggest as the first stage you get the real estate man who is most readily available and determine from that just how far we should go.

The CHAIRMAN: We will proceed to do that immediately and call him just as soon as he is available. Is that satisfactory to the members of the committee? (Carried).

The CHAIRMAN: That places us in a position to proceed.

Mr. TRIPP: What was that last suggestion?

The CHAIRMAN: That we procure the valuator who is immediately available, which will be the man in Ottawa. We will probably have the men from Ottawa and Montreal and not have much difficulty, but the third man is in Winnipeg. From what Mr. Noseworthy has said he has in mind that we examine these two witnesses and then decide whether we require the man from Winnipeg. Is that right?

Mr. NOSEWORTHY: Yes.

Mr. McIVOR: Is the cost of calling these witnesses ever taken into consideration?

The CHAIRMAN: The cost should not be great with either the Montreal man or the Ottawa man, but if we proceed with the man from Winnipeg that is a different proposition.

Hon. Mr. HANSON: The man from Ottawa would not cost anything.

The CHAIRMAN: No. The man from Montreal could come up on the night train and go back on the afternoon train.

Mr. TRIPP: I can easily see where we are going to spend more than the \$8,000 in dispute here in calling witnesses and different things.

Mr. NOSEWORTHY: The question in this case was \$78,000 for which it was sold over and above the assessed value.

Mr. TRIPP: You cannot take the assessed value.

The CHAIRMAN: I think, Mr. Tripp, if we proceed along these lines then the committee can decide regarding the Winnipeg man. You will get a lot of information out of these two valutors. Then the committee can decide how much further it wants to go. If that is satisfactory to the committee we will proceed along those lines. Gentlemen, it was requested at the last meeting that Mr. Watson Sellar should be asked if he would kindly come over this morning, and as usual our good friend immediately acquiesced and said he would be very glad to be here so we will open the proceedings by calling on him. I think perhaps Mr. Hanson would like to ask Mr. Sellar some questions in connection with the Auditor General's Report. I believe, Mr. Hanson, I can say to Mr. Sellar that what the committee really wants to discuss with him is to obtain general knowledge in connection with the Auditor General's Report.

Hon. Mr. HANSON: I suggest that we get the background of the present setup to start with first.

WATSON SELLAR, Auditor General of Canada, called.

By Hon. Mr. Hanson:

Q. Mr. Sellar, you were appointed Comptroller of the Treasure on what date?—A. It was about the end of February, 1932.

Q. The end of February, 1932.—A. I would not definitely state the date but it was a few weeks before it actually took effect.

Q. Was that contemporaneous with the time when the new Consolidated Revenue and Audit Act, chapter 27 of the statutes of 1931, came into effect?—A. It took effect on the 1st of April.

Q. For the benefit of the committee, who perhaps may not know, would you state what was the status of the Auditor General prior to the coming into force and effect of the Consolidated Revenue and Audit Act of 1931? Just in a general way what were his powers and duties?—A. Do you want all of the duties, or do you want the changes?

Q. I am going to ask you what changes were made. I think that would be the continuity there, if you are able to give them to us?—A. I think it would be best to divide it into two. First there is the over-payment of money. Under the old scheme—

Q. Old system?—A. Old system—the Auditor General was required to sign one side of the cheque in order that payment might be made. That took two forms. He either signed with the Deputy Minister of Finance and a letter of credit issued in favour of certain officials of the department on the Bank of Montreal, and when they expended that money they made an accounting to the Auditor General and he then gave clearance to the bank for that amount. Certain payments, generally those of \$5,000 and over, were paid by what they call cash cheque which was signed by the Auditor General and the Deputy Minister of Finance. The reason for that was to control any big payment and in the case of public funds being low there would not be too much coming against the bank account on a single day. Those were really the reasons for that.

The Auditor General audited the revenue and expenditure accounts of the department. He had no statutory right to audit the accounts of the Department of Finance. He was allowed in under a right of tolerance, you might say, but he did not have a statutory right to go in and audit the accounts of the Department of Finance. That included the accounts of the dominion book-keeper, the loan and interest branch and the currency branch.

Q. That was a defect, of course. Were there other defects in existence at that time?—A. Remember I was new at that time. I had been private secretary of the Minister and therefore I had little administrative experience, but my recollection is that Mr. Gonthier complained to me he did not have satisfactory power to station his men in departments to audit accounts, and I know that is in the present Act.

Q. There was not sufficient control over expenditures by deputy ministers? Was it not rather a grave question? I am speaking now from memory entirely but was it not a grave question about the authority to overdraw beyond the amounts appropriated and voted by parliament? Was that not rather serious?—A. The Auditor General had repeatedly brought notice to that in his reports. You will notice back in the days of Mr. MacDougall that he brought it out that the position was this, that the bank having honoured the cheque in good faith he could not refuse to make good to the bank that amount. Strictly speaking it was wrong. Now then, you asked me a question as to the government attitude. At the time that Act was drafted I was acting Deputy Minister of Finance. The Deputy Minister was dead and I was Assistant Deputy Minister. The government of the day was disturbed over the amount of the unpaid accounts that were accumulating and of the letters of credit, cheques issued beyond the amount of appropriation.

Q. There were over-expenditures by the departments, unauthorized by parliament?—A. Yes. That influenced the government in wanting to make a change. It was in order to cut down those unauthorized expenditures.

Q. In other words, the government thought there should be a tightening up and more treasury control over over-spending departments?—A. You could call it treasury control or you could say that the government wanted to have one man some place who was responsible and who could be fired if an illegal payment was made. That was really what I understood the government wished at the time.

Q. Those are in a general way the defects of the old system?—A. Yes.

Q. Then, we passed a new audit Act in 1931?—A. Yes.

Q. You will recall that the Audit Act was a government measure but in order to inform members of the House of Commons what the proposals were it was referred to the Banking and Commerce Committee. You then appeared and explained the new set-up. Would you tell this committee just what the changes were?—A. The essential change was this, that the letter of credit plan was not abolished but was eliminated by creating a new office called the Comptroller of the Treasury who was made responsible by the Act for all issues of moneys out of the consolidated revenue fund. He had to sign the cheques. Further he was required to set up a system of accounts whereby every commitment that any department might make must be registered with him and a certificate given by him before it could have effect in law. That particular section has never been challenged in the courts, and to the best of my knowledge—

Q. Which section is that?—A. Section 29. That really originated with Mr. Edwards, of Edwards, Morgan & Company of Toronto who had audited the accounts of the government in 1922, or thereabouts, and recommended that.

Q. There was no contract unless the Comptroller certified it. Go ahead.—A. The Comptroller of the Treasury being made responsible for all issues the Auditor General was dropped out of the issuing of cheques. He had no responsibility for the issuing of cheques except in one case, and I think that is covered by section 48 which provides that if the government instructs the Auditor General to pre-audit any class of accounts before payment no payment may be made until he has certified it is in order or he is over-ruled by the Treasury Board. That is the only place the Auditor General would now come in before payment, if he is ordered to make a pre-audit.

Q. Of course, that presupposes he has carried out the directions contained in the preceding section with respect to all accounts?—A. Yes, but there were certain classes of accounts.

Q. What were they?—A. Salaries paid at Ottawa, superannuation payments, certain accounts of the Department of Trade and Commerce in connection with mail subventions, the steamship subventions, and occasional contracts of the Department of Public Works and Marine came within that.

Q. Was that the only change so far as the Auditor General was concerned?—A. There is the earlier section giving him full access to the accounts of the Department of Finance—that is section 46—and requiring that each of such accounts shall be examined under the direction of the Auditor General who shall certify to the House of Commons that the account has been examined under his direction and is correct. That was another new feature.

Q. Was not part of that in the previous statutes?—A. Part of it was in there but it was—

Q. Section 178?—A. It was enlarged to make certain that he had all of the accounts of the Department of Finance.

Q. In other words, all accounts of the government which were kept in the Department of Finance?—A. Yes.

Q. Came before the Auditor General for review?—A. Yes.

Q. It covered the whole thing?—A. The expression, sir, is "the accounts of Canada." The Act is unsatisfactory, if I may be permitted to say so, in the use of its language with respect to accounts.

Q. Are you speaking now of part 4?—A. I am speaking now of part 5.

Q. Accounts of Canada—where is the term to which you refer?—A. You will notice in part 4 the expression "Accounts of Canada" is referred to there at the start of section 37. Then if you turn to section 44 you will observe that the Auditor General shall examine periodically the accounts of all branches of the public service.

Q. They use another expression there?—A. Yes.

Q. Are they not synonymous?—A. That apparently refers to expenditure accounts arising out of appropriations.

Q. That is your interpretation?—A. That is what I would assume it means, and that is what I do assume that specifically refers to. Then section 45 says that he shall satisfy himself that the revenues are being fully accounted for.

Q. Because section 45 refers to the revenues you limit your interpretation of section 44?—A. You will notice the concluding part of the first subsection of section 44. I will read the whole subsection:—

44. (1) The Auditor General shall examine, periodically, the accounts of all branches of the public service, and shall take such further steps as he may deem necessary to satisfy himself that such accounts are faithfully and properly kept, and that the moneys expended have been applied to the purposes for which the grant was intended to provide.

Q. Therefore you interpret that to mean that only applies to expenditures, coupled with 45?—A. Forty-five unquestionably is revenue. I regard both of these sections as directory.

Q. But still there is an obligation?—A. Yes.

Q. They are a little more than directory in the law?—A. I would say, sir, if I may refer to commercial practice, it is the equivalent of instructions given to the auditor as to the accounts he must examine before he certifies to the balance sheet. Then you will notice in section 46 it says:—

The Auditor General shall, besides examining from time to time the various accounts of the several departments as provided by this Act, examine and audit the accounts of Canada for each fiscal year.

I think that makes it all-embracing.

Q. The three sections together read in connection with section 37 cover the whole gamut, do they not?—A. That is what I consider except when you go to section 47 strange to say it gives no direction at all with respect to a report to the House of Commons. It reads:

47 (1) The Auditor General shall, from time to time, examine the accounts and records with respect to

- (a) the gold held as security for the redemption of dominion and provincial notes;
- (b) redeemed or cancelled securities, coupons, dominion and provincial notes, and any other obligation representing the debt of Canada;
- (c) unissued reserves of dominion notes and securities, specie, stamps and such other reserves of like character as may be in the custody of any public officer;
- (d) equipment, supplies, provisions or stores the property of His Majesty;
- (e) any other account which the Treasury Board directs the Auditor General to examine and audit; and by such tests as he may deem necessary, satisfy himself that such accounts are in order.

Q. You have got to read 49?—A. But then:

47. (2) When the examination of each account is completed the Auditor General shall transmit to the Treasury Board a certificate in a form to be, from time to time, determined by him, and such certificate shall be a valid and effectual discharge according to its terms.

Q. That is to the Auditor General, discharge to the Auditor General?—A. I would say to the person responsible for these securities or stores or whatever it is.

Q. That would be complete coverage for him?—A. Yes. The reason that I draw particular attention to this is that my opinion is that under no other section of the Act have I any power to say that anything is right or wrong. I report to the House of Commons whether, I think it is right or wrong, or I qualify my certificate. It is for the house to decide whether the account is right or wrong.

Q. Then you suggest that because of that the House of Commons is master of the situation and that although you are an officer appointed by the Governor in Council you are really an officer of the House of Commons?—A. I am purely an officer of the House of Commons. I have no right to say to a department, "You may do this". I have got no power to commit the House of Commons in any shape or form. The House of Commons is supreme.

Q. No power to bind them; I think we would all agree with that. I would hope that was the case.—A. But section 47 on the other hand would lead you to believe that I can give a certificate. Candidly I decline to give any such certificate unless I am pressed to the wall for it.

Q. To these custodians, we will say, a certificate to the Treasury Board. I suppose this is a legal argument, but after all is not section 49 rather an over-riding?—A. I regard sections 49 and 50 as governing directions to me.

Q. No doubt of that.—A. I look on section 49 . . .

Q. Would you read section 49?—A. Section 49 reads:—

The Auditor General shall report annually to the House of Commons the result of his examination and audit of the accounts of Canada in such a manner as will exhibit a true state of each account at the termination of the fiscal year last ended.

Q. Now, do you read into any of these sections a question of the legality or illegality of payments, because you do report on what you consider may be illegal payments, do you not?—A. I do under section 50.

Q. Oh yes, under that.—A. I regard section 49, sir—bear in mind I do not say I am right; I give you my understanding of it and look to this committee to tell me how they construe it. I construe that section 49 gives me instructions as to the accountability audit, that is, figures.

Q. Figures only?—A. Figures, and if I am satisfied that the statements that are given to me, the statements which I audit, reconciling them with the various accounts of the departments, if they all match up and I am satisfied that they are in order I can give a clear certificate. If these figures do not commend themselves to me I think the Act calls on me to give a certificate but to qualify that certificate with my reasons why I do not subscribe to that as being a true statement.

Q. You make a true report of what you believe the situation to be. That is under section 49?—A. That is under 49.

Q. Then, will you go on and give to the committee your understanding of the mandate under section 50?—A. The material part of section 50 for our purposes is subsection (2).

Q. Yes.—A.

In reporting the result of his examination and audit to the House of Commons, the Auditor General shall call attention to every case in which (a) a grant has been exceeded; or (b) moneys received from sources other than the grants for the year to which the account relates have not been applied or accounted for according to the direction of parliament; or (c)

a sum charged against a grant is not supported by proof of payment; or (d) a payment so charged did not occur within the period of the account, or was, for any other reason, not properly chargeable against the grant, or was in any way irregular; or (e) a special warrant authorized the payment of any money; or (f) an objection of the Auditor General was overruled by the Governor in Council or the Treasury Board; or (g) a refund or remission of any tax, duty or toll has been made on the authority of any Act of parliament; or to any other case which the Auditor General considers should be brought to the notice of parliament.

Q. Of course, that last clause — — —A. I consider under that last clause it is my duty to bring to your notice any transaction that is outstanding at the year end which I think merits your consideration.

Q. I think that is very proper.—A. And beyond reporting that my duty is done. It is for you to decide what action, if any, you are going to take.

Q. I agree with you there. You leave it to the House of Commons on the basis of your report and the reasons alleged by you?—A. Yes.

Q. And the House of Commons takes action?—A. Yes.

Q. Will you explain to the committee as to the public accounts under part 4, public accounts kept by the Minister of Finance, and just how far their duties go, because it leads up to suggestions made in your report this year, unless you have not finished that part?—A. Yes, I am finished with part 5.

Q. Would you make some observations on the purport of part 4?—A. I will give you my understanding of it. Dr. Clark would be in a better position than I am to give you his application of that. My understanding of part 4 is this; that section goes back from 75 to 100 years when in the old province of Canada they could not get the accounts to balance. The Receiver General's accounts and the Inspector General's accounts would not balance and in 1855 there was quite a row. There was a special committee of the Assembly and they then created a board of audit to audit the accounts it consisted of certain deputy heads and an auditor. They reported to the Minister of Finance who accepted their report or rejected it. The responsibility was his and thereby started what is known as public accounts. Progressing on the Department of Finance developed a master set of records, not detailed records, but a master set of records of the income and outgo.

Q. Over all?—A. Of all departments of government. They kept loan accounts and they kept various subsidiary accounts peculiar to the government as a whole.

Q. Guarantee accounts, and all those things?—A. Trust accounts, and so on. Those are what we regard as the accounts of Canada in the strict technical sense, but there are independent of those accounts accounts of the Comptroller of the Treasury which are the appropriation accounts. They are not regarded as being under the control of the Deputy Minister of Finance. They are part of the statutory duties of the Comptroller of the Treasury.

Q. He is set up under this same Act, is he not?—A. Yes, he is an officer of the Department of Finance.

Q. What section of the Act refers to him, the previous section, part 3?—A. It is an earlier section, section 21.

21 (1) The Governor in Council may, for the purpose of maintaining more complete control over the administration of the consolidated revenue fund, appoint an officer to be called the Comptroller of the Treasury, hereinafter called the Comptroller; who shall be charged with the performance of the duties assigned to him by this Act and such other duties as may from time to time be assigned to him by the Governor in Council.

Q. Then it declares him an officer of the department?—A. Yes, he is an officer of the department.

Q. That was a new departure, was it not?—A. Yes. Under section 27 you will see it says:

27 (1) All issues of public moneys out of the consolidated revenue fund shall be made under the direction and control of the Comptroller by cheque, or other instrument as the Treasury Board may from time to time direct.

Q. But no such issue shall be made in excess of any appropriation authorized by parliament. That was the safeguard to prevent a deputy minister from over-expending?—A. Yes.

Q. That was quite a prime evil?—A. Yes, and to make one man responsible to whom you could point at once as the man who had to take the responsibility if there was an illegal payment made.

Q. You could trace it to him, the Auditor General or anybody else?—A. He has to take full responsibility. He has not got any say, if the department spends legally, whether they should spend for buying a Ford or a Buick automobile.

Q. Or a chesterfield?—A. If they had a vote that automobile can be purchased, so the discretion is departmental.

Q. He had nothing to do with that?—A. No.

Q. As long as they had parliamentary authority to make the purchase he could not veto it?—A. No.

Q. But he could prevent them over-expending?—A. If they wanted to charge that automobile to a vote for salaries he could say, "No, you cannot."

Q. Yes, he could do that. At least, he ought to be able to.—A. Well, he does.

Q. In other words, they could not switch funds?—A. No.

Q. Perhaps we have had enough of the historical review, but on the whole what are the defects, if any, of the present statutory set-up? Are there any defects?—A. Yes, no Act is perfect.

Q. I agree with that, but I thought perhaps by this time you would be able to tell us.—A. I consider the worst defect is that you have not got legislation to control stores and equipment.

Q. That is the responsibility of the departmental heads?—A. You have got power to legislate with respect to public debt and property. You have only got an Act in connection with the Department of Transport which was passed a few years ago and you have also got one to a degree with the King's Printer, but otherwise any department can use its stores as it likes. During this wartime we are accumulating tremendous quantities of stuff. Right under our noses we have got all these government buildings furnished with typewriters, filing cabinets and everything else. The day will come when those will be surplus. You do not control any stores by your appropriations. They can apply them as they like, and they can in a sense defeat your control over the money of Canada by their right to use stores as they see fit.

Q. To dispose of them in any way they like?—A. Yes.

Q. I wonder if that was the case with the man who sold the automobiles? We never knew what become of them.—A. I would consider that is one of the real defects.

Q. Have you any others in mind?—A. I have one but I would not like to be too positive in my statement on this. I will give you my angle of it. A few years ago by predecessor got into quite a controversy with the Commissioner of Income Tax as to his right to audit all revenue, particularly income tax.

Q. As to the Auditor General's right to audit?—A. Yes. There was quite extensive correspondence and it was taken up in the Auditor General's report and it went before the treasury board and there were justice rulings and various things.

Q. What was the effect of that discussion?—A. The effect of it was this, that the Auditor General's powers—remember I am speaking from memory now and you would have to check to make certain, but I am giving it to you as best I can—justice's opinion, I think, was to the effect that section 45 limited the right of the Auditor General to a physical examination of accounts.

Q. Of the Income Tax Department?—A. Yes, that he could not ask—

Q. He could not go beyond that and investigate assessments?—A. He could not go behind it and he could not ask for anybody, for delinquents, and so on and so forth.

Q. You suggest now possibly that is a defect?—A. I think that it is desirable that your officer should have free access to that.

Q. The income tax people have always resisted that?—A. I do not say Mr. Elliott has resisted because I have never pressed him on the subject.

Q. It has not come to that point?—A. I think I can work that out with Mr. Elliott has resisted because I have never pressed him on the subject. we can work out satisfactory arrangements, but the thing is that I do regard revenue as being the weakest point in our audit. We are trying to strengthen it now but revenue and stores we regard quite frankly as the weakest sides in our audit.

Q. Therefore the two main defects as to your picture now are (a) the control of stores and (b) your right to audit revenue?—A. Yes.

Q. And particularly in that one department?—A. Yes. Remember when I say the right to audit revenue I have had no refusal from any department.

Q. What about Customs? Has the Auditor General ever investigated the assessment of customs, sales tax and excise?—A. We do. We just finished some audits now on them.

Q. Are they test audits or particular audits?—A. We audit a system. We just finished and audited the drawback system and we follow that through individual transactions, and so on, and satisfy ourselves generally as to the system. That means that we take selected cases here and there.

Q. It is a test audit?—A. Yes. In these days we could not do 100 per cent audit. I might say that Mr. Scully and I have discussed on more than one occasion the desirability of my men going out and inspecting the field offices in addition to his own internal auditors.

Q. They do make a very strong head office audit, do they not?—A. Yes, but he would like if I would superimpose on that just the same as we do on the treasury cost audits. We superimpose test audits to establish the efficiency of the inspectors of the departments, so to speak.

Q. You have never just completed a set-up to give effect to that?—A. No, sir, we have not.

Q. Not yet.—A. Under this revision of staff the Civil Service Commission approved for me last winter—incidentally we have not been able to get any staff—that is the plan and has been covered and, as a matter of fact, I have brought in two men this spring—one just arrived this week—who are going to live entirely on revenue audits.

Q. You say the Department of Customs is rather welcoming it, urging it?—A. I think all departments do. It is not that Income Tax feel they have anything to conceal but they have got an oath of secrecy that they have got to respect, and they are right. The more people you have going around the greater chance there is of a leak.

Q. I suppose our friends here on the left would agree it ought to be wide open?—A. Well, I do not know.

Q. Coming back to section 45 it seems to me that it is a mandate to you. "The Auditor General shall satisfy himself that the revenues are being fully accounted for"—do you limit the words "accounted for" to just mere book-keeping?—A. No, we go beyond that.

Q. You should, certainly.—A. We start with the cash book, what goes into the cash book. We follow that through. That we look on as an account audit to follow that through. Then we look at samples of the assessments. We do not take them all but we take just as many as we can.

Q. This is Customs you are talking about?—A. Any department.

Q. Except Income?—A. Mines and Resources or Agriculture, any department; we examine all of those to satisfy ourselves that the assessment is being made in accordance with the law and secondly, that they have got the power to make it.

Q. That is, the department has the power?—A. Yes, that parliament has given them the power to make the levy, and then we follow through.

Q. Do you ever find that Customs make assessments when they have not power to do it?—A. That is a nice, neat question. You know the customs tariff as well as I do. Everybody can have their opinion as to what a section may mean.

Q. My experience is this, that the local customs officer will put your entry into the highest possible category because if he puts it into a lower category and he is wrong then he gets the devil from head office, and he will not take any chances.—A. The Act says that where there is any doubt as to whether an item goes into one or the other the higher shall be applicable.

Q. They take no chance at all?—A. I think there are certain fees being assessed now where it is a little debatable if the department has got the right to do it, but they are doing it. We are trying to follow into those so as to make a comprehensive coverage.

Q. They do it on the theory that the country needs money?—A. Well, it is the duty of the revenue officer to collect the revenue.

Q. That is his business and we will all agree with that.—A. That is his function. That is a very debatable point. The only place where I have seen it debated was between the Attorney General of England and Mr. Justice Bennett of High Court about three or four years ago on the right to take partial payment and defer settlement of the balance.

Q. You are speaking of income tax?—A. Yes. That was an income tax case which was before the court. The judge took the view that the Bill of Rights gave them no right to do that. The Attorney General took the view that from a practical standpoint the duty of the inland revenue officer was to get the revenue and that by taking something down, taking a post-dated cheque or making arrangements to get the balance later on they were actually serving the purpose of the Revenue Act.

Q. I think in private life we all have to do that.—A. It is not settled.

Q. You have detailed two defects in the present system. Have you any others in mind under the present legislation?—A. I think those two go right into it. Perhaps this could come at the tail end of section 50, but we have not in this country the practice of reporting to parliament thefts, defalcations and lossess of that sort.

Q. Of public officers?—A. By public officers, or public property thereby being lost. It is the rule in most British dominions, that the Auditor General's report must recite all such losses and the efforts taken to recover them. You might say that I can do that under the general phrase there but it has not been the practice in this country.

Q. You think you have the power but because of the practice of the past it has not been done?—A. No. I think it is a thing that might be desirable

Remember it can be unfortunate because some poor devil is forever damned as a result of some minor delinquency. Another thing is this—

Q. Is this the fourth thing?—A. Yes. It is not so much in connection with the government's own accounts but we have got quite a number of independent agencies or semi-independent agencies. For instance, there is the National Harbour Board; there is the Radio Broadcasting Corporation; there is the Federal District Commission. There are all these government Crown companies that have been created.

Q. These emanations of the Crown?—A. Yes.

Q. What control have you got over them?—A. We audit under the Companies Act, section 120.

Q. That is all Crown companies?—A. Yes. Then those are all named by the Act, and I am just told to audit.

Q. How about the C.B.C.?—A. I am just told to audit. The Auditor General is instructed to audit the accounts of the corporation. If I find anything wrong, of course, I have to report it to the Board of Governors, and in some cases I should report it to the government and I do; in other cases if I have found anything seriously wrong the House of Commons should be informed.

Q. And to-day that is a fact?—A. Yes, we do that, but what I am getting at is this; I think there should be a principle of surcharge applicable when an illegal payment is made by the officers of any of these companies.

Q. Would you explain what you mean by that? I am not sure I understand what you mean.—A. It is a very general thing in England in connection with all municipalities which are really branches of the national government.

Q. The Home Office?—A. No, the Department of Health. They audit their accounts. If a municipality makes an illegal payment the government auditor surcharges the amount on the individual members of the corporation who did not register their objection to the payment before it was made, and that is recoverable in an action in law.

Q. Against the individual?—A. Against the individual; the same rule is applicable in some British combines to government departments and government officials and all such agencies. If you look at the last report of the Auditor General of South Africa you will see that he surcharged and recovered £100 in the last year from the Deputy Minister of External Affairs.

Q. For an illegal payment?—A. For an illegal payment.

Q. The object being to make them more careful?—A. To make them more careful.

Q. And to protect the public interest?—A. You will find the same thing in New Zealand. One of the South African reports went to the extreme. They surcharged the Chief of the Air Staff £40,000 because he proceeded to construct an air station without receiving authority but under the Act the Minister of Finance is given power to waive and give his reasons for that before the house. With these agencies growing in numbers, and I think they are bound to grow in numbers, I do think that it is worthy of consideration whether some check should be provided. I do not say that the Auditor General should have any final power in that regard. He should report it and let some board decide whether he is right or wrong.

By Mr. Roebuck:

Q. Could that not be done at common law here?—A. The only case that I know where it was done at common law here goes back, I would say, sixty years ago. I may be wrong. That case went to the Supreme Court of Canada. Mr. Taschereau was then a judge. I do not know whether he was the one who later became Chief Justice or not. There was a liquor commission in Canada set up by the federal government to control the issue of licences, I

think. I have never read the Act, but the Act provided that the commission should retain its revenue and had the power to appoint officers and to fix their salaries subject to the approval of the Governor in Council. This commission was created. It made certain payments and reported to the Minister of Inland Revenue the payments and the proposed rates of salaries. The Minister of Inland Revenue did not submit those to the Governor in Council but he wrote the commission telling them that they had better hold back some of the salary in case the Governor in Council might approve of a lower rate, but to go ahead in the meantime. They went ahead. When the Governor in Council did approve the rates they were substantially less, and an action was taken against the commission for recovery of this money. Burbridge decided against them in the Exchequer Court, and Taschereau for the Supreme Court also decided they were liable.

Q. They were liable?—A. Yes, they were liable. The commissioners were individually liable for the amount. That is the only case I have come across.

Hon. Mr. HANSON: I think it has happened, as you suggest, that actions have been brought for malfeasance in office.

Mr. ROEBUCK: Yes, and to recover money illegally paid by the persons responsible for making payment.

The WITNESS: I know of no cases that have happened in the public service.

Hon. Mr. HANSON: I have not had any personal experience myself.

By Hon. Mr. Hanson:

Q. Those are the four major defects to which you suggest consideration should be given by way of amendment to the legislation?—A. I do not say they are defects. I think they are improvements that should be made.

Q. I put it the other way. Perhaps "improvements" is a better word to use. Are there any others?—A. No, sir.

Q. Those are the four things you have in mind?—A. Yes.

Q. This is constructive stuff. I was going to suggest that after these minutes are extended that you make a memorandum of the four points in a concise way better than the conversational manner we have had here, submit it to the chairman and we could give consideration as to whether we should make a recommendation. What do you think of that? It might be of service?—A. I think, if I might venture an expression of opinion, that you should get the views of some others on the other side of the fence.

Q. Who would give us those, Mr. Elliott on the one side?—A. Mr. Elliott, Mr. Sim and Mr. Sullivan represent the three departments mainly concerned.

Q. That would be fair enough. Of course, we would not want to make it on an ex parte statement.—A. No.

Q. What about the stores matter, because I think we are all agreed that especially in wartime there is a good deal of improper disposition of stores? I just reported a case myself that I do not wish to go on the record.

(Certain proceedings off the record).

The WITNESS: The situation with respect to stores is this; the greater loss from stores is by lack of proper storage and care. If you have got cloth they let the moths get into it and if they get other things they let dampness destroy them.

By Hon. Mr. Hanson:

Q. That is not theft; that is negligence.—A. That is what I mean, lack of care, but you have got that situation. We do a great deal of stores auditing for the air force. I have got crews out that are working in all of the provinces in all of the stations all the time. We can see that with war production having hit a high peak now there is getting to be a vast accumulation of reserves.

Q. Probably too much of certain things.—A. Perhaps there may be too much. We are not very good judges of that because we look at it purely from the accounting angle but there is all that accumulation. I think that should be taken care of.

Q. Quite right.

By Mr. Noseworthy:

Q. Is there the possibility of the disposal of vast quantities of these stores, goods that have been accumulated, when the war is over?—A. There is no statute governing the disposal of public property.

By Hon. Mr. Hanson:

Q. After the last war the war department set up an organization?—A. There was a division. General Lafleche was on the purchasing side and Colonel Beer was on the salvage side. They operated under a committee of council for a number of years. Ultimately it was transferred over to the Minister of Finance, and the purchasing side disappeared altogether because it would not work and the salvage side was put on my doorstep as Comptroller of the Treasury. All we ever worked under was an order in council.

Q. There was no statute?—A. No.

Q. They had authority, I suppose, to make the order in council, or did they?—A. The House of Commons not having passed any legislation on the subject I would imagine it comes within the general executive power of the Crown, but I did notice when I was reading on the subject the other day that this question of gifts of public property was discussed quite extensively by the British Public Accounts Committee right after the last war. You will find in that report a statement to the effect that the committee having consulted—I think they used the expression “highest constitutional authorities”—had decided that the Crown had no right to dispose of any public property without the sanction of parliament.

Q. They went that far?—A. They then said they thought they had gone too far the year before when they said that gifts up to £10,000 might be made with the approval of the treasury. The rules were not changed. They still had that but they added a few safeguards, but I just mention that over in England they doubt the power of the Crown to give away public property without parliamentary authority.

Q. I suppose on general principle that is sound. I would think that was sound.

By the Chairman:

Q. How is the salvage being handled now?—A. Salvage is being handled in different ways. I will not try to be complete because I am not sure of my facts. The old salvage office which Colonel Beer headed is still operating and Mr. Kelly, I think, is still the head of it. That office gets supplies from the ordinary civilian departments. The army has its own salvage board. Whether the navy and air force are in conjunction with it or have their own I am not sure.

Q. The air force has its own.—A. The Department of Munitions and Supply have a salvage board for the disposal of waste and spare materials in factories that are controlled by the Crown, and Crown property of one kind and another. Then the Wartime Prices and Trade Board has a salvage corporation which I think deals with civilian property rather than any Crown property.

By Hon. Mr. Hanson:

Q. Going back to these Crown companies and emanations of the Crown is the control of parliament through your department in a satisfactory position? Have we got any control over them?—A. I think you have, so far as the audit goes. I will describe the audit system.

Q. You might tell us about that.—A. As you know, section 6 of the Department of Munitions and Supply Act provides that the Auditor General of Canada shall be the auditor for the companies. These companies are all set up under the Companies Act, that is the Dominion Companies Act, with the exception of the Toronto Shipbuilding Company which is under an Ontario charter.

Q. They bought the shares?—A. Yes, and acquired the company. We audit them all. In Toronto I have a staff of seventeen who are engaged solely on auditing of the Crown companies in the Toronto area. I have a staff of nine in Montreal who are solely concerned with the auditing of the Crown companies in the Montreal area. That covers them all with the exception of three. I am not sure of the name of the one in Vancouver that is getting out special spruce. I think Air Products is the name of that company. Then there is the Northwest Purchasing Company in Edmonton which is the company that buys for the United States government for the Alaska highway.

Q. Does our money go into that?—A. No, sir.

Q. They are just an agency?—A. We just place the orders and having placed the orders transfer the whole transaction over to the United States finance officer who makes the payments. Then there is War Munitions Limited which technically has its head office in Ottawa but actually it is in Washington. Then recently there is this new oil company working out of Calgary. When I said "three" I had forgotten the oil company. Out in Vancouver the accounts are audited by my Vancouver men who are also on the harbour there.

Q. Are they civil servants of the Crown?—A. They are all civil servants, all assigned by the Civil Service Commission. As to Washington, a senior officer goes from Ottawa to audit those accounts because the books being in Washington to comply with the Companies Act we must keep abstracts of the accounts in Canada. Therefore we make a three-months audit and a rather detailed statement and that is certified and registered with the secretary here in Ottawa so that the Companies Act is complied with.

Q. Would you tell us what your operation is with respect to the C.B.C? It is a commission, is it not?—A. We use two men. There is a supervisor and his assistant who are responsible primarily for the auditing of the C.B.C. accounts. The assistant does the actual work. He audits all of the accounts in Ottawa. Periodically he audits in Toronto and also accounts in Montreal. Once in a while we are asked to do a special job. For example, about a year ago we were asked to send a man down to Yarmouth to examine the accounts of a station in Yarmouth which wanted to be brought into their chain and they wanted to find out how it stood. It is a little station there. We have to do that sort of thing, but the audit is made just the same as it is for a government department. We scrutinize all of the accounts, revenue and otherwise and we discuss with the management questions that we think need clearance. We have all the minutes and proceedings of the Board of Governors and of their finance committee. I am not sure whether I am right or not but I have considered it my duty whenever I saw something that in policy made me doubtful whether it was strictly within the power of the governors or not to report to the minister to whom they report to parliament. I do not know whether the minister has responsibility over them or not but, for example, a question arose once as to the propriety of a living allowance being paid to the former general manager by a resolution of the Board of Governors.

Q. An expense account?—A. Well, it was a fixed allowance.

Q. For entertainment?—A. Entertainment generally, yes, and I thought as the Act said that the salary was to be fixed by the Governor in Council that it seemed doubtful to me if the Board of Governors had the right to in effect supplement that salary. Therefore I reported that to the minister who was then over it.

Q. It would be granted, of course, that current out-of-pocket expenditures, legitimate out-of-pocket expenditures would be refunded to him, but to give him a stated sum, non-accountable, you thought that was objectionable?—A. It was a fixed amount of \$400 a month.

Q. And not accountable?—A. No, he did not have to make account for it.

Q. I think these things are quite proper.—A. At the end of the year we certify their balance sheet just the same as we would for any corporation, deliver the necessary number of copies to the governors and to the minister over the body.

Q. Would you say there was any parliamentary control at all over these Crown companies and emanations from the Crown?—A. In all these companies one minister owns all the shares, or holds all the shares.

Q. He holds them in trust?—A. For the Crown.

Q. He is responsible?—A. And he is answerable to the House of Commons.

Q. That is your suggestion?—A. He is answerable to the House of Commons.

Q. What information is conveyed to the members of the House of Commons with respect to the operation of these Crown companies beyond the reports that you have referred to, say the C.B.C.?—A. We list in each report certain information that we acquire during the course of our audit and give the outcome of the financial year. That is in our report so if your committee should want to inquire into any of these companies by so doing you have something there if you wanted it.

Q. It would be a starting point, at least?—A. Yes. It is brought to your notice, anyway. As to England, for example, I had Mr. White of the Controller and Auditor General's office in New York in my own office last week. We audit for the British government in Canada and they repay us. Technically we report to Mr. White. Actually I report direct to England. Mr. White has only got five men on this continent. He tells me that back over there their reports are very meagre but their public accounts committee is very active. He says that the rule there is for the Auditor General to make a passing reference, not necessarily a detailed reference, but to make reference to many things in his report and thereby that is assumed to give the public accounts committee status to inquire into them in great detail.

Q. It gives them jurisdiction?—A. Yes.

Q. By giving them notice?—A. Yes.

The CHAIRMAN: Gives them a lead.

By Mr. Noseworthy:

Q. Just what is the relationship between your audit and the audit done by the Department of Munitions and Supply in relation to these companies and contracts, and so forth?—A. You are meaning those—

Q. The Department of Munitions and Supply have their own auditors?—A. Strictly speaking they are treasury auditors. They are officers of the Comptroller of the Treasury. The Department of Munitions and Supply started off with the idea of establishing their own audit staff but they found it difficult to get staff and difficult to work out an organization.

By Hon. Mr. Hanson:

Q. Their idea was to have their own internal audit first?—A. Yes.

Q. That would be a pre-audit?—A. That is an audit of costs.

Q. That is merely costs?—A. Not of expenditures. They transferred that all over to the Comptroller of the Treasury. These men in the various plants are the chaps to whom you are referring?

By Mr. Noseworthy:

Q. Does that apply also to the Department of Munitions and Supply audits of firms that are granted contracts?—A. Take, for example, Toronto. There is the John Inglis Company and all those other companies in which there is a cost accountant. Are those the chaps to whom you refer?

Q. Yes.—A. The situation with respect to them is this; the audit program is worked out in great detail. It is a very lengthy document giving the cost auditors instructions as to every point they are to cover. That program before it was issued was approved by the Department of Munitions and Supply and by my office to make sure it was adequate. It is a very elaborate thing. It has been changed from time to time.

By Hon. Mr. Hanson:

Q. That is the general set-up?—A. Yes. Those cost accountants in the Toronto area—there may be 100 of them, I do not know—are in the various plants and they are making their reports through to their head office in Ottawa. Their head office sends out a copy of that report immediately to the Department of Munitions and Supply. It also sends a copy to my office.

By Mr. McIvor:

Q. A double check?—A. Yes.

By Hon. Mr. Hanson:

Q. That is before payment?—A. Yes. Progress payments may be made, but the profit item has to be fixed later on.

Q. They have to have money?—A. Yes. We get those. We examine those and we watch the action that the Department of Munitions and Supply takes. If we think they are too generous or the thing does not seem justified for any reason we ask them for an explanation. In addition we have men who go from plant to plant to check the efficiency of the treasury cost accounts. Next week there will be two men from my office go into the arsenal at Quebec city to go over the accounts and see that the treasury cost accountant has carried out his program and is carrying out his program in accordance with his instructions.

Q. That is a check on the check?—A. That is a check on the system of cost auditing. We do not go over the accounts themselves. We check the efficiency of the man.

Q. That seems to be a proper safeguard.

By Mr. Roebuck:

Q. Take the case in Montreal of the padding of the payrolls. How is that checked?—A. You are referring now to the Lynch case?

Q. Yes.—A. That, of course, was a subcontractor. That sort of case would not come directly to us.

By Hon. Mr. Hanson:

Q. It is not under your jurisdiction?—A. Indirectly it would come to us in that particular case because that man was a subcontractor of Sorel Industries Limited for which my office is the auditor. We make an annual audit of the Crown plant of Sorel Industries Limited. We are not the corporation auditors. George McDonald's firm are. He makes that audit but we have to audit the

accounts of the Sorel Industries plant, and in the course of events we got to know of this particular thing by examining their internal auditors' check-up of the Lynch accounts, but we ourselves would not be in the Lynch office at all.

By Mr. Roebuck:

Q. Had you power to go in?—A. I doubt it. We have never tested it out.

By Hon. Mr. Hanson:

Q. You have not extended your investigation to subcontractors?—A. No. An order in council was passed—I speak subject to correction, but I think it was some date last year—making every auditor of a company—that is the private auditor—which has a subcontract from the government make a report to the Department of Munitions and Supply on the costs of that subcontractor in connection with that work.

Q. It was intended as an additional safeguard?—A. Yes.

Q. I wonder if we could go back—

Mr. NOSEWORTHY: here is just one more point.

By Mr. Noseworthy:

Q. In that cost audit the minister informed us in the house a couple days ago that the firm which audits the Aluminum Company of Canada for the government is also the firm which audits for the company. Is that kind of thing very general to your knowledge?—A. So far as the Aluminum Company of Canada is concerned, of course, I have no knowledge of that; that is one of the things that we have not got anything to do with.

Q. But you do audit all kinds of material supplied by the Canadian Government?—A. Yes, we do that.

Q. And now, the Aluminum Company auditors are Price, Waterhouse Company?—A. Yes.

Q. They are a reputable firm?—A. Yes.

Q. So the suggestion made by Mr. Noseworthy is that that is incompatible with good business practice.

Mr. NOSEWORTHY: Well, to me it is undesirable from the government's point of view; and the public would naturally criticize a system whereby the government audit is done by the same firm as does the audit for the company.

The WITNESS: I am sorry to say that I have not read the statement made by the Hon. Mr. Howe and I am not familiar with it and therefore would not like to mislead you by attempting to speak to you about something about which I have no definite knowledge. I prefer to be positive in my statements of fact. Possibly I might try to answer your question. There is this difficult situation, that the chartered accountant firms of this country are having a terrible time in keeping up with their work and in keeping their staff up, and I know that they will not take on any new accounts if they can avoid it; I know that at least they are very hesitant in taking on any new clients; but I will say this for them, that even though they happen to be working one against the other I do know that in all circumstances they try to be fair.

By the Chairman:

Q. In other words, take a firm like Price, Waterhouse Company auditing for the government and the company there would be no question about either audit?—A. No, they would be honest.

Hon. Mr. HANSON: What?

The CHAIRMAN: What I said is this, that Price, Waterhouse and Company were the auditors of the Aluminum Company of Canada and at the same time

were doing an audit of that company for the government and there would be absolutely no question of the correctness of either audit prepared by Price, Waterhouse and Company; they are a company who discharge their audit responsibilities without any question.

Hon. Mr. HANSON: I am not suggesting that.

Mr. NOSEWORTHY: I would not question that.

The CHAIRMAN: I was just wondering whether or not that was your point.

Mr. NOSEWORTHY: But while I would not question that, I believe that many thousands of people in Canada would question it from the standpoint of the government's own interest; I think it is wrong there.

The WITNESS: Possibly I could give you a specific case which might be of interest because I was personally concerned with it as Comptroller of the Treasury, not as Auditor General. Right at the outset of the war there was the Fairchild Aircraft Company, which is just off the island of Montreal, who had done certain manufacturing before the war and the matter involved a calculation as to costs and so forth, and there was one element of those costs that it was very difficult to abstract, that was the general overhead administrative cost. I went down there—we had to secure that information to carry out this contract—I went down there and looked at it and I estimated that it was going to cost somewhere between \$4,000 and \$5,000 for me to try to do it. P. S. Ross and Sons were the company auditors, they were auditing the accounts of the company monthly and they agreed for about \$100 a month to extract that information for me. Now, I reported that to the government and by Treasury Board minute or order in council, I would not say which, it was one or the other, I was authorized to retain P. S. Ross & Sons to do that.

Hon. Mr. HANSON: On the principle that the government had to have it in that form?

The WITNESS: Yes. They were a reputable firm and I must say that it put them in a very peculiar position. They were able to abstract that information for us but P. S. Ross and Sons did not care to take it on. They said that if it is in the national interest we are prepared to do it, but it may prejudice us in the eyes of our clients.

By Hon. Mr. Hanson:

Q. I do not just follow that?—A. Suppose they disclosed a state of affairs that the company were trying to cover up, for instance.

Q. Yes.—A. That is what I mean, I do not say it would. Now, that arrangement went into effect and some months later my recollection is that someone criticized the government quite strongly for using the costs prepared by the company's own auditors. I remember that; I forget where it was but I saw it at the time.

Mr. NOSEWORTHY: Of course, that was a special occasion.

The WITNESS: Yes.

Mr. NOSEWORTHY: What I had in mind was, I wondered if in your knowledge whether the custom is very prevalent of having the same firm of auditors to work for the government and the operating company at the same time.

The WITNESS: In connection with some of the contracts that is what the order says, that the company auditor shall make a report to the Minister of Munitions and Supply.

Hon. Mr. HANSON: That is a matter convenience to you, principally.

The WITNESS: It is the only practical way, with the shortage of staff and the situation being what it is.

Hon. Mr. HANSON: That frequently happens. Take an industrial concern with a large block of shareholders, one engaged in large operations. It is quite

the usual thing for the shareholders of such a company to appoint annually a firm of chartered accountants, usually of repute; and such a concern might very largely be indebted to a bank for supplying maybe a major portion of their working capital; is not that a frequent practice, that banks themselves will rely on the reports of the firms auditing the accounts?

The WITNESS: That is one of the first things they call for.

Hon. Mr. HANSON: I never knew of a bank sending a man in just to make a special audit of the company.

The WITNESS: No.

Hon. Mr. HANSON: Rather, the general practice is that the bank relies on these audits; but there is the psychology about your suggestion that the public might have been more confident about there being an independent audit. Of course, it would cost a lot more.

The CHAIRMAN: But chartered accountants are not available at the present time.

Hon. Mr. HANSON: Well, that might be a point too.

By Mr. Roebuck:

Q. I am concerned a little about that business about these cost plus contracts that is coming up very frequently where it involves a direct charge against the crown as to how much some person pays for his dies and how much wages he pays and all that sort of thing; and if that is not audited and checked frequently the crown is going to be robbed.—A. All of the cost plus contracts are audited.

Q. Are they audited as far as expenditures are concerned?—A. Yes, sir; on any job of any size there is a man stationed on the job.

Q. Does that apply to subcontracts?—A. That applies also in connection with subcontracts; you see, that is a provision of the order in council—at least, of the general order—and the great difficulty with the cost plus contract, of course, or a construction contract particularly when they are at outlying places, or whether it is concerning a new venture—

Q. You have nothing to compare them with.—A. You have nothing to compare them with; but what I had in mind rather was this, that it is hard to get a man to go there, and it is hard to get a man to stay there; and furthermore it is hard to keep your men separate and distinct from the company officers. Remember, the auditor unfortunately has to have a suspicious mind. He does not need to believe that everyone he is dealing with is a crook, but he has got to approach things from the viewpoint that there may be something wrong in here and if there is I have got to find it.

Hon. Mr. HANSON: You mean, they must not be hobnobbing with the management.

The WITNESS: You see, very frequently they all have to live in the same bunkhouse and they are surrounded and in close contact with the other men who are conducting the business; and, human nature after all is human nature.

Hon. Mr. HANSON: On general principles it seems to me the desirable thing to have an independent audit.

The CHAIRMAN: Yes.

By Mr. Roebuck:

Q. What check is there on the use or misuse of waste of stationery—we are getting away now from what we have been discussing.—A. You are speaking of it generally in the government?

Q. Generally in the government, yes.—A. By the term stationery you mean ordinary office supplies?

Q. Yes, that may be wasted in large quantities, paper and supplies.—A. I could not say that you could say that there was any uniform rule other than the primary rule which is that stationery has to be bought and paid for, and say when the vote is petering out toward the end of the year, the Deputy Minister of course must tighten down and not sign requisitions for more. And your next control is in the efficiency of your storekeeper. If you get a fellow—and as a rule the departments have chaps who are a little hard to get along with, a little tight and a little stingy—he will try to substitute in place of what people want—and they can accomplish something. And then you have the departmental or branch head who takes a pride in being careful. And then you have an awful lot of people who will say; oh well, it is just government property, let it go.

Hon. Mr. HANSON: Yes.

The WITNESS: That is illustrated in the last case by the stenographer who will throw away a sheet of carbon paper once she has used it once. Well, the department have rules and regulations trying to control that. You are up against a human factor. But I would not like to say to you, that anybody could say we have a bombproof and efficient safeguard against extravagance and wastes of that nature. I do not think that thefts are in any ways extensive. At one time as somebody may recall we had a terrific loss in bulbs. You will notice now that the base of each bulb is marked with the initial letters P.W.D. which means Public Works Department, and if you go into any private homes and find a bulb with that marking on it you know that that person has something there which does not belong to him.

(Discussion proceeded off the record)

By Mr. Roebuck:

Q. You have a number of cars being driven around at government expense; what check is made on the use of gasoline and on mileage?—A. In nearly all cases now a diary is required to be kept and meters periodically read, and a record is thereby established on the use of cars; and as you all know, the number of cars is diminishing by degrees.

Q. I presume you mean those in the civil departments?—A. Yes; but speaking subject to correction my recollection is that in one or two departments—this was before the war—it was the rule that an official might use a government car during his vacation. He had to service it himself, but he was allowed to a government car; and I always thought that was a mistake because it brought criticism on the department if you saw this car at a summer cottage and somebody would say what is this government car doing here, and so on. Then, there was a rule passed which required all departmental cars to carry lettering of not less than a certain size on the side of the front door indicating the department to which it belonged. The size of that lettering got to be so small that in many cases a driver would just put his hand or arm up and cover it and you could not tell who the car belonged to at all. And the result of that was that they increased the size of the lettering.

Hon. Mr. HANSON: I think there might be some exceptions to the general rule. Take for instance the case of the superintendent of an experimental station whom I know; he lives two miles from the city and the only way he has of getting to church is by driving the car. I think in a case such as that exception should be made so that man and his family may be able to go to church.

The CHAIRMAN: Especially where he is going to use it to go to church.

The WITNESS: I can give you the name of a gentleman in this city who for many years was attached to the Department of Mines and who had a government car. As soon as he got back to Ottawa that car was garaged and he would not take it out again until he had to go out again on official business.

Hon. Mr. HANSON: He was extremely careful.

The WITNESS: Yes; but you have that. There are some abuses; and I think there is also a lot of decency.

Hon. Mr. HANSON: I think that one of the greatest wastes that I ever heard of was when we of the Treasury Board had demands for new cars; nobody wanted to ride in a Ford—and we made it a rule that in exceptional cases only Fords and Chevs and light cars of that type were to be authorized. Those fellows down at National Pensions, they would not consider anything less than a Buick; but we were just adamant in the matter and they had to buy Fords just the same as anybody else.

The CHAIRMAN: I know personally that the Department of Agriculture have their cars checked. Not so long ago I was driving with an official of the department and a checkup on his car was made as to mileage and so on while I was present.

By Mr. Gladstone:

Q. Has anything been done by way of coordinating messenger service in Ottawa, both with respect to individuals and also the use of government cars. It seems to me that there is a great deal of running around. I do not know that any system could be worked out whereby there could be sort of a universal travelling messenger service that would obviate special trips, or that sort of thing?—A. Well sir, if I may be permitted just to refer to my own personal experience alone I would make a general observation: Some years ago when I was in the treasury office we had our offices in twenty-six different buildings in this city which meant considerable moving around. I approached the post office with a proposition that the post office would establish the equivalent of a special delivery service to all government offices four times a day, twice in the morning and twice in the afternoon. I thought that would obviate a lot of messengers being out on the streets. The post office, while quite receptive to the proposition, were not prepared at the time to go ahead with the thing. I continue to believe that something of that nature could have materially reduced the amount of messengers to be used on the street and it could be controlled better by using a sort of mail service. Of course, I honestly believe we should not have the right to frank stuff through the mail. We should have to pay for that service and make it self-supporting.

By Hon. Mr. Hanson:

Q. Inter-departmental matter?—A. Yes. The post office should not be required to provide the cost of that. We should have to pay for it to the extent that we use it.

By Mr. Noseworthy:

Q. The department should reimburse the post office?—A. Yes.

By Hon. Mr. Hanson:

Q. You have that principle in connection with government printing?—A. Yes.

Q. It is all charged up. For instance, the House of Commons is charged for printing.

By Mr. Winkler:

Q. You spoke of the activity of the Public Accounts Committee in Great Britain and the lead that sometimes is often given to the Public Accounts

Committee. Are you prepared to give any leads in that regard?—A. I have got in my report there a number of things that I know not only myself but others would appreciate if we got a lead on them. For example, I have in there a reference to the application of the War Conservation Exchange Act.

By Hon. Mr. Hanson:

Q. Can you give us the reference for that?—A. It is right at the end.

Q. The Foreign Exchange Control Board?—A. No, War Exchange Conservation, page 617. The reference there is to the extent of the power of the Governor in Council and the War Measures Act. Remember, I am not criticizing in any shape or form from the viewpoint of particular transactions. I raise this because I am not sure whether the Governor in Council has the power to do it. The first case is the Connor Brothers Company in New Brunswick which has a very extensive export business in fish. My understanding is—you would have to confirm this naturally by the Department of Finance—that those who were interested approached the Department of Finance for special depreciation if they built a certain type of cold freezing plant for fish.

Q. For export?—A. Yes. The department gave them favourable consideration or told them they would. I have not got that on record. I have just got the order in council. The plant was built, but the order in council giving them this special depreciation was not passed until the plant was completed at a cost of over \$40,000.

Q. In other words, they had gone into the deal before they had made a deal with the department?—A. Before the Governor in Council had approved it. I raise the question whether or not the Governor in Council actually had status.

Then the next two cases that I mention have to do with the Western Peat Fuel Company which has its head office in New Westminster, although incidentally it also operates in New Brunswick, and the other company is the Sorg Pulp Company, a British Columbia corporation. In both cases again it was to increase exports to the United States. The arrangement is that they were allowed special tax credits by making them liable to the first heading of the schedule to the Excess Profits Tax Act and not in any case liable under the second. The first is much lower than the second.

Q. In other words, gave them a preferred position?—A. I am not concerned whether it gave them a preferred position. What I am wondering is this, whether it is within the competence of the Governor in Council under this Act to in effect set a tax rate for a particular company.

The CHAIRMAN: To change the tax position?

By Hon. Mr. Hanson:

Q. The general rate of assessment?—A. Whether that power is not exclusively within the power of parliament.

Q. That is what I contended.—A. The government could say that they could have X dollars of tax credit but they could not say they should be subject to one rate of tax and one rate of tax only. The other two cases in connection with the same thing are the Falconbridge Nickel Mines and the Brown Corporation. In the case of the Falconbridge Nickel Mines they are being allowed special depreciation calculated at the rate of 1 cent a pound on nickel produced by them. In the case of the Brown Corporation they are being allowed special depreciation based on the increased profits resulting from their sales to the United States. Parliament in making the Income War Tax Act says that depreciation shall mean such depreciation as the minister may allow. Depreciation for income tax has always been construed as meaning an amount calculated by the obsolescence or wear of the particular plant or equipment involved. That is what you call depreciation. In these cases the Governor in Council has called an amount allowed on the sale of the commodity in one case and an amount of the profit in the other as being the equivalent of depreciation.

Q. Therefore you argue it is outside the purview of the statute?—A. I think they could call it a tax credit if they wish.

Q. It is not true depreciation?—A. I do not think the expression “depreciation” is properly used in these orders in council. These orders in council are all tabled in the house.

Q. Are you or are you not questioning the authority to do what they did do, say in the case of Connor Bros?—A. I question whether they went about it in the right way.

Q. That was done after they had built?—A. I think they should have proceeded under section 33 of the Consolidated Revenue and Audit Act. I think they are bound to live up to the terms of their promise to Connor Bros. It is stated in the order in council that Connor Bros. had approached the department about this question before they started. Connor Bros. must have been given an undertaking and I think in common decency Connor Bros. should be protected.

Q. If that was the case?—A. Yes.

Q. But if they built this thing as a business project and then discovered the position of parliament in granting these powers and said, “We will ring in under that”, that would be wrong?—A. Yes, but I think the recital in the order in council sets that out. A little earlier I refer to the same sort of thing on page 613. Under section 50 of the Consolidated Revenue and Audit Act I am required to report to you all refunds or remissions of any tax, duty or toll that has been made under the authority of any Act of parliament. There are certain cases where I do not know whether I am bound by the Act to make a report to you under that heading or under some other. I have taken a chance and have reported it under that. The particular transactions are the Atlas Steel Corporation and Sorel Industries. In both cases the Crown took over the plants of these particular companies. In the case of Atlas Steel the agreement provided that the company would be allowed \$600,000 as its profit resulting from the operation of the old plant as if it existed. Actually they increased those plants tremendously.

Q. That is the standard profit?—A. They were to get standard profits, and so on. In the case of Sorel Industries the agreement provided that the depreciation allowed on the company’s plant should be in accordance with the schedule which was attached to the agreement. That schedule was worked out by Mr. George McDonald of MacDonald, Currie and Company, and was reviewed by the Department of National Revenue before being approved. My point is this, and particularly with respect to Sorel Industries Limited, the Income Tax Act says that the minister shall decide on depreciation. It seems to me to be doubtful whether the Governor in Council has the power to take away from the minister the duty that parliament has placed on the minister. I think so far as this particular transaction is concerned the Minister of National Revenue having agreed to it and having associated himself with the order approving the thing is bound and will respect the thing, but I do not think—I may be quite wrong—that agreement could be considered as binding on a successor to the minister.

Q. The agreement over-rides the provision of the statute in effect?—A. In effect, yes.

Q. Therefore it is illegal unless specifically authorized by statute?—A. You might say it is technically illegal, but in the way which the return is made the minister can make a decision based on the terms of that agreement.

Q. What you say is by consenting to the order in council he therefore concurred. That is not an arrangement anticipated by the Income War Tax Act?—A. I think it means that he would feel bound. I am thinking in terms of the company now.

Q. You are thinking on the principle of estoppel as against him?—A. I am thinking that as long as the present minister holds that office he will say,

"I agreed to this some years ago. I will continue to give application to this when that return is before me and I allow this man that depreciation". In that he is acting quite within his statutory powers, but if a new minister comes in he might quite well say, "No, this agreement is not binding on me at all. I will allow greater or less depreciation as I see fit".

Q. Should they not have a legal interpretation of the position? That is the only way to settle it.—A. I am bringing it to your notice so that if you think the Governor in Council may be exceeding his powers in doing that sort of thing you may see fit to look into it.

Q. We have notice of it.

By Mr. Roebuck:

Q. Is it recited in the order in council that the minister has consented?—A. I speak subject to correction, sir, because I have not got the document before me but I think you will find on the recommendation of the Department of Munitions and Supply concurred in by the Minister of National Revenue, and they also relied on the powers of the War Measures Act.

Q. That is his consent then.—A. There is another thing here—

By Mr. McGeer:

Q. Just before you leave that, you have mentioned a number of cases. How do you distinguish those from things like timber? I think there was depreciation on timber cut in British Columbia, a special concession was there not? Was there not a special arrangement made whereby an arbitrary figure of so many dollars a thousand was placed on the timber cut?—A. Under this War Conservation Exchange, do you mean, or do you mean under the Income Tax Act?

Q. I do not know what Act it is under but let us take another case. How do you distinguish these various war industries that have been set up and allowed to write off the investment in two, three, four or five years, or whatever it was by—what do you call that board?

Mr. ROEBUCK: Accelerated Depreciation.

The WITNESS: That is done under the Income Tax Act. I will read the particular section of the Income Tax Act.

In computing the amount of the profits or gains to be assessed, the deduction shall not be allowed in respect of (n) depreciation, except such amount as the minister in his discretion may allow, including such extra depreciation as the minister in his discretion may allow in the case of plant and equipment built or acquired to fulfill orders for war purposes.

In all of these cases they come along and while there is a board passes on them, approval is actually in the hands of the minister.

By Hon. Mr. Hanson:

Q. He only refers to the board such cases as he himself does not decide?

By Mr. McGeer:

Q. That would not include British Columbia timber?—A. Would that come in under that other section dealing with depletion?

Q. Apparently the minister has powers with regard to that.

Hon. Mr. HANSON: There is a class of cases where, when the foreign exchange situation was much more critical than it is to-day, companies saw an opportunity to increase their export business if they could get certain concessions from the government with respect to allowances to offset capital expenditure

required to install facilities to make this extra business. They entered into contracts. These were quite legal contracts. I looked into several. They may be generous. That is a question of policy of the government, but I think they are quite reasonable. I do not know about timber. I know about sulphite pulp. There is no doubt about the object. The object was to bring in American dollars of which we were badly in need at the time, much more so than we are to-day. It was a question of policy. The government decided it would do that, and I always thought it was a helpful policy to keep the balance as low as possible. As to whether they were too generous or not, of course, every case depends on its own merits.

By Mr. Green:

Q. Mr. Sellar, can you explain this statement on page 613 concerning the Algoma Steel Corporation Limited and the Koppers Company of Pittsburgh?—

A. That agreement looks to me like this; the Koppers Company is a big company that manufactures coke ovens. I think they are outstanding in that field. Algoma was extending its plant largely and they wanted this company to come in. They did not want to come in and they would only come on the condition that they knew where they stood in the way of taxes. Therefore the Governor in Council gave an undertaking that they would either pay or hold harmless, I think is the expression—I am not sure myself—any tax which might be assessed, collected or levied either by the dominion or any province on the Koppers Company or any subsidiary of Koppers Company arising out of this particular contract with Algoma Steel. That is in the agreement. I have quoted it simply for record purposes. My opinion is that it is nothing more than an undertaking of the dominion government to pay out of moneys provided by parliament as part of the contract price any taxes that they have to make good. I do not consider it a remission or release from taxation whatsoever. I think it is an obligation to pay, and that obligation can only be implemented if parliament votes money for the purpose. Currently it can be paid out of the war appropriation but if it is extended into peacetime and there was no war appropriation it would need a special vote of parliament to do it, so that the contract is subject to the provision of the money being voted by parliament.

Q. You say that can be paid out of the war appropriation?—A. Because it is part of the construction cost of the coke ovens. The same thing is true of that chemical company, the Northern Cyanamide plant at Welland. Those are really British contracts.

By Hon. Mr. Hanson:

Q. What you are suggesting is that they could not have got these facilities at all if they had not made a deal?—A. Yes, that was part of the contract price.

Q. Therefore the government had to pay?—A. As a matter of fact, in the British contracts, which are not strictly before you, but I mention them here to keep the record complete, the British have made payments on the difference between the Canadian and American income tax payments. That is, they paid the Canadian rate of income tax. They matched that off against the equivalent rate they would have been subject to in the United States and they were reimbursed and that was charged up as a cost of the construction work and paid by the British government.

By Mr. Green:

Q. What was the obligation in respect to the taxes of this Koppers Company? How much was involved?—A. If my recollection is correct the total project was \$15,000,000 and to what extent the coke ovens represented that \$15,000,000 I do not know.

Q. What amount of taxes was waived?

By Hon. Mr. Hanson:

Q. What was the extra cost?—A. We had no disbursement at all.

By Mr. Green:

Q. It was not a disbursement, but as I understand it the company was free from paying any taxes. What do you mean?—A. They were not freed. We undertook to hold them free. That is, we undertook to reimburse them if necessary. We did not exempt them from the tax but we agreed to reimburse it.

Q. In other words, the Department of National Revenue would acquire money from them and the Department of Munitions and Supply would pay that back?—A. Would have to refund it, yes.

Q. And that contract has not gone far enough yet to know how much is involved?—A. Remember you are dealing with a thing over a year old. That particular contract was made in January and the fiscal year ended in March. Therefore they actually had done very little work before March 31st.

Q. Was there no estimate of the amount that would be involved?—A. You could not because it all depended on what their profits were and you would not know their profits until they got the work done.

By Hon. Mr. Hanson:

Q. Could we go back to the general statement and then I am pretty nearly through? I want to get down to your recommendations for changes in the set-up. That is what I am more concerned about and what I discussed in the house on the 17th of May.—A. Essentially what I wanted changed was this; I was selfish in this regard that I wanted to get the audit staff devoting all their time to auditing. Under the old system we lose from three to four months time a year in compiling statistical stuff for the Auditor General's report.

Q. In other words, you want that to be done by the Comptroller of the Treasury?—A. I wanted to get twelve months audit work being done and have the Comptroller of the Treasury do that other work.

Q. You base it on the theory of saving labour but the other fellow would have to do it?—A. That was just one step. The second step was this; when my chaps had to prepare all this stuff we attempted, being human, to make as good a showing for the department as we could. You are living with these people and you do not look at things as critically as you would otherwise. I am trying to be absolutely honest as to how things are taking human nature as it is, and the result was that we spent more time in the selection of words and being fair in stating how this stuff was than in perhaps portraying the facts. Now then, nobody is going to read several hundred pages of figures. They will read a few of them here and there but you are not going to read all. We look upon our job first of all as being able to report to you that the figures are right, that you can take the figures as a whole as having been checked and if you look them up and find them there that is a reliable figure. Then I think our next step is to bring things to your notice. I am speaking now of the Public Accounts Committee particularly.

Q. We will say to the House of Commons.—A. That is right, but I am really thinking of the committee. What we all want is that you would pick revenues and expenditures to pieces each year so that we would know what the members approve of and what they do not.

Q. You could do that in normal times but with the huge expenditure now that is out of the question.—A. I grant you that. The Minister of Finance knows much better than I can ever know the temper and wishes of the House of Commons as to the information it wants. What we want to do is to make him responsible for the decision as to what is to go in on what we call the statistical side of things.

Q. In other words, take that responsibility away from the Auditor General's Report and put in on Finance?—A. Put it into the House of Commons through the Minister of Finance. Remember, I have not got any minister. You are my ministers here, but I have really got no access to the House of Commons and therefore I do not know. A member may say to me, "I like your report". Another fellow says, "It is rotten". I do not know whether I am meeting the house's collective wishes or not. What I had in mind was that I wanted to get that side of the report into the hands of somebody who knew the House of Commons. Then having looked after that side I wanted to work up a report which page after page will recite little things that I think might merit consideration by this committee.

Q. In other words, you would like to concentrate on the defects rather than mere bookkeeping?—A. Yes, sir.

Q. That does make an appeal to me.—A. It may mean that you will get a multiplicity of trifling things, but it is pretty hard to draw the line between them.

Q. The Comptroller of the Treasury, the Finance Department, would make a set-up on their return of the public accounts, of the expenditures, that would be comparable to what we have had in the past and then we would have this sort of report that you were visualizing here.—A. That is what I have in mind. I do not know whether the Comptroller of the Treasury has got any orders from the Minister of Finance as to what . . .

Q. I must say that Mr. Ilsley took me rather by surprise because I went home on Friday, the 31st of July, and on that day he made this statement and after the recess I am quite frank in telling you I do not think I ever read it until he brought it up in the house on the 17th of May. He made a statement regarding the request for full reports on financing. You will find it on page 5470. It is now one o'clock. I am going to ask the members of this committee if you will do this, read what the Auditor General has said there, page 535 . . .—A. It is at the end, the last few pages. They are all very small type. It is page 635.

Q. And particularly on page 637, about the last two paragraphs, and then read the Minister's statement in the house. I have tried to approach the thing from a judicial standpoint on the theory we ought to understand what the proposals were and I did make a stab at this. I thought that any change in the set-up should come from the House of Commons rather than from the officials. I want to ask the members of the committee who are at all interested in the committee to read these three things and then when we come back let us discuss it. Page 5470 is the Minister's statement made just the second last day of last session in which he set out what was proposed. I suppose this was written by you, Mr. Sellar?—A. No, sir.

Q. Who got this up?—A. All I know is this; I originated the thing by writing the first letter which is in there. Dr. Clark and Mr. MacIntyre and I held meetings on the matter. We discussed it pro and con, came to form certain conclusions and we made a report to the Minister with a very elaborate appendix which I refer to there.

Q. We have not got that.—A. No, but I could file a copy of it with you.

Q. It would be interesting to have a copy.—A. Then the matter was turned over to the Minister because we have got no power beyond that. We discussed and we expressed a view. The Minister of Finance took it up. I speak without definite knowledge, but my recollection is that I was informed that the sub-committee of the cabinet would review the subject.

Q. I think he stated that in the house.—A. Ultimately the Minister made a statement to the house. Hon. Mr. Hanson: He said:—

Certain hon. members asked that I make a statement on the public accounts before the end of the session. With the consent of the house I should like to make that statement now. On June 4th last in reply to

some criticisms in regard to the detail with which information is supplied to parliament I stated that the whole matter was under active consideration at the time.

Could we not take this up and devote part of the session to it because that is really a constructive proposal? You may all think it is grand. I do not know. I want to say that my mind is open on the subject.

Mr. ROEBUCK: What are those pages again? 5470 is the Hansard?

Hon. Mr. HANSON: Yes, Friday, July 31st, and I spoke on the 17th of May, page 2781. Then you have to refer to the Auditor General's report.

Mr. McIVOR: Mr. Chairman, I should like to express the appreciation of this committee to the witness for the way that he has given his information this morning. He has shown to us that he is familiar with the law and he can interpret it just as clearly as the leading expert from the east.

Hon. Mr. HANSON: Whom do you mean by that?

The CHAIRMAN: Before the committee adjourns a suggestion was made that Mr. Sellar would submit a brief of recommendations and make any further suggestions, but we can proceed to discuss the matter with Mr. Sim.

Hon. Mr. HANSON: We ought to have his suggestions in concrete form first.

The WITNESS: As I was sitting here it occurred to me that there is one other thing that we should consider which I should have mentioned when I gave you the four heads. The fifth is this, the sale of war savings certificates and bonds on the instalment plan by deduction from payrolls. An individual today is in a very doubtful position if an employer should ever fail to pay over that money or if the employer should go bankrupt before that money is paid over to the Crown.

Hon. Mr. HANSON: Of course we understand that the underlying principle is to get the extra wages earned.

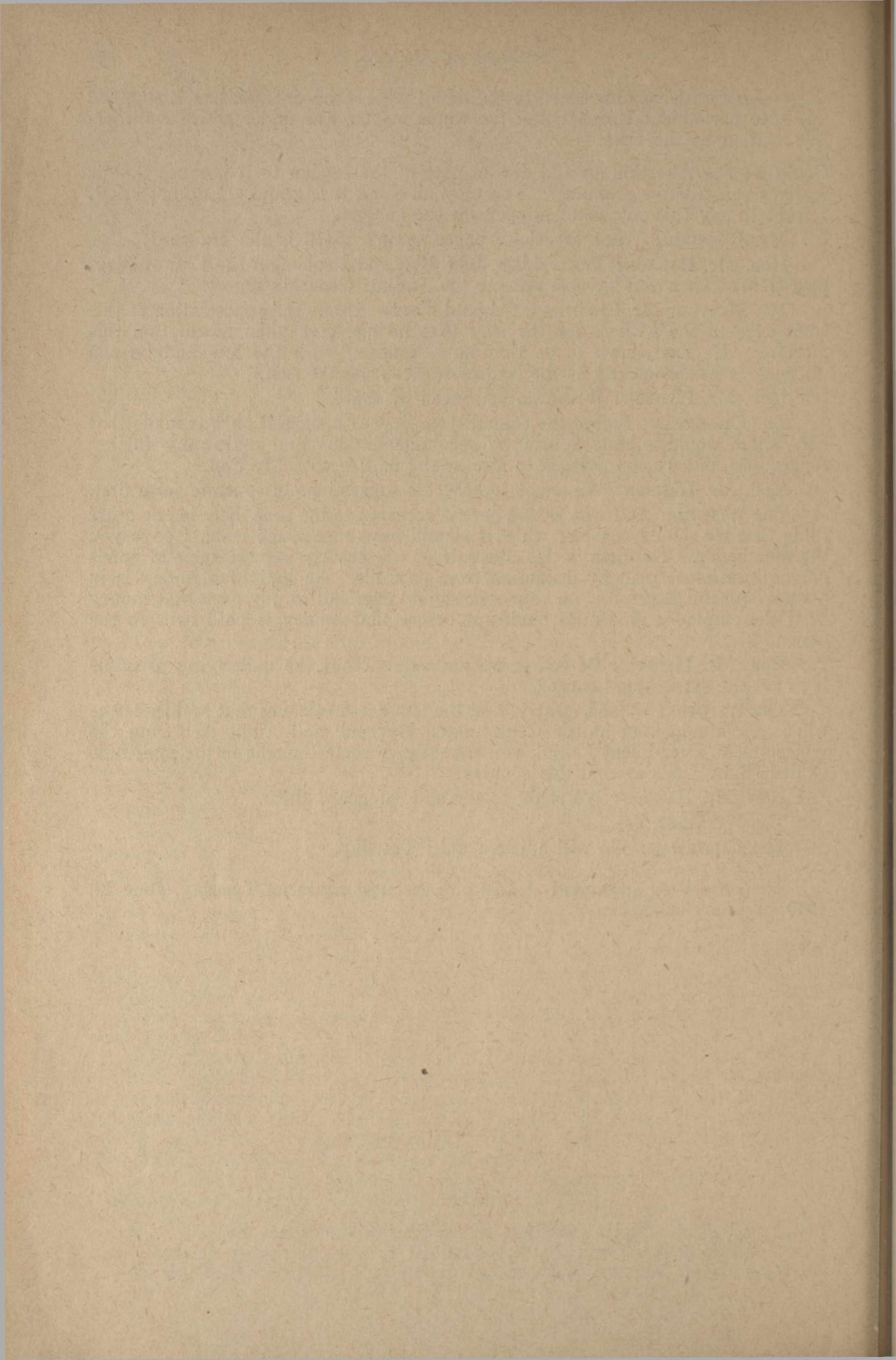
The WITNESS: What I mean is that the law does not cover that and therefore when you are looking at the Consolidated Revenue and Audit Act from the viewpoint of amendment I think you should give some thought to the multitude of little individuals around this country.

Hon. Mr. HANSON: We ought to try and safeguard them.

The WITNESS: Yes.

The CHAIRMAN: We will adjourn until Tuesday.

The committee adjourned at 1.10 p.m. to meet again on Tuesday, June 22, 1943, at 11 o'clock a.m.



SESSION 1943
HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

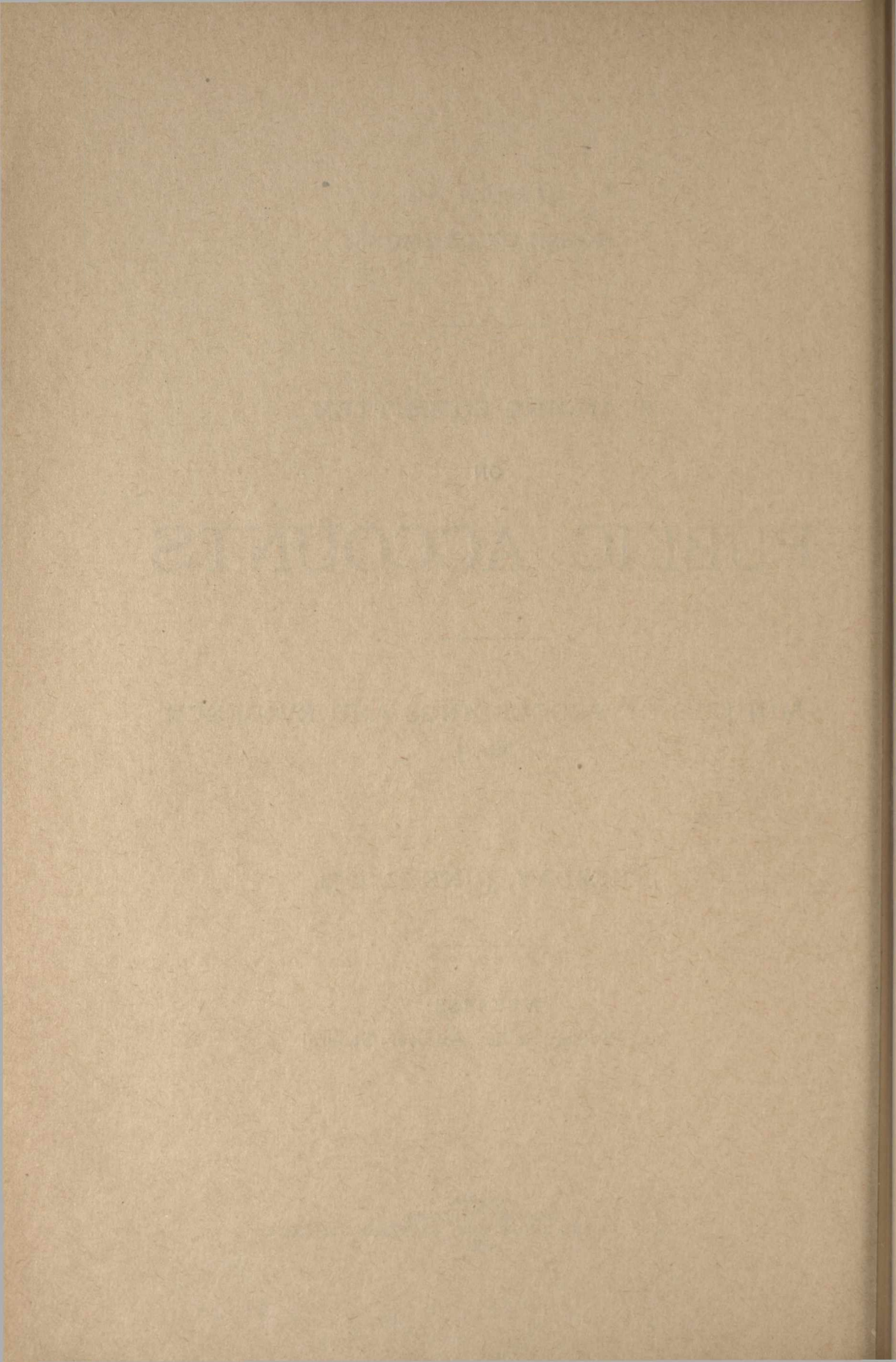
MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, JUNE 22, 1943

WITNESS:

Mr. Watson Sellar, Auditor General



MINUTES OF PROCEEDINGS

TUESDAY, June 22, 1943.

The Standing Committee on Public Accounts met this day at 11 a.m. Mr. Fraser (*Northumberland*), the Chairman, presided.

Members present: Côté, Ferland, Fraser, (*Northumberland*), Gladstone, Golding, Green, Hanson (*York-Sunbury*), Isnor, McGeer, McIvor, Noseworthy, Purdy, Rhéaume, Rickard, Ross (*Hamilton East*), Tripp, Thauvette, Ward and Winkler.—19.

At the request of the Committee, the following memoranda were tabled and distributed. Their subject matter being:

1. Revenue audit.
2. War savings certificates and victory bonds. (Debt management.)
3. Defalcations and losses.
4. Public property.
5. Surcharges.

Mr. Watson Sellar, Auditor General of Canada, was recalled and examined on the above.

Reference was made to a letter dated July 28, 1942, jointly signed by the Deputy Minister of Finance, the Comptroller of the Treasurer and the Auditor General dealing with the reporting of revenues and expenditures to the House of Commons. An appendix and conclusions are attached thereto. The letter is printed in the Auditor General's report for the year ending March 31, 1942, on page 636.

The witness was allowed to read the conclusions in the record.

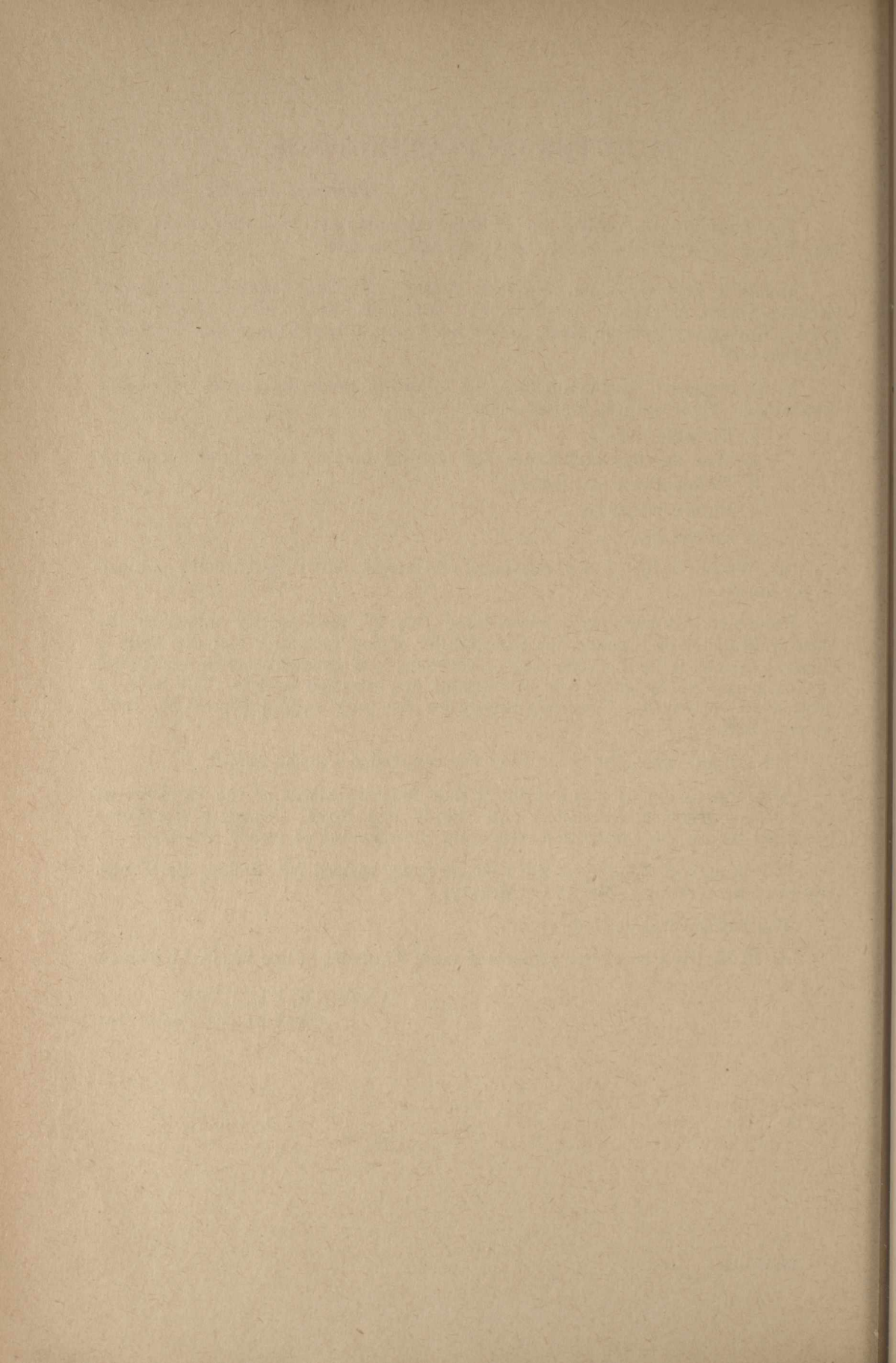
After discussion, it was suggested that representatives of the Department of National Defence, Munitions and Supply and Royal Canadian Air Force be called before the Committee respecting the disposal of public property.

It was agreed to have at the next meeting, besides Mr. Sellar, the Comptroller of the Treasury, Mr. B. G. McIntyre.

The witness was retired.

At 12.55, the Committee adjourned until Thursday, June 24, at 11 o'clock.

ANTONIO PLOUFFE,
Clerk of the Committee.



MINUTES OF EVIDENCE

HOUSE OF COMMONS,

June 22, 1943.

The Standing Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. Fraser, presided.

The CHAIRMAN: Gentlemen, we have a quorum. At the last meeting Mr. Sellar was asked to prepare, or offered to prepare, five memoranda in connection with different subjects. We will distribute copies of those memoranda so you will have them before you. Mr. Sellar kindly consented to come over and is here again this morning. I do not know whether our hon. friend, Mr. Hanson, is going to start. Are you prepared, Mr. Hanson?

Hon. Mr. HANSON: Yes, I wanted to finish this part of it if I can. It is constructive, and I think we ought to finish it.

WATSON SELLAR, Auditor General, recalled.

By Hon. Mr. Hanson:

Q. I only got the minutes a few moments ago and I was running through them to ascertain what the five defects were that we elucidated from your point of view at the last meeting. I asked you to jot those down and make a memorandum. Is that the one the chairman refers to?—A. That is what is being circulated.

Q. That is not quite available?

The CHAIRMAN: They are distributing them now.

Hon. Mr. HANSON: I would like to have that.

By Hon. Mr. Hanson:

Q. Your suggestion also was that yours was only an ex parte statement, that we ought to hear the other side of the story?—A. Particularly Mr. Elliott, sir.

Q. The first item was the control of stores or equipment and the second one was the right to audit all revenue, particularly income taxes?—A. I headed up stores as public property in the memorandum.

Q. We have the memoranda; war savings certificates and victory bonds, revenue audit, defalcations and losses. That was the fifth thing, was it not?—A. War savings was the last, sir.

Q. Just what was your submission on that?—A. On war savings certificates the question is this, at the time of the revision of the Consolidated Revenue and Audit Act, 1931 the debt was serviced by a division of the Department of Finance. With the creation of the Bank of Canada it was provided by that Act that the debt be serviced by the Bank of Canada. Therefore the control and the management of the debt is now by a corporation.

Q. A government corporation?—A. Yes. To-day by public advertising and otherwise many people are being asked to invest in war savings certificates and also to buy victory bonds by payroll deductions from their pay. In the event that the employer fails to pay over that money what is the individual's position? I am thinking in terms of bankruptcy or anything like that. That particular individual perhaps has no legal protection although they have carried out the invitation of the government. I do not say that is legally right but that is the reason I am bringing it to your notice.

Q. What your suggestion is that some additional provision should be made to insure that forced savings, we will call them for lack of a better term, shall not be lost to a wage earner by reason of the defalcation, bankruptcy or what not of the agency through which it was deducted from his payroll?—A. I think it narrows down to this sir, that it should be that anybody who makes these deductions as the result of that actually is an agent of the Crown.

Q. I agree with you in principle. What do you suggest as a legislative safeguard, or do you make any suggestion?—A. I make no suggestion as to that. The reason that I made no suggestion as to that is that you will notice that some weeks ago in the House of Commons in reply to a question as to possible legislation that might be brought down the Prime Minister, I think it was—anyway, the Leader of the House—intimated there might be legislation with respect to that subject.

Q. This calls the attention of the government and they have it in mind.—A. I have it in my report, but I do not say as a result of that—

Q. What is the page of this submission on debt management? Can you give us the reference?—A. It is just about the end of the book, page 616, the foot of the page.

By Mr. Noseworthy:

Q. Did you say 615?—A. No, 616. I quoted all I have in the report.

By Hon. Mr. Hanson:

Q. Public debt management?—A. Yes.

Q. I think we can consider that. Your submission is that maybe in the public interest consideration might prudently be given to enacting suitable legislation in Canada making the Crown responsible?—A. Make the Crown responsible and, of course, if you brought in legislation you would want to touch more points than that. You would want to give, I would say, any person who has a grievance in connection with a bond the direct right of action against the Bank of Canada or the Crown.

Q. The Bank of Canada as the agent?—A. Yes.

Q. Of course, in law I submit there would be a right of action against the Bank of Canada in the ordinary course?—A. I hope so, sir, but I just thought that you would want to make sure that you protect the small individual.

Q. He cannot do it now?— They cannot afford to have expensive litigation.

Q. Theoretically they would have the right but practically they would be barred by the situation?—A. Yes. My own thought on the subject is that the best way to handle that sort of thing is that if a person such as an employer fails to pay over or the employer goes bankrupt or in the case of a victory loan canvasser who comes to a house and collects a cheque and instead of having it made payable to the Receiver General has it made payable to cash and negotiates that cheque and keeps the proceeds, that a reasonable solution would be for parliament to provide a small fund to be administered through which legitimate claims could be considered and paid out without expensive litigation.

By Mr. McGeer:

Q. Are there any examples of that kind of thing?—A. Very rarely; I have only known of two cases in all my experience with the Department of Finance.

Q. There have been cases?—A. Two cases.

Q. How have they been settled?—A. I think in both instances the department got recovery out of the individual.

Q. That is the department proceeded against the defaulter and the default was made good?—A. Without proceeding to law.

Q. There was no loss to the subscriber?—A. No loss to the public.

By Hon. Mr. Hanson:

Q. There has been no actual case where there has been a delinquency and the wage earner has suffered yet but you fear that may arise?—A. That may arise.

Mr. McGEER: Is there any doubt under our law where the government orders an employer to deduct and deliver as to whose agent the employer is? He is not appointed by the wage earner. He is appointed by the government in order to do a certain thing, and he is doing it on behalf of the government. If there is any loss between the time he moves to take possession under the order of the government and delivery to the government it certainly should not fall upon the person from whom the deduction was made.

Hon. Mr. HANSON: What he is suggesting is that in ordinary practice it would be difficult for him to assert his rights against the Crown.

Mr. McGEER: If the Crown took an arbitrary position that they should not make it good, but I hesitate to believe that anything like that would be done.

The WITNESS: My point is this—I may be quite wrong—that the invitation is general. There is no document between the Crown and the particular employer showing that he is appointed agent or trustee of the Crown. It is done by public advertising, and in the case of a bankruptcy the court may say that the debt has not got priority.

Mr. McGEER: Of course, if you wanted to eliminate litigation altogether, in addition to having the agency established as an unquestionable fact you would also require some guarantee in the legislation that from the time the deduction was made from the wages it was the liability of the government. I think that you would want to go that far.

The WITNESS: I am just advancing the thought in the interest of many small individuals that you might want to consider prudently safeguarding their interests.

Mr. McGEER: What does the Department of Finance say about that?

The WITNESS: I think they are quite in sympathy with that but I would not venture to say what is their view because I have not discussed it in detail with them.

Hon. Mr. HANSON: We are getting his point of view, and it is for the consideration of the committee. It has merit. There is no doubt about that. I am not in a position to pursue the matter any further as far as I am concerned. We are trying to get Mr. Sellar's suggestions as to the weaknesses that have developed in the present system. That is all we are trying to do.

By Hon. Mr. Hanson:

Q. Have you any other weaknesses to suggest in addition to those submitted at the last meeting and covered by these memoranda? Is there anything else that occurs to you?—A. No, sir.

Hon. Mr. HANSON: Then, may we not go back to what the original thesis was because this developed in the course of the discussion the other day.

By Mr. Tripp:

Q. Just before you leave the victory loan and victory bonds may I ask a question of the witness? I have had a lot of complaints from people who had deductions made from their salaries to the effect they have no receipt from the department of moneys paid in, and the individual has no method of checking up the amount. Is there any way of providing that information to the wage earner to satisfy him that the money is actually in the government's hands?—A. You are referring to a private concern? You are not referring to a government employee?

Q. I am referring to an individual who is working for a concern and has a deduction made from his salary cheque. That money is supposed to be paid into the government on behalf of the individual but if I understand it the individual has no receipt from the government to show that the government has received that money.

Hon. Mr. HANSON: He is supposed to get it in due course. The minister told us that.

Mr. TRIPP: That is what I am asking.

Hon. Mr. HANSON: There is such a multiplicity of transactions that there must, of necessity, be great delay.

Mr. ISNOR: When the final returns are made up they get a certificate. The individual receives a certificate similar to the war savings certificate.

Hon. Mr. HANSON: Have you seen one?

Mr. ISNOR: Yes, in which it is stated that this amount is to your credit plus 2 per cent interest.

Hon. Mr. HANSON: This is a very interesting discussion. I had a letter the other day from the manager of a large commercial firm who employs a good many wage earners and they object strenuously to the deductions from their payroll. One of the reasons urged is that they have nothing immediately to evidence the debt, and further that they cannot dispose of them. They cannot convert them into money. I understand the reason for the latter is to prevent them spending the money, but the resistance against this is very heavy.

The CHAIRMAN: It is the same resistance when people cannot feel the cash, as it were.

Hon. Mr. HANSON: Yes. However, it is a matter of policy of the government which I am not wanting to raise here at all. However, the question raised by Mr. Tripp is a practical question. People are resentful at the fact they have not immediately something to show their equity, so to speak, and that it is not transferable; they cannot cash it in. King Hazen brought before the House of Commons the case of a man who had war savings certificates to the extent, we will say, of \$50. His child died and he did not have the money to bury him and the bank would not take these war savings certificates, they would not do anything.

The CHAIRMAN: Why would not the bank take them?

Hon. Mr. HANSON: The bank cannot take them, they are not transferable by law. It seems to me that was a shocking situation. Some charitable person would have to put up the money, of course. Now, just imagine the resentment in the heart of that man who could not get \$50 to bury his child.

Mr. McGEER: Of course you get reaction to that kind of thing in the quantum of your money in your bank account to-day. You have \$1,400,000,000 more money in your bank account to-day than you had when the war started.

Hon. Mr. HANSON: That does not help the man who wants to get \$50.

Mr. McGEER: No, but it shows a great many people protecting themselves against the plight in which they may find themselves.

Hon. Mr. HANSON: Yes, by deposits, and the government wants these long-term loans from the wage earners to prevent inflation, however.

Mr. McGEER: There is more bunk being talked about inflation than anything else in the war.

Hon. Mr. HANSON: I think there is.

Mr. McGEER: I mean to say when you cite a case like you mentioned there and you freeze that \$50 and at the same time you issue a 3 per cent bond that is not frozen at all, you show the unfairness of the situation. Everybody who is

buying victory bonds has the privilege of taking them to the bank and converting them into bank deposits and increasing the volume of bank deposits in that way, and yet upon the workers of the country an attempt has been made to freeze even down to the point of where minimum savings are tied up yet at the same time we have men running around the country prattling about control of inflation.

Hon. Mr. HANSON: All I can say is, make your remarks to the Minister of Finance, not to me.

Mr. TRIPP: In answer to my question, then, the individual does get a return from the government stating the amount of money he has in hand?

The WITNESS: Is the question with respect to income tax or war savings?

By Mr. Tripp:

Q. I beg your pardon?—A. For income tax.

Q. Either by way of war savings or income tax some individuals say to the employer you can deduct so much money from my salary for war savings certificates.—A. In that case the individual gets a war savings certificate.

Q. Now, with regard to the income tax, is there not a return?—A. Well, first of all—

Mr. McGEER: He gets receipts for the income tax and the practice there is to issue a certificate for the amount which is put in as forced savings?

The WITNESS: Yes.

Mr. McGEER: That certificate is forthcoming now.

The WITNESS: I have not read it, but I have seen photographs in the newspapers.

Mr. McGEER: It is issued?

The WITNESS: Yes.

Mr. TRIPP: There are certificates being issued for the forced savings?

Mr. McGEER: Yes, they are coming out now. They should have a book and when the employer makes a deduction he should put a stamp for the amount right in the book, which is the wage earner's book and that should be the evidence of the wage earner's right against the government.

Hon. Mr. HANSON: That would be his record, anyway.

Mr. McGEER: If that happened every month or every two weeks or every week, or whenever the pay-day is, the wage earner would know where he stands. What they have done in the past is issue a certificate after the amount required to make up the certificate has been deducted.

Hon. Mr. HANSON: The other suggestion would satisfy the wage earner.

Mr. McGEER: The wage earner takes his weekly pay or his monthly pay or whatever it is and each time the employer makes a deduction that record could go right in his book and he has got it, and that is the evidence of his claim against the government for the repayment when the war is over. If that were done I think it would eliminate a good deal of the feeling that a great many people have, the feeling that they will never get it.

Hon. Mr. HANSON: There is no doubt about that.

Mr. TRIPP: A great many get the idea no record is ever kept.

Mr. McGEER: It is something which will not materialize.

Hon. Mr. HANSON: There is a record kept. It seems to me it would be the proper thing for the wage earner to have his book and in that book should be entered the amount that he will get from the government when the war is over.

Mr. ISNOR: All the large firms issue with each pay a slip covering the different deductions. On the side there is item 1, then there is the deduction for

war savings certificates, a deduction for income tax and other deductions. That is all definitely shown. It is almost humanly impossible from a business standpoint, the standpoint of the government, to issue month by month the amount to the credit of the individual wage earner. That can only be compiled and computed by the income for the period of twelve months.

Mr. McGEER: That may be true from the point of view of the individual companies. There is no difficulty for the employer when he makes a deduction to make the entry in the book right then.

Mr. ISNOR: It would only give the amount deducted as far as the individual is concerned, it does not give the amount to his credit at the end of the twelve-month period under the compulsory savings part of it.

Mr. McGEER: I have seen these records that you speak of, some of them include fourteen or fifteen deductions. It is true in some firms it is done very well, and they are compiled by these firms in such a way that they can be kept by a person who is careful enough to keep them, but unfortunately the great majority of the people are not careful enough and at the end of the year a very substantial percentage of the people have no idea what their position is. Now, all firms do not do what you indicate. It is probably true to say that the deduction slip is used in well organized firms with established businesses, but there are hundreds of firms with no such record at all.

Mr. ISNOR: Then the government has a check as well on the business firms. Formerly it was at the end of each pay period, now at the end of each month, the employer must send to the income tax office, to the inspector of the particular district in which he is doing business, a return showing the amount of deduction made for the period covering one month, we will say. The form reads something like this: "Enclosed please find . . ." That covers the complete deduction made by that firm for that period.

Hon. Mr. HANSON: With details of the amount?

Mr. ISNOR: They already have the details.

Mr. GLADSTONE: Mr. Chairman, a peculiar case came to my attention about a week ago that is allied to the present discussion. It relates to the Post Office Department. When a person remits by cheque to the bank he has the endorsement which is a receipt or acknowledgment of the money. This was a case of a woman who was paying off a mortgage and remitting through post office money order. For some reason I scarcely understand her money orders went to and were all cashed by the wrong person, not the holder of the mortgage. This went on for two or more years until she had remitted something like—with principal and interest—\$360 odd. Now she finds that the money has not gone to the holder of the mortgage although I believe it was some relative. I think that is how the confusion arose. But having remitted through post office money orders and the person who got them refusing to make good, perhaps unwilling to confess to having received the money, she has lost her money and has to pay the mortgage over again along with the interest payment. The point I raise is this—and I may say post office money orders are not kept for any length of time when returned to the post office; they are destroyed and consequently there is no endorsed receipt by the person who received the money—the point I raise is as to the possibility in any way of post office money orders, certainly for any substantial amounts, being retained or in some way going back to the person so that they will have a receipt for the money. If the post office is doing business in that way should not the post office furnish acknowledgment of that money to the person who buys the order, in the same way as the bank does?

Hon. Mr. HANSON: They issue the receipt which is the basis of the order.

Mr. GLADSTONE: The receipt is not an acknowledgment on the part of the person who receives the money.

Hon. Mr. HANSON: It is prima facie evidence that the man bought the order and it is payable to a certain person, and I should think the onus would immediately shift. If he could say he sent it the onus would be on the recipient to show he did not receive it.

Mr. FERLAND: You may have a claim against the Crown.

Hon. Mr. HANSON: They have a complete record of every one that is issued.

Mr. GLADSTONE: The records are destroyed.

Hon. Mr. HANSON: The cheques are destroyed, the orders.

Mr. GLADSTONE: After they are cashed.

Hon. Mr. HANSON: The books are not destroyed.

Mr. GLADSTONE: I do not know the details of the operation.

Hon. Mr. HANSON: Why don't you make some inquiries in that regard?

Mr. GLADSTONE: I am making inquiries. I thought it was somewhat related to the present discussion.

Hon. Mr. HANSON: In a measure, yes. May I ask the committee if they are prepared to proceed and if we can revert to the position which actuated me in starting the discussion? You will recall on page 635 under the heading "Revenue and Expenditure Reporting" the Auditor General made certain observations, and at our last meeting he undertook to file a joint letter which had been addressed to the Minister of Finance under the hand of the Deputy Minister, the Comptroller of the Treasury and himself, dated July 28, 1942.

The chairman procured a copy of this mimeographed letter and gave it to me, and I have read it through with a good deal of care. I hope it was made available to the other members, I am not sure.

The WITNESS: I just sent up two copies, those were all I had. I have a third copy now if anybody wishes it.

Hon. Mr. HANSON: It is a long letter. I hesitate to ask it go into the proceedings, but it is the only way I know of to bring it to the attention of the members. It may be handed in as an exhibit.

The CHAIRMAN: We can do that or we can have some copies run off if you want them.

Hon. Mr. HANSON: Whatever is the cheapest thing to do.

The CHAIRMAN: The cheapest thing to do is to file one as an exhibit.

Hon. Mr. HANSON: And have it printed?

The CHAIRMAN: No.

Hon. Mr. HANSON: There is no use filing one as an exhibit with a large committee like this. I leave it to the judgment of the committee, but this is a very illuminating document, and if you will read it with great care you will see the Auditor General makes a case for what he is presenting. You may not agree with it; I am not sure he has convinced me, but it is worthy of consideration. Could we have it stencilled and a large number of copies made? You can run off a hundred very cheaply.

Mr. WARD: What does the letter refer to?

The CHAIRMAN: It is a letter submitted by the Comptroller of the Treasury to the Minister of Finance with a number of objectives, suggestions and recommendations.

Hon. Mr. HANSON: Would the Auditor General in his evidence tell us what the letter covers and what the appendix covers. The conclusions which are

found on pages 30, 31 and 32 are a summary and are the kernel of the whole thing.

The CHAIRMAN: Mr. Hanson, if you refer to the Auditor General's report you will find the letter printed on the last three pages.

Hon. Mr. HANSON: Is it? I am not sure.

The WITNESS: The appendix is not printed, sir.

By Hon. Mr. Hanson:

Q. Is the last part included, pages 36 to 38? I was not able to compare these things?—A. What is printed, sir, are these pages with Roman numerals up to page v at the front of that which you have.

Q. The letter is printed?—A. Yes, but the appendix is not.

Q. That is only five pages. The appendix covers twenty-five pages and the conclusions are very important. It seems to me we might have the conclusions, which are important, are they not?—A. Oh, yes.

Q. The appendix is very largely historical and from that certain conclusions are addressed. I would ask Mr. Sellar to read the conclusions. We have the letter in his report. Perhaps if he puts the conclusions on the record then anybody who wants to see the appendix could get it.

The CHAIRMAN: The conclusions are only three pages. Do you want them read into the record?

Hon. Mr. HANSON: I would think so.

The WITNESS: I think perhaps it would be right to tell the committee that the earlier part of the appendix deals with the historical development of the reporting of accounts in Canada. Then we deal with the practices in the United Kingdom, Newfoundland, Australia, New Zealand, South Africa and the United States in reporting their expenditures to parliament, and we make some references to parliamentary debates that have taken place in this country with respect in particular to the Auditor General's report, and we point out also that up to 1886 the details of expenditures were reported in the public accounts and a summary form in the Auditor General's report; and in that year the Deputy Minister of Finance and the Auditor General made a deal—I think you can call it nothing else than that because there is no particular authority any place for it—they just made a deal between themselves that in the future the Auditor General would print the details and the Deputy Minister of Finance would summarize in his public accounts. I think that is a fair statement. The appendix was submitted to the minister so that in considering the subject he could have the benefit of what we read up on the subject. Our conclusions start at page 30 of the memorandum and are as follows:

We—

That refers to the Deputy Minister of Finance, the Comptroller of the Treasury and myself.

We are of the opinion that the Canadian practice should not be modelled after the pattern used by any other country, because we feel that confidence in the financial transactions of the government might not be sustained, currently, if reports to the house were materially curtailed, unless, associated with the adoption of such a policy, was the development of a practice of having a committee of the house examine annually the financial affairs of the departments. On the other hand, the dimensions of the budget, even when peace returns, will be such that it will be an act of prudence: (a) to keep reports in a form which will permit the picture to be easily and clearly visualized—too detailed reporting, to use a colloquialism, might make it impossible to see the forest for the trees; and (b) to avoid duplicating cost in reporting.

We feel that, in view of ever-changing needs and of the diversity of activities, form can be better controlled and regulated by informal directions of the House of Commons than by formal legislative action. An essential under any plan is that comparisons of costs for services should be available in order that members of parliament, when voting supply or reviewing the record of a government, may not need the training of a professional accountant to appraise rightly a sum involved. Our thought is that a flexible, yet effective, control could be exercised by the house through the use of the Appropriation Act. That is, the government, applying for a grant to the Crown by means of tabled estimates, should be expected to make an accounting in the same form. Thus, if the house decides on a change of estimates' form, the accounting would be likewise varied.

We therefore suggest that the Appropriation Acts (including the estimates) be considered as the base for the reporting on expenditures. As to names, we think it is of value to record the names of the senior executive officers of the public service. We also think that, when appointments and salaries are settled by an authority other than the Civil Service Commission, the House of Commons, under Canadian usage, may be presumed to have an interest both in the names of the individuals and the salary rates. Naturally, were this extended to all prevailing rates of pay classes, the listings would be long and of local, rather than of national interest. Generally speaking, it seems to us that were the estimates' details chart of staff establishments incorporated into the public accounts in such a manner as to show the numbers employed at the year end, the cost and the names of the more important members, the House would be in a position to judge whether the division was efficiently organized or not.

By Hon. Mr. Hanson:

Q. Will you stop there for a minute? How far would you go in giving the names of individuals and the salary rates. You would give all salaries on a chart? Is that what you mean?—A. Take the ordinary estimates—

Q. I am thinking about local curiosity.—A. You have got a head office department here in Ottawa. You start off with a deputy minister and you work down. There is a dividing point there where you get into subordinate officers that you can regulate pretty well by salary. Turn to a local body. Take the Department of Fisheries or the Department of Public Works where you will have many key men, important men in the activities, whose salary does not exceed \$2,000, in some cases \$1,800, \$150 a month men. It is sometimes quite interesting and important for the members to know who that individual is and what he is getting, but when they get down into clerks it is a different matter. It is your top men that I think you really want to know who they are and what they are getting.

Q. I think that we would all agree with you that prevailing rates of pay classes would not be of great interest.—A. No, they change so often. They come and go. The labour turnover is big.

Q. Will you proceed.—A.—

With respect to contract and supplies payments, our belief is that this will automatically be cared for, if it is required that each vote, or allotment, be suitably explained. A vote for \$10,000 may require a listing of several \$1,000 payments to explain the purposes to which it was put; while a grant of \$1,000,000 may require only a summarization in larger figures to explain clearly the purposes for which it was employed. We anticipate that, in application, the Minister of Finance will be in a better position than anyone else to give directions as to the nature of the text necessary to elucidate any unusual item or any item of particular

interest to the House. Therefore, when the details associated with an estimate are meagre, our thought is that the Minister would give suitable directions to the Comptroller of the Treasury.

Our examination did not disclose any particular problem with respect to the reporting of revenues. As you know, the classifications developed for the Sirois Report have been mentioned in the House, but as already the administrative records are in the process of being suitably adjusted, no further direction need currently be given, but some thought will have to be given to the correlating of the data—an internal administrative matter.

Q. What do you mean by stating that some thought will have to be given to the correlating of the data? I am not clear in my mind what you mean.—

A. Under the Sirois Report they break down the classifications of revenue by sources. Some of those revenues are collected by one department and some by another. You have got to correlate those figures into the total to put into the Sirois classification.

Q. All right.—A.—

. . . . For all of the foregoing reasons, we suggest consideration be given to the proposition that the Public Accounts and the Auditor General's report be tabled under a single cover, the contents being assembled in a form somewhat as follows:—

- (a) Part I to consist of an over-all survey and report of the financial operations of the year in such form as will portray clearly the policies applied.
- (b) Part II to consist of the balance sheet of Canada, certified by the Auditor General.
- (c) Part III to consist of the receipts of the year, by departments and sources; this to be signed by suitable executive officers and certified by the Auditor General.
- (d) Part IV to consist of expenditure statements as submitted by the Comptroller of the Treasury and certified by the Auditor General.
- (e) Part V to consist of such miscellaneous statements as may be necessary to report on transactions not included in the preceding parts.
- (f) Part VI to consist of the report of the Auditor General, on the statements in the preceding parts, and of such other matters as he is required to report to the House of Commons.

Q. That is your submission?—A. That was our general submission.

By Mr. Isnor:

Q. Dealing with that thought of correlating revenues, Mr. Sellar, you have in mind such boards as the C.B.C.? They have three different avenues of revenue, at least. They have one for commercial licences collected through the C.B.C., if I remember correctly. They have licences of individuals collected through the Department of Transport. That is the type of correlation?—A. You also have in that case receiver licences collected by the Department of Post Office. That was what we meant by internal adjustment. Remember under the Consolidated Revenue and Audit Act the Comptroller of the Treasury is responsible for all expenditures, but for the collection of revenue each minister strictly speaking—his deputy minister, in fact—is responsible for the collection of his revenues and the accounting of his revenues.

By Hon. Mr. Hanson:

Q. You intimate that in some cases you do not have the right to audit revenues?—A. I point out in the case of income tax on account of section 81 of the Income Tax Act there has been a controversy existing on which there have

been rulings by the Deputy Minister of Justice which I have filed in that memorandum to-day.

By Mr. Isnor:

Q. From the standpoint of auditing is there any greater work entailed in the auditing of three separate departments in respect to the revenue of one department?—A. No. As you know in any revenue audit the first thing is to be sure that all revenue has been brought into the books. That is your first problem.

Q. Then there is the second, of course.—A. Then your second problem is that the levies have been legally assessed. Then the third is following it through into its proper source for bookkeeping records.

Q. I would have thought that would entail a greater amount of work from an audit standpoint than if you had to deal with that same revenue coming in through one source?—A. I grant you it does, but we have got to look at the practical consideration. The real object is to get revenue, not for convenience of audit. To get revenue we have got to adjust ourselves to the practical need.

By Hon. Mr. Hanson:

Q. In the case of the C.B.C. the government have authorized two or three agencies to collect licences for the convenience of the public as well as for getting the revenue in?—A. The C.B.C. does not collect licences. The money is paid over.

Q. I say two or three agencies?—A. The Minister of Transport is responsible for the collection.

Q. But the post office will take them?—A. The post office is an authorized agent.

Q. And the radio station will take your licence fee?—A. You can go to any hardware store.

By Mr. Isnor:

Q. But you are not interested in checking the post office's revenue, are you?—A. Yes, sir.

Q. You are not interested in checking the individual agents who represent the Department of Transport?—A. What they do in the case of the ordinary door-to-door salesman of radio licences is that he is required to pay for his licence book before he gets the book. Therefore our check is as to the identification number of the book, the quantity of licences in there, and what he has paid. That is a simple transaction, you see.

Hon. Mr. HANSON: I understand what they are driving at. It seems to me there ought to be some discussion. Perhaps the members would prefer to wait and read this in print. I understand what their recommendations are. These dovetail in with the Minister's speech, do they?—A. I would say they do.

Q. Of the 31st of July last?—A. I would say they do. I have not sought to compare it.

Q. I asked the members to read that speech. I do not know how many did. I thought that we could see what the reaction was, what the position was. At page 5470 of unrevised Hansard, July 31, 1942, the second column, and the first column on the next page, the Minister read into the record the contents of the report which he said would be organized substantially as follows, and then he goes on and gives five or six things, a, b, c, d, e and f. The Auditor General has now read to us from the summary. It is up to this committee to decide whether they want to take any action or what action. As far as I am concerned I would like to study it a little further. Then, on the question of the recommendations or suggestions that the Auditor General makes with respect

to the weaknesses of the present Audit Act I think we ought to hear the other side of the story. If you will recall one of the recommendations was as to defalcations and losses. The Auditor General has absolutely no authority in respect to that.—A. There is no instruction, sir.

Q. Therefore there is no action?—A. Instruction perhaps is the wrong word. There is no established practice as to reporting defalcations to the House of Commons.

Q. As they do in other jurisdictions?—A. In other countries they do, and I asked you the other day whether you thought it was desirable that we should adopt something along that line.

Q. Then there is the question of the disposition of salvage, public property?—A. That is a much more important subject than defalcations.

Q. Yes, I agree. Then there is the question of surcharges. I must confess that I do not quite understand the question of surcharges. Could you enlarge on that? This is a long memorandum here.—A. Surcharges are for this purpose, a plan is introduced to promote efficiency and care in public administration. That is, if a person by negligence or otherwise makes a serious error and loss is occasioned to the public that person can be penalized and the amount recovered. That is what that means. One of our weaknesses to-day is that a department will render a service to an individual for which a fee or charge is to be paid, but the department never presses for that payment. They will bill him. They will send out an account periodically but that individual will never pay. I do not say that is the invariable rule but there is a risk. As a result we have accumulated on records of the departments a tremendous quantity of uncollectable accounts. Remember, gentlemen, that the Statute of Limitations does not run against the Crown. Therefore they are not automatically wiped off at the end of seven years as they would be in a commercial concern, but they remain there.

By Mr. Isnor:

Q. You do not have to make any accounting from an income standpoint?—A. No.

Q. So you do not write off every year.—A. In my report for 1940 I point out that the Department of Trade and Commerce has an account receivable of \$37,432 for cullers' fees assessed between 1855 and 1893. Most people do not know what a cullers' fee is. That is an extreme instance. The Department of Public Works reports \$118,000 due in respect of slide and boom dues and rentals which antedate 1900. The Department of National Revenue records \$69,000 payable as a result of defalcations. This involves twenty-six cases, twenty-five of which antedate 1930. The Department of Transport reports \$123,000 due since 1921 by the Riordon Pulp and Paper Company Limited, a defunct corporation. The effect of these several accumulations is to make a department careless in pressing for other stuff.

By Hon. Mr. Hanson:

Q. That is the psychology of it?—A. That is the psychology of it. The Department of Justice has repeatedly ruled that those accounts cannot be written off the books of the department without the approval of parliament. As a result the stuff accumulates there. The last time the Public Accounts Committee made a clean-up was in 1908, I think.

By Mr. Isnor:

Q. How did they do that?—A. First of all they had lists furnished with the departmental recommendations for writing off. Then they examined individual claims. I remember reading in the account once quite a long discussion as to whether a mortgage given in connection with the Selkirk land settlement in

the west should be written off. There was also another one over a mortgage of 1816, whether they should try to collect it or not. Those are extreme sorts of things, but every day in the week there are services being rendered, and I do think that a good deal could be said in favour of some plan whereby if it was established that the officer who was responsible for collecting those revenues was not diligent he could be surcharged.

Q. Following that through did they finally have a motion to wipe off all?—
A. You mean the Public Accounts Committee?

Q. Yes.—A. They wrote off a number of them and instructed the departments to press certain others.

By Mr. Green:

Q. Was there a statute passed?—A. No, sir.

Hon. Mr. HANSON: That is the trouble.

The WITNESS: It was done simply by resolution, but that has always been regarded as being adequate for the purpose. In England it is done through the Public Accounts Committee report.

By Mr. Green:

Q. Did the Public Accounts Committee in 1908 make a report to parliament setting out what was to be done with these different accounts?—A. You are referring to us in Canada in 1908?

Q. Yes.—A. I would like to refresh my memory before I make a positive statement, because it is ten years ago that I sought to interest the government in it. You will always get a new government to interest itself in those things more than you can one that has been in office quite a while, because if it is a government that has been in office for quite a while people might say they were trying to cover up and help their friends by getting rid of these things. You can go after a new government and ask for this sort of thing. In 1930 I sought to interest Mr. Bennett, who was Minister of Finance as well as Prime Minister, in that and we accumulated lists then. I went over the practice then and made a memorandum on the subject but that is the last time I have looked at it and that is thirteen years ago.

(Discussion off the record.)

By Mr. Green:

Q. How much money is involved in these old accounts altogether?—A. I was just looking to see whether I have the figure here. I would say something over \$4,000,000. That is a very rough statement. I would like to verify that for you.

Q. That amount is being carried as an asset of the dominion?—A. No. They are not taken into the Public Accounts at all.

By Hon. Mr. Hanson:

Q. They are practically written off?—A. They are carried on memorandum accounts in the departments. They are not taken into the Public Accounts of Canada at all. That is one reason then you never get a chance on them.

Mr. TRIPP: Mr. Chairman, has the respective department or the dominion treasury power to make an adjustment of those accounts and settle them for us?

The WITNESS: That is controversial. They do, in fact. I am not talking about taxes. I am talking about service fees of one sort and another. They look at it this way, that if they can get only 75 cents on the dollar it is better to take that 75 cents than nothing, but as a rule they do not give a clear release. They do not press for the further 25 per cent. It is still on the account.

Mr. TRIPP: I have in mind some seed grain loans that were put on in the province of Saskatchewan between 1885 and 1894. Some of those are still registered against the land.

The WITNESS: Those are subject to an Act. I think it is the Seed Grain Act or maybe the Seed Grain Loan Act. It provides for a board of review consisting of an officer of the Department of Mines and Resources, and generally an officer of the province and a third member. They make recommendations as to what shall be done with respect to them, and then the Act gives the treasury board power to make a compromise. Every month in the year quite a number of these treasury board minutes come out giving the adjustments to be in effect in Manitoba, Saskatchewan and Alberta by section numbers. The reason is to clean off the cloud on the title.

By Hon. Mr. Hanson:

Q. They want to get their land cleared?—A. Yes.

By Mr. Tripp:

Q. The final adjustment is the award of the treasury board?—A. Yes. I do not think an order in council is necessary. It may be covered by an order in council but anyway it passes through the treasury board.

By Hon. Mr. Hanson:

Q. You make a distinct recommendation here of a surcharge against officers of the department for not collecting these bills. You go that far? I have not been able to read the memorandum.—A. I say here—

Q. What page of your memorandum?—A. The first page, paragraph 2.

In Australia, New Zealand and South Africa, legislation to the same end is provided with respect to the Crown's officers. In South Africa an officer may be surcharged if it appears to the Controller and Auditor General: (1) that any deficiency has occurred in collecting or accounting for public moneys, (2) that any public moneys have been improperly paid or have not been duly vouched, or (3) that any public moneys, stamps, securities, stores or other government property are deficient. In New Zealand, by section 69 of the Public Revenues Act, 1926, and in Australia, by section 42 of the Audit Act, any accounting officer or person is subject to surcharge if he (a) wilfully or negligently omits to collect or receive any money, (b) fails to pay over any revenue—

Q. Do you recommend that?—A. I think a great deal can be said in favour of it from that angle. As to the earlier part of the memorandum with respect to public bodies I would think you would very seriously have to consider the possible effect it might have in getting men to serve without compensation.

Q. Take the National Battlefields Commission where they all serve free of charge?—A. You might have great difficulty in getting men to assume such duties if they were going to run the risk of being privately surcharged if there was only negligence in the administration.

Q. Most of these bodies named in the first part of your memorandum have paid officials, but not the Federal District Commission or corporations created for the purposes of the Department of Munitions and Supply. Those are the dollar-a-year men?—A. Yes, but in quite a few cases they are paid.

Q. But the Yukon Council, the Canadian Broadcasting Corporation, the Farm Loan Board, the National Research Council—no, the National Research Council are honorary; they do not get paid?—A. No.

Q. As such?—A. No.

Q. On the Canadian National Railway and Federal District Commission they are honorary, too?—A. Yes.

Q. It seems to me you would have to select certain of those and not put them all in the same category. For instance, the National Battlefields Commission, I do not think that we should take the responsibility of recommending that the officers of that commission, who serve in a purely gratuitous fashion, should be surcharged.

The CHAIRMAN: It is like penalizing your credit manager for any bad debts.

Hon. Mr. HANSON: That is the theory.

The CHAIRMAN: Of course, he would immediately resign.

Hon. Mr. HANSON: It seems to me it would have the effect of stiffening these fellows up. They do it in Australia and other jurisdictions.

The CHAIRMAN: Take a case like the Riordon Pulp and Paper Company. How are you going to penalize a man for not collecting that account?

Hon. Mr. HANSON: You could not. They are in bankruptcy and they had a legal position. Riordon went out right after the last war. I remember the situation very well.

(Certain discussion off the record).

The CHAIRMAN: You could not penalize some official for not collecting that amount from Riordon.

Hon. Mr. HANSON: Not if it was disputed but, as he suggests, it must be on the basis of negligence.

The WITNESS: That he wilfully or negligently failed to collect.

Hon. Mr. HANSON: He says here at the bottom of page 1:—

In New Zealand, by section 69 of the Public Revenues Act 1926, and in Australia by section 42 of the Audit Act, any accounting officer or person is subject to surcharge if he (a) wilfully or negligently omits to collect or receive any money, (b) fails to pay over any revenue, (c) applies money to any service or purpose for which the money was not legally available or applicable, (d) makes an expenditure for a purpose not duly authorized, or if he fails to have it properly vouched and certified, (e) by fraud, mistake, default or error is the cause of a deficiency or loss, (f) makes returns which are defective or imperfect, (g) commits any material error, or (h) fails to comply with the provisions of any act.

On principle why should not an officer be surcharged for these omissions because that simply shows negligence and incompetency and perhaps dishonesty? That is the argument, is it not?

The WITNESS: The situation is this; the public service has got to be a tremendous thing. No minister can hope to know all that his officials are doing and yet he is answerable to the house. Therefore this thing is really to protect the minister.

By Mr. Green:

Q. On page 3 near the foot of the page you have a suggestion there. You say:—

Consideration might usefully be given to a proposition that some authority be clothed with the power to direct the collecting practices of departments and to authorize, when necessary, that certain classes of accounts may be abandoned or compromised.

If you are going to impose a surcharge would it not be fairer only to impose that surcharge after some such body as this that you suggest has given instructions as to what attempt is to be made to collect, and then if the officer fails to follow out those instructions there is some reason why he should be surcharged but just to say that every officer shall be subject to surcharge is going pretty far.

—A. I do not mean it that way. What I did was I was asked the other day as to whether I thought that improvement might be made in the Act. Section 52 of the Consolidated Revenue and Audit Act is a most indefinite section. Therefore I said it would be desirable to consider the question of a surcharge and then I was asked to file a memorandum. In writing out that memorandum it occurred to me that the question of surcharge also involved the general question of writing off of revenue accounts and therefore I incorporated that in the same memorandum.

Q. This goes further. As I read the paragraph I have just quoted you recommend that there should be an authority over the various departments whose job it will be to direct the collecting practices of all departments. Is that not something you have not mentioned before? Would you explain just what you mean by that?—A. My viewpoint is this, that in some branches of the public service the enthusiasm to give service, to build up good will takes precedence over the getting of the money back for the giving of those services. That is what I mean.

Q. Do you mean that there should be some board or some group in the Department of Finance? As a matter of fact, you say in the next paragraph that such a reviewing authority might consist of senior officials whose decisions would be subject to the approval of the Governor in Council before taking effect, while an annual report to parliament would permit the exercise of parliamentary control to whatever extent experience might necessitate in the public interest. Was it your thought that there should be a board made up of senior officials from various departments who would have authority to direct collecting practices?—A. Yes, a small board, just a small board. It would deal only with questions of principle. It would delegate the application of those to someone else and have reports made to them when they were being defrauded.

Q. Would they have authority over all departments, that is, to direct all departments as to the practice to be followed in collecting accounts?—A. Other than in taxation I think you have got to put it on the department concerned that is charged by the statute to collect a tax. They have got to take full and final responsibility.

Q. But your idea is that there should be a board superimposed over all departments to direct the practice?—A. Where revenue is incidental to the administration of the department.

By Mr. Tripp:

Q. Kind of a roving commission set up over other departments?—A. Yes. For example, the Department of Agriculture has certain fees. The Department of Mines and Resources has certain fees. The Department of Health has certain fees. None of them are large; none of them are substantial. Therefore, what is everybody's business is nobody's business, and I thought it might be desirable to have a small committee with not too great power but sufficient power to clothe them with the right to go in and say, "Here, you are not doing a good job; keep after this and straighten it out".

Mr. TRIPP: They have such a commission set up in the Province of Saskatchewan and it has worked very well.

By Mr. Green:

Q. Have they a similar board in any other province?—A. I have not inquired.

Q. Have they anything like that in Great Britain?—A. In Great Britain they have an altogether different technique to what we have in this country. They have what they call an appropriation-in-aid process. That is to say, parliament appropriates what it considers will be the net amount required after applying the revenues of the year to the purpose.

By Hon. Mr. Hanson:

Q. They do not appropriate the gross amount?—A. No, they just appropriate the net and therefore there is an incentive on the part of the department to get in their revenue so they can have money to finance their activities.

Q. They are obliged to?—A. Yes.

By Mr. Green:

Q. Would that system work here?—A. I have often thought it would but there are other sides to the thing. It certainly weakens the control of parliament.

The CHAIRMAN: What is going to happen after this war in connection with all the outstanding accounts? If a committee of this type is necessary in peacetime it is certainly going to be necessary after this war. You are going to have a multiplicity of accounts.

Hon. Mr. HANSON: Coming back to the question of the principle of surcharges I can see a good deal of merit in this recommendation applied to certain departments or emanations from the Crown. In other cases it just would not work where men are serving in an honorary capacity. They would not serve, that is all, if they took the responsibility of collecting something and then might be made liable themselves. I think there is a good deal of sound merit in these suggestions with regard to public officials, the ones really charged with the duty of collecting revenues, and yet through wilfulness, negligence, omit to collect, and so forth, or fail to pay it over. Of course, the man who fails to pay it over has committed a crime at common law and he is liable anyway.

Mr. GREEN: There is provision now under Canadian law for a man who retains money that belongs to the government.

Hon. Mr. HANSON: He can be sued for the money and he can also be prosecuted.

By Mr. Green:

Q. You do that now?—A. Yes. In respect to what Mr. Hanson has said, New Zealand is the only country of the dominions as far as I can see that surcharges these corporate bodies. Australia and South Africa, as far as I can establish, do not apply that practice to-day. They do to the civil servants but not to others.

Hon. Mr. HANSON: Not to the corporate bodies.

The WITNESS: In England municipal councils are subject to surcharge.

Hon. Mr. HANSON: You will remember this, though, that the practice in Canada according to the set-up of these public bodies is to remove them to a large degree from the control of parliament. Take the Bank of Canada. I do not want to get into any controversy over the theory of the set-up of the Bank of Canada, but the Bank of Canada is owned by the Crown, owned by the people, and yet you do not have anything to say about its policy. You do not have anything to say about its modus operandi. You do not have anything to say about the salaries that are paid down there or the expenses or anything else. There may be good reason for that. I am not condemning the system. I am trying to state what it is. You can go on into other fields and make the same observations there. How much have you got to say about the Canadian Broadcasting Corporation and what they spend?

The CHAIRMAN: The Canadian National Railways.

Hon. Mr. HANSON: That is the biggest of the lot. Of course, due to the vastness of the field of administration I suppose that is looked upon as the easiest way to handle the situation. The Canadian National Railways was set up, as those who are familiar with things at that time will recall, to take over all these railways that had failed under private ownership. It was in wartime,

and if it had been in peacetime I daresay that this country might have adopted another system altogether and they might have come into the hands of the receiver and squeezed them out but it was felt they could not do that.

The CHAIRMAN: You are going to have a multiplicity of them now.

Hon. Mr. HANSON: You have got a situation now where the emanations of the Crown are bigger than government business itself. I am inclined to the view that this principle of surcharges is an additional safeguard to the revenues of the country and it would make people a lot more careful. I would like to hear what the views of the committee are.

Mr. GREEN: Would it not be unfair to surcharge at the present time without setting up some such board as Mr. Sellar suggests who would give direction as to the procedure to be followed in collecting accounts?

Hon. Mr. HANSON: That would be an additional safeguard in questionable cases, but we will take a clear case of negligence and default. That should not have to be left to any controlling body. Automatically the man should be proceeded against if on the face of it it was a clear case.

Mr. GREEN: Who is to decide whether there is negligence or default?

Hon. Mr. HANSON: I think the Department of Finance would have to administer the whole thing. I think they would have to do that, or some government department.

The CHAIRMAN: The next question is how far can you go with it?

Hon. Mr. HANSON: That is a question of operation.

The CHAIRMAN: Would you carry the policy down to government owned companies or Crown companies?

Hon. Mr. HANSON: I do not see any reason why it should not go the whole way except in the case of honorary positions.

The CHAIRMAN: Except what?

Hon. Mr. HANSON: Honorary positions like the National Research Council. That is an honorary position. It is made up of business and scientific men as a rule drawn from the universities and geographically spread across the country. They meet once or twice a year. They just discuss matters of policy. They are not obliged by law to have anything to do with the operation of the National Research—what is the set-up there?

The WITNESS: National Research Council. The power of administration is really vested in the president.

Hon. Mr. HANSON: Yes, that is quite true.

The WITNESS: And he reports to the Minister of Trade and Commerce. They have a sub-committee, a scientific research sub-committee of the council and their president reports to them, and then there is a general council drawn from many sources which meet three or four times a year and at which they get their own expenses.

Hon. Mr. HANSON: And a banquet.

The WITNESS: And decide a policy on questions of research and things of that nature and what educational grants they will give.

Hon. Mr. HANSON: They allocate the educational grants. To make them responsible for the administration would be wrong, but the president—

The WITNESS: The president is in a different position.

Hon. Mr. HANSON: He certainly ought to be made responsible because after all he is the key man in the whole set-up.

The CHAIRMAN: As far as the Comptroller of the Treasury and the Finance Department are concerned the internal economy as administered throughout

the different established departments is much easier to handle than when you break out into this multiplicity of government-owned companies.

Hon. Mr. HANSON: The question arises if you do not exercise some control over them by this method or some other method what control have you? You have not got any.

The CHAIRMAN: That is problematical.

Hon. Mr. HANSON: Theoretically you have got control through the board of directors of the National Railway or the board of directors of the Bank of Canada, but parliament has no control. The government may exercise some control but not parliament.

The CHAIRMAN: During the war you are getting further afield all the time.

Hon. Mr. HANSON: You are getting into deeper water. I am inclined to agree with the principle of surcharges applied to certain categories or departments, and to the operating companies where men are paid high salaries to do things. If they do not do their duty, why should they escape? That is the argument I would put up. However, it is for the committee to decide. We are getting pretty far afield from the original investigation which was the set-up of the Public Accounts and the Auditor-General's report. Could we come back to that?

By Mr. Green:

Q. I would like to ask a question about the memorandum on public property. Is it your opinion that there should be some public authority set up now to take charge of the disposition of this property, or do you think we should wait until after the war?—A. No, I think what is everybody's business is nobody's business. We have got so much stuff that it should be a charge on somebody as a long range job to get after that now because to-day you have war departments with large staffs headed by men who have no intention of staying around here after the war. They are going to disappear and if you do not get these things straightened away now I do not know whether chaos or mess is the right word to use, but you face the possibility after the war.

Q. In the last paragraph you give as your personal opinion:—

Assuming that the committee wishes a personal opinion on the subject, it is: that consideration be given to the proposition (a) that as public property becomes surplus to departmental requirements, possession and title be vested in one agency of the Crown which would have no other function than that of safekeeping and disposal.

Your recommendation is that such an agency be set up at once?—A. Yes.

Q. You go on:—

(b) That within a reasonable period after cessation of hostilities a classification of inventories be made, title and possession of all declared surplus to departmental needs passing to the agency mentioned above.

You think that is not necessary until after the war?—A. You cannot tell. You do not know what you are going to have.

By Mr. McGeer:

Q. As a matter of fact, you have got some properties that have already passed and are being dealt with?—A. Yes.

Q. Take the property seized from the Communist organizations. I understand that this property was not only taken over but some of it has been sold?—A. By the custodian of enemy property. They are not in the Public Accounts of Canada.

Q. They are being dealt with now and there has been some very definite criticism. Then there is all the property that has been taken over from the Japanese.

Hon. Mr. HANSON: That is alien enemies.

Mr. McGEER: Surely that would become part and parcel of your general set-up.

By Hon. Mr. Hanson:

Q. It is not your thought that they should be dealt with by this? This is government owned property?—A. I am talking of the government owned property.

Mr. McGEER: But when the government takes over property from supposedly dangerous organizations, if it be so, it becomes the trustee of that property.

Hon. Mr. HANSON: It does not become the owner.

Mr. McGEER: The property vests in the government.

Hon. Mr. HANSON: Only as trustee.

Mr. McGEER: Take all the Japanese property; that property is vested in the government as trustee. There is a very definite liability on the part of the government to account for the value of that property, not only to the public of Canada, but with alien property to the actual owners of it.

Hon. Mr. HANSON: That general statement is hardly correct. If you will read the statute and the regulations they are in a distinct class by themselves.

Mr. McGEER: I agree.

Hon. Mr. HANSON: They are ear-marked for certain purposes.

(Certain discussion off the record).

The WITNESS: May I explain it very simply this way, that in developing this kind of thing I try to get myself into the frame of mind where I can see it from the other fellow's angle. In bearing this in mind I was looking at it from the viewpoint of my native village of Huntingdon, Que., where a military camp exists with about 800 men in it. In connection with that camp they have a little military hospital which is very well equipped. The village has no hospital. They are trying to build a hospital now but the village people are living in hopes that after the war the Department of National Defence will say, "Do you want this hospital with its equipment? We do not need it now at all". They are hoping that they will get a chance to get that hospital. I am willing to venture that the same sort of thing may exist in a good many places across Canada where there are air force camps or naval stations or military camps. It is not my place to try and interpret the law but my understanding is that hospitals and hospitalization of civilians is a provincial matter. If the Department of National Defence is allowed to give these hospitals away to communities for nothing or for a very nominal fee, is a bad precedent being established from the viewpoint of the parliament of Canada? Therefore I say I feel by establishing this agency that this legislation should determine the method of its disposal, including not only the actual sale, the calling for bids, and so on, but the general principle of to whom they might give support.

Hon. Mr. HANSON: That is referable only to government property.

By Mr. Green:

Q. You say:—

(c) that the activities of the agency in valuing, safekeeping and disposing of property held by it be regulated by legislation.

A. Yes sir.

Q. You recommend that there should be legislation of that type right away?—A. I think it would be very desirable but I am only speaking from the

viewpoint of a public officer who does not know Canada and all its problems by any means. I am looking at it from the accounting angle and not from the practical side. You gentlemen know that much better than I.

Q. On whom should we call to give us further light on that subject?—

A. I would say that first of all possibly you would want to know in a general way what might be available. Therefore I would say that a man like Colonel Currie, Deputy Minister of the Army, could give you something very useful, some one from the air, and perhaps from the navy, and someone from the Department of Munitions and Supply. Then the Department of Transport has been accumulating a lot of stuff.

Mr. GLADSTONE: As I recall the evidence before the War Expenditures Committee there were six or seven or more salvage agencies with very little co-ordination.

The WITNESS: I am not thinking so much of salvage in the small way. I am thinking of disposal in the big way, a question of principle.

Mr. ISNOR: It will be salvage in a big way six months after the war.

Mr. GREEN: I do not know what other members think but it does seem to me that we might be able to do something really worth while. If we get some more evidence concerning the suggestion we might well make a recommendation to the house that there should be some such legislation taken into consideration.

Mr. McGEER: Might this not be done? I understand that to-day we have several types of trusteeship. We have alien enemy property; we have property of our own nationals interned in enemy alien countries. Alien enemy property includes, of course, all credits in addition to all the various properties that have been taken over, including the Communists. Then you have under the Department of Munitions and Supply publicly owned companies, partially financed companies, and you have in each of the war departments a set-up for the defence of Canada which includes all the various things that you mentioned, and possibly several other places where the government is involved in trusteeship, control or actual ownership of properties that will be surplusage when peace comes. Could we get a list of all the various categories of property that are controlled by the government or held in trusteeship by the government, or owned by the government, and the various agencies that are now dealing with these properties?

Hon. Mr. HANSON: I should like to see the picture.

Mr. McGEER: Because when I mention the fact that we should have an authority to deal with all these properties what you have to-day is that you have got several agencies. One of the things that I think is a real problem is that in certain cities you have built a certain type of house and you have set it up on the basis of war emergency. You have built houses that were intended to cost nothing more than could be liquidated in a comparatively short period of time out of the rent. As I understand the housing set-up the government intends to have the cost of that housing liquidated out of the rents they are going to pay practically by the close of the war. I know several of them and they are a perfect set-up for a deplorable slum condition. There is one over on the north shore, built on low, poor ground. The maintenance on these houses in a comparatively short period of time will be very heavy. Of course, theoretically the proposition was that having been paid for and the need for that accommodation ceasing with the decline of war industry they would be wiped out and destroyed and the land put back to its rightful state to be developed on a peacetime basis. Gentlemen, that theory will never work out.

Hon. Mr. HANSON: There will be a demand to keep those houses.

Mr. McGEER: You will have hundreds of men getting up and talking about the waste of destroying that kind of thing and that they should be maintained and kept up. There is the problem.

By Mr. McGeer:

Q. Let me ask this question. Do all of the trusteeships and the alien property disposals come under your audit program now?—A. No, sir, I have nothing to do with alien property.

Q. Have you anything to do with the Japanese property? Was that audited by you?—A. The Japanese property is controlled by the custodian of enemy property and is audited by their auditors, not by us. We have the British Columbia Securities Commission Account, but that is a different thing. That is an administrative account.

Mr. McGEER: I cannot see any reason why there should not be an authority set up responsible to the government and to parliament for the administration of everything that comes either under the control of the government, to the government as a trusteeship or in the ownership of the government.

Hon. Mr. HANSON: In principle there is a good deal to be said for that. What control is there by parliament over the custodian of alien enemy property? He can take shares and sell them. To whom is he accountable? That is your point.

Mr. McGEER: You know the things that have happened with regard to the return of shares in companies here.

Hon. Mr. HANSON: I do not know any details.

Mr. McGEER: I do not either but you do know, and everybody knows, that substantial quantities of stock in certain companies have been transferred and disposed of and used to liquidate in the original phase the financing of the British purchasing program.

Hon. Mr. HANSON: They sell them. For what purpose they are used I do not know. You suggest that it ought to be subject to some competent audit.

Mr. McGEER: I think if Mr. Sellar would prepare for us a statement of the situation as it exists to-day we could get that picture before us and then we would be in a position to consider it.

By Hon. Mr. Hanson:

Q. Can you do that?—A. In regard to the Department of Munitions and Supply they have got tremendous inventories of plants and machinery and materials. Mr. Hudson, one of their officers, has got a very good inventory record. Possibly he would be the witness before you, but I would imagine that Mr. Sheils, or someone else who would have the over-all picture, could give you a very good statement, much better than figures would portray. I have already mentioned Colonel Currie in connection with the army, and Mr. Norman, who is the financial man who came to Ottawa originally in connection with the Commonwealth Airtraining Plan, has made a study from the viewpoint of air. I think those three gentlemen could give you a very good picture.

Hon. Mr. HANSON: Mr. Chairman, I have to go now. I wonder if at the next meeting we could finish up this question of the proposed new set-up of the presentation of the Public Accounts and the Auditor General's report which was our first objective. We have got into a very much larger field.

The CHAIRMAN: I am glad you said "we".

Hon. Mr. HANSON: Yes, we are all responsible. This is most interesting to me, but I should like to finish one thing at a time if I could.

The CHAIRMAN: Do you wish to continue with Mr. Sellar?

Hon. Mr. HANSON: I should like to.

Mr. McGEER: I quite agree with Mr. Hanson. I think we should go on and finish that up and in the meantime I do not want to impose on Mr. Sellar but would it be possible to give us a kind of general outline in a memorandum?

The WITNESS: I cannot give you anything on the custodian of enemy property.

Mr. McGEER: Give us all you can give us and indicate anything else. I do not want the detail but just a broad picture.

The CHAIRMAN: Just before we disperse I might explain to Mr. Tripp that there is a copy of the certificate that the Department of National Revenue are issuing to every employee when he makes out his income tax giving him not only a voucher but that will be printed in green the same as the war savings certificates; so that at the end of the year when he makes out his income tax return he will get his compulsory savings certificate with an indication of 2 per cent interest and he will know exactly where he is at.

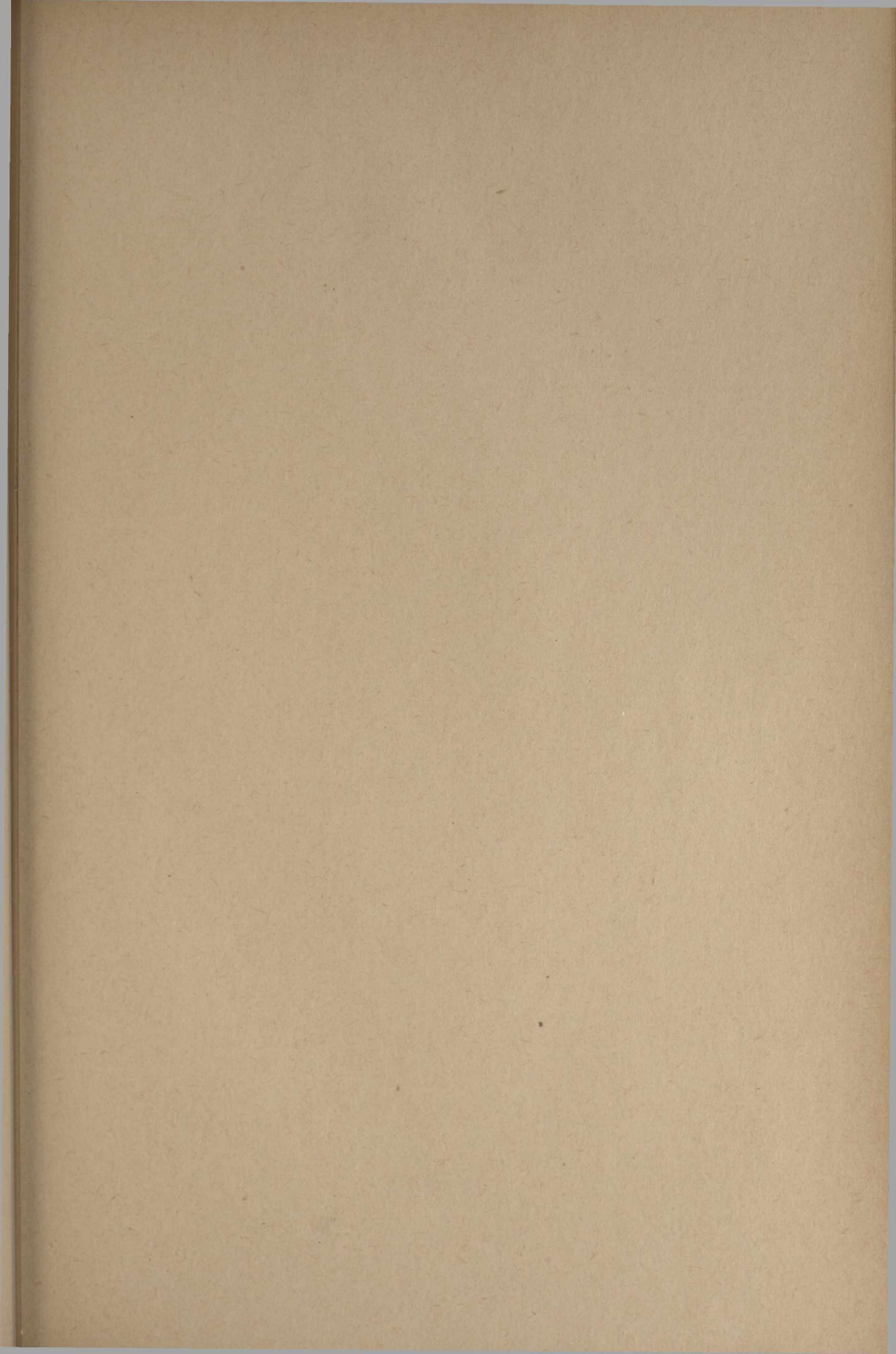
Mr. McGEER: At the end of the year.

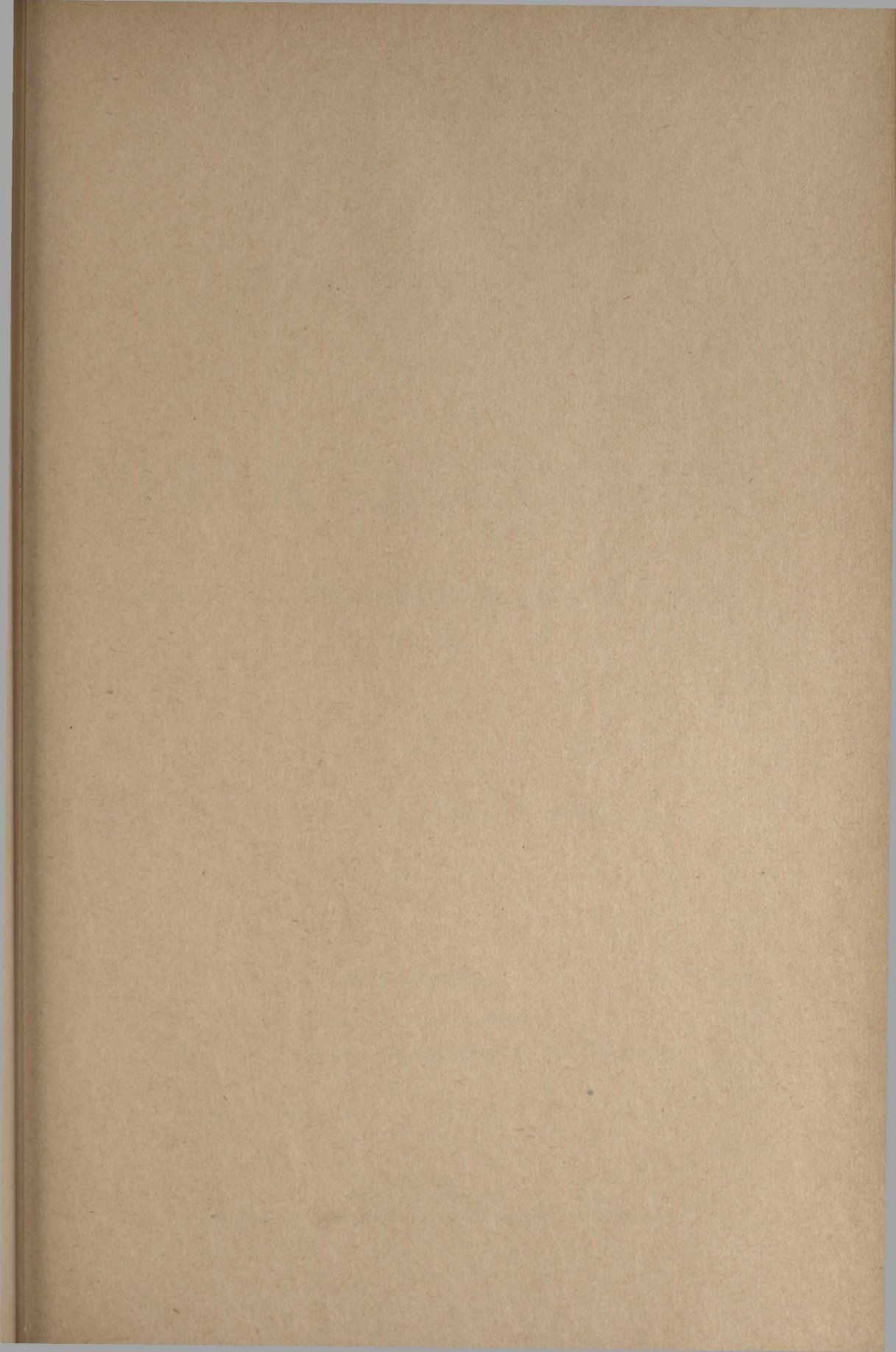
The CHAIRMAN: In my opinion that should be given wide publicity in the press so that everybody across the country knows it because it was recently adopted and it will eliminate a lot of doubt in the minds of employees. That is what you wanted?

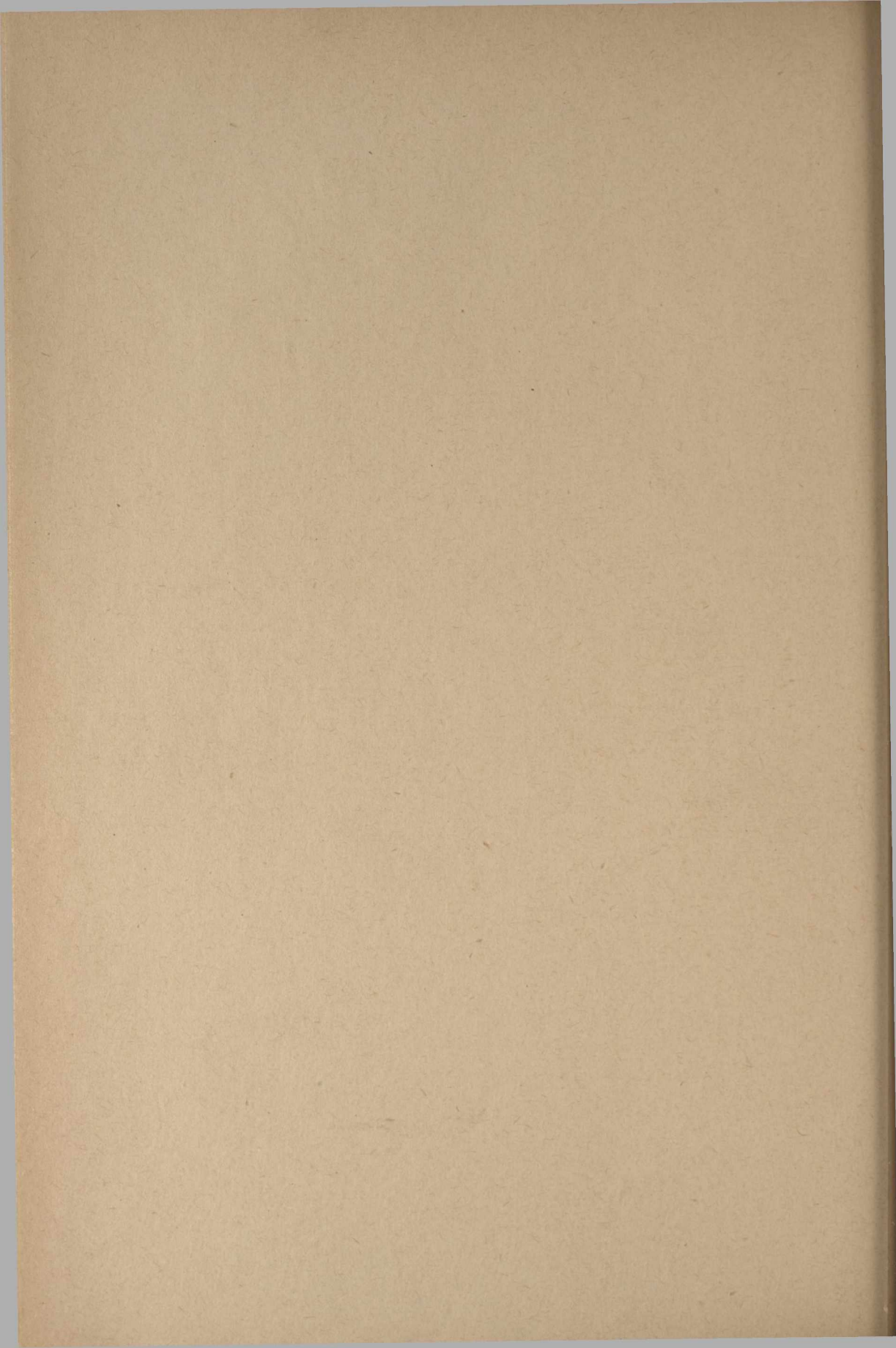
Mr. TRIPP: Yes.

The CHAIRMAN: We will adjourn until Thursday.

The committee adjourned at 12.55 p.m. to meet again on Thursday, June 24, 1943, at 11 o'clock a.m.







SESSION 1943
HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

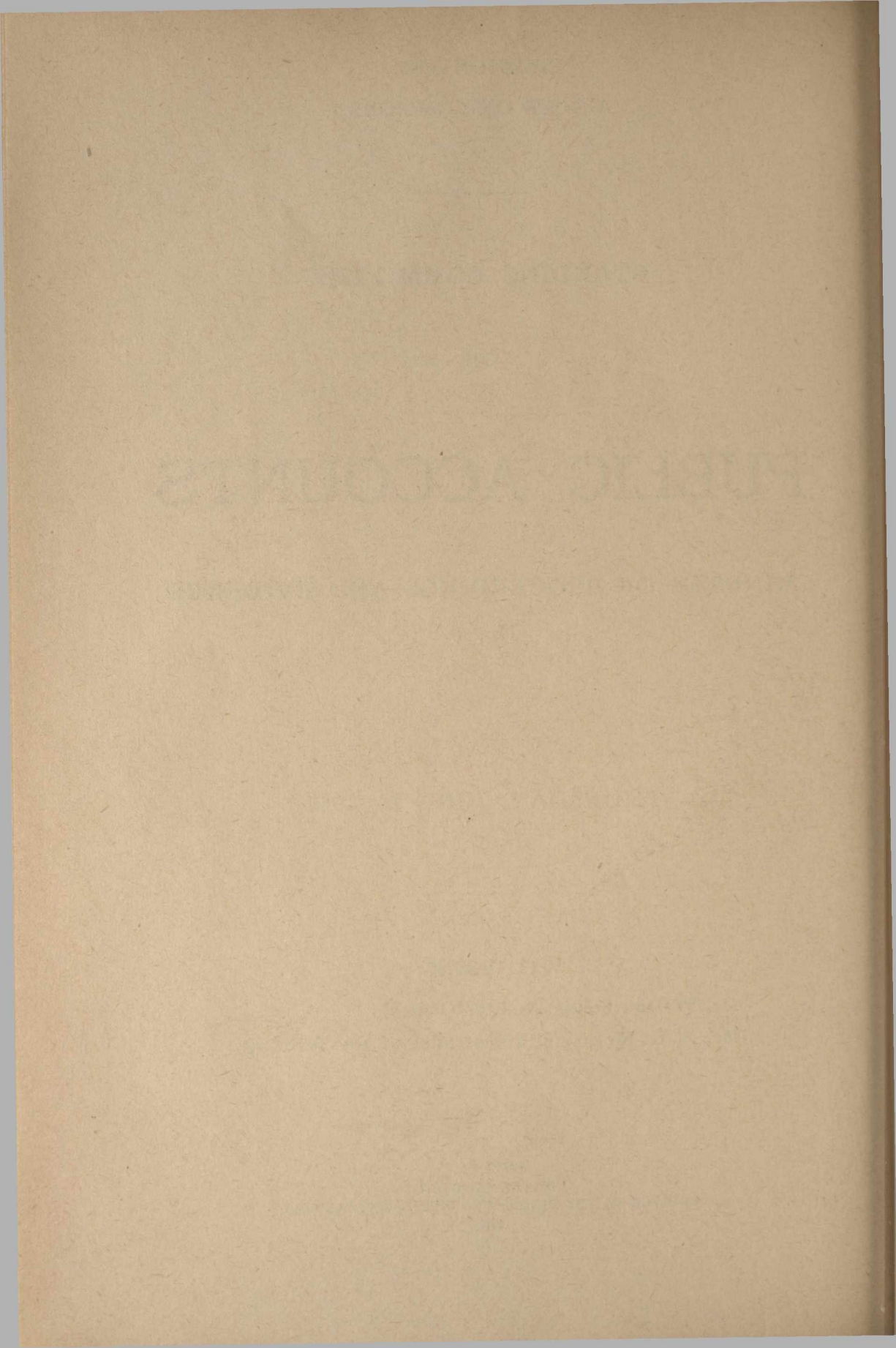
THURSDAY, JUNE 24, 1943

WITNESSES:

Mr. Watson Sellar, Auditor General.

Mr. B. G. McIntyre, Comptroller of the Treasury.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1943



MINUTES OF PROCEEDINGS

THURSDAY, June 24, 1943.

The Standing Committee on Public Accounts met this day at 11 o'clock. Mr. Fraser (*Northumberland*), the Chairman, presided.

Members present: Messrs. Abbott, Boucher, Bourget, Dechêne, Ferland, Fontaine, Fournier (*Maisonneuve-Rosemont*), Fraser (*Northumberland*), Gladstone, Golding, Hanson (*York-Sudbury*), Isnor, Johnston (*Bow River*), McIvor, Mullins, Rhéaume, Roebuck, Tripp, Ward and Winkler—20.

Mr. Watson Sellar was recalled and examined.

Witness quoted from the Auditor General's Report for the year 1923-1924, Vol. 1, page 10 in roman numerals dealing with the form of the annual report.

As requested, Mr. Sellar tabled for distribution a prepared statement respecting public property held by the departments of National Defence, Munitions and Supply and Transport.

The Witness was retired.

Mr. B. G. McIntyre, Comptroller of the Treasurer, was called and examined. He was assisted by Mr. John Cormack, representative of the Treasury Department.

Mr. Abbott, parliamentary assistant to the Minister of Finance called the attention of the Committee to a statement made in the house on July 31, 1942 which appears on page 5470 of the House of Commons Debates.

Ordered.—That the above mentioned statement be printed in to-day's minutes of evidence as an appendix. (*See appendix No. 1 in to-day's minutes of evidence.*)

As this matter will be taken up at the next meeting, the hope was expressed that members of the Committee would familiarized themselves with this statement which deals with the reporting of public accounts.

The Committee agreed to call Mr. C. Fraser Elliott or a representative of the Department of National Defence for the next meeting, whoever was available.

The witness was retired.

The Chairman expressed the appreciation of the Committee to Messrs. Sellar and McIntyre, for their appearance.

At 1.05 o'clock, the Committee adjourned until Tuesday, June 29, at 11 a.m.

ANTONIO PLOUFFE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

June 24, 1943.

The Standing Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

Mr. WATSON SELLAR, Auditor General of Canada, recalled.

By Hon. Mr. Hanson:

Q. Mr. McGeer asked the Auditor General to prepare a memorandum along certain lines. I assume that he has that ready, and it might be distributed so that we could read it at a little later stage. How big is it?—A. It is just a single sheet.

Q. Is it mimeographed?—A. Yes.

Q. Let us have it distributed, then. Could we now go on to the item I am interested in, namely the question of change in the revenue and expenditure report. Mr. Sellar, have you anything to add to the evidence you have already given on that point?—A. No, sir, unless you would like to take into consideration an observation made by my predecessor on the same subject.

Q. That is Mr. Gonthier?—A. Yes, by Mr. Gonthier, the year that he took office.

Q. What year is that? Is that 1924?—A. 1923-24. I brought that with me this morning.

Q. Would you mind reading that into the record. It is in the appendix.—A. It is in the appendix, but I do not say it is in there in its entirety. I did not check it. Do you wish this statement to be read into the record?

Q. Yes, if you please.—A. It is in the Auditor General's report, 1923-24, volume 1, page 20 in Roman numerals:—

Form of Annual Report

The general practice followed in the past in publishing the expenditure has been to show in detail the amount paid each person or firm for work done, or material supplied, with little reference to the particular service for which the labour was performed or the material purchased. A suggestion was made, on different occasions, to curtail these details but no action in this respect was taken by the Public Accounts Committee or by the House of Commons and, in consequence, the publication of details has remained unchanged.

More useful and practical information would be given by a judicious classification of expenditure under appropriate headings, showing the particular purposes to which it was applied. To give the desired information in this form might necessitate the elimination of the names of persons and firms to whom payments were made except in the case of regular employees or large payments to contractors. It seems to me it would be more useful to report how much was spent on the different projects to which the appropriations were applicable than to make known the amount paid to each of the many persons and firms to whom payments were made, provided explanations of the causes if the variations between the expenditure and the grants, and the increase or decrease in revenue are given in the annual report and that statements are made in connection not only with each of the services but also with each of its activities. This would greatly facilitate the comprehension of the accounts rendered and would be more in accord with the recognized form of reporting accounts.

In order to make the classification I have in view, I would need from the spending departments more definite information in respect of expenditure than is now given on the vouchers and statements sent me; but I do not anticipate any difficulty in this respect.

The present report has been prepared on the general lines of the previous reports as, at the date of my appointment, it was too late to make any radical changes and as I was also informed that it was not desirable this year to make any drastic changes. It was however possible, by rearranging details, to make a reduction of about one-third in the size of the report, about 1,000 pages, without making material reduction in the information contained therein and a consequent saving in the cost of the printing of over \$6,000.

I may further say that, to my knowledge, the auditor of no government publishes the expenditure in such minute detail as is given in this report and although it may have been a possible and acceptable practice in the past, it seems to me to have outgrown its usefulness and to have become less practicable every day on account of the great increase in expenditure and the consequent increase in the number of persons having dealings with the government. If it is considered a safeguard that such details be published, other means should be devised as a substitute to this which would be equally effective.

The compilation of these details occupies probably about 25 per cent of the time of the personnel of my staff as it means that an individual account has to be kept practically for every person or establishment receiving any sum of money from the government. Strictly speaking this is not auditing, it is accounting and this work, which has to be very carefully done, is performed to a certain extent to the detriment of the attention that should be given to other more important work. Although I understand there has been no direction given to this department by the House of Commons as to the form under which the Auditor General's Report is to be presented, the present form appears to have become generally acceptable, and until the House of Commons expresses its disapproval I feel I may not make any more considerable changes.

The most noticeable modification in the form of this report from that of previous years is, that in volume 1 is found the complete matter of the whole report with statements and summaries of revenue and expenditure, the itemized details of which are given in volumes 2 and 3 of the report.

It will be found that, included in the statements as shown in volume 1, are comparative statements and statements of revenue, expenditure and grants, also presented in a different form which, I hope, will find favour with all those who have to refer to the report."

Q. In effect, this covers one of your recommendations, does it not?—A. Yes.

Q. It covers one part of it, the discussion of the detail?—A. That somebody else should be responsible for it.

Q. Yes. You recommended that it come to the Comptroller of the Treasury?—A. It should go into the public accounts.

Q. Yes, into the public accounts. That is your point of view?—A. Yes.

Q. The members of this committee, I think—because this is our only contact with the expenditure of money and the revenue—would like to know if in the new suggested form the public would be given the desirable information. I will speak for myself at least, and put it this way. I should like to know if, in the new suggested set-up, the public would be given the information which is desirable that they should have with regard to expenditures, or do you think it goes into too much detail heretofore?—A. Let me be sure I understand you. Are you referring to the Auditor General's Report prior to 1940 or to the form in which I presented this one?

Q. I am trying to contrast the two. Which is the better from the standpoint of the public good and of the membership of this house, whose duty it is, I take it, to examine the Auditor General's Report and review expenditures?

—A. Of course, this is a question of opinion. This will be my personal opinion.

Q. Oh, entirely.—A. I am just giving my personal opinion.

Q. Yes, I understand.—A. My personal opinion, based on my reading of Hansard and talking to members of parliament over a great many years, is that you rarely read the old report. Certainly the Public Accounts Committee never examined it.

Q. That is true.—A. It is a question, therefore, whether it was worth the cost from that angle. From the viewpoint of the use to the house, I do not consider the old form of report as helpful to you, because in 1937 or 1938 you changed the form of the estimates details by printing classifications of votes in there.

Q. Yes.—A. I thought it was desirable that the Auditor General's Report should report in the same form so that if you wanted to match up the estimates details, as you voted the money, with the outcome, you would have something to compare that with.

Q. Yes. I am following you.—A. The other material change that I made was the deletion of the names and salaries of individuals receiving, in general, under \$2,400 a year.

Q. Yes?—A. I arbitrarily took \$2,400. In a few cases—the Department of Fisheries and the Department of Public Works—I did go lower. I have no objection to telling you that Mr. Neill represented to me with respect to fisheries that he considered it very important, inasmuch as out on the Pacific coast they had a large number of head men in the fisheries department who were receiving less than \$2,400, and with no superiors over them getting more than \$2,400, that this information should be given—that he would like to know who those people were and what they were getting. That is why that went in there.

Q. Yes.—A. The same is true in public works. I had no request from any one; but if Mr. Neill's point was well taken, it seemed to me to be sensible that I should do the same in public works. Therefore it went down to \$1,800. As to clerks, grade 1; clerks, grade 2 and so on, for the life of me I could not see why you gentlemen were interested in that enough to run over a list of 30,000 names.

Q. I am more or less in agreement with you there; yet local expenditures make a great appeal to some people as you know. We hear from Mr. Pouliot at times.

Mr. GLADSTONE: Criticism of items of expenditure year after year in the House of Commons seems to be rather a hit and miss procedure. I often wonder if there could not be some systematization whereby items would carry a specific number continuously, and an arrangement made in Hansard, so that there would be easy reference to discussions on that same item year after year, hereby giving the members the history of that particular item if they chose to refer to previous Hansards. In that way we would get some systematic follow-up of the particular item.

Mr. Mr. HANSON: You are speaking now of a contract that carries along from year to year?

Mr. GLADSTONE: Yes, a contract from year to year; or some specific item of expenditure that carries from year to year.

The WITNESS: With respect to contract expenditures, if you look at our report in connection with public works, you will find that wherever we have a payment on a contract which ended off the contract, we tried, wherever possible, to insert under that heading the expenditures for the same contract in previous years, the totals, so that you had the picture of what that venture had cost.

By Mr. Gladstone:

Q. Can you tell us what procedure is in the British parliament, for instance, with reference to the scrutiny of expenditures? Somewhere, I think I have heard it said or been told that they take one or two departments a year and make a very rigid scrutiny of those departments, going into the details far more thoroughly than we do here in our consideration of the estimates in the house.—A. In England, first of all, they have relatively few votes. They vote very large sums, quite frequently one vote for a department. They have a rule in the House of Commons that limits discussions on votes to a certain number of days during the session. I speak subject to correction, because I never personally looked into it; I have just read on the subject. But I understand that the selection of the votes to be discussed is determined by ballot, and that the opposition really have the say in selecting the votes that are going to be discussed. At the end of the twentieth day for consideration of the estimates, all the rest are automatically passed without discussion in the house. Therefore you have a considerable number of items that are not annually before the House of Commons for review. Then the House of Commons some years ago created an estimates committee to investigate the estimates of departments. That committee, as a rule, investigates two or three departments a year. They have no jurisdiction over the estimates that are before the house. They simply use those estimates as a starting point for their investigation of the departmental process. Based on that, they make reports to the house and to the Crown, but there is no formal action taken as a result of that. Now you come to the Public Accounts Committee. The English Public Accounts Committee meets every year. As a rule, the chairman of the English Public Accounts Committee is a former member of the treasury bench and is a member of the opposition. The committee has before it the appropriation accounts of the departments and the Auditor General's Report. They call witnesses from every department on which an audit observation has been made and the department is asked to explain that and satisfy the committee. That is as I understand the English system.

Mr. GLADSTONE: There would be some advantage in having an estimates committee. It is altogether impossible for a minister to have knowledge of all the details of expenditures of his department, so that he can readily make the answers in the House of Commons.

Hon. Mr. HANSON: I do not agree with you there. If the deputy minister is on the job he has prepared for the minister, before he takes up his estimates, the most minute details which are right in front him, and the deputy is sitting there. Every minister ought to read that book. He has to clothe himself with the information before he goes on the floor. If the minister misses anything, his deputy is right there to check him and tell him. They know. They have the details of expenditure, because they are bound to be asked. That is the practice. I know, because I have been through the grill.

Mr. GLADSTONE: I think both in this government and previous governments there have been plenty of examples where the information was not readily available.

By Hon. Mr. Hanson:

Q. Do you not agree that it should be, Mr. Sellar?—A. I look at it this way; ministers know their estimates very intimately, and so on, but as I regard it, Mr. Gladstone, you have to start from the principle that supply originates on the application of the Crown to the House of Commons through a minister of the Crown. I do not think you can delegate to a committee to form the estimates. I think you have got to have that rest on the cabinet.

Q. You are speaking now of the question of initiating the thing. What I think they do in England, after it is initiated it goes to an estimates committee to see if it cannot be revised downward or upward?—A. No, they do not report

back to the house so far as those particular estimates. They report back suggestions as to improvement that they think could be considered and might be made in the next year.

Q. Not on the particular estimate?—A. No.

Q. They are barred from that?—A. They do not do it. Whether they are barred I cannot say.

By Mr. Boucher:

Q. They must get full particulars of those particular estimates in order to help them make recommendations for the succeeding year?—A. They call the permanent head of one or two departments and one or two of his assistants. They cross-examine him for several days and get the whole picture of the department, and based on that picture they make such suggestions and recommendations as they consider necessary.

Q. Is that done after the minister's estimates have been passed?—A. Not necessarily after they have been passed but while they are still before the house.

Mr. GLADSTONE: While I do recognize that the minister must take the responsibility I think there is some advantage in having various people from the department before a committee in the railway committee room, for instance, where they could be questioned. We have unverified statements from time to time that departments are over-staffed with stenographers, and so on. That is a very common criticism. It is something about which the details cannot be got in the House of Commons in the consideration of the estimates, but in questioning those within the department I think that possibly explanations might be demanded as to the extent of the staff and as to the need for that staff. It seems to me the tendency would be to put everybody on their toes within the department in the matter of looking for economies of operation just as is done in any well organized business.

The WITNESS: Based on my own little personal experience in the department I know that when the government is considering estimates they go after the staff question very strongly. That is one very important side to it. There is one point that I overlooked when you asked me about the English system which differs from ours. It has been the practice in this country since about 1904 to allow the minister to have a departmental official on the floor before him. That is not allowed in England. It is unique to this country. It was originated by the Minister of Justice, I think Sir Charles Fitzpatrick, in 1904 bringing on the accountant of his department before him to assist him in his estimates.

Hon. Mr. HANSON: I think it is a proper practice.

Mr. GLADSTONE: I base my statement on over-staffing on reports that come from members of the staff, those within the department who have been criticizing the inefficiency within the organization.

The WITNESS: Do they criticize their own branch or that of someone else?

Hon. Mr. HANSON: I have referred two or three times in the house to the conversation I had with Tom Low when he became Minister of Trade and Commerce. He was a new broom. He undertook to sweep clean, and the resistance he met was just colossal.

Mr. GLADSTONE: Certainly you meet resistance.

By Hon. Mr. Hanson:

Q. Branches rise and fall in importance, do they not?—A. Yes sir. As I mentioned the other day just casually when somebody asked me about the English system of handling revenue, the appropriation-in-aid principle, whereby revenues flow back into the grants and the costs of the operation are really financed out of the revenue, has a tendency to regulate the departments them-

selves because, as you can appreciate, if a department can go to parliament for a token vote of a dollar they have a much easier time getting by than if they had to go for one for \$100,000. If they can demonstrate that the public are prepared to pay for the service and it is not costing the taxpayers individually anything you have a check there. There are many services in this country where I think that could be made applicable but, as I said to you, it has a tendency of weakening control of parliament over the department.

Q. Apropos of Mr. Gladstone's suggestion; is it not characteristic of the whole thing that the efficiency of the permanent head of the department and his keenness to carry on his administration in an economic and efficient way has a good deal to do with it? A good deal depends on him?—A. A great deal depends on him, plus the leadership given by his minister.

Q. Yes, I suppose that is a fair statement.

By Mr. Gladstone:

Q. To what extent are there dismissals in the service for inefficiency?—A. In the temporary staff you will find far more than in the permanent staff because if you are a permanent head and if you have got an individual who has worked for you for twenty years and he is inefficient you hate to throw him on the street.

By Hon. Mr. Hanson:

Q. They never do?—A. Well, they do sometimes.

Q. It is only for dereliction of duty.

By Mr. Boucher:

Q. The percentage would be very small?—A. Very small. In England, if I may be allowed to quote them again, their superannuation Act, which is not a contributory scheme, provides that superannuation can be granted a man or woman under sixty years of age who is fired on account of inefficiency, but the superannuation is a substantially less percentage than he would be entitled to if he were retired on account of abolition of position.

By Mr. Gladstone:

Q. One weakness of our system is on account of the superannuation; people are kept on who should be dismissed?—A. Yes, because they would just get the return of their contributions at the most. As a rule the inefficient individual is the one who has got the most family obligations and debts and you do not like to throw that poor devil out.

Q. Consideration is given—A. Because he cannot get another job.

Q. Consideration is given in government that would not be given in ordinary business?—A. In big business I think you will find a fair amount of that.

Hon. Mr. HANSON: I agree with you.

The CHAIRMAN: You mean they have the largest families?

The WITNESS: No, but in big business you have got a mass employment problem and you have the little corners where you can shove an inefficient person and carry him on until retirement.

Hon. Mr. HANSON: They are not all hard-hearted.

The WITNESS: Humanity is pretty decent across the board.

Hon. Mr. HANSON: Ninety per cent are decent.

By Mr. Gladstone:

Q. Is there any transferring from one department to another looking to help the individual? I mean a person who gets in a rut and his usefulness may be gone in one department and if he were transferred to some other depart-

ment he might render good service?—A. Yes, that is going on constantly but mainly in the junior positions. In a department if you bring in, let us say, a man at \$2,400 and put him into a vacant position at \$2,400 you have to consider all your principal clerks and your clerks grade four whose hopes were that one of them would get that \$2,400 position. They feel that their chance for progress has been blocked. Therefore, to avoid that sort of resentment amongst the staff, only when you have not a possible successor in your junior grades, do you bring in from the outside; but for clerks, grade 1, grade 2, grade 3 and grade 4, that goes on, but I would say relatively few in the higher.

By Mr. Boucher:

Q. Is it not a fact that to some extent the efficiency of individuals in the civil service is impaired by virtue of the rigidity of the custom against transferring an efficient man from one department to another department where he has better scope?—A. I grant you that, sir, and I will go a little further if you will permit me. For several years I was Comptroller of the Treasury. The staff was built up out of the accounting staffs of the various departments that were transferred to me. It was our policy to transfer the chief treasury officers from one unit to another. At the outset we met with a great deal of resistance from these fellows. They were afraid to tackle a new job. They had been so long in the old one they were afraid to go into the new one. Secondly, they thought that the mere fact that they were going to be transferred was a reflection on their capacity and that we were moving them because they were not trustworthy. Once we got that broken down in their minds it was all right, and I do not think I had a case where the man did not come to me afterwards and thank me for making the change, that he had improved, he had got a new outlet and he was altogether a better man.

Q. Do you not personally feel that greater efficiency and satisfaction could be created in the civil service if more attention was given to that aspect, transferring a man from one department or one position to another to give a better chance to his attainments and progress?—A. If I may be permitted to say so, and not be deemed to be critical, I think the government of Canada falls down on what you might call its civil service relationships set up. We do think too much by form. We go through the channels of the Civil Service Act, and so on and so forth. We do not weigh personal considerations.

Q. Too many conventions and not enough business acumen?

Hon. Mr. HANSON: A little flexibility?

The WITNESS: To put it in a very crude way we do not apply I.Q. tests and establish whether a person is in the proper place. I can think of one example in my own office. I have made a transfer recently of a chap with very high scholastic training in colleges both in Canada and England. He was a junior clerk in my office getting \$1,200 a year auditing coupons in connection with the debt. He was stuck there. He could do nothing and it was a shame to waste that chap's capacities there. Dr. Lanctot of the archives, when I discussed this question with him said, "I think that fellow has characteristics that will fit in well in our work". The chap is down there. I think he is happy and I think Dr. Lanctot is well pleased with him. That is what I mean, if we could give more attention to that sort of thing.

By Hon. Mr. Hanson:

Q. To each individual case?—A. Yes, and I also believe that there is this drawback in the public service. We are centralized in Ottawa and when we think of promotions in our senior positions we quite often think in terms of the people in Ottawa. We do not think of the field organization. One great

detriment against that has been recently removed by the government. That is to say, that up till recently if a person was transferred and moved from one place to another and got an increase in pay he had to pay his own removal expenses, and civil servants as a rule are nearly all broke or approximately broke. They could not afford those expensive moves. The government has very decently changed that. I think that is a step very much to the good. It is not a concession to the civil servant but a concession to better organization in Ottawa.

Q. That rule has not always been rigidly adhered to in these promotions at head office. I will give you the example of Mr. Lennie of the Customs. He was brought in here from the inspection department in Vancouver and became chief inspector here and then subsequently Toronto became vacant and he was made clerk of customs at Toronto. Is there much of that sort of thing?—A. I do not say it is the invariable rule, but I say there is that inclination that when you have got a senior vacancy you think of the men you have got around you right here.

Q. You lose sight of the efficient men on the outside?—A. Yes.

By Mr. Boucher:

Q. Have you any suggestion to make to the committee as to how that apparent inefficiency could be handled systematically?—A. To-day with the war situation as it is and the staffs as they are I cannot give you anything I think could work, because I do not think you could find men to work it, but I think with the return to normal times that there should be associated with the Civil Service Commission some men whose job it would be to see beyond the mere letters and words of the Civil Service Act and look at the question from the viewpoint of the individual and the department because the two are correlated. I think improvements could be made. I think the machinery is there. It is just the application of it.

Q. I have in mind something in the nature of an activity by the civil service federation so that they themselves could make improvements in that regard.

HON. MR. HANSON: You would not leave that question to them to decide. There would be all kinds of policies in the federation. The banks have a good system. They are always watching for good men from the outside service to bring them into the head office and then occasionally a good man from the head office will be put in charge of a senior position in a branch office.

The CHAIRMAN: How do you answer the fact that the civil service generally speaking manage to procure help or employees at a lesser figure than the same people would get in industry? That is one thing that has always appalled me. You take the case that was mentioned of this chap at \$1,200 a year. If you were to hire him in your business he would want \$3,000.

MR. GLADSTONE: It is a sure life job.

The WITNESS: It is a security position, the fact that the ghost will walk regularly every thirty days, and currently the desire of human nature to be trying to do something in the war effort. We get an awful lot of people today at much less than they could get outside. They are not looking for more money. They want to make a contribution to the war. They are too old to go into the war end they want to do something.

By Mr. Gladstone:

Q. In peacetime there is security in the superannuation?—A. Yes.

The CHAIRMAN: It applied in peacetime, in my opinion, more than it does now in the service.

Hon. Mr. HANSON: I think one bad factor is what we pay our scientific people. We have lost so many people to the United States because they pay so much higher. We do not pay them enough.

The CHAIRMAN: A man has got to live whether he gets his cheque every month or two months. How is a man on a salary of \$1,200 going to live in the city of Ottawa? How does the civil service manage to procure men for that money? I say that same man would want \$3,000 in your office or mine.

Mr. GLADSTONE: It is too bad to keep highly qualified civil servants waiting for somebody to die rather than giving them the opportunity of doing work which they are qualified to do in some other department.

The CHAIRMAN: Surely that has a tendency to curtail initiative.

The WITNESS: At the moment, sir, you have over 100,000 on the payroll. A very large number of these will be weeded out after the war. To make a classification to fit in all of those 100,000 people is quite a task and it is by trial and error that you have to proceed currently. I think when the time comes the weeding-out process is going to be a very important one to see that you get—

Hon. Mr. HANSON: It will be quite difficult.

The WITNESS: I agree.

Mr. BOUCHER: I think that perhaps too much emphasis is placed on seniority in the so-called merit system. Have you any comment to make on that?

The WITNESS: You cannot get me to argue against you there, sir. I would say in my own little experience in promotional competition and so on, where the seniority matters come in, we developed a practice of getting confidential reports on every employee once a year when there was no competition just to get an unbiased report and when these reports were sent in year after year they were put in a confidential file. Then when we had promotional competition coming on we went back and looked over these reports signed by the various people as to the qualifications of this individual. Seniority has its place in a big organization, but I do not think it is a primary place; I think efficiency is the determining factor.

By Mr. McIvor:

Q. Do you not think seniority is a good deal better than anything that might pertain to party patronage? Take the case of a man who has served for years but perhaps is not as efficient as some young man coming on below him, but he has given his best, should not seniority in his case be sympathetically considered?—A. Well, in my experience with party patronage—I have been here for upwards of twenty years—I think it is a much overstated boody.

Hon. Mr. HANSON: It is.

The WITNESS: I do not think that there is the pressure that some people say there is. I would say this, with all due respect, that the returned soldiers' preference before this war, just a few years before this war, was an unfair method of selecting a man for a position because you had a war that was over for twenty years, and, candidly, sir, a man who might go to the top of the list because he was a returned soldier might be on that list because he had not been able to hold a job elsewhere. That is not a general statement, but it can happen.

By Mr. Boucher:

Q. Is it not a fact, Mr. Sellar, that there were probably more partisan influences in the department than there were influences from without?—A. Office cliques are terrible things, sir.

Hon. Mr. HANSON: Yes; there are politics in that sense.

The WITNESS: Office politics are worse than party politics.

By Hon. Mr. Hanson:

Q. You talk about party patronage and all that sort of thing, but take the question of the railways. I can go back to the days of Blair myself and the days of Henry Emerson and patronage. Mr. Henry Emerson used to fix freight rates. I know a case where he fixed freight rates over the head of his general traffic man. With the rise of the unions that patronage system was more or less thrown into the discard by the railways. The patronage system in the Canadian National Railways is under the heads of the departments. If you will go into the railways I think you will find that the family influence is pretty strong.

Mr. ROEBUCK: I find the general assumption by everybody that political patronage is a bad thing.

Hon. Mr. HANSON: Yes.

Mr. ROEBUCK: People come to me and ask me to help them get jobs. I ask them if they believe in political patronage and they say no. I say you would like me to get you a job yet you do not believe in political patronage. As a matter of fact the phrase has been popularized without a very great deal of thought. I have seen very much worse patronage than that which is exercised by members of parliament who have some responsibility to somebody. I refer now to the patronage which comes from within who has no responsibility to anybody, and once an appointment is made the patronage continues and the clique stick together like a bunch of smugglers.

Mr. GLADSTONE: There is more politics outside of parliament than there is in it.

Mr. McIVOR: People are getting wise.

Hon. Mr. HANSON: I expect to get the opinion of the members of this committee on the suggestion contained in the Auditor General's report about the new set-up. I am willing to try it and I will give you a lead right there. Outstanding criticism, I think, will come from Mr. Pouliot. I have made criticism myself, but I have an open mind.

Mr. ROEBUCK: Before you leave the last subject may I ask a question? What was the number of civil servants when the war broke out? You say it is now over 100,000. What was it in 1939?

Mr. GLADSTONE: It was 66,000.

The WITNESS: I was going to say something like 70,000 people, but that is a guess, sir, on my part. When I say over 100,000 I will give you my authority for saying that. I have acted for the last several loans as general co-ordinating officer of the civil service for the victory loan campaign in the public service, so I have been in on the organization across Canada. Based on the reports that I have received on the fourth victory loan, which shows that over \$9,000,000 was subscribed, and my calculation is that the \$9,000,000 came from a little over 100,000 public employees. Thus I arrive at the figure that I gave you a while ago. It is not a complete figure. I think at least 100,000 people subscribed in connection with the victory loan.

By Mr. Gladstone:

Q. In the public service?—A. In the public service.

Q. Have you comparable figures before the war broke out?—A. No. The Bureau of Statistics and the Treasury Board and the Civil Service Commission will have them, I have not.

Hon. Mr. HANSON: Pre-war I think the peak was reached about 1928 or 1929 when there were about 84,000, which was the figure given in a return brought down at that time. Then came the depression, revenues were falling, positions were not filled, and I know in our town there were thousands of vacancies that were never filled. Is not that correct? Then the fall came and there was no work to be done or no money to pay the employees and the fall came to the pre-level of 1939.

By Mr. Roebuck:

Q. Can you give us any estimate of what the civil service will fall to when the war terminates?—A. I would prefer, sir, you ask Mr. Abbott that question, the parliamentary assistant to the Minister of Finance.

By Mr. Boucher:

Q. The new set-up of the Auditor General's report would make absolutely unavailable information as to the money the individual person gets?—A. No, sir; my understanding is not that. I would prefer that you ask someone representing the Department of Finance as to what they propose in the circumstances. My understanding is that you would get more than you are getting now, because we want to give you a good report, we are not trying to conceal anything.

Q. My criticism of the new set-up on first blush would be that it would be an impossibility to check up on individual persons and items, as there is not enough information unless some other system and some other departments, perhaps, were set up.

Hon. Mr. HANSON: Can we not get Mr. McIntyre to give us some information of what is proposed along that line?

Mr. BOUCHER: While Mr. Sellar is here I should like to know what position we are in in getting information and checking information as to revenues which I will call recurrent revenues, apart from the votes themselves.

The WITNESS: What further revenue do you mean? Would you say the expenditure on fruit inspection, would that be the type of revenue?

Mr. BOUCHER: Yes, and another type of revenue in an exaggerated sense is found in the Department of Munitions which is advancing capital to purchase materials and equipment and such things and getting it back upon selling the product and transferring the article from one company to another.

The WITNESS: That, under the War Appropriation Act, sir, as a rule flows back to the credit of the War Appropriation Act and is subject to reallocation.

Mr. BOUCHER: I just gave that as an illustration of what I would call recurrent revenue.

The WITNESS: I would imagine that any important item of that sort would be listed.

Hon. Mr. HANSON: Is it to-day?

The WITNESS: Yes, we do it to-day. On page 475, right at the top of the page, in that particular year we give you revenues of \$1,000,000 odd recovered that year.

By Hon. Mr. Hanson:

Q. "Interest on loans and advances, licenses and fees, rental of buildings," and so on.—A. Down below you get the details, such as "Atlas Steels Limited, \$359,554.67," and so on. That was the first year, really, from the Department of Munitions and Supply; a much greater sum in the last fiscal year, and it will be a much greater sum this year. That was just the starting point.

Hon. Mr. HANSON: Does anybody else want to ask Mr. Sellar any questions on this new proposed set-up, because if we are through with him I should like to ask him to step aside and have Mr. McIntyre take the stand to give us some information from the point of view of the Comptroller of the Treasury? I should like to ask him what he intends to do and what information he intends to give us.

Mr. WINKLER: Are you going to discuss this memorandum of Mr. Sellar's before he finishes?

Hon. Mr. HANSON: I think we ought to recall him. I hold the view, after hearing Mr. Sellar's evidence here, that he should have more power because after all it is only through a man like him that we can get information from which we can take any constructive action.

Mr. WINKLER: I agree with you.

—Mr. Sellar retired.

Mr. B. McINTYRE, Comptroller of the Treasury, called:

By Hon. Mr. Hanson:

Q. Mr. McIntyre, you are one of those who joined in the joint letter, were you not?—A. Yes, sir.

Q. Would you be good enough to tell the committee from your point of view as Comptroller of the Treasury what you propose and what type of information you do give to the House of Commons on the expenditure side as well as the revenue side? The expenditure side is an important thing from the point of view of the members.—A. First of all I may say that the information we will supply this year will not lack in any way in comparison with the information that was supplied in the Auditor General's report for last year.

Q. How about the previous years? It will be less detailed, will it not?—A. You refer now to the Auditor General's report of, say, let us take the last war.

Q. Well, of the previous year, 1940.—A. Where they set out details?

Q. Yes.—A. We do not contemplate going back to all of those minute details that were incorporated in the Auditor General's reports of previous years.

Q. That is my understanding. If I understand you correctly you do intend to give us in your report as comptroller all expenditures and revenue fully detailed just as in this report here?—A. That is true.

Q. To what extent?—A. To give an illustration in a normal operating department of what we are going to try and do, we will present a statement of expenditures for each service of a department broken down by units of organization, of the operation within that department, comparative with the corresponding expenditures of the previous year so that an examination of the statement alone will reflect the increase in cost of departmental operation or administration, and while the supporting detail that might be necessary to reflect what caused the particular increase may not be found in the report itself, it can readily be had, because so long as we are able to reflect the items that are increased—

Q. And tied in with the vote too?—A. It will tie in with the vote. One thing we would like to add to facilitate reference is a page reference from the main items; for instance, where the item is shown in the vote itself a page reference to the details and where the details may be found. To do that conveniently in the preparation of the report itself, I believe, it is necessary to index the report on a sectional basis; that is, the Department of Agriculture would have a symbol such as the letter "A", indicating agriculture, and the numbers start from 1 to the end of agriculture so that when we make changes in the indexing it does not affect the whole report and all other references made in the report.

Q. Now, then, carrying that a little farther, this will be a report from you as Comptroller of the Treasury and an officer of the Department of Finance. You are an officer of the Department of Finance?—A. That is correct, sir.

Q. You would be responsible for the accuracy of the statement contained in that report? What I think the public would like to know is this. Would they be as satisfied with a report of that kind from you, as departmental officials—I am not saying this with any ulterior motive—under the control of the deputy minister or the minister? Do you think they would be as satisfied as if that report came from the Auditor General who is a more independent official? That is what I mean. Perhaps I have not expressed myself very well.—A. When you consider the full report, which will include any and all comments which the Auditor General as an officer of parliament sees fit to make on the presentation, I believe you have the equivalent.

Q. In other words, reading the two together, you would have the equivalent?—A. Yes. For example, if the Auditor General feels that the information we have submitted in respect to a certain item is not to his satisfaction, in the light of his responsibility to parliament, he certainly is free to observe on it in making his submission.

Q. He can make a comment on that?—A. Yes.

Q. But is there any provision whereby, of his own power and initiative, if he thought there was an evil, he could impose his will on the Department of Finance to correct that evil, or could he merely give publicity to what he considers to be a wrongful procedure?—A. Perhaps it would be better to say he might impose his persuasion on the Department of Finance.

Q. But suppose that is not good enough?—A. If they agreed on presentation, nothing further was necessary. But should they not agree, he is still at liberty, if not obligated, to make his comments, clear and concise, to parliament, so that the facts are brought out.

Q. Yes. But he would not have the power of compulsion, and therefore he would not be a controller of the comptroller.—A. No.

Q. No. He would not be that. You do not suggest giving him that power?—A. If you admit that position, then the Minister of Finance would be subject to the direction of the Auditor General in the matter of his report.

Q. That is very true. You will recall the old controversy between Lorne McDougall and Sir George Foster on that very point, was it not, on the question of policy. That would raise a tremendous controversy, I suppose, would it not?—A. It might. It depends on personalities.

Q. Yes, it depends on personalities. We had that illustration. It is referred to in one of these appendices here that Mr. Sellar produces.—A. Yes.

Q. I have some recollection of the Auditor General, Lorne McDougall, hammering away year after year against what he thought was improper practice in the Department of Finance. That would immediately raise that question. So your suggestion is that, aside from the question of the power of persuasion—which is purely a permissive, we will say—there would be nothing left but the publicity to parliament in the Auditor General's Report calling attention to what the Auditor General would consider, we will say for lack of a better term, improper practice?—A. That is right.

Q. That is all there would be. Well, that is a clear statement.

Mr. ABBOTT: It is fair to say, is it not, that the present view is that the Minister of Finance must take responsibility for the form in which the public accounts are submitted?

Hon. Mr. HANSON: Is that not so by statute?

The WITNESS: That is right.

Hon. Mr. HANSON: He does that by statute, I think.

By Mr. Abbott:

Q. The public accounts are submitted by the Comptroller of the Treasury to the Deputy Minister of Finance and certified by the Auditor General?—
A. Yes.

Q. Under the proposed new set-up?—A. In so far as expenditures are concerned.

Q. I am speaking of the arrangement that Mr. Ilsley set out in his statement last July.—A. That is correct.

Hon. Mr. HANSON: That imposes the responsibility right on the government itself. I think that, perhaps, is where it ought to be.

Mr. ABBOTT: Is that not proper? Is that not in conformity with our system?

Hon. Mr. HANSON: Yes. I am not quarrelling with that statement. But there is just one thing, Mr. Abbott, that I have in mind. The people of Canada, I think, look to the Auditor General to protect the expenditures and to see that the revenues are proper, because he is independent of ministerial control. There is a psychological situation there. Would they have equal confidence in the new arrangement? That is the only point now bothering me.

Mr. ABBOTT: I do not see that there is any difference in substance between the proposed new arrangement and the old one.

Hon. Mr. HANSON: It is a matter of form, you say?

Mr. ABBOTT: It is a matter of form.

Hon. Mr. HANSON: I think you are right.

Mr. ABBOTT: I think it is only a matter of form. I think the object of the proposed new arrangement is to present a better picture of the public accounts, and a more useful picture of the public accounts—whether it achieves that object or not—to parliament and to the public.

By Hon. Mr. Hanson:

Q. I must say that I do not think it is put forward on that basis. I think it is put forward on the basis, first of all, of saving man-power in making the Auditor General's Report; and further, on the basis that it is more the duty of the Comptroller of the Treasury and the Department of Finance to perform this work than that of the Auditor General. Is that not the theory on which it is put forward, or am I wrong?—A. I would say this was put forward on the ground that, with the new plan of audit worked out by the Auditor General, the present Auditor General, which in turn is related to the new set-up of office of the Comptroller of the Treasury in 1932, the plan of preparing the details of the report in my office ties in with that very nicely.

Q. I think that is true.—A. The present Auditor General is relieved of the necessity for minute examination of accounts, checking of additions and making analyses necessary to compile his report.

Q. The purely accounting part. Is that the proper term to use?—A. Yes.

Q. The purely accounting part?—A. Yes.

Q. The mechanics of accounting?—A. Yes. Quite a bit of detail heretofore included in the Auditor General's Report and will be in the present report, was available in the books of the Comptroller of the Treasury.

Q. Already?—A. Yes. That is right.

Q. It will save a lot of the mechanics.—A. It is necessary for us to supplement our compilations along certain lines in order to give the added details that the Auditor General had been reporting and such other detail as we may include. I gave an example where we make an improvement. That will not, in itself, add to our book-keeping or analysis work, because we now analyze

the expenditures according to the units of organization, in practically all branches of the service; all the important branches of the service are analyzed on that basis. So that it will be a case of assembling those figures from the existing records.

Q. And therefore there will be much less work mechanically?—A. I should hope so.

Q. Yes. That is one of the objectives?—A. Yes.

Q. It is so stated in the memorandum?—A. That is right.

Q. Is not that one of the main objectives?—A. That is right.

Q. Yes. I think that is so. I think it is constructive, and perhaps it might be tried. The only fear I have is what I stated. The people of Canada may not have as much confidence in the new set-up—that is, as a protection—as they have in the present one. I think members ought to put their minds on that. There is a psychology about that. They looked upon the Auditor General as the protector of the nation against governments and so on.

Mr. ABBOTT: He is the watchdog.

Hon. Mr. HANSON: It may not be true with this.

Mr. ABBOTT: There is not any suggestion in the new set-up that the Auditor General's Report should be abbreviated in any way, is there?

Hon. Mr. HANSON: Yes, there is. It is a transfer of certain of this mechanical accounting. That is transferred from the Auditor General's department to you

The WITNESS: Yes.

Hon. Mr. HANSON: He puts it in his report instead of it being put in the Auditor General's report. In other words, he is telling us, as I understand it, that there is a lot of duplication of effort to-day. Is that right?

The WITNESS: That is correct.

Hon. Mr. HANSON: There is, I think.

Mr. ABBOTT: There is that, undoubtedly.

Hon. Mr. HANSON: I think there is that.

The WITNESS: And you would not have found my agreement to that memorandum under present conditions if that condition had not existed, because certainly at this time we in the treasury service are most reluctant to take on this extra work.

By Hon. Mr. Hanson:

Q. Because you have not the staff, I suppose?—A. Well, it is difficult to obtain the necessary staff.

Hon. Mr. HANSON: I should like to have members give their views on the point I have raised. It is the only stumbling block in my mind, as to whether the public will be satisfied that there are the same safeguards for protecting the public revenues and expenditures under the present set-up. The proposal is merely a transfer of duties and mechanics. I am willing to try it myself. Those who know ten times as much about it as I do are recommending it, and I think they are honest men. They are not trying to do this for some ulterior purpose. I do not suggest that for a moment. Therefore I am willing to try it and take my share of criticism for having done so.

Mr. ABBOTT: It is certainly true that one of the most serious problems we have to face to-day is lack of competent accountants and accounting staffs.

Hon. Mr. HANSON: Yes. The taxation system is responsible for that.

Mr. ABBOTT: Yes, partly; and it is partly caused through the necessity of making cost audits of war companies. It is really a serious situation.

Hon. Mr. HANSON: You have 2,000,000 new income taxpayers who do not know anything about it. Most of them have to go to chartered accountants.

Mr. McIVOR: Do you not think that they are not very much interested? I mean, the big section of the community does not know very much about it. They trust to the government. They trust to the opposition to find out the weaknesses in the government.

Hon. Mr. HANSON: I think they trust the members of parliament.

Mr. McIVOR: Yes.

Hon. Mr. HANSON: They always have the responsibility. It is not the members of the opposition alone. They trust the members of parliament. We should be familiar with this book, and in the old days we were. I am afraid we are not now.

Mr. McIVOR: With the general public, it is a matter of confidence.

Hon. Mr. HANSON: Well, it is a little more than that, I think. I do not think they are willing to leave it all to a few. The newspapers, for instance, are alert about these things.

Mr. McIVOR: There might be a few odd individuals who are exceptions, but the rank and file of the general public does not know very much about it and they are just plainly lost.

Hon. Mr. HANSON: I know. You have to have men like Billy Bennett around Ottawa to pick out these things. He used to go over the Auditor General's Report with a fine tooth comb, looking for the striking expenditures. I remember once he came to me with an item of some \$80 for a silver tea bag that was bought for the prime minister's office. He said, "Here, this is equivalent to a coal scuttle."

Mr. ROEBUCK: It was not the political equivalent.

Hon. Mr. HANSON: It was politics, of course.

Mr. ROEBUCK: It was not the equivalent politically.

Hon. Mr. HANSON: I am not sure that I understand what you are driving at.

Mr. ROEBUCK: The coal scuttle was rather potent politically.

Hon. Mr. HANSON: He thought this might be. I thought it was pretty small and I did not bother about it.

Mr. ROEBUCK: It seems to me that the public depend very largely on the Auditor General to see that nothing improper passes in the accounts. But there is no doubt that parliament has as its chief function, the control of the expenditure of money. That is one of the big functions of parliament, if not the biggest function.

Hon. Mr. HANSON: I think the biggest one is the voting of this money. I heard Lord Stangate refer to that in a speech he made last night. The Declaration of independence by the introducing of the first vote in parliament in Great Britain was a statement of the decision that the Commons was independent of the Crown, and that he had to go to the Commons for the authority to levy taxation. I think that is the big thing. Just how that money should be spent is the second big thing.

Mr. ROEBUCK: I speak with a good deal of deference because I am not nearly as familiar as you are, Mr. Hanson—and you spoke modestly a few moments ago—with these matters of finance. But taking the general view of it, I have been rather impressed with the looseness with which we carry on. Our expenditures are put up in the estimates. They come on the floor of the house without any knowledge of what they are by the members of parliament. We have the right to ask questions of the minister, who in turn asks questions of the officials, and answers them to the extent that they can be answered out of a little knowledge.

Hon. Mr. HANSON: You are speaking now of the estimates?

Mr. ROEBUCK: Well, this is the general financial picture that presents itself to me in coming here.

Hon. Mr. HANSON: Yes.

Mr. ROEBUCK: The operation in the house is not very productive.

Hon. Mr. HANSON: Not always.

Mr. ROEBUCK: It does bring some information out, but it practically never either reduces, increases or eliminates an expenditure.

Hon. Mr. HANSON: I have seen it happen. But the rebellion has to come within the majority.

Mr. ROEBUCK: It is such an odd occasion that you remember it; it is something very unusual.

Hon. Mr. HANSON: Yes.

Mr. ROEBUCK: In the United States they have an appropriation committee.

Hon. Mr. HANSON: Yes.

Mr. ROEBUCK: The officers of the various departments are called before that committee and they justify the expenditures.

Hon. Mr. HANSON: Yes.

Mr. ROEBUCK: The appropriations are sometimes increased, sometimes decreased and sometimes knocked out. We have nothing of that kind in this house at all.

Hon. Mr. HANSON: Because we have an entirely different constitutional set-up.

Mr. ABBOTT: Exactly.

Hon. Mr. HANSON: That is the answer to that.

Mr. ABBOTT: We have a constitutional government.

Hon. Mr. HANSON: Over there a private member can introduce a bill if he can get it through—and he may get it through—providing for the expenditure of public money. It is not very often he does, though. He has to run the gauntlet of a steering committee and all that sort of thing. But here we have a different constitutional set-up. I have often thought about that. But I agree you would have to change the whole set-up.

Mr. ROEBUCK: The executive has to submit its estimates to the House of Commons. The House of Commons does not need to pass them. So it is not changing the principles of our constitution if you gave the members of the house a little more knowledge at least of what the expenditures are.

Hon. Mr. HANSON: It has often been advocated that they be referred to a committee for examination.

Mr. ROEBUCK: If we had some machinery for examination, it would help.

Hon. Mr. HANSON: We could get in closer touch with the officials.

Mr. ROEBUCK: Exactly; so that you would have the officials before you and could question them.

Mr. JOHNSTON: You are suggesting that these estimates should come before a committee before they are presented to the House of Commons, so that the house would have knowledge of them?

Hon. Mr. HANSON: I think the vote has to go in in the form it does, constitutionally. Then it might be referred to a committee.

Mr. BOUCHER: To summarize it, is not our problem here in this committee to look to the securing of the availability of the public accounts, the financial situation, with its proper checks and balances, to the membership of the house; and then in another committee, if you see fit to set one up from the organization of the house, that work will be done?

Mr. ROEBUCK: Yes. You are merely stating it in another way. My impression is after expenditures are made we have very little check. We have the Auditor General saying they were honestly made, but we are never able to question an official of a department, except at the odd time that he is called here, and say to him, "Now, you have had an appropriation of so much last year. What did you do with it? Why do you want it increased this year or why do you want it less? What are you going to do with it if you do have it? What benefit is it to the public, after all, if you do spend it?" We have none of that kind of thing at all. Our whole expenditure of money is in the hands of civil servants, supervised to a small extent by the minister of the department.

Hon. Mr. HANSON: Yes: and the Treasury Board. Is that not right?

The WITNESS: Treasury Board supervises certain expenditures.

By Hon. Mr. Hanson:

Q. Do they not all have to run the gauntlet of the Treasury Board?—
A. The estimates.

Hon. Mr. HANSON: All the estimates have to run the gauntlet of the Treasury Board.

Mr. ROEBUCK: Of whom is the Treasury Board composed?

Hon. Mr. HANSON: Members of the government. The Minister of Finance is chairman.

Mr. JOHNSTON: Along with all their other work, they would have no opportunity to do that.

Hon. Mr. HANSON: Not in war time. But they do in peacetime. They just sharpen their pencils and go at them.

Mr. ABBOTT: I understand there is a fairly long struggle with the estimates in Treasury Board every year.

By Hon. Mr. Hanson:

Q. You try to introduce some new expenditure from a department, and you have to get it through the Treasury Board, tooth and nail. Is that not right?—

A. That is right.

Mr. BOUCHER: My thought was this. This committee really have the information available. We should not interfere with the governmental responsibility of the minister in proceeding with his estimates under the present existing system. But if a complaint was made I, as a new member, would complain about the fact that once the estimates are introduced by the minister there is no machinery set up, by virtue of the members of the House of Commons not having it set up, to properly analyze them before they are passed.

Mr. ROEBUCK: That is it.

Hon. Mr. HANSON: That is our thought.

Mr. ROEBUCK: You are only saying the same things that I was saying, in another way. We have neither a proper system whereby the house membership may be informed as to expenditures before they are made, nor have we any system whereby house membership can be informed of expenditures when they are made.

Hon. Mr. HANSON: There are only two methods. One is on the floor of the House of Commons by cross-examination of the minister when he is presenting his estimates; and the other is here in the Public Accounts Committee. We do not avail ourselves of either opportunity.

The CHAIRMAN: Just a minute, Mr. McIvor.

Hon. Mr. HANSON: That is our fault.

Mr. McIVOR: My trouble was not in getting more information before the house, but it was to have more members in the house to get the information they have.

Hon. Mr. HANSON: That is our fault.

Mr. McIVOR: I get a lot of information because I move around, and I have often got information from the opposition, from different groups, because they bring in things that are suggestive and the information comes out. That is a thing that concerns me far more than anything else: get the information that we have across to every member in the house.

Hon. Mr. HANSON: Of course, that is a hit and miss method, is it not?

Mr. McIVOR: What is that?

Hon. Mr. HANSON: That is a hit and miss method; there is no system about that.

Mr. BOUCHER: Is that not the responsibility of this committee just the same?

Hon. Mr. HANSON: Yes.

Mr. BOUCHER: Is not that where our responsibility ends? If we get it before the house, then it will be up to another committee to see that the house makes use of it. But I think it is the responsibility of our committee to analyze the new suggestion from the point of view of seeing that the information is made available to members of the house.

Hon. Mr. HANSON: I do not think we should shirk our responsibilities. What we are troubled with is a huge set-up that many of us have not the ability or the experience to cope with, and some of us have not the initiative to cope with. I am willing to take my share of the blame. I never saw anything come out of the Public Accounts Committee in the twenty years I have been here. It is just a political battle. If there was any reflection upon a minister, it became a political battle and the minority always lost, right or wrong.

The CHAIRMAN: Now, gentlemen, has any member any other question he wants to ask the witness?

By Mr. Tripp:

Q. Yes, I have, if I may. In the operation of your department, in paying out these moneys, do you go strictly on the wording of the Act or on the intention that is sometimes implied by parliament? I am referring to the Prairie Farmers' Assistance Act. We have had in the western provinces there considerable conflict between the Department of the Treasury and the Board of Agriculture which are operating the Act. We have on the one hand the Department of Agriculture making a statement that certain payments will be made in a certain way at a certain time, and we have the Department of the Treasury coming along and saying these payments cannot be made because the wording of the Act does not permit it. We have had a continuous conflict over that Act for three years. I have met your representative out there in Regina and he is a very fine man. I know of several instances in which there has been conflict. Take the matter of payments on rye. There has been conflict between the Department of Agriculture and the Department of the Treasury there which has caused tremendous confusion, and the value of the Act and the intention of the Act have been destroyed by the rulings of the Department of the Treasury. We left this parliament here, I think it was two years ago, with the understanding that certain payments were going to be made in a certain manner at a certain time. Then when it came to making provision for the distribution, we found the Department of the Treasury had issued a ruling that these payments could not be made and we had to go back to parliament to get

the Act amended so these payments could be made in the manner that they thought the members of parliament wished them to be made. How do you make those rulings? Do you go strictly according to the wording of the Act or do you take into consideration the intention of parliament?—A. We must be governed by the exact provisions of the Act.

By Hon. Mr. Hanson:

Q. And the interpretation of it.—A. And the interpretation placed thereon by the Law Officers of the Crown.

Q. Right.—A. One of the definite responsibilities placed on my office is that there is parliamentary authority for the expenditure. If there is anything lacking in an Act so that it prohibits or does not permit of a certain expenditure, we have no power to make it.

By Mr. Tripp:

Q. You do settle on this point. For instance, you do decide whether a grass is a grass or is not a grass?—A. Oh, no sir. We have decided when new breaking was really new breaking and when it was not, after careful examination, because we have had difficulties in some of the administrative submissions, items were claimed as new breaking and compensation was claimed for new breaking when it really was not new breaking at all. That is our problem. On the general question, our great difficulty in connection with these accounts, which I think has been cleared away in the last year or two, was that the form of the applications, the supporting documents for the applications for payment, were not, in our opinion, sufficiently and properly verified; and without that we felt we could not make the payments. However, it is a matter for Treasury Board to rule on. If the department was not satisfied in the attitude we took on a particular account or accounts, it had the right of appeal to Treasury Board for direction.

Mr. JOHNSTON: As far as your department is concerned they stay strictly to the wording of the Act. Lots of times in the house when a bill is going through there might be a little debate on certain wording of the bill and the minister may say, "That is not the intention of this bill", and he may give what he thinks is the intention of the bill, but you disregard that entirely when it comes to you because you go strictly according to the wording of the Act as you interpret it?

The WITNESS: The legal interpretation that it placed on it.

Hon. Mr. HANSON: Or by the courts.

By Mr. Johnston:

Q. What I mean to say is this, that no matter what opinion is given by the minister in the house in regard to the wording of the bill, no matter what opinion is given by the minister with regard to the intention of that wording, that has no bearing whatever as far as your department is concerned because you take the actual interpretation by the legal department?—A. That is right.

Mr. ROEBUCK: I think it is a matter of interpretation of statutes. Books have been written on it. Putting the principle shortly it is this, that it is the intention of parliament which rules but the intention of parliament can be determined only by the wording of the Act. You cannot get it from exterior or ulterior matters such as speeches in parliament and that sort of thing. Parliament, if it wishes to have an intention carried into effect, must express that intention in its Act of parliament. If you get away from that you are at sea.

Hon. Mr. HANSON: Any other principle would be absolutely unsafe and unsound. You could not leave it to what the minister said was the intention if

he did not express it in the statute. No matter what his good intentions may have been if it is not there effect cannot be given to it. The classic illustration is the interpretation of the United States Constitution when Chief Justice Hughes said the constitution is what the judges say it is.

Mr. TRIPP: It has been a problem to us out there, and you might say it has put the Treasury Board in a bad light with the farmers, things like that, and also the Department of Agriculture. The Department of Agriculture make up a form of application for the farmer for wheat acreage reduction, for instance. The farmer gets that and he signs it and the application comes back and it is passed by the Department of Agriculture. It is then taken to the Treasury Board and the Treasury Board turn it down because the form is not correct or according to the Act. Why in the world can the Treasury Board and the Department of Agriculture not get together before that form has ever gone out and before they ask the farmer to sign it to eliminate all this controversy that has gone on over this Act the last two or three years? I think if there was more harmony between the different departments we would not have half the troubles we have had with the Prairie Farmers Assistance Act.

Mr. JOHNSTON: I agree there.

By Mr. Boucher:

Q. You would agree though that in no department of government should the sound interpretation of Acts be adhered to as much as in the Department of Finance?—A. I did not get the question.

Q. You would agree that in the Department of Finance and in the department of the Auditor General more than anywhere else the strict interpretation of the written words in the statute must be adhered to?—A. That is right, absolutely.

Hon. Mr. HANSON: It could not be anything else.

The CHAIRMAN: You think that should be clarified between the two departments, Mr. Tripp?

Mr. TRIPP: I think so. I think that is the place to take it up because that conflict is still going on. We have the Treasury Department sitting in one office and the Department of Agriculture sitting in the other office both interpreting that Act to the best of their ability and then conflict finally comes as to the interpretation of the Act between the two different departments.

The CHAIRMAN: Based on a form.

Mr. TRIPP: Yes, and it might be based on the definition of grass, the definition of summer fallow, the definition of breaking. Anything might cause a difference of opinion. Why could not all these differences of opinion be fought out before the administration of the Act starts so that we would eliminate all these troubles at the source, right at the beginning, and not have them coming up and making the farmers dissatisfied? The farmer is told to do it a certain way and he apparently does it according to his instructions. Then he sends it back to the Department of Agriculture and they send it to the Treasury Board and the Department of the Treasury fires it back and says, 'That is not according to our interpretation of the Act.'

Hon. Mr. HANSON: The application form is only one document. Very often would there not be lack of proper verification?

Mr. TRIPP: I only used that as an instance. There are other points on which the two departments are in conflict all the time, but what I am trying to bring out is that the conflict comes after one department has administered the Act according to their ideas for a certain length of time. Then it comes back to the Treasury Department where the actual payment has to be made and

payment cannot be made according to the Treasury Department following the interpretation of the Department of Agriculture. Then the farmer wants to know why payment is delayed. In a great many cases the application form has got to be sent back to the inspector and the inspector has got to go back to the farmer and the farmer says, "What is all this fuss about?" It is a very good Act but it is one over which there is constant controversy. I do not think that was intended by parliament. I think we should get away from that if there is any possible way to do it.

Hon. Mr. HANSON: You will admit this principle, though, that there must be control and safeguard.

Mr. TRIPP: Yes, but why could it not be before the public is brought into the picture? Why do you not have these controversies all settled before the public is brought into the picture?

The CHAIRMAN: In the particular case that Mr. Tripp brings up surely it should be the responsibility of the department administering the Act to see that matters of that kind are clarified before arrangements are ever made with the farmers.

Hon. Mr. HANSON: In conformity with the law.

The CHAIRMAN: Yes, in conformity with the Act.

Mr. TRIPP: As I understand it every department has a drafter in the department. The P.F.A.A. Act is coming up and that is referred to the drafter in that department. He drafts the Act according to his ideas of the intention of the Department of Agriculture and it is brought into the house. There might be some amendments made and then when the Act goes into operation the Department of Treasury comes along and says, "The payments which you have set out in the Act cannot be made according to this, that, and the other thing."

The CHAIRMAN: Do we not come back to this point that the fault or laxity is in the Department of Agriculture's legal department in not making sure that the phraseology of that Act will comply with any interpretation of the Treasury Board?

Mr. TRIPP: Parliament passes on the intention of the Act. There are a lot of these gentlemen who have got legal ability to interpret the words properly that I have not got. The Act goes through.

The CHAIRMAN: The Department of Agriculture nevertheless is administering that Act. They are the ones that must assume responsibility.

Mr. TRIPP: The Department of Agriculture comes in and administers that Act according to the intentions of parliament.

Mr. BOUCHER: The Act is usually drafted by the department, too.

Mr. TRIPP: Here we have another department of government coming along and saying, "You have got a poor draftsman; you have not developed in legal terms and proper words the intention of parliament."

Mr. ABBOTT: Actually what happens, that particular Act which you are speaking about is drafted, as you say, by the legal adviser in the Department of Agriculture. I know because I went over it myself in connection with the most recent amendment. It is then sent to the Department of Finance and is very carefully considered there before it ever comes into parliament at all. Then when it comes into parliament it comes before the house and is considered by the house as a whole, by the western representatives who are particularly interested and by a good many of the lawyers of the house as to phraseology, and it is passed by parliament, but it is not drafted by the Department of Agriculture and the Department of Finance, which is going to have to approve the payments, do not see it before it comes into parliament. That is not the practice.

Mr. TRIPP: We have had cases of the Department of the Treasury coming in and saying, "We do not put that interpretation on these clauses at all." Payments are held up for two or three months until that particular clause is referred to the Department of Justice for a ruling. It is those little delays which cause all the discontent.

Mr. ABBOTT: You have particular reference to this rye acreage.

Mr. TRIPP: For instance, rye acreage and grass acreage. We have been told that the application form was not according to the Act in certain cases, and so on, and everything had to go back time and time again. I think that trouble could have been eliminated by proper co-operation between the departments in the first place.

Hon. Mr. HANSON: Is it not a matter of administration after all?

Mr. TRIPP: It might be, but the point I want to make is that there should be more co-operation between the departments on an Act.

Hon. Mr. HANSON: You mean in the preparation of the Act?

Mr. TRIPP: In the preparation of the Act and in the interpretation which one department puts on it and which another department puts on it.

Hon. Mr. HANSON: As Mr. Abbott suggests, in the preparation there is collaboration and consultation. Then the bill gets into parliament and I might exercise my persuasive powers and have an amendment made which throws the thing out of gear perhaps as far as the originators are concerned. The whole thing then comes back to the construction of the finished product, and you cannot leave it to the spending department to put their interpretation on it.

Mr. TRIPP: I am not saying that entirely. I think the Department of Treasury should have a say but what I say is they should have that say before the thing goes into actual operation. They should supervise these forms, if necessary, that are put out by the Department of Agriculture.

The WITNESS: I should like to make one or two remarks on the question of rye. That arose in connection with the Act as it was applying in 1942. The particular words in the Act which caused the difficulty were the words, "sown to in 1942". The department was authorized to pay \$2 an acre for each acre reduction in wheat so long as they had done certain things, including sown to grass, rye or coarse grains in 1942. The Department of Agriculture wished to interpret this as including fall sowing in 1941, and as proof of the correctness of our contention the Act was amended to take care of that. There was no way in which we could have it interpreted other than "sown to in 1942". Bear in mind the original Act with the words "sown to" was considered by officers of the Department of Finance before it went to parliament, and it was their understanding that it was to be \$2 an acre on seeding in 1942, not in 1941 because the fall season of 1941 was already entitled to \$2 an acre in July 1942 under 1941 regulations.

Mr. TRIPP: Of course, what started the trouble was the Department of Finance did not understand that fall rye could be sown on summer fallow.

Mr. ABBOTT: They understood that.

Mr. TRIPP: You came back to the intention of parliament. It was the intention of the members who passed that Act that the interpretation of the Department of Agriculture should have gone through.

Hon. Mr. HANSON: Was the interpretation of the Department of Agriculture put before parliament that they were contending that it was for rye sown in 1941 which came into production in 1942? If that was put through they would not have used the language "sown in 1942".

Mr. TRIPP: That same clause was discussed on the floor of the house, and the members went away from this house with a certain interpretation. The members of the house agreed to that interpretation.

Mr. BOUCHER: Surely the members of the house would not go away from the house believing that the words "sown in 1942" would let in something that was sown in 1941.

Mr. TRIPP: No, but, for instance, we sow rye in the fall out there, not in the spring. We sow fall rye.

Mr. BOUCHER: That should have been brought up.

Mr. TRIPP: It was.

Mr. ABBOTT: In practice it was not covered by the statute and an amendment was introduced and passed this year to clarify it. Probably as Mr. Tripp suggests it was unfortunate that the 1942 Wheat Acreage Reduction Act did not make that point clear. It certainly did not make it clear and then an amendment was introduced this year.

Hon. Mr. HANSON: It seems to me that the fault goes back to the Department of Agriculture.

Mr. TRIPP: No, I do not think so. It is the fault of our system. If the Treasury Board is going to make the final decision on all these things I think the Act should be passed on by the Treasury Board in the first place.

Mr. BOUCHER: You would not suggest that the Treasury Board be empowered to say that rye sown in 1941 should come under the bonus passed by parliament for rye sown in 1942?

Mr. TRIPP: If the Treasury Board are going to make the final decision—

Mr. ABBOTT: The Comptroller of the Treasury, who approves these payments, in authorizing the issue of the cheques cannot do other than look at the strict letter of the law, and if parliament has by inadvertence or otherwise failed to adequately express what was intended the Comptroller of the Treasury cannot do anything about that. It is up to parliament to change the law.

Mr. TRIPP: I agree, but that was only one instance. There has been continuous conflict out there between the Department of Agriculture and the Department of the Treasury. What I am trying to do is to get some system which will eliminate conflict before it reaches the public.

The CHAIRMAN: Wait until your farmers out there fill in their new income tax forms.

Hon. Mr. HANSON: Coming back to the point at issue has anybody any other suggestions to make? Mr. McIntyre is a busy man. He does not want to have to come back here again. I want to ask some more questions about the proposed set-up because I think we ought to make a recommendation or leave it alone.

Mr. ABBOTT: Have the members all read—I suppose they have—the statement which the Minister of Finance made on the 31st of July last year? Mr. Hanson referred to it.

Hon. Mr. HANSON: I asked my friend over there, but I do not know whether he has or not.

Mr. ROEBUCK: I did not.

Mr. ABBOTT: It is a short statement. It was a very carefully considered statement setting out the reasons on which the Minister based his suggestions that the accounts for the next year should be set up in this new way. It is on page 5470 of *Hansard* of last year.

Hon. Mr. HANSON: It was the day before the session ended. I must confess it escaped me. I did not read it until this session. I went home sick and tired of this place and I did not read any more *Hansard*. I am anxious to do something constructive about this. I am not here to block this thing by any means. I have a receptive mind. I said in the house I had an open mind. I am

wondering if the members are sufficiently conversant with the thing to O.K. the proposal or to dispute the proposal or what. I think we ought to justify ourselves a little.

Mr. ABBOTT: I think the committee should study that statement because it is a very carefully considered statement. In my own view the suggestions made should provide a set of public accounts which would be really useful to the house and to the public at large. The minister would be very glad to have any suggestions or recommendations which this committee might make, but I think that the committee should study his recommendations carefully before suggesting an alternative.

The CHAIRMAN: How about embodying the minister's recommendation in the record?

Hon. Mr. HANSON: It should be there if it is not. Of course, it is in Hansard now.

The CHAIRMAN: Why not transfer it to our record and they will have it?

Hon. Mr. HANSON: All right, put it in the minutes if you like. If the members will only read it and try to understand it then they will have some opinion on it.

The CHAIRMAN: If they will only agree to read it; I think that is a very important point, Mr. Hanson.

Hon. Mr. HANSON: I have just one reservation. I am wondering if we are serving the public as well that way by adopting this rather than the present situation. I should like to have the views of the members of the committee.

Mr. ROEBUCK: I should like to have it left over. I cannot express my opinion now.

Hon. Mr. HANSON: Would you read it?

Mr. ROEBUCK: I will.

Hon. Mr. HANSON: Between now and next week. Will you all read it?

Mr. ABBOTT: I think the committee can perform a useful service by giving critical consideration to that statement and be in a position to discuss it and make any suggestions or recommendations.

By Hon. Mr. Hanson:

Q. Have you any further observations that you would like to make in support of the recommendation or contra, because after all we can only learn by getting the views of those who are intimate with the situation?—A. The only observation that I would care to make against the proposal has to do with the fact that we are certainly loaded down with work at the present time. My staff was 1,150 when the war started and it is 6,300 now. Unfortunately there was some delay in our getting started on the accounts for last year because one of the first essentials was to obtain proper accommodation. We had no space whatsoever. We did not have one hundred square feet of space available where we were. It was only about the first of January that I was able to obtain accommodation which the present Auditor General was in a position to make available in the building he is now occupying. That was made available by reason of the transfer of certain of his staff to branch offices of the treasury for audit there, and others mostly of the routine class to my office for work with the treasury.

Q. Of course, that is an important obstacle, lack of help and space, and so forth, but that is not an objection in principle?—A. No, I have no objection in principle to the plan. I should like to add this, that I have discussed the matter with Dr. Clarke, the Deputy Minister, who is charged under the Consolidated Revenue and Audit Act with the responsibility of preparing the public accounts, and he asked to join with me in welcoming suggestions and criticisms, not only

from the Public Accounts Committee of this year, but the Public Accounts Committee each year with the view of improving the report so that it will be of the most value to the members of the house.

Q. And to the country; after all our responsibility is to the country. Have you given consideration to the suggestions that were made by Mr. Watson Sellar, the Auditor General, with respect to strengthening the provisions of the Consolidated Audit and Revenue Act? He has laid down four or five distinct subject matters and he has briefed them to us. They are rather important. From the standpoint of the Comptroller General's office have you any recommendations to make with respect to improvements in the statute?—A. One item which is to my mind quite important that is not taken care of in the statute is a sound procedure for eliminating from the accounts current those accounts that are uncollectable.

Q. He referred to that.—A. And report such action to parliament, because my reason for placing importance on this feature is that when your accounts are loaded down with uncollectable items going back ten, twenty, thirty or forty years such accounts operate to becloud the issue with respect to accounts which should be kept in a current state and may be overlooked. It makes for extra work in the current operation of department accounts. One item on the list of suggested changes is to endeavour as far as possible to present a departmental balance sheet. Where a balance sheet is not an acceptable form or a suitable form for presenting a department's accounts a comprehensive statement of account would be presented and this should include among other things outstanding accounts. It will not be possible to apply this principle in the accounts for last year. The compilation of the data in a form suitable for inclusion in the accounts would have to wait for the accounts of this fiscal year except in the some of the large departments.

Q. Does it require any statutory amendment?—A. For writing off, yes.

Q. That does, but would that alter your balance sheet whether there was or was not statutory authority to write off? The two things are not exactly the same thing, are they?—A. If the statute were amended to authorize write-off these accounts that are deemed to be uncollectable and are written off would disappear from the department's statement of affairs in the following year.

Q. And would be reflected—A. And would be reported as such.

Q. Just one step further on that point; how far would you go in this write-off? Would you have an automatic six-year limitation, we will say, or have you thought about that?—A. I believe it would be very difficult to establish the write-off by a definite term or period.

Q. You could not be arbitrary?—A. It would vary with different accounts.

Q. Yes, I agree with you, you could not be arbitrary. A prudent business man will write these things off but he will keep them in a suspense account in hope that some day he might recover them and then he would take them into account again?—A. Yes. I would say the same principle would apply here, but the department would not be required to maintain a current accounting for them.

By Mr. Roebuck:

Q. You would have a special account called uncollectable accounts in which you would write it?—A. Yes.

By Hon. Mr. Hanson:

Q. Let us go a little further, because we only learn from exploring. Suppose you did that; would there be a tendency once an account went into this account to forget about it and never try to collect it?—A. Our possible losses on that account I feel sure would be far less than the losses are from laxness in collection methods.

Q. Then you are rather in favour of this surcharge business, are you, or do you go that far?—A. I have not given the question of surcharge a great deal of consideration.

Q. That is the spirit, to make the officials collect the revenue. That is what it is, and they have it in other jurisdictions. Perhaps we are getting far afield now. I would like to get this thing out of the way and then go back to these five recommendations made by Mr. Sellar.

Mr. ROEBUCK: I should think if you put the accounts which you call uncollectable and which have grown old into some special account where they could be looked after from time to time you would get better results in collection than when you have them all spread through your account.

Mr. BOUCHER: In other words, a subsection of your department.

Hon. Mr. HANSON: He does not want his accounts cluttered up with uncollectable accounts.

By Hon. Mr. Hanson:

Q. That is from the standpoint of accounting, is it not?—A. Yes.

Q. Yes. But from the standpoint of the country, how far should we go in writing off these accounts entirely? My fear is that in public accounts, once an account got into that category, you could kiss it goodbye, whereas a private individual would not go that far. He would write it off for income tax purposes, of course, because it would be to his advantage to do so; but he would not forget about it entirely. Do you do that, Mr. Fraser?

The CHAIRMAN: No, I do not.

Hon. Mr. HANSON: I do not either; at least I never did when I was active. I kept going over these things, or spurring some one else to do so.

The CHAIRMAN: Did not Mr. Sellar give in his evidence that these accounts are not carried as current assets?

Hon. Mr. HANSON: Not carried as active assets. Is that not what he said?

The CHAIRMAN: Quite right.

Hon. Mr. HANSON: Not carried as active assets, and therefore not current.

The WITNESS: Not carried in the general balance sheet of the dominion at all.

Hon. Mr. HANSON: They should not be.

The CHAIRMAN: Somewhere you must have these accounts segregated.

By Hon. Mr. Hanson:

Q. Have you anything further to add on this particular phase, with respect to these recommendations about the new set-up?—A. No.

Hon. Mr. HANSON: Then we need not ask Mr. McIntyre to come back on that point. Do we want to hear anybody else on that aspect of the thing?

The CHAIRMAN: I think we have got nearly all we need.

Hon. Mr. HANSON: We do not need to bring Dr. Clarke here, for instance, do we?

The CHAIRMAN: The committee has sufficient information now.

Hon. Mr. HANSON: They have if they will just read it and digest what they have got. I agree with that.

The CHAIRMAN: In that connection, does the committee approve of the printing of Mr. Ilsley's statement of July 31 as an appendix?

Hon. Mr. HANSON: Yes.

Mr. ROEBUCK: Carried.

The CHAIRMAN: In to-day's evidence? (*See appendix No. 1*).

Hon. Mr. HANSON: Yes.

Mr. GLADSTONS: Would it not be well in the notice of the meeting to have a little footnote for each member of the committee, as so many members are absent, asking them to read page 5470 of the House of Commons Debates, July 31, 1942?

Hon. Mr. HANSON: Yes. The clerk could do that.

The CHAIRMAN: We will ask them to read the appendix in to-day's evidence.

Mr. ABBOTT: That will not take more than ten minutes.

Hon. Mr. HANSON: No, it will not take more than ten minutes. But it will take more than ten minutes to study it.

Mr. ABBOTT: Yes.

The CHAIRMAN: Gentlemen, there is another matter to be considered. We have to decide where we want to go from here, whether members of the committee wish to take sufficient time to consider the evidence, the particulars and data before them and postpone consideration of this matter at Winnipeg, or whether members wish to continue the finalization of the evidence with reference to the recommendations they are going to make.

Hon. Mr. HANSON: I should like to go on with Mr. Sellar's recommendations. I am not especially interested in Winnipeg, but somebody else may be.

The CHAIRMAN: Apropos of that statement, how long do you suppose members should have to consider matters and consolidate them in their own minds, in order to place them in a position to make intelligent recommendations?

Hon. Mr. HANSON: I think they could do it between now and Tuesday.

The CHAIRMAN: Is that the feeling of the members of the committee, that they could do it between now and Tuesday?

Mr. ROEUCK: All right.

Hon. Mr. HANSON: Then on Tuesday, I think we should be prepared to consider Mr. Sellar's recommendations. In that event, we ought to call the three men that were suggested, namely Mr. Elliott, Mr. Sheils, and two men—a man on the air force and a man in the Department of National Defence, but not necessarily all at once.

The CHAIRMAN: Mr. Sellar's suggestion in thte connection was whom?

Mr. GLADSTONE: Colonel Currie.

The CHAIRMAN: Yes. His suggestion, I presume, in that connection, was in order to get the mechanics and the official set-up.

Hon. Mr. HANSON: Yes; and also to see what the exact situation was—how, for instance, the army took care of stores and that sort of thing.

The CHAIRMAN: Who are the three men to be called?

The CLERK: Colonel Currie, Mr. Norman and Mr. Sheils.

Hon. Mr. HANSON: Do you not think the first thing we ought to do is to take up the question whether they should be allowed to audit the income tax revenues or not? Of course, that is an important thing but there is a statutory provision of secrecy. We ought to hear Mr. Elliott's side of the story before we come to any decision.

The CHAIRMAN: Is it the wish of the members of the committee that we call Mr. Elliott for Tuesday?

Hon. Mr. HANSON: I would say provided it is convenient to him, because we must take into consideration his convenience.

The CHAIRMAN: Presuming it is not convenient for him, what about Colonel Currie?

Hon. Mr. HANSON: Yes. But I suppose he is in just as bad a jam as the other man.

Mr. SELLAR: May I interrupt? I spoke to Colonel Currie the other day and mentioned he might be called. He said that Colonel Dailley in the department is much better informed on that subject than he is, either Colonel Dailley or Brigadier Switzer.

Hon. Mr. HANSON: Do you know his initials?

Mr. SELLAR: No, I do not.

The CHAIRMAN: Is it the wish of the members of the committee, if it is not convenient for Mr. Fraser Elliott to come next day, that we call Colonel Dailley?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: Mr. Sellar and Mr. McIntyre, the committee appreciates very much the information which you have given them this morning.

We shall now adjourn to Tuesday, June 29, at 11 a.m.

The Committee adjourned at 1.05 to meet on Tuesday, June 29, at 11 o'clock a.m.

HOUSE OF COMMONS DEBATES

(JULY 31, 1942.)

AUDITOR GENERAL'S REPORT

STATEMENT OF MINISTER OF FINANCE REGARDING REQUEST FOR FULL
REPORT ON FINANCES

Hon. J. L. ILSLEY (Minister of Finance): Certain hon. members asked that I make a statement on the public accounts before the end of the session. With the consent of the house I should like to make that statement now.

On June 4 last, in reply to some criticisms made by the hon. member of Témiscouata (Mr. Pouliot) in regard to the detail with which information on government expenditures is supplied to parliament, I stated that the whole matter was under active consideration at the time, and promised that before the session closed I expected to be able to make some recommendations, which recommendations the house might adopt if it wished to do so.

On that occasion I pointed out that information in regard to the financial operations of the government are presented to parliament in two different documents: one, called the public accounts, which is a report made to me by an official of the government, the deputy minister of finance; and the other, the report of the auditor general, an officer of this parliament and answerable to this parliament. There had been some criticism of the form of the public accounts, which, as I stated, are in the same form and practically of the same dimensions as they have been for a great many years, but in some cases at least what was really being criticized was the form of the auditor general's report.

With two reports covering the financial activities of the government, it is only natural that such confusion should take place. I therefore indicated that we have had under active consideration the question of "whether the form, the amount of detail, in both the public accounts and the auditor general's report should not be changed," and whether parts of the material now published in the auditor general's report should not be incorporated in the public accounts in order to let the Minister of Finance take direct responsibility for it as the head of the Department of Finance.

In the course of our consideration we have studied not only the law and the historical background relating to the reports to parliament on government revenues and expenditures, assets and liabilities, et cetera, in so far as Canada is concerned, but also the practices followed by the United States, the United Kingdom, and the other British dominions. Our desire was to draw from all possible sources lessons and suggestions as to the best possible way in which to present to parliament the information necessary to enable it to exercise wisely and efficiently its control over financial matters and assure itself that the executive arm of government is properly carrying out its stewardship. As a result of the study and consideration given to the whole matter, I am glad to be able to announce that the government has decided to accept certain recommendations made jointly by the auditor general, the deputy minister of finance, and the comptroller of the treasury. The government believes that these recommendations are sound, and, if they commend themselves to the judgment of the house, they will be implemented with respect to the accounts for the current fiscal year.

The essential feature of these recommendations is that there should be tabled under a common cover both the public accounts and the auditor general's report; that in future this single document should be called the public accounts, and that, in recording the outlays made by government departments and agencies, the "details" of expenditures printed in the estimates should be followed, but supplemented by such other material as the Minister of Finance may consider necessary to elucidate adequately the uses to which the grants made by parliament have been applied.

To be more specific, the contents of the single report would be organized substantially as follows:

- (a) Part I, to consist of an over-all survey and report of the financial operations of the year in such form as will clearly portray the policies followed.
- (b) Part II, to consist of the balance sheet of Canada, certified by the auditor general.
- (c) Part III, to consist of the revenues of the year classified by departments and sources; this to be signed by suitable executive officers and certified by the auditor general.
- (d) Part IV, to consist of expenditure statements as submitted by the comptroller of the treasury and certified by the auditor general.
- (e) Part V, to consist of such miscellaneous statements as may be necessary to report all transactions not included in the preceding parts.
- (f) Part VI, to consist of the report of the auditor general on the statements in the preceding parts and on such other matters as he is required to report to the House of Commons.

It will, I think, be apparent at once to the house that a single report of this type will be an enormous convenience to members in their work of analysing and appraising the multifarious transactions which are necessarily involved in the receiving and spending of a sum of money approximating four billion dollars. When sums of this magnitude are expended in millions of individual transactions, the work of the member who seeks to understand the operations of government is bound to be difficult enough in any case; it is incumbent upon us, I think, to see that he does not have to wade through a chaotic mass of material scattered over two massive volumes, each covering largely the same field but in a different way. It seems to me, also, that presentation of the accounting records relating to expenditures on the same basis as the details in the estimates should facilitate a better control by the house when voting supply.

In regard to the degree to which itemization of detail will be carried, it will be noted that responsibility for decisions in this field will in effect have to be assumed by the Minister of Finance, because the deputy minister of finance and the comptroller of the treasury are his officials. Probably the Minister of Finance should be in a better position than anyone else to give directions as to the nature of the break-down necessary to elucidate transactions of interest to the house. If the minister does not go far enough to satisfy hon. members he can be called to account on the floor of the house.

In so far as I personally am concerned, my attitude will be to place primary emphasis on the necessity of disclosing to the house all information that is really useful in enabling it to perform its essential functions. Naturally, in regard to war expenditures, considerations of secrecy will have to be kept in mind because of the necessity of not giving aid to the enemy; in regard to all expenditures there are also considerations of man-power shortage and cost which call for every practicable economy consistent with the public interest. In this latter connection I may add that I hope the new procedure will lead to certain savings in staff and in cost by the elimination of some duplication existing at present in the accounting work of the Department of Finance and the auditor general's office.

The public accounts and the auditor general's report for the fiscal year 1941-1942 are now in the course of preparation and must be ready this autumn. It is impossible to effect the various changes in organization and staff and the necessary adjustments in accounting systems in time to implement the recommendations I have outlined above, in connection with the reports now in preparation. If, however, the recommendations are satisfactory to the house, they will be put into effect in time to have their results appear in the report for the current fiscal year, which will be issued in the fall of 1943. I am advised, however, that the auditor general's report for the last fiscal year is being enlarged so that the house will receive a fuller disclosure of information, for which some members have been asking. Last year, for reasons beyond the control of the audit office, it was found to be impracticable to bring together a tabulation of payments to war contractors, charged to the Department of National Defence, at any figure under \$25,000. That task, it will be noted, is statistical rather than audit, but the audit office has installed a punch-card equipment which will enable the record to be carried down to payments as low as \$10,000, a figure which should give a good over-all coverage. I believe an attempt will be made to make the record as illuminating as possible within the limits imposed by necessary considerations of secrecy. In regard to the departments generally, there will be certain variations in the details of the accounting record. In some cases a break-down of expenditures under a particular vote into payments of \$1,000 or less will be necessary to give a clear picture of what has happened, while in other cases a \$5,000 minimum may tell the story fairly. That, I understand, will be the general objective of the auditor general—to tell the story in all cases in as clear and simple a way as may be practicable.

I trust that what we are trying to do this year will prove acceptable to the house under all the circumstances and that the more important changes which I have recommended in regard to the report which will appear next year will be warmly welcomed.

I was also asked to make a statement or give the house some information as to the audit and treasury control of crown corporations. I have a statement on that subject which I now lay on the table.

SESSION 1943
HOUSE OF COMMONS

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 6

TUESDAY, JUNE 29, 1943

WITNESS:
Colonel W. G. B. Dailley, Department of National Defence (Army)

MINUTES OF PROCEEDINGS

TUESDAY, June 29, 1943.

The Standing Committee on Public Accounts met at 11 a.m. Mr. Fraser (*Northumberland*), the Chairman, presided.

Members present: Messrs. Boucher, Clark, Côté, Cruickshank, Dechêne, Fontaine, Fraser (*Northumberland*), Gladstone, Golding, Hanson (*York-Sunbury*), Isnor, McGeer, McIvor, Noseworthy, Purdy, Rhéaume, Rickard, Tripp, Ward and Winkler—20.

In attendance: Mr. Watson Sellar, Auditor General of Canada.

Colonel W. G. B. Dailley, Department of National Defence (Army), was called and examined on the subject of salvage and sales of stores. He was assisted by Major B. M. Webb.

The witness quoted from a letter he addressed to the Minister of National Defence (Army) dated November 13, 1940.

Colonel Dailley tabled for distribution fifteen copies of memoranda prepared by him as chairman of the Army Salvage and Disposal Board.

Witness was released.

The Committee adjourned at 1.05, until Thursday, July 1, at 11 a.m.

ANTONIO PLOUFFE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

June 19, 1943.

The Standing Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, Colonel Dailley from the Department of National Defence is here this morning, and I will ask him to come forward. Before doing so, may I ask if any member of the committee has any particular matter he wants to bring up before we start with Colonel Dailley?

Hon. Mr. HANSON: What are the chances of getting Mr. Elliott?

The CHAIRMAN: We 'phoned Mr. Elliott, as you know.

Hon. Mr. HANSON: I know; and he could not get here?

The CHAIRMAN: We can get him probably for Thursday. He was tied up to-day.

Colonel W. G. B. DAILLEY, called.

The CHAIRMAN: Who is going to proceed?

Hon. Mr. HANSON: I will, Mr. Chairman, if I may.

By Hon. Mr. Hanson:

Q. Colonel, would you be good enough to tell me and the other members of the committee your background? I do not happen to be acquainted with it. Are you a permanent officer?—A. No, sir. I am an executive with the T. Eaton Company.

Q. The T. Eaton Company of Toronto?—A. No, of Winnipeg, and the west. Gentlemen, is this for publication?

By the Chairman:

Q. Everything you say will be recorded and you will get a copy of the evidence presented to you.—A. Yes. But with our friend Mr. Sellar, it was general discussion, as it were.

By Hon. Mr. Hanson:

Q. Would you tell us just what your experience is as an executive and how you came to be in the department, and what your duties are?—A. In the last war I transferred from the Canadian army into the Imperial army and in due course found myself at Salonika. During my stay there, which lasted eighteen months, I saw the need and fully organized the salvage operations for the British army. After eighteen months' service I was recalled to London and was given the job of re-organizing the salvage operations of Woolrich arsenal. Soon after the war was over and the armistice was signed, I was asked to go over to France as commercial adviser to the British government on the disposal of war stores. So therefore when this war started I deemed it my business as a citizen to suggest to the powers that be, a few days after war was declared, that we should, amongst other things, organize immediately salvage sections so that nothing would be thrown away that could be used for other purposes; in other words, to stop all waste, and let us run this war as economically as we possibly can.

Q. That was a suggestion made to the army?—A. No. That was a suggestion made to the Prime Minister.

Q. To the government?—A. Amongst many others.

Q. Yes.—A. On November 13, 1940—that is about a year afterwards—I wrote to the Minister of National Defence.

Q. What happened to your first suggestion?—A. I was thanked.

Q. Yes. But nothing happened?—A. Nothing happened. And you could not expect it to happen at that stage.

Q. I am not questioning that. I just want to know the facts.—A. Nothing happened. I was thanked for my suggestions. And without being egotistical, a lot of them have been adopted, not because I happened to put them forward. I suggested: "In the interests of economy, a department be created called the Sales and Salvage Department—a department working in close co-operation with the Quartermaster-General's Department, or to avoid overlapping and competition within the various armed forces apart from economy and one broad selling and salvage policy that the department be part of the Ministry of Supplies."

Q. That was your suggestion of the following year?—A. Of the following year. I further said: "The creation of the Disposal Board under the jurisdiction of the Minister of Supplies soon after the armistice saved the country an enormous amount of money, and the stores were disposed of at a fair market value."

My point there was, that is what happened in the British army in the last war. I continued:

"In conclusion, whatever action you propose to take regarding this suggestion—and the quicker this department is organized the better results in the long run will be obtained—it is absolutely essential that the officers appointed to this department (and possibly it would be better if they were civilians and not army men) must have large merchandising experience and be given freedom of action, within certain limitations, and held responsible for results to one member of the cabinet."

Q. What was the date of that suggestion and to whom is it addressed?—A. November 13, 1940.

Q. And to whom was it addressed?—A. The Honourable Colonel Ralston.

Q. The Minister?—A. The Minister of National Defence.

Q. What resulted from that?—A. The results of that were, sir, that in due course Victor Sifton, I presume, asked somebody to look me over, in the Winnipeg store to which I had been transferred after running the Calgary store for seven years. I was told one or two problems of the army. I said, "Well, the way to fix that is this; and the way to fix this is that." So I apparently stuck my neck out, because I said, "Well now, look, if the firm will let me go, I will give you six months to organize the show and then go back." The outcome of that was that my firm released me and told me that if they wanted me for the duration I was to stay. So I arrived in Ottawa. After a couple of months we got our order in council published that gave me the authority to start working.

Q. Did it take two months to get the Order in Council through?—A. Around about that. In the meantime, of course, I travelled the country to find out what was being done in the Canadian army and what I could do, get my own organization in my own mind, to set about the job.

Q. Yes?—A. In the Canadian army they were carrying out—which was to be expected—peacetime operations in the way of salvaging of stores. In each depot there are groups, and in each group there is a foreman; and the stores returned from units would go into the group where they would be conditioned and those fit for repair were repaired and those fit for produce were produced. However it was very easy to see the difficulties. Owing to the tremendous increase in the army personnel, the great number of troops that were being moved

in the country, it means to say that you get tons and tons of stores back. To give you an example, when one division moved last year in a certain part of the country, it meant that we received in our returned stores group over a quarter of a million items. So therefore our department adopted the British system and we created in each ordnance depot what we call a returned stores group. In due course we appointed officers, mostly returned men from the last war, most of them business men; because after all is said and done, salvaging is nothing else than merchandising.

Q. Would it be in order to suggest that you give an outline of your authority as contained in the Order in Council, so that we can see what the scope of it was, before you proceed to tell what you actually did?—A. The Order in Council was dated 25th June, 1941. We actually got going on the 19th of July, because there were certain regulations and instructions which had to be issued. The only way to give the authority really I presume is to read a lot of this Order in Council.

Q. Well, would you summarize it? Probably we can have a copy of the order.—A. Yes. We got this brief for you.

Q. Yes.—A. Very well. The Order in Council reads in part:—

Therefore, The Deputy of His Excellency, the Governor General in Council, on the recommendation of the Minister of National Defence, and under and by virtue of the War Measures Act, chapter 206, Revised Statutes of Canada, 1927, and notwithstanding the provisions of any other statute, law or regulation (including Order in Council P.C. 6/689 dated April 30th, 1937), is pleased to order and doth hereby order as follows:—

1. There shall be in the Department of National Defence a Committee to be known as "the Obsolete Stores Committee", consisting of a representative of the Chief of the General Staff and a representative of the Master-General of the Ordnance, (hereinafter referred to as the "Committee").

2. The duties of the Committee shall be:—

- (a) To investigate, as to any or all army stores of whatsoever nature and kind, including equipment, clothing and supplies which are reported to be obsolete and/or which the Committee considers might on investigation prove to be obsolete.
- (b) To inspect and/or examine such stores if the Committee, in its discretion, deems an inspection and/or examination is essential to such investigation.
- (c) To report and to certify to the Master-General of the Ordnance, as a result of such investigation or investigations, such stores as the Committee finds are obsolete and which it recommends for disposal as such.

3. The Master-General of the Ordnance, upon receiving from the Committee the report and certificate as aforesaid, shall, to the extent that he concurs in the same, certify accordingly and shall forward the report, so certified, for the approval or otherwise of the Acting Deputy Minister of National Defence (Army).

4. All stores and equipment set out in any such report of the Committee, to the disposal of which approval has been given by the Acting Deputy Minister of National Defence (Army), shall forthwith be dealt with by the Army Salvage and Disposal Board as constituted hereunder and in the manner following:

5. There shall be a board to be known as "the Army Salvage and Disposal Board" (hereinafter referred to as the Board), comprised as follows:—

Chairman—Lieutenant-Colonel W. G. B. Dailley

Members—J. V. Young, Esq.; Captain J. R. McColm.

All of the branch of the Master-General of the Ordnance.

The chairman, or any member of the Board, may at any time be removed from office on the recommendation of the Master-General of the Ordnance with the approval of the Minister of National Defence. Any vacancies occurring as a result of removal or otherwise shall be filled by appointments made by the Governor in Council.

Q. That is the procedure?—A. Yes.

Q. You have given us the governing powers?—A. That is the obsolete stores committee.

Q. Yes.—A. In addition I will give you the part that sets up the method of disposal.

Q. Yes.—A. As to the sale of disposal stores:—

(a) A sale of disposal stores the vocabulary price of which does not in the aggregate exceed \$5,000.00 shall be carried out in such manner as the Board may determine, subject to the provisions of this order and to prior approval by or on behalf of the Master-General of the Ordnance.

That really means, gentlemen, that even if we have the sale of \$10 worth of tin cans every month of the year in thirteen different places, we go through the machinery to sell that \$10 worth of tin cans. Continuing:

(b) A sale of disposal stores the vocabulary price of which in the aggregate exceeds \$5,000.00 but does not exceed \$50,000.00, shall only be made with the approval of the Deputy Minister of National Defence (Army) and shall be by public auction or public tender.

That means that as regards stores such as artillery vehicles or any obsolete stores of any nature whose vocabulary value exceeds \$5,000, although it may only sell for \$50, the approval for sale has to be given by the deputy minister. Continuing:—

(c) A sale of disposal stores the vocabulary price of which in the aggregate exceeds \$50,000.00 shall only be made with the approval of the Minister of National Defence and shall be by public auction or public tender.

Then it goes on to say that if certain prices are not satisfactory to the board, and we negotiate a better price, we have to get the approval of the minister before that price is accepted. Recently there is only one case that has happened. The army declared a certain sword as obsolete. The scrap value was very small. So we put them up for tender, carrying out instructions, and the price we were quoted was very small.

Q. There is not much of a market for obsolete stores, is there?—A. There is not a great market. However, we could not see the market—at least the prices that we were offered. We could not see breaking them up for steel because we were not so short of steel as all that. So we suggested we should offer them to the officers and men in the Canadian army. In due course we got that approval and we sold 400 at a price of \$5 apiece. They cost us £4.5.0 many years ago and some of them £4.5.0, at Sheffield. Therefore what we really work under is the method of receiving the goods and the method to sell the goods which has got nothing to do really with salvage operations.

Q. Mr. Watson Sellar, in the course of his evidence before the committee a few days ago, made a suggestion that his department should be strengthened by having some power, some authority over the audit of your accounts. What is the position to-day with respect to that? You have read his evidence?—

A. Yes. With regard to all our goods that we sell, the cheques are made out to the Receiver General of Canada; and for every sale that we make, we make out an order in seven copies one of which goes to the Treasury Department. They have a complete audit, and furthermore they set up the financial procedure to be adopted by the board when we first started to function.

Q. That is the treasury?—A. The treasury.

Q. Yes, but he is not the treasury. He approached it from the standpoint of public auditing on behalf of the people of Canada.—A. I can see no harm in it, if you want it duplicated.

Q. I do not know. We are seeking information as a result of his suggestion.—A. Yes.

Q. You have no objection to that?—A. No, I have no objection.

Q. But you do not see any good in it?—A. I think it is just duplication. The treasury officers are responsible now. We do not handle money. If they want to do it, go ahead and let them do it.

Q. You have no objection?—A. I have no objection.

Q. You can see no harm in it?—A. No.

Q. And you can see no advantage in it?—A. I see no advantage.

By Mr. Golding:

Q. There would be additional expense in it?—A. Admitted. But the problem is when you are protecting public property, expense is not always the governing factor, in theory.

Q. Nevertheless, there would be expense?—A. Yes, you would think so. I do not know.

By Mr. Boucher:

Q. Would there be any greater precaution taken from having that done?—A. Well, no. It is good now. If it were bad now, there would be trouble—if there were any loopholes.

Q. You have plenty of checks and balances right now?—A. Absolutely. The regulations are such that if they are carried out, they are fairly sound.

By Hon. Mr. Hanson:

Q. Have you read this memorandum from the Auditor General entitled "Public Property"?—A. I have seen it. I have read parts of it.

Q. Certain parts of it referred to your operations.—A. Yes. However, may I just, before we go into this public property question, say a word there—I do not want to appear egotistical, because it is not myself but my men who have done the work—to give you some idea of what we have done in connection with saving public property from an army point of view. I make this statement not as an army officer but as a citizen, that the waste going on in the Canadian army to-day has never been so small. I do not think in England, even in the British army, they are doing any better job than what we are doing or what our men are doing. Our organization is this. We have a man, an officer in charge—and in some large districts we have two or three officers in charge—of stores returned and also to be a watchdog on waste generally. And when we were first given the job, our first proposition, you see we educated the soldiers; we had to educate the officers commanding the battalion and possibly to a lesser degree also we had to educate the D.O.C.'s and the G.O.C.'s; and also possibly to some degree particularly to educate the firms. But the time had arrived when there was a distinct

shortage of merchandise, a distinct shortage of raw materials; so, I say,—and there was getting to be a distinct shortage of labour, and therefore we had to make the best possible use of what we had.

Now, we first discovered that the army regulations called for certain things which in peacetime are perfectly sound but in wartime it is a different story. In peacetime they cut up the boots that are condemned. If you cut them up they become valueless. In the last war we even tried withdrawing the nails from the soles in order to make them into fertilizer; we even considered making laces out of the uppers. We tried everything to find which was the cheapest way of getting rid of them, and mostly—however, we did feel this, there were a lot of boots being cut up, and once they are cut up you cannot salvage them and you cannot use them over again; so we immediately stopped that business of cutting up and we sold thousands of boots at prices ranging from 50 cents to a dollar—

Mr. GLADSTONE: Who would cut up the boots?

The WITNESS: That was regulations in peacetime.

Mr. HANSON: They were destroyed?

The WITNESS: The reason they did that was that if you did not cut them up there would be trading between the soldiers and dealers; you would be robbing yourselves—these issue boots would be sold over again. All this was not done foolishly, it was done out of army experience.

By Mr. Hanson:

Q. Then what?—A. They threw them away. Then you take enamelware being smashed up; at the present time this enamelware is being de-enamelled and re-enamelled and we are saving thousands and thousands of dollars in certain lines of produce. In peacetime they only had about seven or eight different classifications of materials. For instance, they would sell two classes of woollen underwear.

Q. What is that again?—A. They would sell two classes of woollen underwear, classifying it as cotton rags. The quantities they would have to sell would be next door to nothing, it would not pay them to sort it. One of the first things I remember getting into in the last war was at Dewsbury in Yorkshire—I was supposed to be a rag merchant, and it struck me immediately the enormous price they got for what they called gray silver—that was old socks; and very naturally I said: are you selling your socks separately? They said, no, we are not. I said, all right, why not start by separating the socks away from the other goods; and we increased the price from 8½ cents to 23 cents. We are selling many, many hundreds of pounds, in fact thousands of pounds at the price of 29 cents.

Q. Why should there have been such a surplus?—A. When you have so many thousands and thousands of men—

Q. Were they worn out?—A. This is old produce; worn, unserviceable stores.

Q. All right.—A. In the last war in the British army we used the serge from battle dress—which wasn't battle dress then but serge from tunics—that was at Dewsbury and it made into serge for military uniforms. We are now doing that at the present time. Although there is a little lull in the business right now, we have sold thousands and thousands of pounds of serge from battle dress direct through the wool controller to the mills and it is now going back into battle dress. We had thought that this thing was possible—but we found that the dealers were buying this stuff, repairing it and selling it out as garments. We stopped the cutting up of garments that were not fit for issue to the troops, because we could not see any sense of making a garment into rags if it had more wear and tear. So, in due course, following the usual procedure, etc., we transferred to the Department of Indian Affairs for the Indians 16,000 battle dress blouses camouflaged by cutting off the shoulder strap and the strip here (indicating) and dyed dark blue. Also we are transferring to them thousands of boots and also thousands of pairs of socks.

Q. Do you say you sold it to the Indian department?—A. To the Indian department. That is the way they are classed—they would unravel them and make socks again.

By Mr. Isnor:

Q. At what stage do you make that issue?—A. When a man—as soon as the man comes into the quartermaster with his socks and they have holes in them he has a perfect right to get a new pair of socks.

Q. Are they immediately issued—what is the name of that, is it the Indian department?—A. No, no; they are immediately sent back to returned stores groups.

Q. Yes.—A. Where they are sorted, and all the goods we sell, before we sell them, we have to send a list to Mr. Kelly of the Treasury Department—he is the liaison between our department and all other departments—the socks may go to the Indian department for use in their schools for making new socks; and also they have been good enough to take some of our socks—they will take some of our socks and wash them and unravel them and put them up into skeins and we use them for repairing socks in the army.

Q. My question was, what stage do you show that issue; you have to have an issue I understand? If the soldier turns in serge trousers or socks, what is the procedure before they reach you?—A. He turns them into the quartermaster and if the quartermaster is satisfied that they have been worn out through fair wear and tear he is issued with a replacement.

Q. What happens to the garment that he turns in?—A. That garment that is turned in eventually arrives at the returned stores group, the ordnance returned stores group, where it is accounted for, where it is examined by men and women—mostly women—to see if we can make it last longer by repairing it or passing it over to some other government department like the Department of Indian Affairs.

Q. But before you reach that department what might happen to that particular garment that is being turned in; or when the soldier turns in the garment, it is examined as to whether it is fit for reissue, we will say— —A. No. Let me get this: a soldier turns in a garment to his unit quartermaster; we are not interested.

Q. You are not?—A. Because he turns it into the quartermaster. We do not come into the scene there, we only come into the scene when the unit returns these stores back to returned stores depot and gets credit for them.

Q. So you have nothing to do with the issue of uniforms, we will say; you have nothing to do with the uniform until it is condemned as far as further use is concerned in the army?—A. We are interested in it, because we have had several surveys to make just shortly; but our job does not—we have nothing to do with the issue of stores.

Q. I can appreciate that you have nothing to do with the issue; we have passed that stage. There is the stage in between the time of issue and the time it is sent to the Indians for further use.—A. Well, the time—what are you driving at—I can show you here that there has been a considerable saving—

Q. I was coming back later to the percentage of savings that were made, but I wanted to follow this through.—A. Let us go back to the other—I cannot get—I may be dumb but I cannot see what your are driving at exactly. Let me get you this way—a soldier joins up.

Q. You just follow that through.—A. He is given a uniform and in due course his uniform becomes worn out. Now, we are all right up to there.

Q. No. Let me make one correction. Not worn out, but he has been in say for a little while and then he goes for a new issue.—A. I know, but he has got to have a reason for turning it in; if it is worn out, it is worn out.

Hon. Mr. HANSON: But say it is not worn out.

The WITNESS: All right—it comes to the quartermaster. You know how it is in the army, the officers go around on kit inspection every week and if they see a man who has a coat that is worn out, or socks full of holes and they will say to him turn that suit in, or turn this in. And you know how it is, there are some officers who want their men to have nothing but the best at all times. Well, it is turned in to the quartermaster. Now, we are all right to there?

By Mr. Isnor:

Q. Yes.—A. Right. The quartermaster gets new goods—in some cases serviceable worn goods—anyway, we will say that he gives you new goods—are we right to there?

Q. No, because you are branching off now to new issue; I am not concerned with the new issue for the time being.—A. All right it is turned in as worn out goods to the quartermaster.

Q. Right.—A. The quartermaster in due course—you get this—the quartermaster enters his deliveries to returned stores and they go to ordnance; that is where we come in.

Q. Right.—A. He is given his receipts; that is his finish. We come into it. We have people examining these goods to see whether they are worth repairing. If they are not, they are what we call brought to produce. Produce is the term for materials from unserviceable stores—socks that have become unserviceable; they are brought to produce and they are put into one classification—and we have forty altogether—we sell them at the best price we can possibly get under our regulations, it is sold according to the order in council. We are also controlled on certain lines by the ceiling price. For instance, on metals that we have been getting from the obsolete trailers; they are going now right to the smelting firms at the top ceiling price.

Q. Of course, I am not satisfied by that. I am not the least bit interested in the metal side of the picture, but I was interested in following up that side I was dealing with, the issue to the soldier and he turns it back to his ordnance officer and it goes back into stores—it is suggested that possibly out of five sets or ten sets returned in the ordinary manner, six of them might not be condemned or classified as of no further use in the service.—A. As a matter of fact, 70 per cent that comes into returned stores can be and are used again.

Q. 70 per cent?—A. I will deal with those figures in a minute.

Q. Did you say 70 per cent?—A. Yes, but they do not—

Q. What I was trying to make clear was this. I tried to get you to follow it through. You said they went to the ordnance officer and then you came into the picture and that in some cases you passed it along for sale. And now, you say 70 per cent— —A. There is a considerable percentage quite serviceable for reissue and we handle roughly 900,000 items a month across the country. The average percentage made serviceable for reissue—this does refer to suits, but refers to everything—70 per cent or roughly 600,000 items each month. The value of the item so salvaged based upon 50 per cent of the cost of new articles, the average roughly is half a million dollars a month. Now, we have a certain percentage of stores returned from the units that are serviceable although they have to be examined. For instance, when a unit goes overseas he must go over with boots and clothing and all other equipment in perfect condition whereas if that unit had stayed behind for another two months he would still be wearing his boots and still be wearing his clothing; but, if his clothing will not give him 75 per cent more wear, and if his boots are in the same condition, they are taken from him and he is reissued with new. That is salvage that we get back. Then there is what is known as non-effectives, fellows who have been discharged, and

fellows who have gone overseas that we repair and salvage and reissue again.

Q. And this suit that we were talking about a little while ago, this number one issue, that is sent back to you; do you recondition that suit and reissue it?—

A. That is—

Q. What do you say?—A. We have just completed a survey on clothing—

Q. Well I think my first question is answered.—A. That is the way they do.

Q. That is the way they do?—A. And generally speaking we save about 50 per cent.

Q. Do you give any particular name as to the issue of worn clothing?—

A. We did.

Mr. McIVOR: You don't call it new.

The WITNESS: No, it was called part-worn. But, let me digress for a moment: we had some of them in our survey—you know that 1,500 men—that part-worn or lying on the shelves in some cases up to two years and was not being issued as quickly as it should be issued.

Hon. Mr. HANSON: In other words, they did not want the boys to have it.

The WITNESS: Well, some of the quartermasters did not like issuing it and some O.C.'s want their men always to have new uniforms; but that did not help us much, and it did not help the wool trade out much, it did not help to solve the labour situation; and so our recommendation after this survey was that it should be treated the same as new garments and we give effect to that in an Army Routine Order—we just got that the other day and it is now law. I will read it to you, if I may:—

Except in the case of issues to troops proceeding overseas (see para 12 below), Quartermasters will issue in exchange reconditioned serviceable articles so long as they are in unit stock. If none is in stock, new may be issued. This is of the utmost importance, as Ordnance will fill unit indents with reconditioned serviceable articles so long as they are in Ordnance stock.

Hon. Mr. HANSON: In other words, they now take it from you and reissue it?

The WITNESS: Yes.

By Mr. Golding:

Q. What was the date of that?—A. It was about two weeks ago, the results of our survey.

By Mr. Isnor:

Q. Then you do issue reconditioned clothing to the armed services?—
A. Absolutely; sure, we do.

Q. What percentage of what is turned in do you recondition?—A. I should say it would not be much more than 40 per cent—at that I am only guessing at it, as a matter of fact we handle only certain types of stores because to do it all adequately we would have to have more repair shops, technical shops; we would have to put in a supervisor and all sorts of technical equipment—we do a certain amount of repairing shoes, a certain amount of textile work; we have repair shops, we handle such things as boots, clothing, textiles and we have a saddlery shop. Our tailor shops manufacture about 300 special sizes of uniforms per month and carry out alterations of about 2,500 more each month—repairs to clothing of all kinds amount to 20,000 garments of various kinds each month.

Q. After you reissue this reconditioned clothing and it is turned in the next time, what happens to it?—A. If it is worth the cost of repairing and cleaning, it will be repaired and cleaned and reissued to somebody else.

Hon. Mr. HANSON: But it must be 50 per cent worn?

The WITNESS: Yes, that is in the order.

By Mr. Isnor:

Q. Just one other question, as far as this issue to the Indian department is concerned of worn clothing; is that done before it is condemned by ordnance and passed on to your people?—A. When we do not think a garment is worth repairing for reissue to the troops and we think it is still a garment that will save some poor devil from going around with nothing on, we sell to the Indian department, we will say. And what we are worrying now about is this, that we have made a further recommendation—owing to this new order—we will have some of what we call garments that will not give us 50 per cent more wear, and we are thinking of making some changes—say a battle dress blouse with the shoulders taken out and dyed blue with a prisoner's war badge put on the back and we hope that some day they will take them to reissue to prisoners of war instead of buying them new cardigan sweaters.

Hon. Mr. HANSON: That is sound.

By Mr Isnor:

Q. Just while we are on this point there is one further thing I would like to clear up. We have had a large number of discharges in the Canadian army, some men who were just in for a very very short time. They all received an issue; and it would be very unfair I suppose for me to say that because of the issue of clothing to those discharges as well is a cost to the country of thousands of dollars for the cost of their clothing and that it is of no further use?—A. It would be absolutely wrong.

Q. You say it would be wrong?—A. The reason is, that is what we are here for, to make those economies.

Q. That is what I say. I prefaced my remark by saying that it would be unfair for me to make such a statement as that.—A. It would be ridiculous. I have just told you there is no waste in the Canadian army.

Q. There is bound to be waste. Wherever there is war there is waste. Wherever there is business carried on, there is waste.—A. When I say waste, it is not what I call waste.

By Hon. Mr. Hanson:

Q. What you are trying to do is to minimize it as much as possible?—A. Yes. And we have done that.

By Mr. Isnor:

Q. That is a ridiculous statement for anyone to make, you say.—A. I say if anybody were to make a statement that there is waste going on in the Canadian army, I should say it would be wrong.

Q. That is all right.—A. I am not going to say you are not going to have one isolated case here and there. I am taking the army as a whole.

By Hon. Mr. Hanson:

Q. You are speaking with reference to stores?—A. I am referring to stores.

Q. You are confining your remarks to that?—A. I am referring to stores. Coming back to the question of issue: a man, when he joins up, now gets one new suit and on which we will call a reconditioned suit. The reconditioned suit he will use for fatigue work, training purposes and the likes of that. If I could read you some figures here, they would give you some idea of our operations in the way of salvaging and disposal work in the Canadian army that has been going on for possibly now nearly two years.

Q. Before you leave this question of waste, would you know anything about the use of gasoline in the home establishment?—A. No.

Q. Because that is where I think there is tremendous waste.—A. That is not ours. That is some other department.

Q. I rather gathered that it was.—A. That is for somebody else.

By Mr. Noseworthy:

Q. While you are on the question of issue, could the Colonel tell us how it is possible for men who are now in their fourth year overseas to be wearing the same uniforms as they were issued before they left Canada?—A. A man that joined the army four years ago, and stayed in Canada, and he is still wearing the same issue that he was given on the first day? All I can say is this, that that man has looked after his clothes as we have asked him to do, sir.

The CHAIRMAN: You asked a question about the man overseas.

Mr. NOSEWORTHY: I have received several letters from men overseas who tell me that they have found it impossible to get a re-issue of clothes, that they are still wearing the same uniform that was issued to them while they were in Canada, although they have been three years overseas, and it has now reached a stage where they are ashamed to wear them.

Hon. Mr. HANSON: Do they suggest that they are in rags? I was over there and saw a good many Canadian men, and I do not think they were in rags. You and I are wearing suits made four or five years ago. Here is one all patched up. I am not ashamed to wear it. It is serviceable.

The WITNESS: It is an honour to come with a patch upon your pants to a government office to-day, anyway, is it not? They say so in England, anyway. However, I cannot answer that question. I have not been overseas. I doubt it very much, because the officer commanding of the regiment would raise so much hell that he would get suits; and we do know they have been issued with British suits, just the same as they have been issued with British boots when we have been short possibly through sinkings or the likes of that.

By Mr. McIvor:

Q. Suits are not denied the men when the officer sees there is need for them?—A. Absolutely not.

Q. There is no shortage of clothing?—A. No.

Hon. Mr. HANSON: No.

The WITNESS: What we are concerned with is when it has been spoiled through not fair wear and tear. Where that is the case we send it back to the officer commanding and want an explanation.

By Mr. Boucher:

Q. You cannot give us any information at all as to what basis they are re-issued on. All you are doing is disposing of those that are taken back?—A. Absolutely. And to try to drive that home, we had these little tags put on our reconditioned suits (indicating tags) "If every soldier in Canada will make his battle dress last for one more month by ordinary good care, the saving to our country will be over one-half million dollars. He will also save approximately 126,000 yards of cloth; 1,720,000 buttons; 140,000 man-hours of labour. Why shouldn't you do you share to make it last?"

By Hon. Mr. Hanson:

Q. Did you get a response to that?—A. Yes. As a matter of fact, the co-operation within the army has been marvellous.

Q. You pay them that tribute?—A. Absolutely. We have given them lectures. We have given them the facts and figures. In fact, the last one we gave out to the man himself. This is the second pamphlet we have put out called "Figure it out for yourself" in which we told the man. We put this in all our repaired boots and the likes of that, telling the man exactly what he would save by just looking after his equipment. They appreciate that, and they read it and they get lectures from our own officers and the likes of that.

By Mr. Gladstone:

Q. Complaints of the character mentioned by Mr. Noseworthy were brought to the attention of the Minister of National Defence and parliament last year. He made an investigation and found that there was a dislike on the part of the soldier to some re-issued suits for the reason that in impregnating these suits they changed their colour somewhat.—A. They are only being impregnated for overseas; it is not in this country. That is a natural objection. Everybody wants a Rolls Royce car.

Hon. Mr. HANSON: No, not everybody.

The WITNESS: But we cannot afford it. In view of the labour situation and the wool situation, we have got to use up what we have got. In connection with trying to educate the man and the officer, there was the first poster we put out. That was an actual record. We sent 1,500 of these overseas and we put out 6,500 in this country, 1,500 of them in French. After we were given the job of taking over the non-technical shops, we bumped into the boot situation. A year ago, as a matter of fact, the army ordnance shops were repairing about 6,000 pairs a week. The number of boots being condemned across the country averaged about 28 per cent. In some districts it was as high as 60 per cent. Do not blame the army. The army was not to blame. It was purely and simply a question of getting the men to do the work, sufficient men to find out how many boots 1,000 men would produce per day for repair in given areas, to find out how many boots a man should repair a day; and then it is just a matter of going into it on a business basis. In the results of our survey, we recommended that the army should do the R.C.A.F. boots in locations where there was not sufficient air force personnel to justify a shop. We are all working for the same firm and we all get paid from the same pot.

By Mr. Gladstone:

Q. What relations, if any, do you have with the air force in the matter?—A. I am just giving you that. In our survey we recommended this. At the present time we have just started. We formed a committee, an inter-service boot repair committee; and we are doing, I suppose—last week we did nearly 3,000 pair of air force boots.

By Hon. Mr. Hanson:

Q. Up to this time they had their own set-up?—A. No. They had one shop in Toronto. They are doing it by local contracts. To-day we are doing across the country anything from 22,000 to 25,000 pairs of boots a week. In one shop alone two weeks ago we did 4,790 pairs of boots. We are trying to give them 48-hour service. With troops for overseas we give them the preference, a priority, and they get 24-hour service. The percentage condemned to-day is down to 13 per cent. We figure we have saved a million dollars on boots with our eyes closed.

Q. In the early stages of the war, was there trouble over the specifications? I have reference to the lasts.—A. Yes. That is so.

Q. I have heard manufacturers criticize the lasts, the shapes.—A. May we have this for discussion and not publication?

Q. It need not go on the record if you do not wish it to.—A. I do not think it should.

Q. Very well.

(Discussion off the record.)

By Mr. Boucher:

Q. How do our Canadian boots compare with British boots?—A. That is what these people went over for. As to the British boots—they say themselves, "Our men have to go everywhere. We want a boot that will stand up in Egypt just the same as it will stand up in Iceland. We made 90,000,000 pairs in the last war. We are not changing. If you want that, you may be perfectly all right. They may be more comfortable than ours." They may be this and they may be that. But when you speak of boots for the army, you have got to figure on what the man has been used to in civilian life. The British were used to a tough boot because they have to have tough boots for the climate and the condition of the roads. The American army are walking on rubber. They are walking on a boot that has a very light upper, compared with ours. There is no comparison as regards the two boots. The Canadian is used to a medium-weight boot, and he has always liked a welted sole. All right, that is what he has been given in the army. The Britisher says, "No. We will give them a nailed shoe because we think he has got to have a more solid piece of leather to walk on." However, the Canadian soldier does not like that; and after all is said and done, you have got to consider his feelings.

By Hon. Mr. Hanson:

Q. He is the one who has to wear them.—A. He is the boy that has got to wear them.

Q. Yes.—A. And in this survey that was all brought out. There were thousands of questionnaires sent out, and all these things are shown. The outcome of it is that the new boot proposed is our present boot with a "billed" sole on top of it, with a different leather for the insole. It is, to my way of thinking—although I am not a boot man—a wonderful boot.

By Mr. Gladstone:

Q. You have worked out some co-operation with the air force as to boots. What about uniforms?—A. They do not wear the same uniforms as we do.

Q. Have they a system of reclaiming them?—A. Yes. They have a system of reclaiming.

By Hon. Mr. Hanson:

Q. That is a duplication, is it?—A. A duplication. It is a different service.

By Mr. McIvor:

Q. Do they use the same style of boot?—A. No. Theirs is a different boot. It has got a different filling and they have different lasts, I believe, too. They have a rubber heel. Ours is, of course, leather, with a heel tap.

By Mr. Boucher:

Q. Have you had any trouble with your salvage owing to grease in the boots put in by the manufacturer?—A. No.

Q. With respect to it deteriorating them?—A. No. We have asked the officers commanding to particularly stop the men polishing their boots so much.

just by putting an iron on them and putting various other things on to get up a polish. Now they have been using dubbing all the time; but there has been no complaint from that point of view.

Q. What I mean is in the manufacture of boots a considerable amount of grease is put into the leather. Have you had any difficulty in salvaging or with regard to the length of wear, by virtue of these boots being greased?—A. No. To follow the boots to a conclusion, as I say we are doing anything roughly from 22,000 to 25,000 a week. We have 500 people working on boots. Boots that are condemned as not fit for further use in the army, are reconditioned; and those that are fit for re-issue to prisoners of war are issued to prisoners of war; and prisoner of war camps are repairing those boots. At one time we used to buy boots for prisoners of war. At one time we used to buy coats for prisoners of war. In the last two years we have been issuing them with the old pattern great coats that have been dyed dark blue with the prisoner of war badge in the back. We have issued many thousands of these.

Q. And that has been a saving?—A. That has been a saving to the country not only in the raw material, but in the labour. Boots that are fit for re-issue to prisoners of war are re-issued to prisoners of war and they use them. Those boots that have good uppers are going to be rebuilt in one of our shops. We are going to make boots from the sound uppers, and the boot that is not fit to re-issue to the troops, not fit to be re-issued to the prisoner of war—there is nothing you can do about that. It is being done in England. Manufacturers are doing it in England. In America they have got a place at Burford where they are doing nearly 30,000 a week. Also there is another firm not far from there doing a large quantity.

By Mr. Boucher:

Q. What use will be made of these boots?—A. They will be issued to the troops. We have had them out in tests. You do not know the difference.

By Hon. Mr. Hanson:

Q. None of these re-issued goods, of course, come in competition with the trade for the general public?—A. No.

Q. You have never allowed that sort of thing?—A. No. We have enough troubles of our own without worrying about that.

Q. Is there anything more you want to tell us on this question?—A. On returned stores? Yes, I would like to give you some figures.

By Mr. Isnor:

Q. Before you start with the figures, I have one question in regard to prisoners of war. Do you issue any of this clothing to prisoners of war?—A. Yes, to prisoners of war. When you say "clothing", we issue them the great coat.

Q. Where does that great coat come from?—A. That was the old pattern great coat that was discarded by the army, and we were selling them as rags two years ago. Now they are all being salvaged, and all being used for prisoners of war and other things. They have been going to the Department of Indian Affairs because the Indian women make petticoats with them. They make clothes for their children. They also make quilts out of the bits left over.

Q. That is with regard to the great coats. Are any uniforms issued?—A. No.

Q. Just the great coats?—A. The great coats. We were fortunate enough the other day to buy from the air force a large quantity of shirts that were not just right and they are being issued to prisoners of war after they have been treated.

By Mr. Winkler:

Q. Does the issue to prisoners of war conform to the Geneva Convention?
—A. I presume so. I presume if you clothe them properly and warmly, that is all they can expect you to do.

By Hon. Mr. Hanson:

Q. The convention does not have a specification. They have to be clothed. Go ahead, sir.—A. The average number of items of general stores in unserviceable condition—and some of them, not all of them, are received in serviceable condition—returned to ordnance depots from units and handled by returned stores groups each month is roughly 900,000 items.

The average percentage made serviceable for re-issue is 70 per cent, or 630,000 each month. The value of the items so salvaged, based on 50 per cent of cost of new articles, averages \$500,000 each month.

By Mr. Isnor:

Q. Let me get that clear in my mind. Fifty per cent of the first cost goes back into service?—A. No.

Hon. Mr. HANSON: That is not what he said.

The WITNESS: No. For a basis of valuation it was agreed with the deputy minister in our monthly returns that we will take the valuation. The deputy minister said, "All right. Is it paying?" So we gave him our costs of conditioning sorting, repairing, laundering and pressing. We did not give him our rent costs. That was going on before. We did not give him our administration costs because that was going on before.

By Mr. Isnor:

Q. But not to the same extent.—A. When you start talking about your costs, you are getting into very deep water, anyway, as you all know.

By Hon. Mr. Hanson:

Q. It is purely operation?—A. Yes, operation. We valued it at 50 per cent. The average percentage unfit for troops but suitable for use by other government departments which is segregated and transferred at mutually agreed prices—why we say "mutually agreed prices" is this. It is the practice of a government department to transfer goods from one to the other without any payment. That is a paper transaction, the argument being it is all out of the same pocket, so why worry about it? We did not agree to that. We said there should be a payment. I think we are the only people doing that. But if somebody wants something, he has to pay for it. To encourage them to take this procedure, we made prices on bags. For instance, the Post Office Department refused to pay for the sacks we used to supply them with. They argued they were doing everything else for the army and goodness knows what. However, to carry out the regulation laid down there we said, "We will make them a cent apiece." They were worth on the market maybe 6 cents or even as high as 10 cents. But we transferred on an agreed price basis. Whether it is metal or whether it is old equipment—for instance, these refineries that we had for refining oil, we sold those back to other government departments who could use them to advantage. In other words, we do not sell to the trade what we can use within government organizations; as far as we are concerned they pay.

The average percentage unfit for troops but suitable for use by other government departments which is segregated and transferred at mutually agreed prices was 2 per cent; in other words, 18,000 items each month. The average amount secured from such transfers is roughly \$4,500 per month.

The average percentage of scrap material derived from stores beyond repair and used for manufacturing and repair purposes in our shops is 4 per cent. In other words, we use a large quantity of material from unserviceable stores for the repair or manufacture of our own articles. For instance, in clothing: we supply all the units with sufficient clothing material to do their own repairs. We use it ourselves. The value of articles so manufactured is about \$15,000 per month. The average percentage converted into disposable scrap material carefully sorted to obtain maximum prices and sold is 22 per cent or 198,000 items each month. In other words, there are 198,000 items that are brought to produce. If we cannot find a use for them, or the armed forces cannot find a use for them, because that is our job, we sell them. But we sort them to get the top price.

By Hon. Mr. Hanson:

Q. Who do you sell them to?—A. To the trade. For instance, mattresses at one time were being burned. We stopped that. First of all, we grade in our returned stores group, thousands of pounds of rags that are washed and used as wipers. We used to buy those at 18 cents a pound. The coloured cotton felt from the mattresses is now sold anywhere from \$1.58 to \$2.25 a pound. The ticking is used for rags.

By Mr. Winkler:

Q. What do you do with worn underwear?—A. It is all sold.

Q. In the same way?—A. Yes. It is all sold.

By Mr. Isnor:

Q. Can you give us a breakdown of these articles? You mentioned 630,000, if I remember rightly. Could you give us the number of pairs of boots and socks turned in per year? Take last year, 1942. Have you those figures?—A. No.

Q. Then there is no way we could set up a comparison. If I remember rightly, in 1941, or in one contract for socks, there were 10,000,000 pairs of socks purchased in one year.—A. That figure would mean nothing.

Q. No, it may mean nothing to you.—A. I will tell you why.

Q. It would mean something to me if I knew the number of pairs of boots you salvaged and re-issued during the year as against that number.—A. We know the number of boots that we have repaired.

Q. I see.—A. We know the number of boots we have salvaged and we know the number of boots that have been produced.

Q. Could you give me the number of boots and socks?—A. We cannot give you the socks. We have not salvaged socks.

Q. It is not worth the trouble.—A. And then furthermore, take boots or take socks—especially our boots. The life of a boot in a district like London is altogether different to the life of a boot in Prince Rupert.

Q. Yes. But the total of the numbers purchased and the total salvaged—
—A. We cannot give the number purchased because we do not control that.

Q. We could get that elsewhere?—A. Yes. What we can tell you is the number we have repaired and the number we have condemned. We could give you those figures.

Q. Could you give us, roughly speaking, the number of boots per soldier per year that have been condemned of the new boots issued?—A. Well, our figures were running about roughly 2,500 boots condemned every week, which would give you a figure of just over 100,000 a year. That would point to the boot lasting more than a year. In the spring, possibly owing to conditions of one kind and another—the number of condemned boots for last month has jumped to something like 4,200. We think the army boot is good for nine months' wear.

Hon. Mr. HANSON: That is very important.

The WITNESS: Nine months' wear. That is across the continent.

By Mr. Isnor:

Q. Before they are condemned?—A. Yes.

Q. They are repaired?—A. Yes. They are repaired. That is our trouble. In fact, in some cases, we repair a boot every three weeks.

Q. I think you have done an exceptionally fine job in so far as boots are concerned.—A. Thank you. We have done a good job in everthing.

By Mr. Boucher:

Q. That would be under the assumption that each soldier has one pair of boots.—A. He has two. He has three. He has two boots and a walkout boot and he has a canvass pair of shoes.

Q. I am speaking as far as the average is concerned. You would say that each soldier would use, on the average, about three boots every nine months?—A. No, no. One would be washed out.

Q. I just wanted to make sure.—A. One would be washed out. May I proceed?

By Mr. Hanson:

Q. Yes.—A. Continuing: The percentage of items of which there is no value—we have enamel ware, crockery and the likes of that and maybe pegs and other things. The average percentage of items which have no value whatsoever and are disposed of as rubbish is 2 per cent, roughly, or 18,000 items per month. The persons employed in returned stores groups number about 425 people.

To keep that thing on a business basis, every month we get a cost sheet out and send it to everybody so that they know exactly what is going on through the country, the percentage of condemned, the percentage of repaired, the cost of handling, the tailors' wages, the wages of the textile and saddler shops, and the wages of the boot repair shops. We give that to each district salvage officer so that he knows exactly what is going on. And naturally we raise observation where he is above the average.

By Mr. Isnor:

Q. Did you put on the record the number of districts?—A. Districts?

Q. Yes, districts.—A. There are eleven military districts. In some places we have one returned stores group; in other places we have three or four.

Q. What is the total number?—A. The total number across the country, I should say, would be in the neighbourhood of possibly twenty-two. For instance, at Esquimalt we have one. We have one in Vancouver. There is one in Prince Rupert and Prince George.

Q. How many have you in M.D. 6?—A. In Halifax? We have one in Halifax only.

Q. You have none at Debert?—A. No, not what we call a returned stores group. We have salvage operations going on in Debert just the same as we have in Camp Borden. But we send stuff into Halifax because it is cheaper to operate in that way. Continuing: Sales of disposal stores. Although the board takes the view that the less we have to sell, the better we are doing our job of salvage and conservation, amounts received from the sale of scrap material are more than double the monthly amount of one year ago and average \$50,000 per month. In other words, in our little show we have a slogan to the effect that any fool can sell, but it takes a good man to get a good price. It takes a better man to find a use for it in the armed forces.

The number of persons actually employed by the board in selling and transferring scrap material are two officers, two clerks, one stenographer and one typist, a total of six. The sorting, baling, etc., is done by personnel in returned stores groups in ordnance depots across the country.

Repair and Manufacturing. We were given, after a year's operation, supervision of the non-technical shops because they are part of salvage operations and we were working closely with them, although we had no control over them. So now we supervise them, so that we have control and we can get them to repair things possibly maybe they would not want to repair under the old regime.

In addition to the reconditioning of stores returned to ordnance, the board is responsible for the repair and manufacture of non-technical stores for units and supervises boot, tailor, textile and saddler shops. This involves giving direction in repair methods, shop organization, trade testing and the care of boots and requires the procurement of supplies, machinery and parts. For instance, in our survey we find that everybody has his own little ideas of repairing boots. Some people would do it one way and other people would do it in another way, depending on how a man was trained and what sort of shop he had been trained in. Now there is a standard method right all the way through; in fact, non-technical shops have practically been standardized all the way through. This involves giving direction in repair methods, establishing organizations, trade testing and so on; and requires control of supplies, machinery, parts, etc.; for instance, our machinery now is becoming standardized so we will have less trouble in parts.

Q. Is that your own machinery, or is it hired?—A. It is all bought, except some which cannot be bought for the rebuilding plant. The output of the boot shop has been increased from 6,000 pairs per week to approximately 25,000 pairs per week in less than a year, and the rate of condemned boots has decreased from 28 per cent to 13 per cent of those sent in for repair; and we are now repairing R.C.A.F. boots. In the spring of 1942 the sale of so-called condemned boots was stopped and the board commenced operations on an accumulation of about 75,000 pairs. We found that boots were condemned that we did not think should have been condemned and it was probably from lack of group personnel, trained bootmakers; and we brought them up to Aurora where they were sorted—that is the way we started. They were sorted and about 20 per cent were put through a very thorough reconditioning process which made them ready for re-issue to the troops. They are reconditioned, repaired on lasts, treated with preservative and re-issued. About 30 per cent were reconditioned for use by prisoners of war, thus eliminating the purchase of prisoners of war boots that used to cost about \$3.25 a pair. About 50 per cent were beyond repair and 35 per cent of those had good uppers and these are going to be shipped to our rebuilding plant which will open in Montreal shortly. We figured that we should be able to recondition approximately 60,000 pairs of boots—and then, with the remainder, there would be the stripped sole that we get from the boot on which the uppers are going to be used. We save that middle sole and make good use of everything else we can. After removing the uppers, the remaining stripped soles and so on were completely broken up to salvage counters, shanks, heels, etc., and these used in boot repairs in lieu of new materials. The personnel employed in the boot repair shops numbers about 500 people across the country.

Textiles—I gave you that a while ago.

By Mr. Isnor:

Q. Do they receive tradesmen's pay?—A. They are not all military men. In towns we try to employ civilians. Where they have to be put in camps they are mostly soldiers. We have also women employed in some of these shops. We

are increasing the number of women employed in shops. In England some of the women are running the whole shop. Textiles and saddler shops: the number of items manufactured in textile shops averages about 7,000 per month and the number of items repaired averages about 2,000 per month, most of which are tents. During the winter season a total of more than 9,000 of various types were repaired and are now being re-issued. The number of persons employed here is roughly 150.

Then I come to our laundry service: the laundry situation is deteriorating, not only in this country but also in the United States, as you know. The chairman of the service laundry committee—which takes in the air force, the navy and the army; and the reference is that we are not to put up laundries if the civilian laundries are in a position and are giving satisfactory work, but where a laundry is to be put up it is put up to take care of the three services; in other words, the navy are not putting up their laundry and another one started for the army and another one for the air force, you see; one laundry going up to do the work of the three services with a view to relieving the situation, where the situation is most serious. We have nine mobile laundries now in various parts of the country taking off the pressure at urban centres and also providing a service in remote places—just recently we have made a survey of the laundry blanket business, and instead of washing army blankets as we have been doing and then disinfecting them they are now going to be disinfected. The army regulations call for—a blanket is not to be washed more than twice a year unless it is filthy. Now, that does not refer to blankets from contagious disease hospitals, because they are treated differently; but we did discover that blankets that were only being used a month or two months were being rewashed before they were re-issued. Now, if these blankets are going to be disinfected at a cost of one or two cents as against a cost of ten cents; and we believe that we shall save 600,000 blankets a year, and the blanket will last longer through not being washed so often.

By Mr. Winkler:

Q. What is used as the disinfectant?—A. The method approved by the medical authorities and the provincial department of health; it is a form of lethal gas—it is used by the Canadian Pacific Railway and the Canadian National Railway.

By Mr. Isnor:

Q. Where are our blankets handled in eastern Canada; where is this cleaning done?—A. The cleaning is done in every district. As a matter of fact, we had laundry and cleaning contracts running over \$2,000,000 a year.

Q. I understood there were some sections of the country where they were handling blankets that were shipped as far as to Montreal?—A. That is right. At the same time—

Q. You say that is right?—A. Yes; worse things will happen than that if we do not get the facilities. We have a pilot laundry up at Uplands; and we have one going up in Barriefield; we are now putting up for a laundry to go up in certain parts of northern British Columbia; and last week I was in to Camp Borden on the prospect of putting up a laundry there. We have got to keep our men clean.

Q. Yes. How is the situation let us say in New Brunswick and Nova Scotia in respect to handling blankets and general laundry work?—A. We have just bought a big laundry in Halifax.

Q. Did you?—A. Yes, and the navy put up a laundry at St. Johns, Newfoundland—the navy has two, the navy have a laundry in the north of Newfoundland; and the air force had a laundry in Newfoundland (Gander) and the air force are putting up a laundry in Moncton.

Q. Did you say buying one?—A. No, putting one up.

Q. Did you say you bought one in Halifax?—A. Yes.

Q. You took over a laundry?—A. We took over a laundry, yes.

Q. You are satisfied of course that the remaining laundries could satisfy the civilian population?—A. That is not our problem, for one thing.

Q. But I thought you said a moment ago that you took into consideration whether or not the laundries were giving adequate service?—A. In the city of Halifax the civilian laundries do not handle the washing, our situation was deteriorating rapidly, our men were not being kept clean, and there was only one thing to do, to buy the laundry—the Americans have bought thousands and thousands and thousands of them.

Q. Don't think I am questioning that; what I am trying to find out is—at first, you said that you had taken over a laundry?—A. Yes.

Q. Now, like every other member of this committee, I appreciate the fact that you want to see the blankets clean, when the troops come in you want to have machinery adequate to take care of the demand—the men must be kept clean; but I was wondering as to whether you were wise in taking from the civilian population the laundry, and whether it would have been better for you to have gone out as you have done in other districts and put up your own laundry—you could secure equipment where they could not.—A. That was a question for the department concerned who came to the conclusion that they needed a laundry quickly; and we knew that to equip a first-class laundry—to put up a modern building and get the machinery—if they had put up a building or even rented a building and put machinery in, it could not be done in less than twelve months time, or if it could be done in twelve months time we would have been lucky. We could not wait twelve months.

Hon. Mr. HANSON: You mean, you could not get the equipment?

The WITNESS: It was not a question of that—we knew it would take so long to get it, and it would take long to get it—it has taken us now two months to get two small bits of equipment for the unit we are putting up at the Barriefield camp.

By Mr. Isnor:

Q. How long ago did you start negotiations about the laundry in Halifax?—A. Halifax has been a headache since before I took over the job.

Q. Yes; that would be how long ago?—A. I understand the Halifax situation has been rotten for over a year.

Q. I beg your pardon?—A. I understand the Halifax situation has been rotten for over a year.

Q. Well then, if you had thought of that policy of putting up a laundry nine months ago you would have had a laundry in operation there today.—

A. That might be true, but possibly nine months ago the situation was not what it is today, maybe there is an increase in the troops in the area.

Q. Well, what I had in mind was— —A. Listen, just a minute; at that particular time possibly there was only so many troops in the area and the situation has deteriorated on account of there being a larger number of troops in the area. And now you come to a time when the situation is more aggravated; you cannot say to somebody don't sent troops into there because we cannot wash them.

Q. You have been in touch with the situation in Halifax and you know there has been a need for a laundry for the last year. You knew that you had to send blankets all the way from Debert to Montreal to be cleaned because you could not handle them. You have had to sent carloads to be reconditioned, by train.—A. Yes, we got a good price. Do not be mislead on this situation.

Q. Oh, I know; but that is the situation.—A. Just a minute, do not be mislead by this situation. We sent carloads of clothes from Halifax as a matter

of fact; and while we did not like it, it was not bad business, and the reason for that is this, first of all we got an exceptionally good price for doing the job and we could use the goods in the Montreal area.

Q. You say you can use the goods?—A. Yes, so therefore you are not talking just nonsensically; it is just a question if it was not good business.

Q. You mentioned a little while ago about a one-cent or two-cent cost for that operation; I am wondering if you are taking into consideration in making up that cost whether you also included the cost of transportation?—A. We took all those factors into consideration. But you also have in there another factor where the material is of vital importance cost is negligible; when material is not of vital importance, for instance in northern British Columbia, it will not pay us to move certain stuff from there. Where the freight rate is \$10 per ton, more than we could get for it, then we do not move it.

By the Hon. Mr. Hanson:

Q. The situation in Nova Scotia was accentuated by the establishment of a camp at Windsor?—A. Yes, that is right.

Q. So that you took all the factors into consideration and you bought the laundry?—A. Yes.

Q. And there is a larger demand for the service now, I understand?—A. Yes, there is a situation there now, I think the Americans were widely interested in that particular area as well.

(Discussion continued off the record.)

By Hon. Mr. Hanson:

Q. Well, doesn't the soldier wash his own shirt in this war?—A. Well, there are some of the boys who do their own washing.

Q. I am not arguing the case, but I know it used to be that.—A. Well, I might say at some points the air force are giving services to the personnel to do their own washing. As a matter of fact, at Camp Borden I asked that question; because it means quite a headache, washing so many thousands of bundles a week and they all have to be marked and sorted; and I was told that 70 per cent of the men would have their own personal washing done if we put up a laundry—but they cannot get it done now.

By Mr. Isnor:

Q. I thought that you made an exceptionally good job as far as boots and shoes were concerned— —A. Thank you, sir.

Q. Would you tell us what you propose doing at Debert, about the situation there?—A. Debert—we have a mobile laundry in Debert now. We have just authorized an ironer to do hospital sheets. If we come to the conclusion from our tests at Uplands and our tests at Barriefield that they are sound and we are going recommend to the powers that be that they put a small laundry in Debert.

Q. That is a laundry; what about shoe repairing?—A. Shoe repairing is being done in Debert; we did 681 pairs last week.

Q. Yes; I understood you to say when you made your previous statement that you were doing that.—A. We have had that for a long time, at least nine months.

Q. Have you any figures to show the saving that you have actually made, taking into consideration the number of pairs of shoes that were repaired under contract as compared to the number of pairs of shoes that you are repairing under your present system?—A. We can only give you those figures pointing out what was being done by contract before—say the last 12 months—and the number being done to-day. I cannot tell you—I do not think there is any

being done by contract to-day, unless it is an emergency. We have stopped them. The reason is that we have better control over supplies, we have better control over the work, and we have the control over the quality that went into the boot; but not only that we can do it cheaper.

Q. Yes, much cheaper.—A. And then, we have got to train men for overseas—we save approximately 30 cents a pair, maybe 35 cents, I am not quite sure.

Hon. Mr. HANSON: Do we need to go into all this detail any further? I prefer to deal with general principles, if you want to say anything more on that line.

The WITNESS: That is what I would like to give you now, sir; I take it that what you want is our organization for post-war disposal.

Hon. Mr. HANSON: That is what I was coming to because Mr. Sellar himself has brought up this question.

The WITNESS: That is an important question.

Hon. Mr. HANSON: Yes, you will have large surpluses.

The WITNESS: Millions and millions involved. Realizing the situation is a serious one we submitted in January of 1942 a memorandum to the Master General of the Ordnance on this subject. We submitted another memorandum of the 28th of November and as a result of that memorandum we have established in our own organization a branch that is now working on an estimate of the amount of goods that will be for disposal when the show is over; to take care of the storage of same and, possibly to have an organization cut and dried so that there will be no confusion. There is also an interchange of stock going on between the three armed services, the surpluses of those departments. If we can pass our surpluses from one department to another we can save a great deal. We also have within the ordnance service an ever-present stock taking of stores that have become obsolescent, and those that can be declared obsolete; and we hope to have all that stuff in ordnance depots cleaned up before the cessation of hostilities, and that is now going on.

By Hon. Mr. Hanson:

Q. What do you propose to do? Let us take a concrete case and follow it through; I was thinking of motor vehicles of which there will be a very large number.—A. This is what we suggest sir: The following is the organization which the board suggests for the expeditious and economical disposal of stores and property acquired by the government in consequence of the nation's war effort.

There should be set up immediately a war disposal committee which will be a parliamentary committee charged with the responsibility of establishing the policy which will be followed in disposing of government stores and property.

Q. That is to say, you are going to leave it to a parliamentary committee? —A. Yes, I think it should be non-political. It should be a parliamentary committee because then if this committee decides they are going to give hospitals away it will know about it; or, if they decide they are going to sell them at a certain price, they will know about it; or, if they decide they are going to sell general stores to European countries they will know all about it.

By the Chairman:

Q. Col. Dailley, am I to understand you to suggest through this memorandum that you propose to enlarge the scope of this disposal board or committee to include all the government-owned property practically all operated for war purposes, including munitions plants and things of that kind? —A. Yes, sir.

By Hon. Mr. Hanson:

Q. You cover the whole field then?—A. Yes.

The CHAIRMAN: In other words, you are suggesting that that is responsibility which should be left with a parliamentary committee.

The WITNESS: It is your job, to our way of thinking. It is our opinion but it may not be worth a damn—you can take it for what it is worth; we are giving it to you.

The CHAIRMAN: I think it is important to this committee.

The WITNESS: It is our opinion, and you can take it for what it is worth.

There should be set up immediately a war disposal board which will carry out the policies decided upon by the parliamentary committee referred to above. This board will be responsible to the Minister of Munitions and Supply and the funds secured from the sale of stores or property will be received and accounted for by the Department of Finance.

The Chairman of the War Disposal Board should be a man of wide and extensive merchandising experience who is free of all political ties and who possesses sufficient personal wealth so that he could not be classified as a self-seeker.

Hon. Mr. HANSON: You are asking for the perfect man there.

The WITNESS: The procedure which is established for the disposal operations of the board should leave the chairman absolutely free from interference to carry out the sales in the manner which he decides will be most in the public interest and to carry on advertising, etc., according to good business practice rather than according to some established government practice.

Hon. Mr. HANSON: What is your suggestion as to an independent individual capable of doing this very difficult job you outline?

The WITNESS: If I may, I prefer to answer that off the record.

(Statement made off the record.)

Hon. Mr. HANSON: In any event you are going to take it out of the realm of the permanent force.

The WITNESS: Our permanent force officers are not trained to sell merchandise; how could they be? He does not think that way. If he is not suited for merchandising, of what use is he? If a fellow has not got card sense, he cannot play cards, can he?

Hon. Mr. HANSON: Some of them have a lot of luck, apparently.

The WITNESS: There should be set up immediately in all branches of the armed forces, in the Department of Munitions and Supply and in any other government departments which have acquired stores or property in prosecution of the war, an Obsolete Stores Committee, whose duty would be to review stores and property and to decide whether or not they are required. The recommendations of these committees should be made direct to the minister of the department in which they exist who would in turn pass them to the war disposal board through the Minister of Munitions and Supply for disposal.

Hon. Mr. HANSON: Just before you leave that; you say there that the War Disposal Board should be responsible to the Minister of Munitions and Supply; will they be under his control, or just report to him?

The WITNESS: They will have to report to some minister; they cannot have things completely in their own hands.

Hon. Mr. HANSON: He must report to the government however; do you say the minister should have the right of veto?

The WITNESS: I should say he will have to have that.

By Hon. Mr. Hanson:

Q. After all, this is government property.—A. The minister will have to put his signature there on an article that sells for half a million dollars or say a quarter of a million dollars—

Q. Yes.—A. If not, before you knew where you were, possibly you might pick a fool out and he would be letting you in for some trouble.

Q. I am inclined to agree with you; it is public property and there must be some responsibility in the government.—A. In the last war, as you know, the British government—say not the last war but going back to the days of the South African war—you will recall that many years ago there were serious scandals over this matter following the South African war—there was no such scandal following the last war in connection with the disposal of stores; I think I am right in saying that there was no scandal in any shape or form. They formed a War Disposal Board and the Ministry of Supply was responsible for the disposal of these stores and there were civilian and military men mixed up; and anyway it was all conceived and organized before the war show was over. In fact, I wanted them to put up a store at Hyde Park—that was one of my suggestions to them that they did not take up.

There should be set up an Obsolete Stores Committee whose duty would be to review stores and property and to decide whether or not they are required. My point about that is this; there was no organization for the disposal of government property within the army until our order in council, and our order in council set up an Obsolete Stores Committee and all stores from the directorates of ordnance must go to the Obsolete Stores Committee and they approve, and various other people approve, before we can sell it. So therefore my point is this, if there is an Obsolete Stores Committee in each of these government departments that will recommend to their own superior the disposal of certain stores; whether it is air force, navy, or munitions or whatever it may be.

There should be a government official appointed to carry out the transfer of stores and property from one government department to another and all such transfers should be paid for at mutually agreeable prices. That is going on now to a certain extent. It is no good selling what somebody else wants.

The Army Salvage and Disposal Board desires to submit also, the following recommendations in connection with the disposal policy:

- (a) The Obsolete Stores Committee mentioned above should commence now to eliminate stores which are at present obsolete so that utmost advantage can be taken of the wartime scarcities. This will not only result in better prices but will alleviate over-burdened storage space and will be a source of raw material for industry.
- (b) Consideration should be given to selling as much as possible of general stores, such as blankets and clothing to the governments of impoverished nations. This will assist in alleviating great distress and will prevent, to some extent, the flooding of Canadian markets. As the majority of such impoverished nations are in Europe, steps should be taken to see to it that stores of this type are not shipped back to Canada from Europe.
- (c) The War Disposal Committee should consult with leaders in the national business life, such as the Canadian Manufacturers' Association, in determining disposal policy.
- (d) The War Disposal Committee should establish close liaison with similar organizations among other allied nations to co-ordinate disposal policy, thereby contributing to orderly disposal in world markets.

For instance, it would be foolish if you found yourself in a position that—say the Americans over there and possibly they have 3,000,000, they are

all anxious to get home and they might sell the whole supply of three million blankets, let us say, at a dollar apiece. What are you going to do with your own 2,000,000 that have to be disposed of? They have established a price of possibly a dollar apiece. Maybe their blanket is not as good as ours; anyway you could not get the same figure. It seems to me there should be ways and means whereby that should be done orderly, and that there should be some co-ordinating between the various stocks.

Q. An arrangement made in advance before disposal?—A. Yes.

(e) The policy of the War Disposal Committee should contain a reasonable time limit for disposal action, keeping in mind the loss from deterioration and the enormous cost of storage and safe keeping.

Following the last war you will perhaps recall that there were quite a number of articles that there was absolutely no way of getting rid of and the cost of carrying those things is terrific; in many instances it costs more to guard it and look after it than the thing is really worth beyond a certain length of time. In other words, the same old story; keeping stock does not pay beyond a certain point; the old saying has it, that the first bite is the best bite as a rule. Therefore it seems to me that I would give this disposal board about a three-year life and review the situation afterwards; because there will be lots of people who will want to stay with the show until they die.

Q. Oh, yes.—A. And it may be a nice soft job. However, there should be a limit to the time you hold some of these things. We say that because we have been disposing of stores since we took it over; stores that have been lying around since the last war—there may have been good reasons why they have laid around all this time, but just think of what it costs to store them and to guard them. It comes to a small fortune.

Then we say, there will be no similarity between the stores used in the present war and those which will be needed for the next war.

Mr. McIVOR: There is not going to be a next war, I say. Is there?

The WITNESS: As you all know, we are not using the same boot, we are not using the same clothing, we are not using the same aeroplanes or the same kind of anything else.

By Hon. Mr. Hanson:

Q. They will be obsolete.—A. They will be obsolete; and if radio is what it is, possibly the whole war will be governed by Ottawa, you will be all pressing buttons and killing each other that way; goodness knows what will happen.

This has been proven by the large quantities of useless army stores that have been kept since the first great war and which are now being disposed of.

(f) The War Disposal Board should have representatives overseas so that disposal arrangements can be carried out properly without a repetition of the confusion which occurred after the last war.

It is our opinion that there should be an organization overseas.

Q. Well— —A. That is our view, sir.

Hon. Mr. HANSON: I should like to say on behalf of myself and I hope on behalf of the members of the committee that it has been a most interesting interview with you, sir.

The WITNESS: Thank you, sir.

Hon. Mr. HANSON: I can see that you are not a permanent army officer, you are a business man.

The WITNESS: The T. Eaton Company are looking after my salary.

Hon. Mr. HANSON: I hope the members here will give consideration to your recommendations. Certainly to me it has been an education. I am not a business man, I am a lawyer; I am not a politician either, I am a lawyer.

The CHAIRMAN: You are being particularly modest this morning.

The WITNESS: You have had lots of publicity anyway.

Hon. Mr. HANSON: I did not make it.

The CHAIRMAN: Gentlemen, before we adjourn, has any member of the committee any suggestion to offer with regard to the next meeting, as to whom we should call as a witness, or whether we should continue with the colonel?

Hon. Mr. HANSON: I should like to read over what he has had to say. I would not like to ask as busy a man as he is to come back here for cross-examination on mere detail. We have his picture. Unless you want to cross-examine him I would not suggest bringing him back. You do not want to come back?

The WITNESS: No. I do not care a damn; I am here to serve you, but we have a job to do.

Hon. Mr. HANSON: On the point of the audit which started this, it would be an additional safeguard.

The WITNESS: Yes. In the British army soon after war was declared in 1914—I have a brother, a war office official—certain civil servants were immediately called in and they made one a major and another brigadier and they all went to France and their job was to watch expenditures and waste of stores right in the field.

Hon. Mr. HANSON: That is a big job.

The WITNESS: In other words, they checked the stores in the various depots and they wanted to know why certain stores were lying around so long and such things as that.

Hon. Mr. HANSON: That would be a big job and would have a great effect.

The WITNESS: Sure it would.

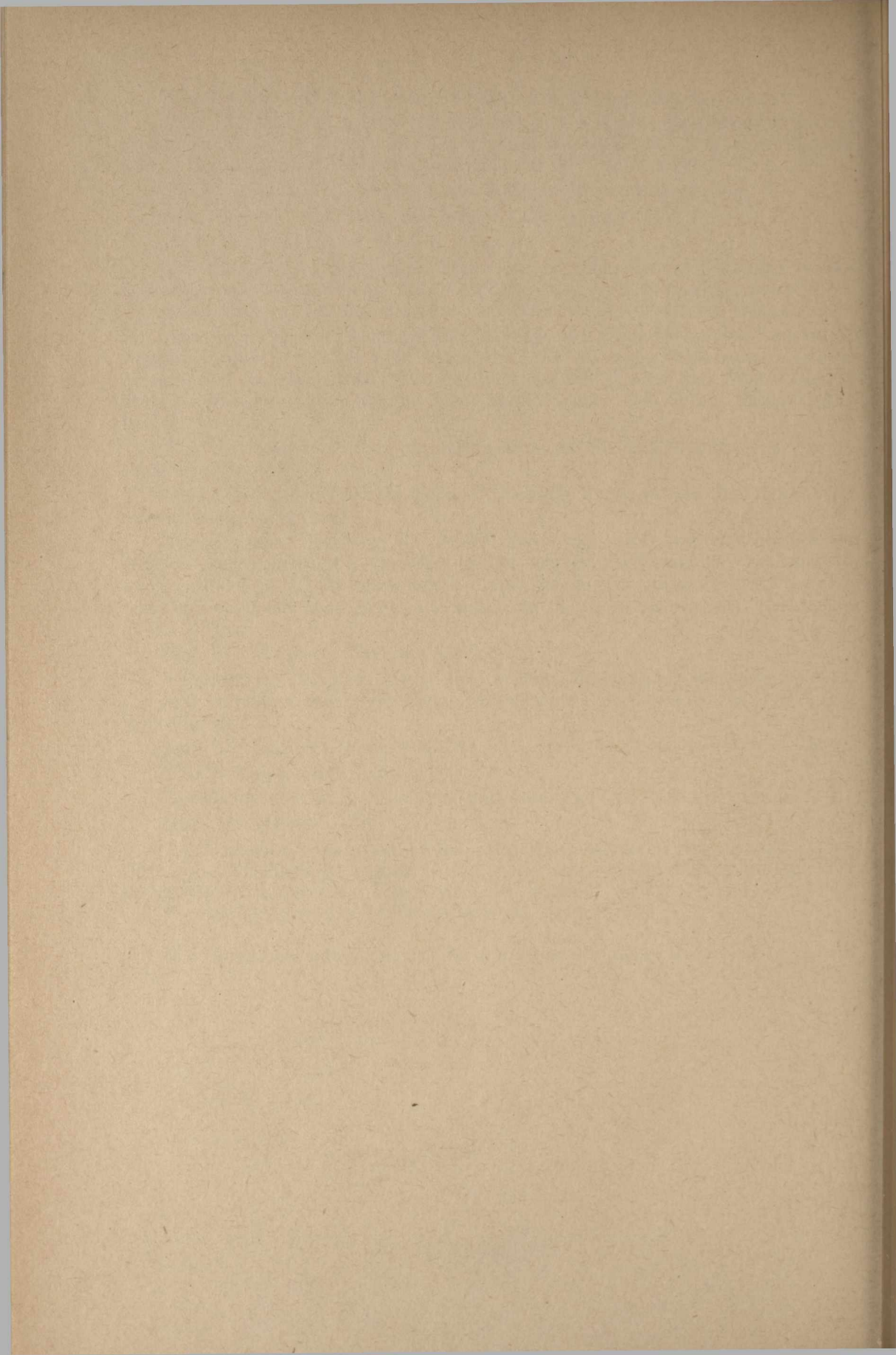
The CHAIRMAN: Is it the wish of the committee to release the witness?

Hon. Mr. HANSON: Yes.

The CHAIRMAN: On behalf of the committee I am sure every member appreciates your kindness in coming here this morning and giving us the splendid presentation that you did. Thank you very much.

We shall adjourn now to Thursday at 11 a.m.

The Committee adjourned at 1.05 to meet on Thursday, July 1, at 11 o'clock a.m.



SESSION 1943
HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

No. ~~6~~ 7

THURSDAY, JULY 1, 1943

WITNESS:

Wing Commander I. C. Cornblat, Royal Canadian Air Force

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1943

PUBLIC ACCOUNTS

MINISTRY OF PROCEEDINGS AND FINANCE

THESE

BY

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MINUTES OF PROCEEDINGS

JULY 1, 1943.

The Standing Committee on Public Accounts met this day at 11.00 o'clock, a.m. Mr. Fraser (*Northumberland*), the Chairman, presided.

Members present: Messrs. Authier, Clark, Ferland, Fontaine, Fraser (*Northumberland*), Fulford, Gladstone, Green, Grant, Hanson (*York-Sunbury*), McDonald (*Pontiac*), McGeer, McIvor, Purdy, Rhéaume, Ross (*Souris*), Tripp, Thauvette, Winkler.

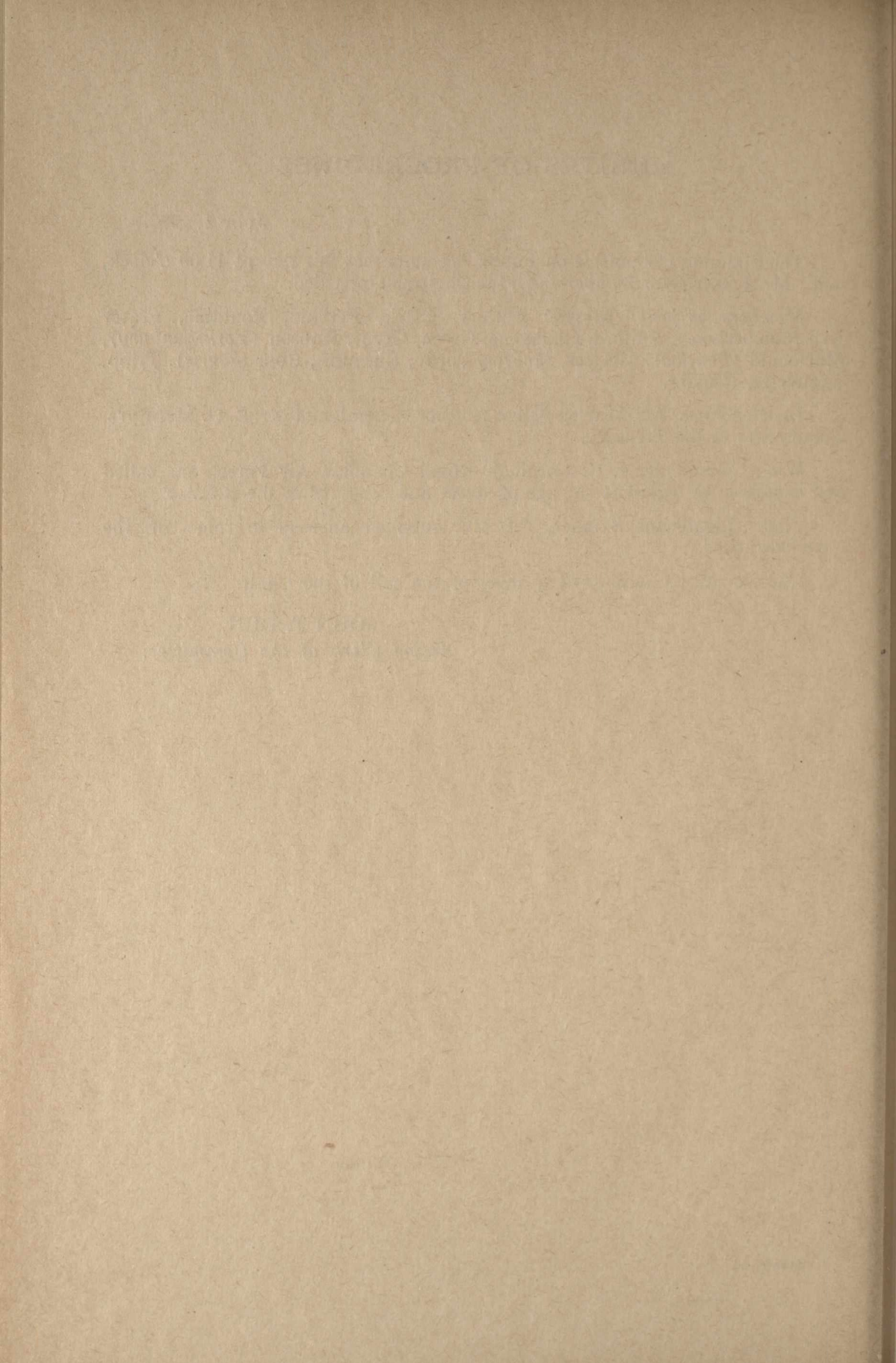
In attendance: Mr. Watson Sellar, Auditor General, and Mr. B. G. McIntyre, Comptroller of the Treasury.

Wing Commander I. C. Cornblat, Royal Canadian Air Force, was called and examined in regard to salvage of stores and property in the R.C.A.F

Flight Lieutenant Skinner, R.C.A.F. supplied answers to some of the questions asked.

The Committee adjourned to meet at the call of the Chair.

JOHN T. DUN,
Acting Clerk of the Committee.



MINUTES OF EVIDENCE

HOUSE OF COMMONS,

July 1, 1943.

The Standing Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, we lack two of having a quorum, but they are on their way here. So in order to save time, with the consent of the committee, we will proceed. Is that all right with you, Mr. Green?

Mr. GREEN: Yes.

The CHAIRMAN: Is it unanimous?

Some hon. MEMBERS: Sure.

Mr. RHEAUME: Here is another now. We have a quorum.

The CHAIRMAN: We have before the committee this morning Wing Commander Cornblat of the R.C.A.F. I presume the intention is to question Wing Commander Cornblat in connection with possible ways of conservation of material in the R.C.A.F. Shall we proceed?

Some hon. MEMBERS: Yes.

Wing Commander I. C. CORNBLAT, R.C.A.F., called:

By Hon. Mr. Hanson:

Q. Is it proper to call you Mr. Cornblat rather than Wing Commander Cornblat?—A. Right.

Q. I do not want to commit lese-majesty and have my head taken off.—A. That is all right.

Q. Would you give us your background? Are you a civilian in ordinary life?—A. No. I am a permanent force officer.

Q. How long have you been in the service?—A. I joined the R.C.A.F. on July 5, 1937.

Q. Before the war?—A. Yes.

Q. Previous to that, what was your occupation?—A. University; St. Patrick's college in Ottawa.

Q. You grew up in Ottawa and got in the government service?—A. That is right.

Q. Like most Ottawa people do. What experience had you, if any, prior to taking up your present job, with relation to public property, because that is what we are dealing with?—A. None before the air force.

Q. None before the air force?—A. No.

Q. When did you enter this branch? What is your position?—A. I am assistant director of supplies administration under Air Commodore Mossop. Supply administration deals with the safeguarding of public equipment, policy, procedure—everything exclusive of actual procurement of equipment.

Q. You have nothing to do with that. You take care of it after you get it?—A. That is right.

Q. Are you familiar with the minutes of the meeting preceding this with respect to this particular inquiry, in which the Auditor General made suggestions concerning the care of crown property in the way of supplies, furnishings and so forth, not so much, as I understood him, for at the moment, but for the post-war

period? Are you familiar with what his evidence was?—A. No; except what I read in the local newspapers.

Q. Just in the newspapers. I think this man ought to be supplied with a copy of this memorandum so that he will be familiarizing himself as we go along with what Mr. Sellar's suggestion was.

The CHAIRMAN: Which one are you referring to?

Hon. Mr. HANSON: This is a memorandum from the Auditor-General in accordance with the Public Account's committee's request of June 17, 1943, entitled "Public Property." This is what he says, for your information:

There is no general statute regulating the control, management and disposal of what is commonly known as stores of equipment, materials and supplies. With a few exceptions, these inventories are not incorporated into the public accounts of Canada. The audit direction is to be found in section 47 of the Consolidated Revenue and Audit Act."

I do not suppose you are familiar with that, are you?

The WITNESS: I beg your pardon?

Hon. Mr. HANSON: You are not an accountant?

The WITNESS: No, I am not.

Hon. Mr. HANSON: Then he inserts this section:

47 (1) The Auditor General shall, from time to time, examine the accounts and records in respect to

(d) equipment, supplies, provisions or stores the property of His Majesty;

and by such tests as he may deem necessary, satisfy himself that such accounts are in order.

(2) When the examination of each account is completed the Auditor General shall transmit to the Treasury Board a certificate in a form to be, from time to time, determined by him, and such certificate shall be a valid and effectual discharge according to its terms."

Then he makes this observation:

It will be observed that the certificate is to be addressed to the Treasury Board.

Not to parliament. Then he goes on and makes the following observations:

2. Large quantities of furnishings and of office, industrial and construction equipment and supplies have been purchased by reason of the war. In addition, properties of various types have been acquired for war purposes. The navy, army and air force, in particular, are accumulating large inventories of items which are readily adaptable to post-war uses. A simple illustration is the automobile. Likewise, the Department of Munitions and Supply has large sums invested in equipment and materials to promote munitions production.

3. It is conceivable that: (a) inventories of many kinds will exceed public requirements after hostilities end, (b) departments may seek to hold real property, equipment, stores and supplies beyond their normal needs, and (c) the control of parliament over administrative activities—by means of supply grants—may be circumvented by reason of the abnormal inventories.

4. On the other hand, the revenue may lose if stocks of equipment, stores and supplies are wasted through lack of adequate safekeeping, obsolescence and unnecessary use. Alternately, material loss may result if surplus real property and inventory stocks are offered for sale at the wrong time.

Then he goes on to say:

5. Allied with this is the question of disposal by gift. A possible illustration might be the numerous small hospitals which have been established in connection with naval, army and air camps located across Canada.

and so forth. I am not going to pursue that any further, except to read that as an indication to you as to what his suggestions were.

At the last meeting of this committee we had an officer from the army, Colonel Dailley, who is in civilian life one of Eaton's executives, and who gave this committee a very valuable outline of what the army was doing to prevent waste now in material and supplies. He had certain definite proposals as to the post-war period. Would you be good enough to tell us what you are doing, and when you began to safeguard public property from waste? That is a pretty wide invitation.

The WITNESS: Well, at the beginning of the war, and for possibly the first fifteen months after the war, I am afraid too much emphasis was not being placed either on salvage or conservation; because in the rush to get the training plan going, the nature of our business was acquisition rather than disposal.

By Hon. Mr. Hanson:

Q. You were acquiring property?—A. Yes, rather than disposing of it.

Q. That is quite understandable.—A. The air force, being a new service, was not in the same position as the army with respect to its holdings of perhaps obsolete and obsolescent equipment. About two years ago the importance of salvage and conservation came to a head. The government at that time was exhorting the people to save and conserve wherever possible, and certainly, the air service being probably the largest user of equipment in the country, it was up to them to do the same thing. To do that we organized a salvage section within the supply organization, whose sole responsibility was to make the R.C.A.F. throughout all its units and formations salvage and conservation conscious. And at the same time to co-ordinate the disposal of all surplus obsolete and obsolescent equipment with the treasury salvage officer.

Q. That was the objective of the set-up. Did you have any authority by way of order in council?—A. No.

Q. Did you have anything defining your powers, limitations and jurisdiction?—A. No, I do not believe so.

Q. You never have had?—A. No.

Q. They have in the army.—A. I believe it was at that time that the army created by order in council their Disposal Board.

Q. Yes?—A. And I believe at that time, too, they suggested that the R.C.A.F. come into their organization; but we felt that the salvage officer of the Treasury Board had the facilities and the organization already set up to take care of our requirements.

Q. What did they have?—What did the Treasury Board have?—A. They had Mr. Kelly there, the salvage officer and his organization.

Q. Is that the peace-time organization?—A. That is right, yes. We felt that he had an organization already set up to handle the disposal of equipment.

Q. Have you made sure of that?—A. We discussed that with Mr. Kelly. We worked in very close liaison with him.

Q. He assured you of that?—A. Yes.

Q. These fellows always want to retain jurisdiction, of course. I am not saying that in any slap-in-the-face way, but they do. On the basis of that, did you make an investigation of his organization?—A. We did. We kept very close watch on the service he was giving us; and we felt that he could effectively handle the disposal of our surplus equipment.

Q. So then, in the initial stage, at all events, you utilized the treasury salvage branch?—A. Right.

Q. How long did that continue?—A. That has continued right up to the present time.

Q. That is the set-up?—A. Yes. That is the present set-up.

Q. That is the set-up?—A. Yes. The salvage section within the supply branch handles the disposal of produce and surplus obsolescent equipment up to the point where it is disposed of outside of the R.C.A.F.

Q. I see. That is where it is disposed of to this other branch; and what they do with it you do not know?—A. Oh, yes.

Q. Well, it is not in your jurisdiction?—A. No. It is not in our jurisdiction.

Q. Do you know, in an intimate way, sufficient to give us any information on that?—A. Yes. We have records showing exactly every piece of equipment, and the dollar value of it, that has been disposed of.

Q. That you disposed of to them or that they disposed of on your account?—A. That they disposed of for the R.C.A.F. account.

Q. And they account to you?—A. Yes.

Q. Before you come to the point of disposal through Mr. Kelley's organization, would you tell us what you are doing to conserve material and supplies within the organization and refitting for re-use, as Colonel Dailley told us they were doing, for instance in uniforms?—A. Well, starting with uniforms—

Q. I just take that as an illustration.—A. We set up, within each of our equipment depots—and there is one located within each training command—a clothing repair section; and all repairable and unserviceable clothing at our units are forwarded to these clothing repair sections.

Q. You have duplication of the same service as the army has?—A. I believe they have a similar set-up.

Q. They have probably a very much larger one than you have, because they have more men. Is it necessary to have duplication?—A. Well, I feel that probably the army is completely tied up with their own.

Q. Did you ascertain that for a fact?—A. No.

Q. You just decided you would have one for yourself. That is the idea.—A. We decided to have one for ourselves.

Q. Yes.—A. To ensure that the utmost wear is obtained for our clothing.

Q. I am not quarreling with the objective. But you just said you would have your own set-up?—A. Right.

Q. Irrespective of the army?—A. I cannot say from my own knowledge whether we did inquire from the army.

Q. Who made that decision?—A. That was approved by the air council.

Q. Your air council?—A. Yes.

Q. It was their decision. I suppose it was on the recommendation of somebody?—A. The recommendation came from the air member for supply.

Q. You are not aware as to whether or not there was any effort to utilize the facilities of the army or not?—A. No. I cannot state that as a fact.

Q. All right. Proceed.—A. Our units are not permitted to dispose of any clothing. Regardless of the condition of the clothing, they are not permitted to use their own judgment on it because we have qualified and expert tailors at our depots. To prevent any possible waste, all clothing, regardless of the state of repair, is sent to our depots and there is examined by qualified and expert tailors. All clothing that has any possible future wear in it is repaired and put back into stock for re-issue. Clothing that is beyond any possible repair and any possible future wear is disposed of either by issue to other Government departments, such as the Department of Mines and Resources, or by reduction to produce.

Q. That is the general set-up and objective. What are the results?—A. The results are very good to-day.

Q. That is an expression of opinion. I did not ask you that. I asked you what are the results? What are the factual results? What is your saving to the country? We had from Colonel Dailley specific financial results.—A. I am afraid I have not brought with me the actual financial record.

Q. What you are telling the committee is that, in your opinion, the results have been good?—A. Very good.

Q. We have to take that without any supporting evidence.—A. I can produce it within twenty-four hours.

Q. Are the results much or what are they? Are they substantial?—A. Very substantial.

Q. How long do you say an airman's uniform should last?—A. We lay down a period of life of twelve months for an airman's uniform.

Q. I think Colonel Dailley said nine months for an army uniform.

Mr. GLADSTONE: Yes.

By Hon. Mr. Hanson:

Q. Your uniforms perhaps do not have as much wear and tear, or have you better material?—A. I believe we have better material in the first place.

Q. I believe you have, too. What about boots?—A. Boots? The period of wear for boots is also twelve months.

Q. What about your standard? Is your standard of specification better than the army's?—A. I am afraid I cannot say.

Q. I judge that it is. You are superior to the army in most things, are you not?—A. As an expression of my own opinion, I would say yes.

Q. Yes. That is the objective. It is the elite service to-day, I suppose. You have a great many motor vehicles. What do you do with them?—A. Vehicles are not handled by the Salvage Section. We have a special directorate of Mechanical Transport, within the Supply Branch, who are responsible for the efficient use and operation of all vehicles in the R.C.A.F., and they are continuously sending out instructions to safeguard and prolong the life of the vehicles. As an example, they have laid down specifically that vehicles are not to be driven over forty miles an hour.

Q. I do not think that is observed, is it?—A. We have strict penalties if it is not observed—if it is caught.

Q. Do you ever enforce it?—A. Absolutely.

Q. Go ahead.—A. Vehicles must only be used on public service.

Q. Is that observed?—A. That is observed.

Q. All right. Go ahead.—A. We have expert men in the field of M.T. on our staff, that is, with the Directorate of Mechanical Transport who, by means of inspections, and by the issuance of instructions dealing with proper maintenance and proper repair, etc. are responsible for the upkeep, maintenance and proper use of all R.C.A.F. M.T.

Q. What precautions do you take in the saving of gasoline and oil and the reclaiming of oil?—A. We have returns coming in from every unit in the country indicating the amount of miles run during each month; and a strict watch is kept on the mileage to see whether there are any changes from month to month.

Q. To see if you are getting the proper results from operation?—A. That is right.

Q. What about the reclaiming of oil? Of course, you have big plants for that, have you not? I am speaking of oil from motor vehicles as well as from other transport?—A. Yes.

Q. The air force have that?—A. Yes; at our units.

Q. You developed that. Are there any other observations you want to make with respect to protecting crown property while you are in hostility, in training and so forth?—A. You mean from an audit point of view?

Q. No, from the public point of view. We are interested from the public point of view, from the point of view of the people who have to pay the taxes That is what I am interested in more particularly.—A. We have a service audit branch but it does not come within my jurisdiction.

Q. No, it would not be. You have your own audit?—A. We have our own audit, yes.

Q. Is there any audit from the Auditor General?—A. Yes.

Q. As I read to you, he does not think that is enough, I gather.—A. In the past, the Auditor General's Branch conducted an audit of every unit within the R.C.A.F., but I understand now that he is reducing this to a more or less "spot check" because he feels that our own internal Audit Branch is providing a sufficient safeguard for public equipment.

Q. That is good.

Mr. McGeer: Have you put on the record the number of motor vehicles they have?

Hon. Mr. Hanson: No. I did not get into the details. Go ahead, Mr. McGeer.

By Mr. McGeer:

Q. Have you any statement with regard to that?—A. I have not that with me, but there are approximately, about 6,000.

Q. There are about 6,000. That is in the R.C.A.F.?—A. Within the R.C.A.F.

Q. And you have nothing to do with any of the other services?—A. No, nothing at all.

Q. What do those 6,000 vehicles consist of?—A. They consist of all types, running from sedans, trucks, different types of trucks, ambulances, re-fueling tenders, trailers, tenders, every type of equipment required for the operation of the service.

Q. They serve the whole air force in Canada under the British Empire Training Program?—A. Yes; including our operational commands—that is, the home war commands.

Q. I mean, there are no others. Outside of the 6,000 there are no other vehicles used by any of your services in Canada. You have that all consolidated into the one head, I take it?—A. That is right.

Q. You said you would have your mileage per month; and I suppose you would have your operating costs per month?—A. And the operating costs per month as well. Without any documentary proof to support it—which I should have here, but I can produce very shortly—I may say that we have effected considerable reduction in operating costs.

By Hon. Mr. Hanson:

Q. What check is there on the actual use of motor vehicles? Is it ever suggested to people that they walk once in a while instead of using a motor car?—A. The use of the M.T. vehicles at units must be approved by the commanding officer.

Q. He must order it?—A. We make the commanding officer responsible for the use of vehicles allotted to him.

Q. That is the set-up?—A. Yes.

Q. And it is his duty to see to it that they are not unduly used?—A. Yes.

Q. You have to impose the responsibility on somebody?—A. Yes. In addition to that, I might point out that we have a branch of our M.T. directorate at our command headquarters and they make frequent and regular inspection of units, checking on the operation of vehicles, the state of repair of the vehicles and the operation. These officers are responsible to A.F.H.Q. for the efficient and economic use of M.T. at units.

Q. They would not have anything to say about whether the vehicles should be used for a particular purpose or not. They are looking after, more particularly, the condition of the vehicles?—A. No. They also have jurisdiction to say whether a vehicle is being misused.

Q. Yes, as to whether it is being misused. But that goes to the question of its condition. What I am suggesting is this. At least I am not suggesting it, but I am making a query. Is there any undue use or unnecessary use of motor vehicles for purely small purposes?—A. No.

Q. My observation with respect to hospitals—and that is the only one I have in mind—is that nobody walks. I have one at the front of my own home.—A. We keep a continuous check on that, to see that vehicles are not unnecessarily used.

Q. I am bound to state that there has been a great improvement since I made a recommendation to the minister.

Mr. McGEER: Why you say you have an automobile on your front lawn, what do you mean?

Hon. Mr. HANSON: No, I have a military hospital.

The WITNESS: Military or air force hospital?

Hon. Mr. HANSON: It is a hospital that my wife's family donated to the army. They are doing a good job so far as the hospital is concerned, but I have often wondered about the undue use of motor vehicles.

The WITNESS: I might also point this fact out to the committee. We are endeavouring to pool vehicles wherever possible. As an example, in Toronto we have quite a few air force units, each with its own M.T. establishment. As an economy trial measure we have pooled these vehicles. We have taken all the vehicles away from the individual units—and there are about six or seven of them in Toronto—and placed them on the establishment of one unit, No. 1 manning depot; the latter supply the vehicles required for each of the other five units. That has effected a considerable economy.

By Mr. McGeer:

Q. These 6,000 cars will service approximately how many men?—A. Well, the establishment of the air force.

Q. Whatever that is?—A. Yes.

Q. I understand it has been reduced down to a pretty small unit of automobiles per personnel or per capita?—A. It has. Every unit is governed by its M.T. establishment previously approved by Air Force Headquarters.

Q. Have you any idea of what their mileage costs are?—A. Off-hand, no sir.

Q. You have given us an approximate figure of what the number of cars is. Would it be very much trouble to give us a statement of the actual number of cars in operation in your branch and what they are?—A. No. I can produce that.

Q. I beg your pardon?—A. I can produce that.

Q. Could it be produced without any extra work; I mean, without any unnecessary work?—A. No. We have those records on hand.

Q. They could be available?—A. They could be made available at any time.

Q. And similarly, could we have a statement with regard to operating expenses?—A. Yes, with the operating costs shown as well.

Q. And that would be in detail for the total operating costs per month?—A. Yes.

Q. Probably the committee would be interested in the improvements that have been made. I mean to say, the number of cars, I understand, has been greatly reduced? Therefore the operating costs would be reduced?—A. The operating costs should be correspondingly reduced.

Q. That might be of interest to the committee. I do not know that it is important. But if it is available, without too much effort, the committee might perhaps be interested in having it.

Hon. Mr. HANSON: I think that is valuable information, all right. What we were really directing our attention to was the question of prevention of waste and disposal.

Mr. McGEER: I think you will agree with me that there have been made very great improvements in economy. We have seen that in other departments. I understand that the same thing applies here.

Hon. Mr. HANSON: Yes.

Mr. McGEER: What I think we are interested in is in finding out to what extent they have, of their own initiative, moved towards the practice of economy. I believe it is very substantial.

Hon. Mr. HANSON: He has told us that, for the first year or two, speed in acquiring was the important thing; and then they were confronted with this problem, and they have taken steps to solve it.

By Hon. Mr. Hanson:

Q. With respect to aeroplanes, what do you do with them? Do you repair them as far as possible?—A. Yes.

Q. Can you tell us something about that; because that, after all, is the big item of equipment?—A. Yes; that is probably the biggest item of equipment. Yes; they are maintained, repaired. We have a series of category crashes, "A", "B" and "C" crashes. The "C" and "B" crashes can be repaired. The "A" crash is beyond repair. And our field of salvage and conservation comes into play to its biggest extent.

Q. In a big way?—A. In a big way on the salvage of crashed aircraft.

Q. What do you?—A. Every crash that is salvageable goes to one of the repair depots; and, again, there is a repair depot in every command. They are picked up by the salvage section from the repair depot, are brought back to the repair depot, and are gone over minutely by qualified engineers. All serviceable components are removed, examined by aeronautical inspectors, and put back into stock. Equipment that can be repaired is either repaired at the repair depot or, if beyond their facilities, is sent to civilian contractors.

Q. Is sent where?—A. Sent to civilian contractors.

Q. Oh yes: for incorporation in other planes?—A. No. For repair for the air force.

Q. What is that again?—A. I say that repairable equipment, if it is beyond the repair facilities of the repair depot, is sent to civilian contractors.

Q. You send that out. You sell that to somebody to repair to sell it back again to you?—A. No. We do not sell that.

Q. You hire the work done?—A. Yes. We pay for the work done.

Q. If you have not facilities for repair, you get that done elsewhere?—A. That is right.

By Mr. Gladstone:

Q. Do you get an excess accumulation of certain parts?—A. We do, especially with spare parts that cannot be reincorporated into aircraft by the R.C.A.F. That is, that are beyond the capacity of the Air Force to put back. It might be a main component or a part of the fuselage of the aircraft which would be beyond the capacity of the Air Force to reincorporate. If we get an accumulation of such parts we offer them to the particular manufacturers concerned.

By Hon. Mr. Hanson:

Q. And he reconditions them and reintegrates them into new machines?—

A. Into new production.

By Mr. Winkler:

Q. Do you sell them back at your own price?—A. At our own price, through the Department of Munitions and Supply.

By Hon. Mr. Hanson:

Q. They fix the price?—A. Yes.

By Mr. Purdy:

Q. What can you tell us about the transport of damaged machines from the place where they were damaged to the repair depot. In what manner is that carried out?—A. If it is a "C" crash, it is taken in by motor transport. I beg your pardon. If it is an "A" crash, and it is beyond repair, it is taken in by motor transport. If it is a "C" crash and possibly can be repaired on the site, that is done and it is flown back in.

Q. Do you think it is economical to use motor transport between the maritime provinces and Montreal, for instance?—A. There would not be any taken between the maritime provinces and Montreal. It would be taken in at our repair depot at Scoudouc, N.B.

Q. They might be taken further.

Hon. Mr. HANSON: Have they ever done that?

Mr. PURDY: I am informed so. I cannot vouch for it.

Hon. Mr. HANSON: In England, on all the main trunk roads, you will meet motor lorries with big fuselages on them.

By Mr. Purdy:

Q. I wondered whether, in view of the necessity of conserving essential materials such as rubber, they had fully explored the capabilities of the railroads?—A. We use return by railway wherever possible. But many of these spots are isolated.

Q. I can appreciate that. Of course, you also appreciate that at times it means a tremendous amount of work to get one of these heavy lorries across some of our country roads paralleling the railroad.—A. That is true.

By Hon. Mr. Hanson:

Q. You have a plant at Scoudouc?—A. Yes; we have one at Scoudouc.

Q. You spent a large sum of money in the preparation of it?—A. Yes. We have a big repair depot there.

By Mr. Purdy:

Q. Have you any control over the R.A.F. and the training schools? Do they come into your organization or are they a separate organization?—A. No. They come in with our organization.

Q. When you say motor vehicles are used as the commanding officer designates, would you say the moving of an airman's furniture from one place to another would be a legitimate use for a vehicle of the air force to be put to?—A. I would say no.

Q. You had better check on that. Is there any way whereby any cash can be paid for services in lieu of supplying a car? I will put it to you in this way. In a certain place, a clergyman had to hold a service each Sunday at a certain spot. He applied for transport on a bus which would cost him 50 cents each way. He was told that could not be done, but that they would send a car for him and take him up to the place to hold the service, take him

back and bring the car back home. In other words, they would travel sixty miles rather than allow him a dollar for transportation by bus.

By Hon. Mr. Hanson:

Q. Would that be in your jurisdiction?—A. In a case like that, the unit is quite empowered to issue a transport warrant.

By Mr. Purdy:

Q. They have that power?—A. Yes.

Q. Was that brought in within the last few months?—A. No. That has been in effect since even before the war.

Hon. Mr. HANSON: Perhaps they thought it was infra dig. for a clergyman to travel by bus, and so they sent a car.

Mr. PURDY: No. It was his request that he travel by bus, but they would not allow him a dollar for it. They said he had to travel in this car.

Hon. Mr. HANSON: Well, I do not know.

By Mr. McIvor:

Q. I am now referring to parts of aeroplanes that you cannot use but which are serviceable. You advertise those for sale do you?—A. We do, through the salvage officer.

Q. Through which?—A. The salvage officer of the Treasury Department.

Q. And those are sold to the highest bidder?—A. That is right.

By Hon. Mr. Hanson:

Q. Are they not sold back to the manufacturer?—A. Yes, if the manufacturer can use them.

Q. These are pieces that cannot be used and be incorporated into a new car?—A. I might explain our procedure with respect to parts reclaimed from crashed aircraft. If they cannot be used within the service, and cannot be used by the production people, by the contractors, then we see if they can be used for instructional purposes within the air force. If they cannot be used for instructional purposes either within the R.C.A.F. proper, by the air cadets or by the technical schools, then they are sent to the salvage officer for disposal, perhaps to civilian airlines such as the C.P. Airlines. If the salvage officer cannot find a source of disposal, he reports it back to us and then we reduce it to produce.

Q. What is that?—A. Produce—so much metal—so much scrap product.

Q. Scrap?—A. Yes.

Mr. McIvor: I think that is a good thing to do if they cannot use these parts; because I happen to know that young fellows who are making their own planes write to the salvage company and get a list, and it is an outstanding benefit to them.

By Mr. Winkler:

Q. Could you describe the procedure by which you order gasoline and oil for aeroplanes?

Hon. Mr. HANSON: That is the Department of Munitions and Supply.

Mr. WINKLER: Does that not come under you?

Hon. Mr. HANSON: You mean the requisitioning?

Mr. WINKLER: Yes.

Hon. Mr. HANSON: The Department of Munitions and Supply buy that.

The WITNESS: That is out of my jurisdiction.

By Mr. Winkler:

Q. Altogether?—A. Yes. That is done by the procurement directorate of the supply branch. I am on the administrative side. I can give you a general outline, though, if you like.

Q. All right.—A. Gasoline and oil for the four training commands, with the exception of units in No. 4 Training Command and a few stations in No. 2 Training Command, are obtained through Lease-Lend. Originally, D.M. & S. arranged or allocated contracts to the four major oil companies but now this has been extended to include four smaller companies and the gasoline and oil is supplied by these companies through the provisions of Lease-Lend.

We estimate our year's requirements of gasoline and oil throughout the whole Air Force and we pass our total estimates to D.M. & S. The latter arranges provision either by Lease-Lend or by individual contracts.

Q. That is where your department enters into it. They bill them, do they?—A. Yes. Here is how it works. We estimate our yearly requirements of gasoline and oil throughout the whole air force, and we pass our total estimates to D.M. & S. The latter arranges provision either by Lease-Lend or by individual controls.

By Hon. Mr. Hanson:

Q. Well, does Canada operate under lease-lend? We have been told in the house that it did not. I remember that very definitely, and was rather surprised. The British do.—A. Yes. Canada is not a participant of the lease-lend act.

Q. No. I did not understand that we were participating in the policy of lease-lend from the United States as were Britain, Australia or New Zealand. I think I asked the Minister of Finance that once and he told me definitely no. But it may be for the British and comes through Canada. At all events, you are making the statement that the Department of Munitions and Supply get gasoline from the United States under the basis of lease-lend.—A. That is right.

Q. That is correct?—A. That is correct.

Q. All right.—A. This is allocated to the four major oil companies and to four smaller companies in addition.

Q. Yes?—A. These companies in Canada bill their American affiliate companies, who in turn bill the appropriate U.S. Departments.

Q. They are all serviced through those?

Mr. PURDY: By that you mean to say that a Canadian oil company is out of the picture. Is that the idea?

Hon. Mr. HANSON: No. He says they utilize them for the purpose of distribution.

Mr. PURDY: That is what I thought. Four major oil companies in the United States distribute their production here through their subsidiary companies in Canada. If there is a Canadian company that has not a parent company in the United States, they are out of luck, are they?

Hon. Mr. HANSON: They are not in the picture.

The WITNESS: That is not correct. The R.C.A.F. has agreed to take the aviation gasoline products of all companies in Canada whose products come up to specification.

By Mr. Tripp:

Q. Having regard to this gasoline charged up under lease-lend, is that paid for by exports from Canadian manufacturing plants to the United States?—A. I cannot say.

Hon. Mr. HANSON: You would have to ask some of the ministers that question.

Mr. TRIPP: I am just trying to get what was meant by lease-lend.

Hon. Mr. HANSON: It is a surprise to me to learn that we are operating under it at all.

By Mr. McGeer:

Q. This thing is interlocked with the British Empire Training Scheme; and as you probably suggested in the beginning, it is recognition of that more than looking after their own in the matter of operation.—A. It is part of the equipment which the United Kingdom agreed to supply to Canada as its contribution to the cost of the training plan.

Hon. Mr. HANSON: That may be the explanation.

Mr. McGEER: We get the same thing in connection with the Noorduyn company. Trainer craft being built by that company were being purchased by the United States and turned over to your service.

The WITNESS: Yes.

Mr. McGEER: You get the same thing there.

Hon. Mr. HANSON: But for the account of the British government?

The WITNESS: That is right.

Hon. Mr. HANSON: That would be consistent with what the minister told me.

Mr. McGEER: I do not think there is any conflict.

Hon. Mr. HANSON: No. I just wanted to elucidate the matter.

By Mr. Winkler:

Q. Once gasoline is in your hands, is it tested? I have reference to both gasoline and oil. Do you test that, or is that done by the Department of Munitions and Supply?—A. The only test we apply to the gasoline is the water test, to see whether it contains any water.

By Mr. Fulford:

Q. You mentioned four large companies. Who are they?—A. I believe they are Imperial Oil, Shell, British American and Frontenac.

Mr. PURDY: Is not British American a Canadian Company?

Mr. McGEER: So is Imperial Oil.

Mr. PURDY: Imperial Oil is an off-shoot of the Standard whereas I thought British American was really a Canadian company, having certain subsidiaries.

Hon. Mr. HANSON: It is a legal question. British American is an independent company.

Mr. PURDY: They advertise as being practically owned in Canada.

Hon. Mr. HANSON: They all buy their supplies from the States, though.

Mr. McGEER: British American gets a good deal of its supplies out in the Alberta fields.

Hon. Mr. HANSON: So does Imperial Oil, for a particular locality.

By Mr. Winkler:

Q. I was going to ask a question with regard to waste. Rumors have been rife at times about gasoline being below grade and being dumped on the ground or dumped into holes. Have you ever heard of anything like that happening?—A. Never in my six years' experience in the air force.

Q. You would go so far as to say it has never happened?—A. It has never happened despite all the rumors.

By Hon. Mr. Hanson:

Q. You are quite prepared to back that statement up?—A. Right.

By Mr. McGeer:

Q. What do you pay for gasoline?—A. I cannot say, sir.

Q. That is all in the Department of Munitions and Supply?—A. Right.

Hon. Mr. HANSON: They pay less than you and I do.

By Mr. Green:

Q. What about Calgary? You said there was some different arrangement out there.—A. Yes. They obtain their gasoline from the Turner Valley.

By Mr. McGeer:

Q. How far does that Turner Valley distribution spread? Do you know that?—A. I am just trying to find some notes I had here. No, I have not got that with me, I am afraid.

By Mr. Clark:

Q. I have been in a number of these training schools, and to me one of the most important functions of the technical experts is the proper care of the motor or engine of the 'plane. Does the air force check or service these 'planes or repair them themselves? The motor, as I see it, is the most important part of the 'plane, and that is what goes wrong, as a rule, if there is a crash. Do your technical experts look after these motors in the different training schools, or are they sent out and repaired and checked by private business or private operation?—A. Again that is out of my jurisdiction. That belongs to our engineering branch. I can say this, that they are overhauled by our own engineering staff at units and repair depots. There is a certain period of hours laid down for each type of engine and when they reach that number of hours—I cannot say offhand what they are—they are sent to the contractors for a complete overhaul.

By Mr. Fulford:

Q. Does the manufacturer maintain any sort of service, both service of the motor and of the 'plane? I understand it is the case in England that the manufacturers look after their own products.—A. They do in this respect. Noorduyn services Harvard aircraft for us. The same applies to the other companies. I cannot go into details on that because, again, it is out of my jurisdiction and belongs to the engineering branch.

By Hon. Mr. Hanson:

Q. In the town of Dartmouth there is a company that has a contract for reconditioning engines and 'planes, is there not—a big company?—A. Yes.

Q. What is the name of that?—A. Clark Ruse.

Q. Have they not branches all over the country?—A. No.

Mr. PURDY: They have a branch in Moncton, have they not?

Hon. Mr. HANSON: I do not know. I thought they had. I do not pretend to know.

By Mr. McGeer:

Q. How many of these companies are there?—A. There are approximately 200 civilian companies repairing parts for the R.C.A.F.

Q. That is engine parts?—A. No, all parts—all spares, accessories, etc.

Q. How many engine companies are there?—A. I cannot say offhand.

By Hon. Mr. Hanson:

Q. Can you tell us what make of engine gives the most trouble, requires the most repairing or has the shortest life?—A. I cannot say. That belongs to the engineering branch.

By Mr. Purdy:

Q. What is your procedure in connection with the salvage of buildings which may be on your airport property. Does that come under you or not?—

A. No. That comes under the works and buildings directorate.

Q. You have a different salvage proposition there.

By Hon. Mr. Hanson:

Q. You have up to this time acquired public property in the shape of these different things that have been enumerated, and a lot of others that are really surplus. Have you any surplus equipment?—A. Yes. We have surplus equipment.

Q. What does that consist of?—A. Well, it might consist of air frame spares, engine spares or just general equipment.

Q. Does it, as a matter of fact? You say, "engine spares". That is spare parts for engines?—A. Yes.

Q. You have a surplus of that?—A. Yes.

Q. What is that?—A. Yes. We have occasional surpluses. It might be one type today and another type tomorrow.

Q. That would not be a surplus that would require disposal. You keep that in stock.—A. Well, it does require disposal if the type has been discontinued.

Q. Yes. I quite agree with that. Now we come to another point. What do you do with new parts that you are not going to use yourself?—A. In that case we offer them to the salvage officer for the most effective and economical disposal.

Q. That is the theory. What do you do in practice?—A. If he cannot dispose of them, the only recourse is to reduce them to produce.

Q. Scrap?—A. Scrap, yes.

Q. New material?—A. It would not be new material, because it has probably seen three or four years' life.

Q. Oh well, it is stuff that is partially worn at least that you are talking about.—A. Absolutely.

Q. No new stuff?—A. No.

By Mr. Gladstone:

Q. Speaking of parts, what about the instruments on the instrument board?—A. Instruments? They should be interchangeable with other types of aircraft. Instruments are very interchangeable.

By Hon. Mr. Hanson:

Q. They are standardized?—A. They are more or less standardized, yes.

By Mr. Fulford:

Q. What do you do with the big packing cases which the parts come in? I have reference to the big packing cases which the Jacobs engines come in?—A. They are used to re-ship engines from units to depots and from depots to contractors. If we have a surplus of them, we offer them back to the Jacobs people or to the manufacturer, and he is usually very happy to accept them. But we must have a certain number to use for our re-shipping purposes.

By Hon. Mr. Hanson:

Q. What do you do about checking waste with respect to supplies of food and that sort of thing?—A. Well, we have, as you know, dietician messing officers within the R.C.A.F.

Q. Recommending vegetable oil instead of lard on the menu.

Mr. McDONALD: It might be cheaper.

Hon. Mr. HANSON: They cannot get it. That is what they did at first. You would laugh at the instructions, built up in the interests of the packers.

Mr. TRIPP: I do not think you better make that statement.

Hon. Mr. HANSON: I am not going to.

By Hon. Mr. Hanson:

Q. I will give you one case that is in my mind. Potatoes come in bags, do they not?—A. Yes.

Q. And potato bags cost money?—A. Yes.

Q. In the early days of the war—I happen to know this about Petawawa—these bags were just thrown out to the itinerant traders—I am not going to tell you who they were—who were around to pick them up. They usually got them for nothing. They were thrown out by the camp cooks and that sort of thing. There was a lot of waste for awhile, until attention was called to it. Then, of course, they took care of that sort of thing. What do you do with them? Take the matter of potato bags. Do you sell them back?—A. You see, the army service corps handle the supply of food to the R.C.A.F.

Q. You are not responsible for delivery?—A. No.

Q. But you are responsible for waste after they get in your hands?—A. Absolutely.

Q. What do you do there?—A. We have our messing officers in our units who pay very strict attention to the amount of food being consumed.

Q. The food being consumed?—A. Yes.

Q. Do you limit a man as to how much he eats?—A. No. We put signs up in the mess hall, "Take what you want, but do not waste." Take what you want, but just what you want."

By Mr. Tripp:

Q. Have you the estimated cost of feeding the air force per unit, per individual?—A. No, I have not; not with me.

Q. You have that, though?—A. We have that.

By Mr. Fulford:

Q. Do you sell your garbage?—A. Each unit has a contract for the disposal of its swill and garbage.

By Mr. Tripp:

Q. Have you any control over the ordinary routine operation of airfields?—A. What is that?

Q. For instance, suppose a machine comes in after a series of flights, and there is a lot of grease or something like that on the fuselage that cannot be removed by water. I understand they use gasoline in order to remove that. Have you any check on the kind of gasoline that is used for that purpose and the quantity that is used?—A. No. I have not that information. That information would be available from the engineering staff. But I doubt very much whether they use gasoline.

Q. I do not know whether I should make this statement or not, but I have been told that they use gasoline to clean these motors off, that they use it coming out of a hose and it is high octane gas that is used. I was just wondering if that is correct.—A. No. That is not correct.

By Hon. Mr. Hanson:

Q. That is not too good for the air force. That is not true?—A. No. That is not true.

By Mr. Tripp:

Q. You hear so many of these things. They are rumours, and they are peddled around the country.—A. We have a product called cleaners' solvent. What the constituents of that are I do not know. But that is what they do use for cleaning parts or cleaning engines.

Q. I am not speaking of engines necessarily; I mean the outside of the 'plane.—A. No. They definitely do not use gasoline for that. In the first place, the fire hazard would be very great.

By Hon. Mr. Hanson:

Q. You have given us now a sort of general outline of operations. You are not able to give us any results in terms of dollars and cents?—A. Yes. We have that here.

Q. That is what we would like to get, in order to see what you are doing, or what you are saving the taxpayers.

Flt. Lt. W. E. SKINNER: When the salvage section commenced operations about a year ago—

Hon. Mr. HANSON: Who is this officer?

The WITNESS: Flt. Lt. Skinner.

Hon. Mr. HANSON: All right, go ahead.

Flt. Lt. SKINNER: During the past year we have disposed of scrap material and obsolete equipment to other government departments to the extent of \$1,087,528.20.

Hon. Mr. HANSON: Did you get paid for that?

Flt. Lt. SKINNER: Transfers to other government departments is without repayment. But all the other materials, scrap materials, including clothing, cartons, containers, leather, metals, etc., were sold through the treasury salvage officer and the proceeds were credited to the Treasury.

Hon. Mr. HANSON: That goes to the Receiver General. With respect to this interchange with other government departments, why should you not get paid for that? Is that from higher up or is that just a practice that has grown up?

Flt. Lt. SKINNER: To my knowledge that has been a practice.

Hon. Mr. HANSON: It has been a practice. That has just been the practice as a matter of course. What do you have to say about that practice?

The WITNESS: It is more or less considered a bookkeeping record.

Hon. Mr. HANSON: Is there a debit and credit put through?

Flt. Lt. SKINNER: I believe there is a debit or credit, because the salvage officer always requests us to put an estimated value on any equipment which is transferred.

Hon. Mr. HANSON: You do that. It is not according to the value. It is an estimate you make for bookkeeping purposes.

Flt. Lt. SKINNER: That is correct.

Hon. Mr. HANSON: The witness here the other day told us that they insisted, so far as the army is concerned, on being paid at an agreed price. Is that what he says?

Flt. Lt. SKINNER: That is correct. The army is an exception.

Hon. Mr. HANSON: Why the exception? Should it not be the rule?

Mr. FULFORD: That was just a token price.

Hon. Mr. HANSON: Not exactly. It was an agreed price. It might not be much, but they insisted on the principle; and I suppose they insisted on getting as good a price as they could.

Mr. McGEER: In one instance they agreed on a price of one cent, but that was just a token price.

Hon. Mr. HANSON: That was for bags, was it not?

Mr. McGEER: Yes.

Hon. Mr. HANSON: The post office had refused to pay anything, or did not want to pay anything because they thought they were doing so much free work for the army. There is a principle involved. I do not want to follow it up too far, but do you not think there should be more than a mere book-keeping entry?

Flt. Lt. SKINNER: When I say "estimated value", sir, if the equipment is new, then the actual cost value is placed on it.

Flt. Lt. SKINNER: But if it is worn, then an estimated value is placed on it.

Hon. Mr. HANSON: In the first case the cost value is put on it?

Flt. Lt. SKINNER: Yes.

Hon. Mr. HANSON: And in the second case an estimated value?

Flt. Lt. SKINNER: Yes.

Hon. Mr. HANSON: But in either event do you get paid?

Flt. Lt. SKINNER: Yes.

Hon. Mr. HANSON: Do you get credit of some kind?

Flt. Lt. SKINNER: I cannot answer that question.

Hon. Mr. HANSON: That is a bookkeeping matter, an administration matter, upon which you cannot speak. But you do not get paid at all.

The WITNESS: It is handled by Mr. Kelly.

Hon. Mr. HANSON: It is handled by the salvage agent. He is really your agent?

The WITNESS: That is right.

Mr. McGEER: I am now speaking of this price that you have given us on this amount of salvage which you sold. What you have given us is an amount which is made up of your estimated value, I take it?

Flt. Lt. SKINNER: No.

Hon. Mr. HANSON: Or is that the actual disposition to the public?

Flt. Lt. SKINNER: A great deal of this material is scrap material sold by tender through the salvage officer.

Hon. Mr. HANSON: Yes; to the public.

Flt. Lt. SKINNER: To the public.

Mr. McGEER: I understand that. Then it is the total amount of what you have sold by transfers to other government departments and to the public?

Flt. Lt. SKINNER: Certainly.

Mr. McGEER: Or to the contractor or whoever it might be.

Flt. Lt. SKINNER: Yes.

Hon. Mr. HANSON: The item is all-inclusive, in other words.

Mr. McGEER: Yes.

Hon. Mr. HANSON: How much actual cash has been received?

Mr. McGEER: Could you give us the breakdown between what has been transferred to government departments and what has been sold outside?

Flt. Lt. SKINNER: I have not the total for the year. I have three statements here covering three months, March, April and May. I have that for May before me.

Hon. Mr. HANSON: What year? Is that this year?

Ft. Lt. SKINNER: May, 1943. During this month, \$31,095.65 worth of equipment was transferred to the Department of Mines and Resources, \$5,532.93 worth of equipment was transferred to the navy; \$632 worth of equipment was transferred to the army; to the Department of Justice, \$623; to the Department of Pensions and National Health, \$2,086.26; to the Department of Public Works, \$892.68; to the Department of Transport, \$1,005.84; Civilian Defence Committee, A.R.P., \$25,230; Royal Canadian Mounted Police, \$1,760.40. The total for that month was \$118,579. The difference was all scrap materials.

Hon. Mr. HANSON: What is that?

Mr. GLADSTONE: How much to private individuals?

Ft. Lt. SKINNER: I beg your pardon?

Mr. GLADSTONE: How much to private individuals?

Hon. Mr. HANSON: Outside of the service?

Mr. GLADSTONE: Yes.

Mr. McGEER: What was the amount outside of transfers to other government departments?

Ft. Lt. SKINNER: I can give you that in one moment. \$68,855 was transferred to other government departments; \$49,724 was sold to the public.

Mr. Ross (*Souris*): With respect to salvage, could you give us the amount that you have sold to private individuals in the matter of reclaimed lubricating oil from the air force, and have you also any estimate as to what might be accomplished in this respect? I understand that very little has been done in that regard and it might amount to a great deal of money.

Ft. Lt. SKINNER: During the past year we have disposed of approximately 300,000 gallons of used oil. It is sold to the major oil companies, and to one other company in the western area. It is sold at a price which varies between 3 cents a gallon and 10 and a fraction cents a gallon, depending on the location.

Mr. GLADSTONE: Have you any idea what they re-sell it for?

Ft. Lt. SKINNER: I do not know.

Mr. Ross (*Souris*): You have not any figures as to how much has been disposed of in that respect?

Ft. Lt. SKINNER: We have disposed of about 300,000 gallons over the last year.

Mr. McGEER: What do you pay for it when it comes in?

Ft. Lt. SKINNER: I do not know. That comes under another department.

Mr. Ross (*Souris*): You never estimated what might be developed and what amount of saving might be made in that respect if you reclaimed it yourselves?

Ft. Lt. SKINNER: We have arranged in the western area for the reclamation of used oil which is collected in that area. There is one company which buys our used oil, reclaims it and sells it back to the air force through the Department of Munitions and Supply.

Mr. Ross (*Souris*): Do you know what they sell it for?

Ft. Lt. SKINNER: That is outside of my jurisdiction. But I understand the price is 35 cents a gallon.

Mr. Ross (*Souris*): That is a very small percentage of the total used oil in the air force in Canada—a very small percentage.

Ft. Lt. SKINNER: A great deal of oil is used in Newfoundland, Labrador and Alaska, and it is hardly an economical proposition to bring it back.

Mr. Ross (*Souris*): There are Ontario and Quebec as well.

Flt. Lt. SKINNER: That, of course, is all salvaged.

Mr. McGEER: You can always get enough.

Mr. ROSS (*Souris*): That is all salvaged?

Flt. Lt. SKINNER: All the oil in Ontario and Quebec is salvaged, certainly.

Mr. ROSS (*Souris*): In what respect? How is that done?

Flt. Lt. SKINNER: It is accumulated at the unit and sold to the major oil companies.

Hon. Mr. HANSON: And they reclaim it?

Flt. Lt. SKINNER: What they do with it, I do not know.

Mr. FULFORD: How long have you been doing this?

Flt. Lt. SKINNER: To my knowledge, at least a year.

Hon. Mr. HANSON: Is that a proper procedure, or would you care to express an opinion?

Flt. Lt. SKINNER: In what way, sir?

Hon. Mr. HANSON: This is just a thought which flashes through my mind. Would it not be better for the air force to reclaim it itself rather than sell it at a very low figure to these oil companies to reclaim and sell back to the air force or to the Department of Munitions and Supply for the air force?

Flt. Lt. SKINNER: The question of reclamation has been studied very deeply by our engineering and technical branch for some considerable time, sir; and they have decided that the use of used oil after reclamation is not suitable for use in aircraft.

Hon. Mr. HANSON: Not in aircraft, but for motor vehicles.

Flt. Lt. SKINNER: For motor vehicles. This oil which is reclaimed in the western area is purchased back for use in the M.T. As to whether we should go into the question of reclamation, I am afraid I cannot answer that question.

Mr. ROSS (*Souris*): You have not figures as to the cost of reclamation?

Flt. Lt. SKINNER: No.

Mr. ROSS (*Souris*): I have been given to understand that if this was developed, it might mean the saving of quite a few million dollars to the country; that is, if it was developed to the full extent. I do not know what the cost of machinery would be.

Flt. Lt. SKINNER: I understand our engineering branch is investigating the possibility of acquiring some equipment for experimental purposes.

Hon. Mr. HANSON: For experimental purposes only.

Mr. FULFORD: You do not know whether this reclaimed oil is sold back to the public or not?

Flt.-Lt. SKINNER: I do not know.

Hon. Mr. HANSON: You and I buy it every day.

Mr. GLADSTONE: You have said that waste material is sold by tender. Would you tell us just the system of tender?

Flt.-Lt. SKINNER: Well, take scrap metals which is rather important. In the early days, whenever a unit had an accumulation of scrap metals, the metal was segregated into the various types—steel, brass and so forth—and they rendered a report to the salvage officer of the Treasury branch, showing that they had so many pounds of this and so many pounds of that. He issued an invitation to tender to the various jobbers, dealers and companies in the area, asking them to tender for that quantity of scrap metals, and the highest bid was accepted and the purchaser removed the scrap metal. We found that was a rather cumbersome method, in this way: often it took six weeks or two months before he was able to obtain a purchaser. In the meantime, the accumulation

just increased to almost double the original quantity. So, in order to speed up the disposal, it was decided to arrange general contracts in the various areas for the sale of these scrap metals; and so an invitation to tender was sent out by the Treasury to the various companies which were interested, to purchase the scrap materials over a period of six months. Tenders were received and the highest bids were accepted. The result is that now when a school has accumulated metals which it wishes to get rid of, it contacts the contractor, and he arranges to pick them up immediately. In that way there is a great deal of time saved, and the material gets back to where it will be of the most use in the quickest possible time.

Mr. GLADSTONE: You have given figures of many thousands of dollars of sales to private parties. Would those private parties be chiefly organized companies or would some of them be private individuals?

Flt.-Lt. SKINNER: Mostly companies. Occasionally a private individual tenders for something, but not very often.

Hon. Mr. HANSON: They are usually the established junk dealers.

Flt.-Lt. SKINNER: Quite so.

Hon. Mr. HANSON: Yes.

Mr. GLADSTONE: What check have you against pilferage of materials?

Flt.-Lt. SKINNER: Such items as tools are placed in a lock-up in the unit. Scrap metals are either in an enclosure where only authorized personnel are allowed to come, or else they are put in a locker.

The WITNESS: Such items as tools and instruments, valuable equipment, bear the R.C.A.F. property mark.

Hon. Mr. HANSON: So do hotel towels. Do you have much loss? That is what I think the member wants to know.

The WITNESS: We have a certain amount of loss. We are bound to have some loss. But there is not loss to any great extent.

Hon. Mr. HANSON: Has anybody ever been prosecuted for pilfering?

The WITNESS: I believe there has been, by the R.C.M.P.; definitely.

Hon. Mr. HANSON: That is a good sign.

Mr. GLADSTONE: There has been some talk of the purchase of rugs and various luxury equipment. What chance is there of any of that walking off, as it were, or disappearing?

Flt.-Lt. SKINNER: That hardly comes within our sphere.

Hon. Mr. HANSON: You have not disposed of any chesterfields?

Flt.-Lt. SKINNER: No.

Hon. Mr. HANSON: You have lots of them, I understand.

The WITNESS: In our messes, yes.

By Hon. Mr. Hanson:

Q. Were not a good many of them purchased out of the mess funds?—A. Yes, out of mess funds.

Q. That is quite true. I think we ought to put that on the record, in fairness.

Mr. McGEER: And in some instances, they were paid for by the officers of the mess themselves.

Hon. Mr. HANSON: Through that channel.

Mr. McGEER: As a matter of fact, there is certainly not anything in any of the air force buildings that is too good for the men in the service.

The WITNESS: Not only that, but at the beginning of the war such large companies as Eaton's and Simpsons and the like, really came to our help and donated quite a bit of furniture.

Hon. Mr. HANSON: They do themselves very well. But in justice to them, I happen to know messes where the furniture has been paid for by the officers.

Mr. McGEER: I know of instances.

Hon. Mr. HANSON: I think we ought to be fair.

Mr. McGEER: Yes.

The WITNESS: May I quote a rumour? Our No. 4 wireless school at Guelph is located on the property of the Ontario agriculture college. When we took it over, the Ontario government offered for our use—as a matter of fact, they urged us to take it—some furniture they had there. They had some beautiful sets of furniture which they used for visiting officials such as—

Mr. McGEER: Members of parliament?

The WITNESS: Yes, members of the Ontario provincial government. They did not want to put that in storage because they felt that if it was going to be three or four years in storage, until the war was over, it would probably deteriorate to such an extent that it would no longer be of any use. So they urged the air force to take it and use it in our mess, which we gladly did. A rumour started that the air force at Guelph had purchased some very valuable and expensive pieces of furniture, which we were called upon to answer. Of course the answer was that they are the property of the Ontario government.

By Hon. Mr. Hanson:

Q. The same thing was true at Barriefield. Is Barriefield an air force establishment?—A. No; army.

Q. I remember hearing about one of these camps. I asked a friend of mine, and he said that they did have some very fine stuff there, but the officers bought it themselves.

By Mr. Ross (Souris):

Q. Would it be fair to say that in the majority of the airports, speaking of the officers' messes, a great deal of the furniture has been paid for from their own funds?—A. A good part of it.

By Mr. Fulford:

Q. The Canadian Jewish Women's Congress gave a lot of it.—A. Yes. They donated a lot.

Q. In the army they furnished the officers' mess at Brockville, which is called the Sultan's Palace.

Mr. WINKLER: Yes, and in Sussex, too.

Hon. Mr. HANSON: Time is going by. We do not want to keep you beyond the usual time. The army officer who was here the other day laid down some very definite suggestions for the post-war period. Mr. Sellar, in the conclusion of his submission, suggested, on the assumption that they wished a personal opinion from him, the following:

(a) That as public property becomes surplus to departmental requirements, possession and title be vested in one agency of the Crown which would have no other function than that of safekeeping and disposal.

May I say to honourable members that I do not want to cut off discussion, but I was trying to get along. If it is agreeable to the committee, I will move up to this point. Continuing:

(b) That within a reasonable period after cessation of hostilities a classification of inventories be made, title and possession of all declared surplus to departmental needs passing to the agency mentioned above;

(c) That the activities of the agency in valuing, safekeeping and disposing of property held by it be regulated by legislation.

And he thinks, I presume, of legislation relating to the activities of such an agency, if I understood him correctly. Have you any similar recommendations to make to this committee?

The WITNESS: No, sir. I am afraid we have not given much thought to the post-war period.

By Hon. Mr. Hanson:

Q. You have not got that far yet?—A. Right now we are placing all our emphasis on disposal of our surplus equipment.

Q. That is, the disposal of the stuff you yourselves cannot use?—A. That is right.

Q. Have you seen this memorandum submitted by the Army Salvage and Disposal Board?—A. No. I have not.

Mr. McGEER: It is likely, of course, that if that idea developed—and apparently it is developing now—there will be inter-service conferences on it. It seems to me,—and I think I can speak for the rest of the members of the committee—that Colonel Dailley has given a good deal of thought and attention to the general policy of salvage and post-war disposal. If it has not been done, certainly the suggestion for inter-service conferences would, I think, be very profitable; because he seemed to have a good many ideas.

By Hon. Mr. Hanson:

Q. You will find it at the very beginning of this submission that he made on Tuesday. You have never read it. I suggest that you read it. It is dated June 29, 1943. He sets up an organization for post-war disposals. This is from the Army Salvage and Disposal Board. He suggests as follows:

The following is the organization which the board suggests for the expeditious and economical disposal of stores and property acquired by the government in consequence of the nation's war effort.

(a) There should be set up immediately a war disposal committee which will be a parliamentary committee charged with the responsibility of establishing the policy which will be followed in disposing of government stores and property.

Have you given any consideration to that suggestion?—A. No.

Q. This is a question of policy. He suggested that it be done by a parliamentary committee. So far as you are concerned, you have not arrived at that stage. Then he suggests:

(b) There should be set up immediately—

Which is now.

A War Disposal Board— He means, I think, on the setting up of the War Disposal Board. Which will carry out the policies decided upon by the parliamentary committee referred to in (a).

That, of course, means after it has been given parliamentary consideration. I was wrong. Continuing:

This board will be responsible to the Minister of Munitions and Supply and the funds secured from the sale of stores or property will be received and accounted for by the Department of Finance.

You have not given any consideration to this?—A. No.

Q. They are very constructive suggestions.—A. Yes.

Q. Whether you agree with them or not.—A. Yes. We have not given much thought to the post-war period as yet.

Mr. McGEER: Of course, this is not only post-war.

Hon. Mr. HANSON: I agree with that.

Mr. McGEER: It is a continuing program which will merge into the post-war period.

Hon. Mr. HANSON: Yes. The air force will come in just as the army does. He is talking about the surplus.

By Mr. McGeer:

Q. Well, you are doing, in a general way, very much the same thing.—A. We are doing very much of that.

Q. As Colonel Dailley was doing in the army. The only thing is that Colonel Dailley has formulated the thing.—A. All our efforts at the present moment are being placed on disposal, because we feel that now the air force is salvage conscious. We spent fifteen months trying to make them so. We are putting all our efforts on disposal of surplus obsolescent equipment for two or three very important reasons, not the least of which is the fact that it is taking up too much valuable space in our equipment depots.

Q. Of course, Colonel Dailley gave us evidence to the effect that in some instances they are doing salvage for the air force. I mean to say, in some instances I think he told us he was taking care of the shoes of the air force.—A. That is right.

Q. There is a certain amount of inter-working together now.—A. Yes.

By Hon. Mr. Hanson:

Q. Reclamation is an important thing as well as disposal. You have your own tailor shop?—A. We have our own tailor and repair shop.

Q. That is for uniforms; and your boots go to the army?—A. We have a boot repair section in Toronto and a boot repair section in Moncton. In all other sections the boots are sent to the army reclamation boot repair sections.

Q. The two points named have very large numbers of men?—A. That is right.

Q. You are advancing. Is that the idea? You are advancing in your organization?—A. Definitely.

Q. But you are not able to give us concrete results such as he was able to put on paper? He has got it down to the last cent.—A. Unfortunately, I have not that with me, but I can produce it.

Q. You can produce it?—A. I can produce it, especially on our clothing repair sections.

Mr. McGEER: It might be well to let this officer have a copy of that report.

Hon. Mr. HANSON: He should have it. I think it would be a good thing for him to study, anyway.

Mr. McGEER: Probably that report would suggest information that you would like to give to this committee.

The WITNESS: I should like to have it very much.

Hon. Mr. HANSON: It will be given to you. The clerk will see to that.

Mr. GLADSTONE: It should suggest, too, that an effort be made in the direction of the co-ordination of activities.

Hon. Mr. HANSON: Yes.

By Hon. Mr. Hanson:

Q. Is there much attempt made in that regard? There is an opinion—I do not know how widespread it is or how justified it is—that there is duplication in the services. The army medical service serves the navy, does it not?—A. That is right.

Q. Yes. But it does not serve the air force. At first it was thought, by those who perhaps did not know much about it, that the army medical service could service the air force. Now that school of medical thought believes that it requires a special type of medical man to look after airmen because of their occupation in the air. I do not say that would apply to ground crew or anything like that, but there is a good deal of justification I am told, for that decision. But you have a complete medical set-up, have you not?—A. Yes.

Q. The result of all this has been to rob civilian life of a large number of medical practitioners which, in the country districts at least, we can ill afford to lose. We have not enough medical men. The drain of doctors going into the two medical services has meant the impoverishing of the civilian population, perhaps unduly. I do not say that, but that is the theory that has been built up. Have you anything to say about that, or is it fair to ask you that? I do not want to ask you any embarrassing questions?—A. No. That is completely out of my province.

Q. Then I will not question you on that. I quite appreciate your position.

Mr. GLADSTONE: The same thing would be true with respect to cooking schools and the training of cooks.

Hon. Mr. HANSON: I am bound to say it is necessary to give some training to cooks. The supply of good cooks was quite limited.

Mr. McGEER: Of course, in this particular branch of the service there does seem to be the opportunity for cooperation there; and from what we can gather from Colonel Dailley, that cooperation is going on. I have reference to this reclamation service and the disposal of surplus.

The WITNESS: And we are even extending it into the penitentiaries. We are conducting investigations now to see how far the penitentiaries can take care of some of our repair work. I believe we can give them quite a bit of repairable clothing.

By Hon. Mr. Hanson:

Q. Repairable clothing?—A. Yes; also repairs on tables and chairs and stuff like that. They can readily do that.

Q. You will have to watch out for the trade unions. It used to be the cry that you were taking work away from the civilians. However, I am not objecting. What results have you obtained so far, from using penal labour?—A. As I say, we are sending them part of our repairable clothing to do, and general barrack equipment such as tables and chairs—putting a leg on here, and a piece on there.

By Mr. Gladstone:

Q. Just to go back to another item—have you any silk parachutes now?—A. I cannot say that.

Q. What is your experience with respect to defective parachutes? Do you have any to handle?—A. No. I cannot say, sir.

By Hon. Mr. Hanson:

Q. Have you any objection to the Auditor General conducting a proper audit of your salvage operations?—A. Not at all.

Q. He suggests that there is a limitation on his authority and that there will be for the post-war period. You have no objection to that?—A. No objection.

Q. There is no question of secrecy involved?—A. No. It is all aboveboard, sir.

Q. I do not think I have anything more to ask.

Mr. McGEER: Of course, that comes to the broad question of whether or not the whole audit should not be under the audit department, independent of all other departments. That is a matter of governmental policy. My own opinion is that the Auditor General should be independent of everybody.

Hon. Mr. HANSON: I think you will have to have departmental audits, always. No company would ever rely entirely on the external audit of a firm of chartered accountants; no big operating company would do that. The executives, from day to day or week to week or month to month, must have their own reports from their own audit departments.

Mr. McGEER: I quite agree with that.

By Hon. Mr. Hanson:

Q. You have an audit now?—A. We have our own internal audit, yes.

Mr. McGEER: But when you come to the audit of a bank, with several thousand branch banks, then the audit department at headquarters is the auditing and checking department independent of these branches. In the government every department is a subsidiary of the main corporation of the nation.

Hon. Mr. HANSON: Yes.

Mr. McGEER: And on the analogy of a private company carrying on its independent audit, it is very usually a matter of practical economy where they do not pay an outside firm to do work which they feel they can themselves employ auditors to do. Then a check is made, and the check is very often not worth the paper on which it is written, as most of us who have been in public life for some time have found out.

Hon. Mr. HANSON: Are you speaking of government?

Mr. McGEER: I am speaking now of government. For instance, I take the city of Vancouver where we had a corporation operating a considerable amount of government property called The Exhibition Board. They had their own internal operations and they had an outside auditing company paid a nominal fee to come in and give their O.K. The O.K. was always given with the reservation that there are certain things which the fee allowed does not cover. When we finally got the auditors in, we find that reservation.

Hon. Mr. HANSON: It is no audit at all.

Mr. McGEER: That is a matter of economy. But when you come to a nation operating as nations are operating to-day, then the headquarters audit department should have, of course, its day to day, week to week, or month to month, audit going on all the time. But it should be by officials responsible to the Auditor General and not responsible to the officers of the department itself.

Hon. Mr. HANSON: Let me get your idea. Do you think that it is unnecessary to have departmental audits and that all the audits should be done by an officer of the Auditor General?

Mr. McGEER: Yes, independent of the department. That is, no auditor should be responsible to the head of the department. He should be responsible to the Auditor General. He should be there all the time, or to whatever extent the Auditor General feels that audit should be maintained as a continuous operation. But the audit should be independent of the department.

Hon. Mr. HANSON: Take the analogy of the Canadian National Railway system which is probably the largest government department outside of the war departments. They have a very extensive audit system of their own, as you know.

Mr. McGEER: Yes.

Hon. Mr. HANSON: In addition to that, parliament as a shareholder or representing the shareholders of the nation, appoints a firm of chartered accounts annually under the statute—that is George A. Touche and Company—and they have men constantly in the railways, a large staff. They make not

a day to day audit, but check audits all the time on the railway audit. That is the system that I think business approves of as being one check on the other—a double check, so to speak. That is the system that I myself think is the proper system. You could integrate into the government service the same system that they have in respect to the Canadian National Railways. It seems to me that is the best development we have had in that line.

Mr. McGEER: Of course, in the accounts of the railway, the whole problem is to bring the control of every item in every department to a headquarters organization.

Hon. Mr. HANSON: Yes.

Mr. McGEER: You have your traffic department, your operating department, your dining car department and all those things. Probably the most intricate check system of accounting and audit that ever was developed was developed in the railways.

Hon. Mr. HANSON: Yes.

Mr. McGEER: Because it goes right down to the great number of men collecting cash.

Hon. Mr. HANSON: Yes, surely.

Mr. McGEER: That, of course, has to be checked by a checking system and carried on to protect the revenues of the railway down to the detail of the smallest item.

Hon. Mr. HANSON: Yes.

Mr. McGEER: Then of course, the operation of the railway is just like everything else. Wastage can absorb an enormous amount of their revenues, if it is allowed to go on. But that is a somewhat different thing, although in the main it is the same. We have not, outside of our taxation and tariff departments, the detail recovery of revenue such as a transportation company has. But taken in the main, it is the same. Take the principle of the Auditor General being responsible to the government. Then he is responsible too for the maintenance of a check in all of the departments, in much the same way.

Hon. Mr. HANSON: Not to the government; to parliament, you mean?

Mr. McGEER: I use it in the Lacombe reference.

Hon. Mr. HANSON: Oh, yes.

Mr. McGEER: It is all-inclusive.

Hon. Mr. HANSON: I understand.

Mr. McGEER: Their accounting system in a railway has developed to your headquarters accounting staff which is associated with your headquarters auditing staff. So if you take the government and make it an analogous corporation to the railway, then I agree with your suggestion.

Hon. Mr. HANSON: That is my theory, too. It should be made analogous.

Mr. McGEER: The auditors who are checking the dining car department, or the traffic department are not responsible to the head of the dining car department or the head of the traffic department. They are responsible to the headquarters accounting and audit department of the railway.

Hon. Mr. HANSON: I see. As a matter of fact, the dining car department have their own check first, and the railway auditors check that.

Mr. McGEER: But it is all responsible to headquarters.

Hon. Mr. HANSON: Yes: It must be centralized.

Mr. McGEER: Whereas what we have are departmental audits. They are responsible to the departmental head. They are employed by them. They are disciplined by them. They are maintained by them. As a matter of fact, you have the auditor responsible to the headquarters that he is auditing, in your departmental audit.

Hon. Mr. HANSON: An employee of the department.

Mr. McGEER: Yes.

Hon. Mr. HANSON: Of course that happens.

Mr. McGEER: Mr. Sellar was suggesting that he should have wider authority to control audits.

Hon. Mr. HANSON: All departmental audits.

Mr. McGEER: Yes.

Hon. Mr. HANSON: I would think it would be a great success.

Mr. PURDY: Is that the Finance Department?

Hon. Mr. HANSON: They have Treasury officers.

Mr. PURDY: They are under the Treasury.

Hon. Mr. HANSON: What used to be the accountant's office downstairs is now a branch of the Treasury.

Mr. McGEER: That is working up to the same idea.

By Mr. Winkler:

Q. May I ask a specific question. Does the transfer of goods from your department to another department come under the Auditor General? Does the Auditor General give an O.K.? Does he audit it and give an O.K. of your transaction?—A. Not so far as I know.

By Hon. Mr. Hanson:

Q. That is the disposition. It is only on paper, anyway, so far as accounting is concerned. I think you ought to be paid for this stuff by the department, with a check-up to be made by the auditor, just like any other revenues. Of course, yours is a spending department. You have very little revenue. That is so, is it not?—A. That is true.

By Mr. McGeer:

Q. You have not any revenue at all?—A. No.

By Hon. Mr. Hanson:

Q. Except this?—A. Except from sales.

Q. Except from your disposals. You said you could bring with you some figures which you said would give us some estimate, in dollars and cents, of what you were saving of the taxpayers' money. Would the committee like to have that?—I do not know that we have time to go into it.

Mr. McGEER: What I think about that is this. It is really not necessary from the point of view of this committee. But we have heard a good deal from members of the committee of rumours and suggestions that there is extravagant waste. Of course, there is bound to be waste in an army operation. You cannot get away from it. I mean, the closest check is bound to be broken down. Then there is another thing. Efficiency is a most important thing. Efficiency, with waste reduced to the minimum, is of course what is wanted. But we can have such a thing as an economical administration which overstresses the reduction of waste to the point of reducing efficiency.

Hon. Mr. HANSON: Oh, yes.

Mr. McGEER: That, of course, would be disastrous to the operation of such an institution as the air force.

Hon. Mr. HANSON: That is in relation to training and the like.

Mr. McGEER: In all its branches. I mean to say, there are margins of security that are not normally required, but which for efficiency in the service are required. It would be absurd to talk about reducing waste to a point where you would not allow for margins. For instance, one man operates a plane with

a degree of efficiency in the same manner as he operates a car. One man may boast of never having rubbed his fender on a lamp post or anything of that kind for ten years. That is all right. But most of us have smashed a fender through sheer indifference and carelessness. I mean, these are human things. But I understand that there has been, in all the branches of the service, a very good deal of attention, now that the emergency is passing over, to reducing wastage, and that great results have been accomplished. I think that one of the services of this committee could perform, not only to the public but to the services themselves, is to give parliament a report upon the effectiveness of these practices of economy which have come into being. I think that would be worthwhile.

Hon. Mr. HANSON: Would you enlarge that to include manpower and administration? The suggestion has been made to me that there are too many people and they have not enough to do. Did you ever hear anything about that?

Mr. McGEER: Well, I do not know whether that would be salvage.

Hon. Mr. HANSON: That is not salvage, but it is talking about waste, waste of money. That is the intention.

Mr. McGEER: I do not see any reason why that should not be in this section.

Hon. Mr. HANSON: I think that is up to headquarters staff themselves.

Mr. McGEER: That would be so. If there is any suggestion of that kind of wastage, this committee has a right to go into it. But you see the point I am making. You have a statement to make on that?

The WITNESS: We have.

Mr. McGEER: I think we should have that. I think parliament and the public should have that.

By Hon. Mr. Hanson:

Q. It would not be in this witness' jurisdiction. What about the staff under your jurisdiction? Have you got too many men?—A. No, sir. I would not say we had too many.

Q. You have enough?—A. Yes. We have enough.

Q. There are twenty men on the ground for every man in the air. That is true?—A. Twenty?

Q. I have heard that said.—A. I have heard ten.

Q. I heard twenty.

Mr. McGEER: That is another headquarters proposition.

Hon. Mr. HANSON: Yes. I agree with that. It is a large proportion, whatever the true proportion is. It has been suggested to me, at all events, that a lot of men are kept in headquarters, and that there is a multiplicity of them. I have heard boys say, "Well, I am just wasting my time." I have had boys come to me and tell me that. I cannot do anything about it.

Mr. McGEER: Well, I think the committee should call headquarters in on that.

Hon. Mr. HANSON: You are opening up a pretty wide vista there.

Mr. CLARK: I think these statements should be given to the committee by the witness.

Hon. Mr. HANSON: You mean the financial statements?

Mr. CLARK: Yes.

Hon. Mr. HANSON: That is what I was about to suggest.

By Hon. Mr. Hanson:

Q. Can we have those—A. Yes.

Q. All right. Do you want to recall the witness?

Mr. McGEER: I think we can probably get the statements sent up, the financial statement on M.T. transport, and have them broken down as to what type of cars they are and so on.

The WITNESS: We can do that.

Mr. McGEER: Then if we want to ask questions about that, we can call the witness back. We do not want to call him back unnecessarily.

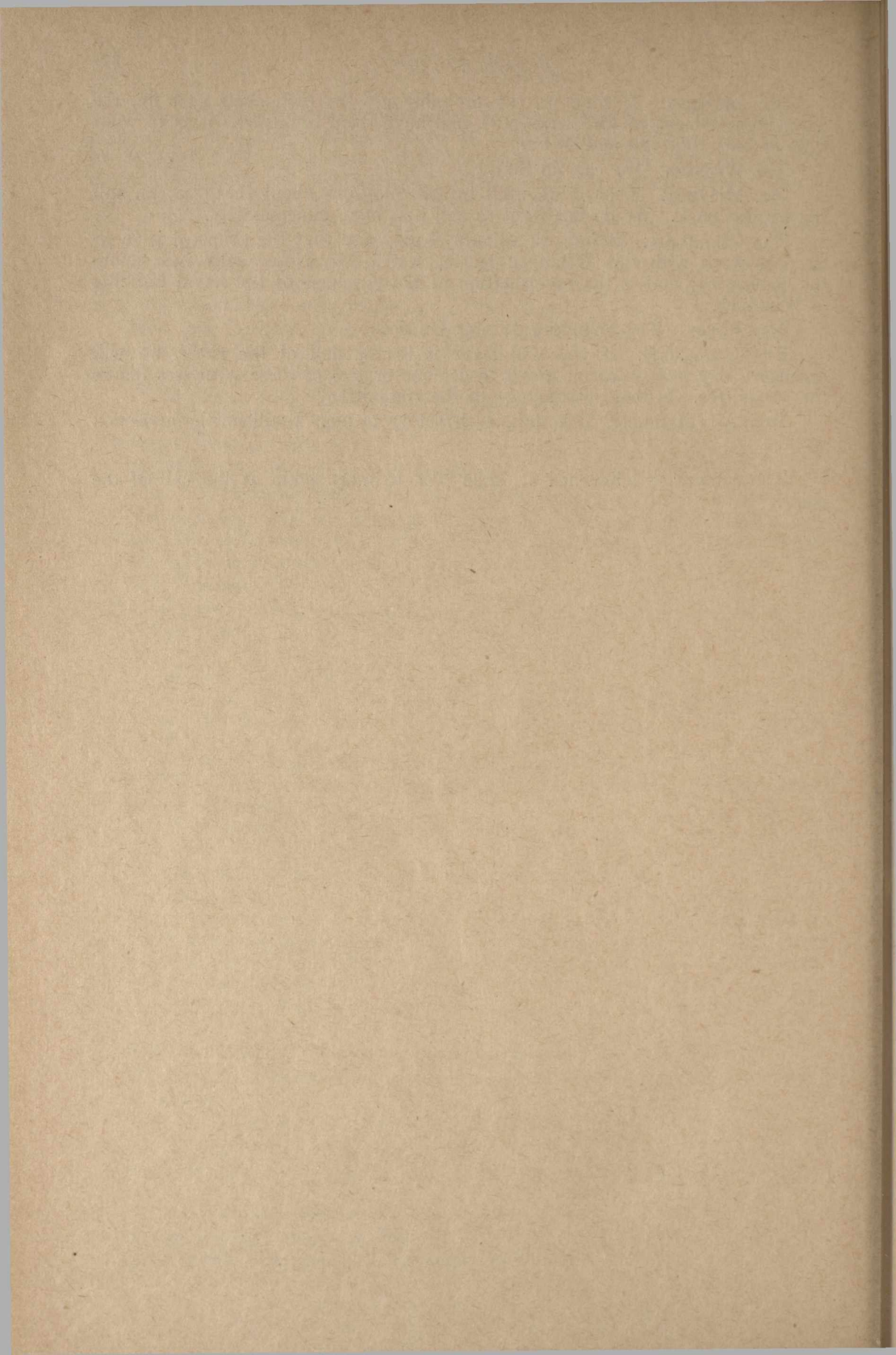
The CHAIRMAN: Before we adjourn, I may say that the proposal is to go on next week with this Winnipeg matter which Mr. Noseworthy has before the committee; that is the investigation of the purchase of the naval building in Winnipeg.

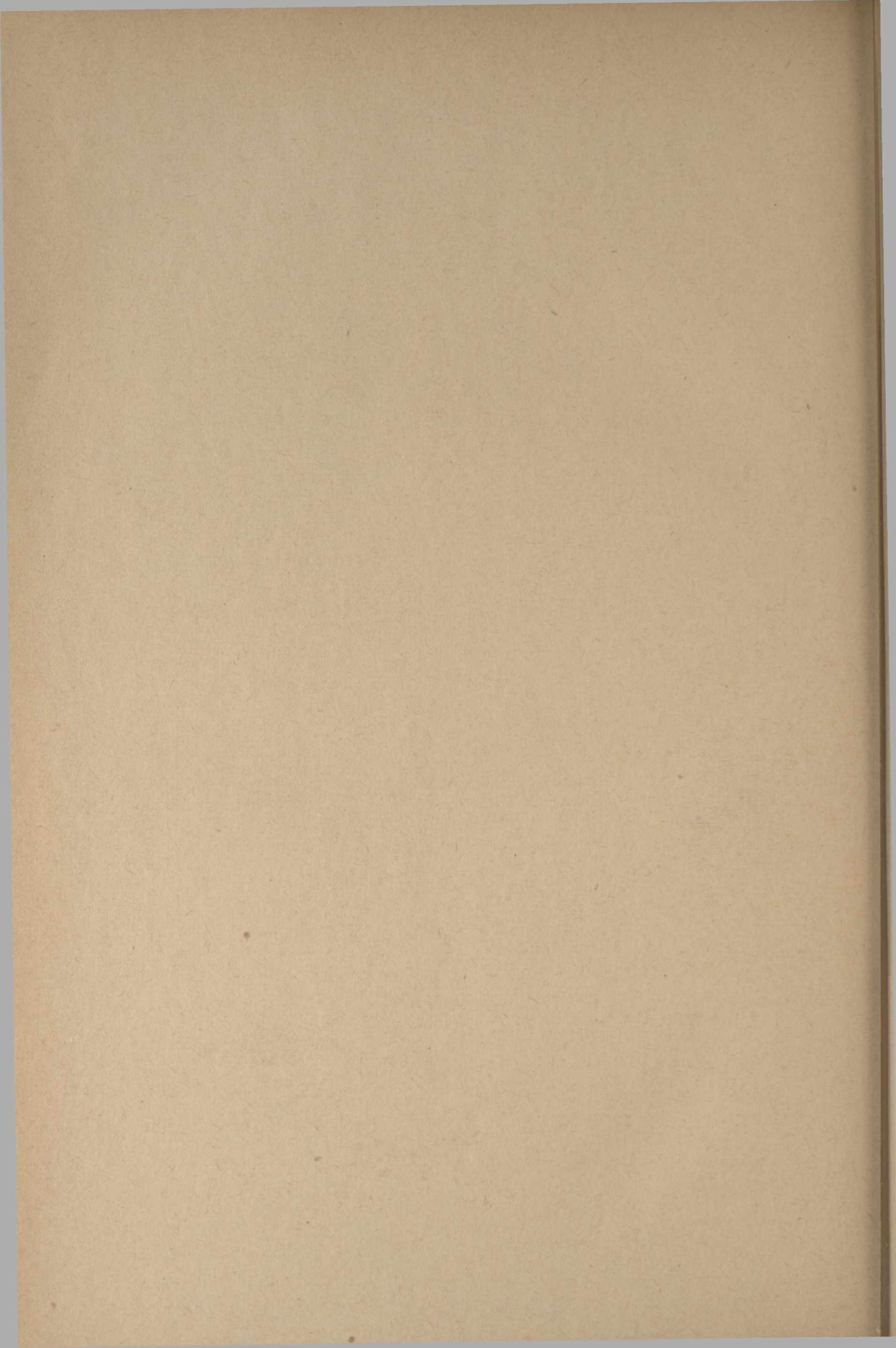
Mr. PURDY: The Winnipeg Winter Garden.

The CHAIRMAN: If you will leave it to the call of the chair, we will arrange a day next week on which to get one or two of these witnesses before the committee. Is that satisfactory to the committee?

Hon. Mr. HANSON: It is quite satisfactory to me. I will not be here next week.

The committee adjourned at 12.55 p.m. to meet again at the call of the chair.





SESSION 1943
HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

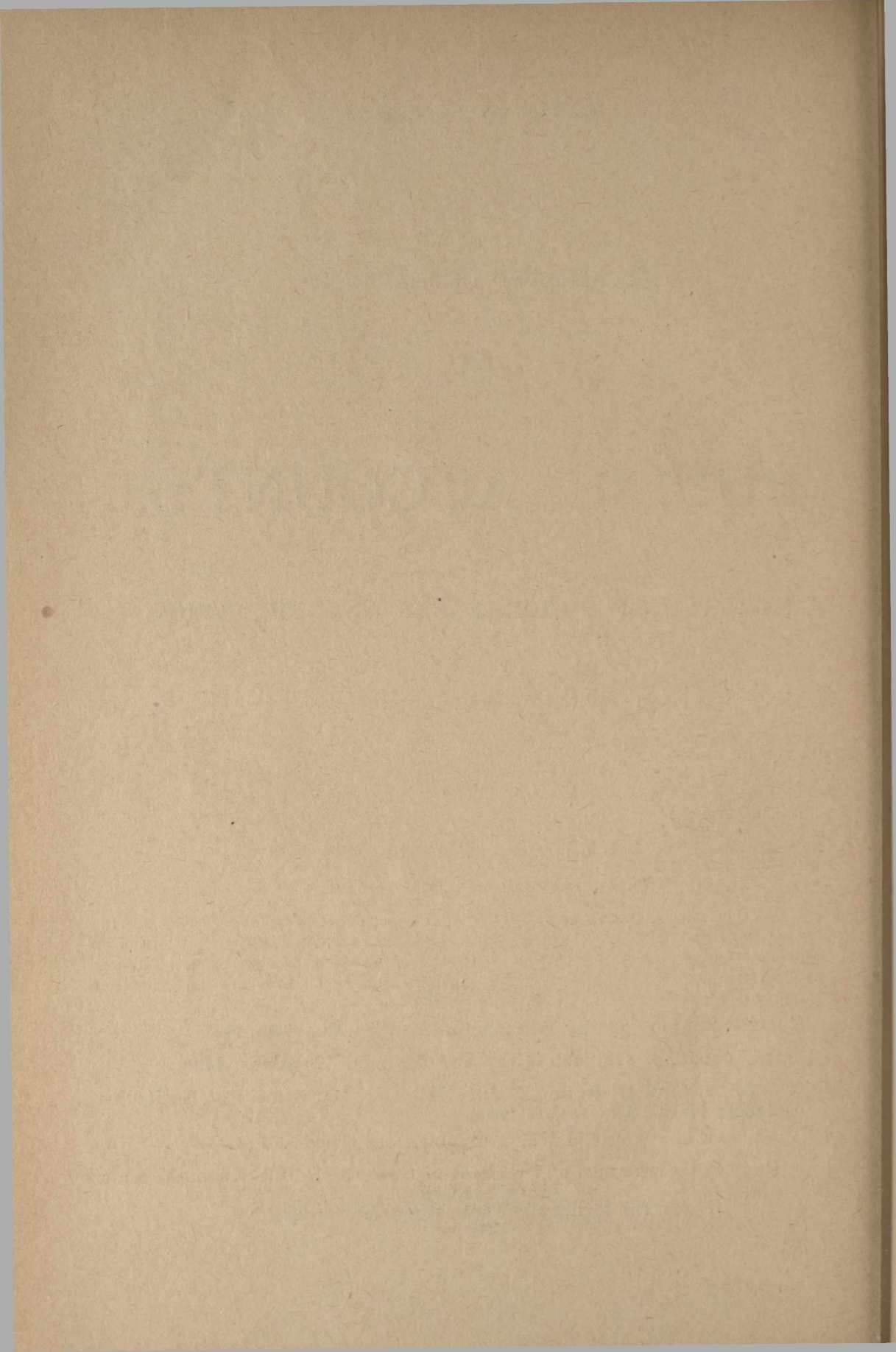
Including fourth report.

TUESDAY, JULY 13, 1943

WITNESSES:

- J. Wurtele Rankin, of the Westmount Realities Co., Montreal.
- J. Elmer Woods, of Oldfield, Kirby and Gardner, Winnipeg, Man.
- Major Alan B. Coulter, Acting Deputy Minister, Department of National Defence, Naval Services, Ottawa.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1943



MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,

WEDNESDAY, July 14, 1943.

The Select Standing Committee on Public Accounts begs leave to present its

FOURTH AND FINAL REPORT

Pursuant to its Orders of Reference, your Committee has inquired into the following:—

1. The performance of the duties of the Director of Government Office Economies Control during the fiscal year 1942-43.

2. A payment of \$3,189,609.90 to the Noorduyn Aviation Limited as shown on page 501 of the Auditor General's Report for the year ending March 31, 1942.

3. The purchase of the Winnipeg Winter Club by the National Defence Department (Naval Services).

Your Committee has held sixteen meetings and has heard several witnesses.

A copy of the printed evidence taken is herewith appended, together with the exhibits filed in the course of its proceedings.

All of which is respectfully submitted.

W. A. FRASER,
Chairman.

TUESDAY, July 13, 1943.

The Standing Committee on Public Accounts met this day at 11.30 o'clock. Mr. Fraser (*Northumberland*), the Chairman, presided.

Members present: Messrs. Boucher, Fontaine, Fraser (*Northumberland*), Golding, Hanson (*York-Sunbury*), Henderson, Isnor, Johnston (*Bow River*), Matthews, McCubbin, McDonald (*Pontiac*), McGeer, Melvor, Noseworthy, Purdy, Rhéaume, Ross (*Hamilton East*), Ross (*Souris*), Tripp, Ward.—20.

In attendance: Hon. Angus Macdonald, Minister of National Defence for Naval Services; Mr. W. C. Macdonald (*Halifax*), Parliamentary Assistant to the Minister of National Defence (Army); Acting Capt. E. Johnstone, Director of Organization, R.C.N., Ottawa, and Major Allan B. Coulter, Acting Assistant Deputy Minister.

The Committee, as agreed, proceeded to inquire into the purchase of the Winnipeg Winter Club. Mr. J. Wurtele Rankin of the Westmount Realities Co., Montreal, P.Q., was called.

The witness made a statement and after examination was released.

Mr. J. Elmer Woods of Winnipeg, Man., was called and questioned.

He gave the personnel of the Board of Governors of the Winnipeg Winter Club in 1942.

At 1.05, the Committee adjourned until 3 o'clock this day.

AFTERNOON SITTING

The Committee resumed at 3.00 p.m.

Members present: Messrs. Clark, Côté, Fontaine, Fulford, Fraser (*Northumberland*), Golding, Isnor, Johnston (*Bow River*), McCubbin, McDonald (*Pontiac*), McGeer, McIvor, Marshall, Mullins, Noseworthy, Purdy, Rheaume, Ross (*Hamilton East*), Ross (*Souris*), Tripp, Ward, Winkler.—22.

In attendance: The same as at the morning sitting.

Mr. Woods was recalled and his examination concluded.

Witness was released.

Major Allan B. Coulter, Acting Deputy Minister of Naval Services was called and questioned on the cost of alterations and the use made of the Winnipeg Winter Club.

Major Coulter was released.

On motion of Mr. McIvor, the Committee adopted a vote of thanks to the witnesses.

The Chairman reminded the members of the Committee that in the course of its proceedings originals of correspondence and departmental files were requested and filed as exhibits.

On motion of Mr. Golding,—

Resolved,—That the Clerk of the Committee be authorized to return to the proper departments and officials the original correspondence and departmental files produced before the Committee and filed as exhibits in the course of the proceedings.

The Committee agreed to report the evidence taken to the House.

The Chairman thanked the members of the Committee for their co-operation.

At 4.10 o'clock the Committee adjourned *sine die*.

ANTONIO PLOUFFE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

July 13, 1943.

The Standing Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, the subject matter before the committee to-day is the resolution of Mr. Noseworthy in connection with the purchase by the Department of National Defence for Naval Services of the Winnipeg Winter Club on October 15, 1942. The first witness is Mr. Rankin. Mr. Rankin is anxious to get back to Montreal so we will make it just as brief as possible for him. Then we will call on Mr. Woods.

J. WURTELE RANKIN, called

The CHAIRMAN: Are you going to begin the questioning, Mr. Noseworthy?

Mr. McGEER: We might get Mr. Rankin's position.

By Mr. McGeer:

Q. What is your name in full?—A. John Wurtele Rankin.

Q. Where do you live?—A. Montreal.

Q. What is your business?—A. I am a partner in the Westmount Realities Company. I have been actively engaged in the real estate business since 1920 with my company which is one of the largest, if not the largest, real estate company dealing exclusively in real estate in Canada.

Since October, 1939, I have been giving a great deal of my time without remuneration in assisting the Real Estate Adviser, Department of National Defence, in valuing and appraising for war purposes various properties in various locations ranging from Vancouver Island to Newfoundland.

Q. What is your experience in valuing properties?—A. I have valued properties for twenty years.

Q. For whom?—A. For my company and for most of the large companies in Montreal. In other words, I have valued every type of building, industrial, commercial and office buildings. I may say, too, that I personally, or through the company, hold memberships in the Montreal Real Estate Board, Montreal Building Owners' and Managers' Association, National Association of Real Estate Boards of Chicago, Urban Land Institute of Washington, D.C., and the Ontario Association of Real Estate Boards.

Q. You are conversant with real estate values in so far as land is concerned and also with regard to buildings?—A. Yes.

Q. And are you conversant with the assessment procedures of the various cities and communities throughout the dominion?—A. No, I am not. I do not give any credence at all to what the assessed value of a property is in establishing its value.

By Hon. Mr. Hanson:

Q. None at all?—A. None at all, for this reason, that every taxing body has its own method of appraisal for real estate valuation purposes. In many cities we have low tax rates and high assessments and in other cities there are low assessments and high tax rates; so that an experienced appraiser never takes into consideration at all, or very seldom would he ever give any consideration at all to the assessed value of the property. He has to value it from his own knowledge.

Q. Do you not go and look at the statute upon which they set up their valuation? In the city of Fredericton the city requires them to assess it at the market value. Surveys are made based on all known factors, earning power, location, frontage, and all those things. Surely you pay some attention to a scientific position like that?—A. No. Because of the fact there is such a wide variety of methods of assessing properties all across this country no experienced appraiser would pay any attention to what the assessment is. He is seeking only one thing, the real value, and he has to make the valuation his own way.

Q. I have had many cases in the exchequer court, and the fundamental basis of locality values is the assessed value. You ignore all that?—A. Yes.

By Mr. McGeer:

Q. In any event, you examined this Winter Club property in the city of Winnipeg?—A. Yes.

Q. What kind of examination did you make of it?

Mr. NOSEWORTHY: Would you have the witness tell us at this point as to the extent of the examination? Would you ask the witness at this point to give us the extent and the nature of his examination?

Mr. McGEER: That is what I am asking.

By Mr. McGeer:

Q. Tell us in your own words the history of the examination you made?—A. I might say at the request of the Real Estate Adviser of the Department of National Defence I proceeded to Winnipeg at the end of last September.

By Hon. Mr. Hanson:

Q. Who is he?—A. Lieut.-Colonel Goodwin Gibson—to place an independent valuation on the club. It is easy enough to make an appraisal to satisfy myself as to the value of the property but it is an entirely different matter to impart that appraisal to others without factual proof—

Q. That is not what you were asked. You are asked to tell us what you did. Do not argue the case. Tell us what you did. I do not want to be abrupt but I want you to follow the questions.

Mr. ISNOR: Can he not make his submission?

Hon. Mr. HANSON: I do not think so.

Mr. PURDY: Should the witness not be allowed to make his statement and then the questions can come after?

Mr. ISNOR: Certainly.

Mr. McGEER: I think if we let him go ahead he will give us a factual survey.

Hon. Mr. HANSON: The statement is not responsive to the question.

Mr. McGEER: I do not find any fault with it. I could take him along step by step but I think we will get the facts from him more quickly and more easily if he does it in his own way. He is a man who knows what he is talking about.

Mr. McIVOR: We are accustomed to listening to long statements, anyway.

Mr. McGEER: I think if the committee will listen to him then he will be open for examination afterwards.

By Mr. McGeer:

Q. Tell us in your own way what you did out there to get at the valuation?—A. Before leaving for Winnipeg and knowing that I had to appraise a winter club building I consulted various architects to obtain the latest information as to the replacement cube cost of various types of sport buildings. Having in my possession information as to the cube replacement costs of buildings which were

known to me in Montreal such as the M.A.A.A. Badminton Building, the Navy League drill hall which has just been finished there, and other buildings in Montreal, I went out to look at the building in Winnipeg. It was not a very difficult job for me, having done this for years, to adjust the cube value so that I might place a value on the Winter Club Buildings.

By Hon. Mr. Hanson:

Q. That is on the replacement basis?—A. I am talking of replacement basis, yes. There are three methods of appraising buildings. First there is the capitalization basis; second, there is the comparative sale basis and third the replacement value less depreciation basis. As the property was not occupied and therefore there was not any revenue and as there were no sales of any similar buildings in Winnipeg or elsewhere of a kind with which to make a comparison there was only one logical approach which was the replacement value less depreciation method.

I made a valuation on that basis, and I will have to explain to you how I arrived at it. There are four entirely different types of buildings. First of all the long building here (pointing to model on table) is the rink building. The next little building, 24 feet wide, was the old Club building that was attached to the skating rink. Then there is the third one, the new clubhouse building, and then the fourth building the one with the two dome roofs is the badminton court building with lockers and bowling alleys underneath. It was necessary to appraise each of these types of building separately. They were of different construction, different finish. Some of them were heated and some of them had only very little heat. Therefore it was necessary to cube each of these buildings separately. I did this. When I was asked to come before this committee I took my cube values down to Messrs. Luke and Little, one of the leading architects in Montreal, who have designed sports buildings among which have been the M.A.A.A. Badminton, Handball and Squash Courts, the Navy League Drill Hall, the Royal Quebec Golf Club, the Knowlton Golf Club, the Rosemead Golf Club, the Montreal Badminton and Squash Club—extensive alterations there—the Hermitage Club, and large recreation buildings down at Baie Comeau. They went over my description of the buildings and they wrote me a letter which I might be permitted to read to you, addressed to me on July 8th.

At your request we have examined the plans and description of the above buildings, and concur that the present day replacement cube cost of each of the four types of buildings which make up this property are as follows:—

Skating Rink, 8 cents.
Original Club House, 25 cents.
New Club House, 50 cents.
Badminton Courts, 16 cents.

I might say that the cost of building an ordinary wooden drill hall—and this (pointing to model on table) is made out of tile—is 14 cents. Which is the price being paid to-day at St. Hyacinthe. The average cost of a drill hall for the army, across the country has been in the neighbourhood of 10 cents per cube, so in putting 8 cents on this building it is conservative.

By Hon. Mr. Hanson:

Q. You are talking about war prices to-day?—A. I know, but I am putting 8 cents as its replacement value to-day.

Mr. McGEER: Eight cents for a tile building as against 10 cents for wood and 14 cents in one case.

The WITNESS: The next little building there (pointing to model on table) I would consider as a sort of house and it gets into the house category. I put

25 cents a cube on it. The next building is the club house building itself, a very fine building. It contains a swimming pool; and all the equipment for the chlorinization and filtering of the bath water. It has a laundry, including two squash courts that are very expensive to construct. I placed a value on it of 50 cents a cubic foot. The next building is the large badminton court building. It has a basement, with bowling alleys and lockers. There is also one squash court. I placed 16 cents a cubic foot on this building. Going back to the drill hall cost the actual cost to-day of a drill hall according to information I have received since I came to Ottawa is 14 cents for an ordinary wooden drill hall as against 16 cents placed on this building. I am sure that this price is quite reasonable and my figures were concurred in by Luke and Little, architects of Montreal.

By Mr. McGeer:

Q. They are the outstanding architects in Canada with regard to this type of building?—A. I would not say they are in Canada but certainly in Montreal they have had more of that type of work. To arrive at the cubic value of these buildings all I had at the time was the door plans. I was able to take the floor plans and I went out at night from the Fort Garry hotel and took the average heights of the buildings and so I was able to arrive at the cube for each building. That was the fundamental thing; and then, the next thing was to establish the rate of depreciation. I have here the appraisal manual issued by the City of Montreal containing a depreciation table which is recognized in the Courts as giving a fair and reasonable depreciation. I have used that table in depreciation for these buildings, based upon buildings of solid construction, which these are, with an estimated life of seventy-five years. And so I proceeded in that manner to evaluate each of these buildings separately. On the skating rink building, by cube—

By Hon. Mr. Hanson:

Q. How does that set-up compare with that used by the Income Tax authorities?—A. The depreciation set-up of the Department of National Revenue is very high; it is 2 per cent. The depreciation on the building here (pointing to model on table), eighteen years old, is at the present time, 28·1 per cent; but this is the structural depreciation and it is considered in the courts, certainly in Montreal, as being a fair and reasonable percentage to show for depreciation of a building of this kind.

Q. So I am to understand that this is the actual material value of these buildings, not for income tax purposes at all?—A. That is right.

Q. And naturally repreciation on a building of that kind sometimes is not as great as indicated by the income tax rates allowed.—A. That is correct, sir. First of all, I considered the skating rink building which was built in 1924. It had an age of 18 years and a cube of approximately 482,000 cubic feet; I placed 8 cents per cubic foot on it as its replacement cost and depreciated this replacement cost 28·1 per cent which meant that to-day's depreciated value is 5·75 cents.

Q. How is that again?—A. 5·75 cents per cube.

Q. Instead of 8?—A. Instead of 8; the total value of this building being \$27,753. The next building had a cubic content of 59,000 feet and a cube value of 25c; depreciation was 28·1 per cent—equal to 7 cents—making the present cube value 18 cents: and its value \$10,679.

Q. That is the house part?—A. That is the house part. It is 103 feet deep and 24 feet wide. An ordinary house would be about 40 feet by 24 feet, so I think it is a reasonable figure. And now, the new clubhouse: 50 cents a cube

less a depreciated percentage of 21·4—that building and the one next to it were built in 1929.

Q. Comparatively new?—A. They are new; at least, they are newer than the others; the depreciation was 10·7c making the cube value to-day as 39·3c.

Q. Is that on the same basis?—A. Exactly; the depreciation is only 21·4 per cent because it is not as old as the other buildings.

Q. But this is a better building and the depreciation might be less?—A. Of course, according to its age, it is in better condition than the other buildings, but they were all depreciated under the same principle.

By Mr. Isnor:

Q. But your table takes that all into consideration, does it not?—A. Certainly.

Q. Then, that would make the clubhouse building \$137,375.

The WITNESS: Then the badminton court building, contains 534,480 cubic feet with a replacement value of 16 cents per cube; its depreciation, 21·4 per cent or 3·4 cents; and its present cube value 12·6 cents. The badminton court building has a present day value of \$67,344. Now, I might say this, that when I estimated these cubes by going out and measuring the building with my eye—my estimate of the total of all the buildings was 1,328,236 cubic feet. I received yesterday a letter from the architect under date of July 8th which states that the actual cubic content of the buildings is 1,337,800 cubic feet.

By Hon. Mr. Hanson:

Q. Your estimate was more or less in the nature of a guess, was it not?—A. I quite appreciate that, sir, but I measured it and the difference in my measurement and what the architect gives now is less than 1 per cent.

Hon. Mr. HANSON: It does not matter much, it is really just a matter of principle—

Mr. McGEER: It does matter, in this way, that he went out and made an estimate and to-day he says that he has a chance to have a check-up on it and it was approximately correct. If you wanted to check it again you could call in the original architect.

Hon. Mr. HANSON: But, that is the principle there.

Mr. McGEER: It shows the diligence with which he has checked his own figures.

By Mr. McIvor:

Q. Is that inside measurement?—A. No, outside; you have to take the cube of the whole building, everything included. And now, that brings me to the fact that the total estimated value of the buildings on October 1st, 1942, was \$204,719.

By Mr. Hanson:

Q. That is on the replacement principal and on no other?—A. Up to now, sir, that is all I have, but I thought—

Mr. McGEER: Replacement principal plus depreciation.

The WITNESS: Less depreciation.

Mr. McGEER: Less depreciation?

The WITNESS: Certainly.

Hon. Mr. HANSON: That is all included in the term replacement.

Mr. McGEER: But it is replacement less depreciation, that is the whole principal.

By Mr. Noseworthy:

Q. What does that represent, that last figure?—A. That is the total of the four figures I have given to you, sir.

Mr. NOSEWORTHY: I do not know what they are.

Mr. ISNOR: Would you give us those four figures again?

The WITNESS: Yes, certainly: for the skating rink, \$27,753; for the original club, \$10,679; for the new clubhouse, \$98,943;—I probably gave you \$137,375 on that, that was a separate figure, sir, I am sorry—\$98,943; and then, the badminton court, \$67,344.

Mr. ISNOR: And that makes a total of \$204,000?

The WITNESS: \$204,719. Now, considering that this committee might be interested in a check valuation—

By Mr. Isnor:

Q. What do you mean by that?—A. Something else that would tend to indicate that the price I put on it was correct; and just as a further indication of the value of the building, I went around Montreal and tried to find some information that would give me some idea as to the original cost of buildings and as to when they were built and I obtained from the Fire Underwriters' Association—

By Hon. Mr. Hanson:

Q. Could you not have that on the club property?—A. I was in Montreal and I was trying to get that information; unfortunately last Monday was a holiday in Winnipeg and I could not get it and I did not get it until yesterday.

By Mr. Johnston (Bow River):

Q. As to that check on value, I should have thought it would have been possible for you to have gotten in touch with the club itself and had access to its books and then you would have known the actual cost.—A. I did not have that information, sir.

By Mr. Isnor:

Q. What check did you make?—A. Here is the Winnipeg Winter Club report by the Western Canada Insurance Underwriters' Association—or, it is a photostat copy of it—and on page 3 it states as follows: the building value—this report is dated 1930, giving the 1929 values, is \$253,370.32.

By Mr. McGeer:

Q. What is the basis of that valuation, do you know?—A. Well, sir, this is an inspection report on the winter club.

By Mr. Hanson:

Q. If you were in a court of law you would know what that is.—A. All I am doing is to establish what at that time the fire insurance companies considered the buildings as being worth—\$253,370.

Mr. MCGEER: It is a pretty good opinion. It is the basis on which they would arrive at the insurance to be placed on it.

Mr. MACDONALD (*Halifax*): It is merely an opinion, that is all it is.

The WITNESS: Take the figure of \$253,370—it would be necessary to adjust the 1929 value to 1942 building costs; so I have taken the Construction Price Index issued by the Dominion Bureau of Statistics and used their figures to increase the value from the 1929 cost to the 1942 replacement value.

By Mr. Johnston:

Q. When did you do that?—A. Just the other day.

Mr. NOSEWORTHY: Would you not have taken the club's own value?

Mr. ISNOR: No, taking the fire underwriters' association report.

Mr. NOSEWORTHY: Less the value as stated by the fire underwriters.

The WITNESS: I do not know where they obtained it, but it is published.

Mr. ROSS (*Hamilton East*): The insurance companies usually investigate before they place any insurance on a building; it is always investigated thoroughly before they take any risk.

Mr. McGEER: They will insure anything if you are willing to pay enough.

Mr. ROSS (*Hamilton East*): It is on the basis of those figures that they arrive at the amount they pay in the event of loss.

The WITNESS: I took that figure, and the construction price index for 1929 is 105·32—based upon 40 per cent of the cost of the winter club being materials and 60 per cent labour—the present day index value or composite rate is 114·6; so I increased the cost to bring it up to its replacement cost, 9·28 per cent; and that gave me a 1942 replacement value of the buildings of \$276,881.

By Hon. Mr. Hanson:

Q. Did that include an allowance for depreciation?—A. That is the replacement figure. Then I depreciated the building on the same basis as before, 21·4 per cent; this depreciation being \$59,233; the value of the buildings on this basis as of October 1st, 1942, being \$217,629.

By Mr. McGeer:

Q. And that would be \$217,000 as against \$204,000?—A. That is right. Now, that is the value of the buildings.

By Hon. Mr. Hanson:

Q. Just at that point: do you understand what the law is with respect to the exercise of the power of eminent domain by the crown? It is the market value; and replacement value is not to be considered except as an element. Did you give any consideration at all to the question of the market value of this property?—A. The real value of the property, in terms of buildings, is what I have given you.

Q. Yes, but you have not answered my question; did you give any consideration to the market value of this property?—A. The value in use of the property in my estimation is \$204,719.

Q. But you just said that was the replacement basis; and you still have not answered my question—did you give any consideration to the market value of this property?—A. Well, there was no market value of it on a comparative basis for the same reason that—

Q. The answer is no.

Mr. McGEER: Oh, no, the answer is not no at all.

Hon. Mr. HANSON: All right, let the witness answer.

Mr. McGEER: Let him make the answer; he says he could not get a comparative value on a marketable basis because there was no sale of this property and there was no sale of this type of property in that area or in any area that he knew of.

Hon. Mr. HANSON: It probably has a value.

Mr. McGEER: But every property has not a marketable value.

Hon. Mr. HANSON: Yes, it has.

Mr. McGEER: Well now, is there any market value for a building of this type; and with all due deference to my learned friend the view of the law of eminent domain is entirely wrong.

Hon. Mr. HANSON: I suggest to this committee that in determining property—and I assume my friend from Halifax must have had a lot of experience in expropriation proceedings—that the value that is placed on this property is placed in legal terms under the law for market value; no matter how narrow the market may be; and that is not the basis upon which you proceeded?

The WITNESS: My opinion is this; if that were an Exchequer Court case the awarded value of the property would be between \$325,000 to \$350,000.

Hon. Mr. HANSON: That is foolish.

The WITNESS: Well, I have been through a lot of them and I know.

Hon. Mr. HANSON: So have I.

Mr. MACDONALD (*Halifax*): I think the explanation is this; you take the market value in cases where you cannot find the comparative sales; you see, that is its function. You can get a market value or a replacement value of them.

The WITNESS: Of course, there are different types of buildings.

Mr. MACDONALD: You take the best evidence you can get.

The WITNESS: There are four different types of buildings and the prices set were its value in use; that is, the cost less its depreciation. There are different types of buildings—there is the railway station which has a value in use—its cost less its depreciation. If the railway is not operating as a going concern then the building has no market value, possibly none at all.

Hon. Mr. HANSON: Just a salvage value.

The WITNESS: That is right; but in this particular case so far as I know this was a going concern, a going club, and there was no question of their wanting to dispose of it.

By Hon. Mr. Hanson:

Q. Did the crown expropriate?—A. No.

Q. It is a matter of private property?—A. That is right, sir.

By Mr. McGeer:

Q. But as you say the people operating the club did not want to sell?—

A. Well, the negotiations were practically all carried on by Mr. J. Elmer Woods of Winnipeg, perhaps he had better answer that.

By Mr. Noseworthy:

Q. Did you put a value on the land?—A. Yes, I put a value on the land and buildings. The buildings are all located within a block of the Fort Garry hotel and within three blocks of the Canadian National Railway station there, and it is surrounded—right around there, there are quite a few apartment houses.

By Hon. Mr. Hanson:

Q. It is well located?—A. It is in a well-located area, and I put a value on the land as an apartment house site, of 50 cents per square foot or \$60 per front foot. On a basis of 48,000 square feet—the buildings are 400 feet long and the lot is 120 feet deep totalling 48,000 square feet of land and I put 50 cents a foot on it or \$24,000.

By Mr. Noseworthy:

Q. Did you have access to the city's value on the land before you placed that value on it?—A. I beg your pardon sir.

Q. I say, did you have access to the city's valuation on the land before you placed that value on it?—A. I understand that the actual value that the city put on the land is \$23,450.

Hon. Mr. HANSON: They are approximately the same.

The WITNESS: Mr. Elmer Woods of Winnipeg had recently made sales of land in Winnipeg and he showed me the areas of land which he had sold and I then considered that 50 cents per foot was a fair and reasonable value—I believe the price paid by the Club was \$32,400 for the land.

By Mr. Noseworthy:

Q. Did you have any knowledge at the time of what the city value or the assessment value was?—A. No. I decided to take the value of the property at its real value. I was not interested in what the assessment value of the property was.

Q. So you decided to take the actual value of the land, its open market value less than the assessed value placed on it?—A. I will tell you this, there is no rule any place; even the tiniest villages have different set-ups from the next one to them.

Q. It has nothing to do with the market value?

Hon. Mr. HANSON: Surely the assessment value has a bearing on it, there is a principle in the law that the real value and the assessment value—that there is a direct relationship between the assessment value and the market value of the property is there not?—A. No.

The CHAIRMAN: They do not follow on.

The WITNESS: They do not follow on, and it did not enter into my consideration.

Mr. TRIPP: As a matter of fact, it is rather a common practice to give special assessment to properties of this kind.

Hon. Mr. HANSON: In any event a property of this kind has a marked value.

Mr. McGEER: As a matter of fact, on buildings of this type the assessment is invariably low; I mean, it is a community enterprise and you will find that in practically every city you visit that kind or property is assessed on a community basis, on the basis of community interest. For instance, you have right here in Ottawa the Chateau Laurier hotel and you have to deal with the city of Ottawa to find out what the basis of assessment on that is.

The WITNESS: It usually depends directly on the use to which the property is put, and you have to get in touch with the city authorities on a matter of that kind.

Mr. McGEER: It is a community enterprise and it is treated as such; therefore, the assessed value is no indication of what the real value is.

Mr. NOSEWORTHY: Apparently it was in this case.

Mr. McGEER: As far as you are concerned it happens that you were fairly close to the assessment value on the land; it is quite probable that in similar cases in other cities you might have found quite the reverse.

Mr. McIVOR: If the shareholders had been considered I do not think this club would have been sold for this amount. When I heard about this club and what it was sold for I thought that it was sold too cheap. I know it very well, because I was there at its opening; and I had a skate—I mean I skated on the rink and I played there; and it is one of the finest community assets in Winnipeg and it is in every sense pretty near the centre of Winnipeg. I was surprised to find that anyone would complain about the price, because if the shareholders had had their say they would have told the Department of National Defence to go jump over the fence, or some place else. Then, you come to the value of the place. Now, the directors of this company are not to my mind selfish men, I know many of them personally.

Mr. NOSEWORTHY: Are speeches in order, Mr. Chairman?

Hon. Mr. HANSON: You better get on the stand.

Mr. McIVOR: Well, at another time.

Mr. TRIPP: Are we preventing the committee members from making speeches?

By Mr. Noseworthy:

Q. Were you consulted at all regarding the value of the equipment?—A. That really is not within my sphere, to appraise the furniture and the equipment of the club; I am not qualified to do that, but I examined the inventory of the club. All the furniture and equipment was found, as I saw it, to be in excellent condition. It was obvious to me that replacements had frequently been made to keep the furniture and equipment of the club up to the standards of a first-class club.

By Hon. Mr. Hanson:

Q. This is a recreational club; and you had already taken that into your cost?—A. Yes, under the circumstances I was prepared to accept the club's value of \$45,000 for the furniture and equipment. It might be of interest to you to know that the secretary of the club told me that other golf clubs had offered \$20 each for the steel lockers which were in the club and there were 1,337 of them.

Hon Mr. HANSON: That is high.

The WITNESS: Well, that is what they told me. But, I may say that it had no bearing on my arriving at my appraisal.

By Mr. McGeer:

Q. That would make the total value of the land, buildings and equipment?—A. \$273,719.

Q. Right here would you put alongside of that the price paid?

By Mr. Noseworthy:

Q. What were those figures again?—A. \$273,719. The price that was paid for the property was \$256,000. I was prepared to recommend that the crown purchase the property for \$275,000.

By Hon Mr. Hanson:

Q. May I ask if the value you put on it included the cost of the swimming pool?—A. Yes, sir, it did.

Q. No extras on it for that?—A. Well, the central building at 50 cents and the next building at 25 cents; that was the difference. Now, for your information, I may say that I obtained last week in Montreal the figures on a swimming club comparable and the cost given to me was somewhat between \$30,000 and \$35,000 for the swimming pool alone.

Q. So that was included in that 50 cents?—A. Correct.

The CHAIRMAN: Are there any further questions?

By Mr. Purdy:

Q. You are comparing the city of Montreal with Winnipeg; have you anything to say as a result of that? Was your depreciation approximately the same?—A. Depreciation is the same in all cities right across the country. It is structural depreciation very largely.

Q. Well then, you were basing your figures on a cubic content value of this building and I take it that that figure included the content contained in the building as well?—A. Not necessarily, sir; but you take things like that into consideration when you are appraising a building. When I was making that appraisal I did not look at other buildings of the kind. I was asked to go to Winnipeg and make a report as to what this property was worth.

By Mr. Isnor:

Q. As to that \$275,000 which you mentioned you were prepared to recommend as the purchase price; just what would that include?—A. Well, it included everything in the club, it also included the equipment; and the list of the equipment is shown on page 1549 of the House of Commons debates dated Thursday, March 25th, 1943. It is a very long list.

By Mr. McGeer:

Q. That is the equipment, the value of which you gave at \$45,000?—A. Correct.

By Mr. Johnston:

Q. You did all this checking just to substantiate your own estimate?—A. That is correct.

Q. And it was done just at a comparatively recent date?—A. Yes. I felt quite positive of my own valuation but in appearing before a committee like this I considered it was best to furnish them with a check valuation.

By Hon Mr. Hanson:

Q. Can you explain why the club parted with it for less money than you were prepared to recommend? Did you conduct the negotiations for the sale?—A. I was there at the time the negotiations were conducted, but it might be as well for Mr. Woods from Winnipeg to give the evidence in that connection.

Q. You prefer that he should speak on that?—A. Yes, he carried on the negotiations and, as I say, I went as a valuator to value the buildings.

Q. And you would have nothing to do with the policy of the government buying the property at all. I suppose you know that the government had the right to go to the club and say, "We want this for the duration; we will pay you rent?"—A. That is quite right.

Q. From the standpoint of public policy that might be better. You would not like to speak about that, of course?—A. I do not think it is for me to say anything about that.

Q. My point is this, that the Crown is buying property which they ought to rent for the duration of the war and we are going to have an awful lot of property in the hands of the government after the war which should be handed back to the owners. We are loaded up with capital expenditures that will be useless after the war. It is not fair to the taxpayers of this country.—A. I would just say this

Mr. PURDY: That is your personal opinion.

Hon. Mr. HANSON: Yes.

The WITNESS: I would just say this, that it would seem to me that this building was most suitable for naval training and probably would be maintained and continued after the war.

By Mr. Isnor:

Q. In addition to the amount of \$273,719 there was another item of fuel of \$8,000. That was not taken into consideration when you put this figure on it?—A. The book value of the club was \$247,000 or something like that. We endeavoured to negotiate on that basis. Since the last auditors report the club had spent considerable money in putting in stokers and had spent an amount equal to the difference between \$247,500, or whatever it was, and the amount that was paid for it. That is how the amount was arrived at.

Q. My question was that you did not take the fuel item of \$8,000 into consideration when you made up your \$273,000?—A. Fuel, \$8,000?

Q. Fuel and equipment?—A. There was no fuel. There was not more than fifty tons of coal there.

Q. There was an item of \$8,057.49 for fuel and equipment. That made up the difference between the club's book value of \$247,942.51 and the \$256,000. That included, as I understand it, fuel and equipment and good will, perhaps?—A. No, there was no good will.

Q. In any case there was \$8,000 difference there?—A. I think Mr. Elmer Woods had better answer that question because he has everything in detail. They priced the stoker at cost, \$1,976, which included additional equipment that was bought. It included repairs and maintenance that had been put on the club since it had closed the previous year. That is how the difference was made up. There was no good will.

Q. Did you take that into consideration in your \$273,000?—A. I took it into consideration this way. I looked at the building and put a value on it. I put a valuation on it of \$273,000 and we bought it for \$256,000.

By Mr. Johnston:

Q. But not on any fuel that may have been stored there?—A. No.

By Hon. Mr. Hanson:

Q. Was the stoker in addition to the ordinary equipment or a substitution for some other equipment?—A. They were unable to get oil so they had to take out the oil burner and put in a stoker.

Q. It was a substitution for other equipment?—A. Yes, but it was a capital expenditure just the same.

Mr. McGEER: So if there was another \$8,000, as Mr. Isnor suggests, that you did not consider, that would make a value of \$281,000.

Mr. ISNOR: Yes, that is my point.

The WITNESS: I would say my valuation covered it.

Mr. McGEER: Any further questions.

By Mr. Noseworthy:

Q. The main point I think you have given us is that your valuation was established entirely independent of any valuation placed on it by the city.—A. Absolutely, that is correct, sir.

Q. And in your valuation you did not take into consideration at all the marketability of the property, any sale value it may have?—A. There is a sale value in use, and the sale valuation in use is \$273,000.

By Hon. Mr. Hanson:

Q. That is the replacement value?—A. That was the sale value, too. That is the value in use.

Hon. Mr. HANSON: I would have to think that over. That is not the legal value.

Mr. McGEER: I do not agree with you on that.

By Mr. Noseworthy:

Q. You made no attempt to discover what the club could secure for that property if it sold it to anyone but the government?—A. The club was not trying to sell the property. The government was trying to buy it. We had to pay them a fair and reasonable price, and a fair and reasonable price was my valuation of \$273,000 or \$275,000.

By Mr. McIvor:

Q. Would you say then, that the Department of National Defence for navy got a bargain of \$17,000 or more?—A. I think the Department of National Defence bought the building at a fair and reasonable price, a building particularly well suited for the requirements of the R.C.N.V.R.

By Mr. Noseworthy:

Q. Would you agree that on the basis of your valuation the property had been under-assessed?—A. Yes.

Q. I am told that property in the city of Winnipeg is supposed to be assessed at a certain valuation, but on your valuation then the club has been under-assessed by the city?—A. Certainly it had.

Q. The city had been losing revenue by reason of that under-assessment?—A. I do not know about that.

By Mr. Boucher:

Q. Would you say it was under-assessed in relation to the assessment of similar property within the municipality?—A. I had no knowledge of any of the assessed values in Winnipeg.

By Mr. Ross (Souris):

Q. You never consider the municipal assessment value in any case in valuing properties throughout the country?

Mr. McGEER: He has answered that question at least five times and has said "No".

The CHAIRMAN: Any other questions? Thank you very much Mr. Rankin.

J. ELMER WOODS, called.

The CHAIRMAN: Gentlemen, Mr. Woods is the gentleman who represented the Department of Naval Affairs in Winnipeg.

By Mr. McGeer:

Q. What is your name in full?—A. J. E. Woods.

Q. Where do you reside, Mr. Woods?—A. Winnipeg.

Q. What is your business?—A. Real estate and financial agent.

Q. What is your experience in that business?—A. Twenty-five years in Winnipeg.

Q. And in connection with your twenty-five years experience would you give us some information that would justify your capacity to put a value on buildings of this type, and land?—A. I have been associated with a leading firm known as Oldfield, Kirby and Gardner of Winnipeg for the full period of twenty-five years and in recent years have been a partner in that firm. The firm's background is that they have been in business in Winnipeg for something over sixty years which is a comparatively long length of time for Winnipeg business. During that period I have acted as valuator for trust companies, loan companies, banks, for some of the leading chain stores, the Eaton company, the Hudson's Bay Company, and have given evidence in various courts before boards of revision, county courts, King's Bench courts, and generally have been continuously active in the real estate business in Winnipeg.

Q. And considered as an expert in real estate values in that area?—A. Considered as an expert.

Q. In connection with the Winter Garden Club of Winnipeg you had something to do with placing the value of that for the Department of National Defence?—A. Yes, sir.

Q. What was your position with regard to that? Who were you acting for?—A. I was asked by the REAL ESTATE ADVISER of the Department of National Defence, Colonel Gibson, to secure, if possible, the Winnipeg Winter Club either on a rental basis or a purchase basis. I was asked that after having spent some weeks in looking at and examining many types of buildings, warehouses, factory buildings, office buildings, large residences, and other types of buildings that might be suitable for naval training. When we were unable to

secure any building that might be converted to be used I then was asked to seek out vacant properties in which a naval training station could be built. I submitted a list of several vacant sites that could be acquired. In some cases they were offered voluntarily without consideration. Included in the buildings that we inspected was the Winnipeg Winter Club building. I then received instructions after a report was made on all these various types of buildings and on the properties to endeavor to find out whether the Winter Club could be secured either by rental or by purchase. I approached the Winter Club. I think I should tell you something of the background of the Winter Club. The Winter Club was an outgrowth of the club know as the Winnipeg Skating Club that was formed in 1925. The Winnipeg Skating Club had built a skating rink and it was felt apparently by a group of citizens that it did not afford a sufficient number of activities and the Winnipeg Winter Club was formed. The shareholders in the Winnipeg Skating Club turned their property into the Winnipeg Winter Club and they were permitted then to buy shares in the new Winnipeg Winter Club at a cost of \$100 per share. They turned over the property which was carried in their books with some reserves and other assets they had which had a value at that time of some \$57,000. There were approximately 422 shares of stock in that old Winnipeg Skating Club so they had approximately \$150 share equity in the old club and they were permitted to buy shares in the new club.

By Hon. Mr. Hanson:

Q. That is book value only?—A. Pardon?

Q. That is book value only?—A. That was the original cost of the property less depreciation.

Q. But book value only?—A. The book value which was the original cost less depreciation.

Q. That is the book value?—A. Correct, sir.

Mr. McGEER: It is the book value based on actual cost less depreciation.

The WITNESS: Then memberships were sold, some of them at \$300 a share, some of them at \$350 and a number of them at \$500 per share, so that they started their club with a total of 733 shares, erected their buildings and had an investment then in their new club, land and buildings, at that time in 1930 when the whole project was completed, of \$454 a share.

Q. A total of what?—A. A total of \$333,302.

By Mr. McGeer:

Q. They invested—now, what is that figure again?—A. \$333,302; and to finance that they sold these shares and they borrowed \$93,000 on a first mortgage. Well then, the club functioned successfully for the period between 1930 and 1942; and because of an increase in activities and the addition of new activities the club had increased their investment in their plant in 1942 to \$363,000. And now, I had all this information. I approached the club but I did not ask them first for a price either for rental or fore sale, but I asked them if they would give up the club for the duration of the war on a rental basis. Then, they had a meeting and they said that they were not anxious to sell or to lease, would not under any circumstances, but as it was required apparently for war purposes, therefore the directors would recommend to their shareholders the sale of the land, building and equipment for \$300,000; or, alternatively, they would recommend a rental based on certain conditions pertaining to getting possession again at a rental of \$35,000 per annum plus any increase in municipal taxes during the period of the lease and plus any increase

in insurance, and on the condition that the building and property would be returned to them at the termination of the arrangement in approximately the same condition as it was when it was turned over to the Department of National Defence.

By Mr. Isnor:

Q. Did you say, plus taxes and plus insurance?—A. No, plus any increase in insurance premium cost—and at that particular moment they were considering putting war risk insurance on, which would have meant an increase from \$600 to \$700 a year. Now, to be added to that was any increase in the insurance premiums, plus any increase in municipal taxes during the period of the lease. I then spent further time investigating the value of the property and I secured from the club a copy of an appraisal report that had been made to them in the year 1934 by an outstanding firm of evaluators known as Patterson, Waugh, O'Fallon, Taylor Limited of Winnipeg which had been made for the purpose of an insurance valuation so that the club could comply with what is known as the 90 per cent co-insurance clause in their policies of insurance that they were carrying; and that appraisal had been revised again in 1939 and I approached Patterson, Waugh, O'Fallon, Taylor Limited and got them to give me an approximate idea of the difference in value as between 1939 and 1942. I then went back to the club and I told them that the price of \$300,000 was in my opinion higher than the value and asked them if they would not consider reducing it. I had been told in the meantime that the question of renting would have to be disregarded because the estimated cost of altering the club for naval purposes and the cost of putting it back into its original condition at the termination of the lease plus the annual rental of the club over a period of two or three years was out of proportion to the value of the property. Now, I may say just on that point—

By Hon. Mr. Hanson:

Q. Who told you that?—A. That was the decision of the advisors of the department.

Q. That the rental was too high?—A. Not necessarily.

Mr. McGEER: No, the cost of converting and altering it, and then reconverting it for return was too high.

Hon. Mr. HANSON: They are all factors which affect the rental—it was too high.

Mr. McGEER: They were going something beyond the rental.

Hon. Mr. HANSON: With all the factors entering into it.

Mr. McGEER: What I understood the witness to say was the cost of converting from one use and reconverting to the other was too great.

Hon. Mr. HANSON: Not that entirely.

The WITNESS: As a matter of fact the actual rental suggested by the winter club of \$35,459, was made up by the actual taxes and the actual insurance costs and on top of that the \$700 war risk insurance, depreciation on equipment its present value, depreciation on the building, 5 per cent interest on \$312,000 which they put as the value of the land, building and equipment and wages to be paid to their own engineer.

Hon. Mr. HANSON: Why the land?

The WITNESS: It was a building and all related items, on which they put a capital value and applied this interest rate; but if they were going to turn

it over to anyone and take it back again after the war because of the special equipment they had in there in the shape of temperature controls, regulating the temperature in the various buildings of the club, that involved a lot of intricate and expensive equipment and they stipulated that their own engineer should be retained; and then there was an item of \$100 per month or a little over to cover the cost of storing the equipment that would not be retained in the building, such equipment as would not be required, and further contingencies—that is how they arrived at their rental. It was not just a hit or miss figure based on how much we can get; it was a definite figure based on the actual cost involved.

Q. Was it a calculated figure?—A. It was a calculated figure to pay them a return of 5 per cent on their investment.

By Mr. McGeer:

Q. Making in your opinion a reasonable figure?—A. Making in my opinion a very reasonable figure.

Mr. McGeer: He is giving us his opinion.

The WITNESS: After examining the insurance appraiser's report—and I have this long report with every item detailed in it, and it is a standard report brought up to date—I then asked the president of the club if he would not endeavour to get his board to reduce the price; and he then said that he would recommend to the shareholders that they sell the building at \$230,000 and the equipment less certain equipment which they wanted excepted—personal equipment such as trophies, and some pictures, moose heads and other animals, cutlery—not sterling silver—but dishes, linen, and other cutlery, they were marked with the crest of the winter club but which would be of no use to any one—he would recommend the sale of the property at \$230,000 for the land and buildings and \$45,000 for the equipment and furniture. At that stage the real estate adviser, Mr. Gibson, had Mr. Rankin of Montreal, whom you have heard, come up to make an independent appraisal of the property; and Mr. Rankin came to Winnipeg, I saw him for a minute, but I did not see him for two days; then he proceeded alone in his own way to arrive at his own independent opinion as to the full value of the property.

By Mr. Noseworthy:

Q. You informed him in the meantime however that you—A. I had informed Mr. Rankin? No, I had not. I did not tell him—he came to me in the morning and I told him that he could get in touch with Mr. Frost and get the information; and I gave him the name of the secretary.

By Hon. Mr. Hanson:

Q. You made your report to Colonel Gibson?—A. I made my report to Colonel Gibson.

By Mr. Noseworthy:

Q. You would say that the fact the price at which they had offered the property and the price that Mr. Rankin placed on it were exactly the same is just a mere coincidence?—A. No. The club had kept their appraisal of replacement cost less depreciation more or less up to date for the purpose of complying with the 90 per cent co-insurance clause in their insurance policies, and I think the club had decided that if they were going to sell—and they did not want to sell—they were at least entitled to the replacement cost less depreciation which was approximately \$275,000, and Mr. Rankin, having arrived at it perhaps in not exactly the same way but in his own way had arrived at approximately the same result.

Q. His recommendation is exactly the same.

Mr. ISNOR: No, his figure was just a little different. The figure that he arrived at was \$273,719 but he said, "I was prepared to recommend up to \$275,000."

By Mr. Noseworthy:

Q. You told us that their first price was \$300,000?—A. That is correct.

Q. Then when you went back you were told that they would consider \$230,000 plus \$45,000—A. Yes.

Q. That was after they had made due examination of their appraisal value, and so forth?—A. I do not know. They were familiar with their appraisal value all the time. They knew that.

Q. You think the president, to whom you were speaking, was familiar with the details of the appraisal value?—A. Yes.

Q. And that his first price for the property was \$70,000 higher than the appraisal?—A. No, it was only approximately \$25,000 because the \$300,000 included land, buildings, machinery and equipment.

Q. The \$300,000 was to include all the equipment?—A. Yes. After Mr. Rankin's appraisal we discussed the advisability of making a definite offer.

By Hon. Mr. Hanson:

Q. Before you proceed any further did you make an examination of the municipal values?—A. Yes.

Q. What were they?—A. The municipal assessment—

Q. On the land, buildings and equipment?—A. The real estate assessment in the year 1942 was \$129,365.

Q. Does that include both land and buildings?—A. Land and buildings, no equipment or machinery.

Q. How was that broken down between land and buildings?—A. The land was assessed at \$23,540 and buildings at \$105,825.

By Mr. Noseworthy:

Q. That \$105,000 is the value of the building based on the assessment but was the building not actually assessed at \$70,000?—A. The procedure in Winnipeg is that buildings are assessed at two-thirds of their value and the \$105,825 was 100 per cent based on the value of the property for assessment purposes. On the question of assessment I might say that I went back to the year 1930 which was the first year that the club was converted. I found in that year the city had assessed the land at \$26,000, and the buildings at \$112,500.

By Hon. Mr. Hanson:

Q. That is 100 per cent?—A. 100 per cent, and that that assessment had continued without change from the year 1930 to the year 1939 inclusive, a period of ten years. In the year 1939 there was a general reduction in assessed values all over the city of Winnipeg.

Q. That would be due to the depreciation in values?—A. I do not think they took any account of depreciation in values. In that ten-year period they took no account of any depreciation.

Q. But the general reduction was due to the fall in values?—A. In 1939?

Q. You said in 1939 there was a general reduction in real estate values in Winnipeg?—A. Yes.

Q. I suggest that was due to the marketing conditions of real estate?—A. No, I do not think it was due to that altogether. They got a new assessor and he started to look at things a little differently, but in this particular case he only reduced the assessment of the land from \$26,000 to \$23,500, and the value of the buildings for assessment purposes from \$112,000 to \$105,825, practically \$106,000. I am satisfied that in the year 1930 the assessor was in

possession of the cost of all of these improvements. He knew it because through the building department of the city they know the cost of every building that is erected, but I am satisfied that in this case, as they quite often do, they regarded this as a community enterprise and a non-profit making organization.

Q. And therefore entitled to special consideration.—A. Special consideration. I am satisfied that is what they gave, that it was not a corporation owned by a few individuals and was not being operated for profit, that it was owned by the community at large, not the community but a number of people in the community, shareholders.

By Mr. McGeer:

Q. Have you got a list of the board of governors and directors, who they were and what they were?—A. Yes sir.

Q. Can you give us that now?—A. This is the board of governors according to the last return filed in 1942. I do not know whether they have changed since. The president was Mr. Frost of the Ogilvie Milling Company, commonly known as Jack Frost. The secretary is Mr. Bull of the Royal Crown Soaps; the treasurer is Mr. T. Bruce Ross of the Canadian Fire Insurance Company. The directors were the following: H. A. Smith, son of Sidney Smith of the Grain Exchange; Dr. A. C. Abbott; C. E. Hayles, who is a grain man; L. S. Mackersey of the Imperial Bank; F. D. MacCharles of the Great West Life Assurance Company; C. V. McArthur, a solicitor in Winnipeg; E. N. Meyer of the Grain Exchange—I do not know him—B. W. Parker, a gentleman who is with a public service company there; B. V. Richardson, a solicitor; A. W. Sellers—I do not know what his business is—G. E. Sharpe, who is a chartered accountant; Dr. A. C. Sinclair, who is a doctor and the manager was Mr. Rowlands, who devoted his whole time to the management of the club.

Q. What about the distribution of the shares? How are the shares held, in what quantity, generally by each individual?—A. I did not check the last shareholders' list but at the time the shares were sold in the beginning, with the exception of one prominent citizen who bought five shares at the top price of \$500 per share to help finance the club, the shares were generally speaking held one to a family because it only required one share to admit the whole family.

By Mr. Noseworthy:

Q. How many shareholders were there?—A. There were 733 shares outstanding. I have not a record of that. I believe the number of shareholders was well in advance of 700.

Hon. Mr. HANSON: Are we interested in knowing who the shareholders were?

Mr. McGEER: The only thing I had in mind was that it was a community club and a family club in Winnipeg, and that nobody had any money interest in the thing. It was not like a corporation where a number of people have got together and own a club and sell the services of the club. It was somewhat socialistic in its general enterprise, I would say.

Hon. Mr. HANSON: I think it was aristocratic.

By Mr. Noseworthy:

Q. Was the membership confined to shareholders?—A. The membership was confined to shareholders, yes.

The CHAIRMAN: Gentlemen, it is 1 o'clock. We will adjourn until three and continue this investigation and see if we can get it cleaned up.

The committee adjourned at 1.05 p.m. to meet again at 3 o'clock p.m. this afternoon.

AFTERNOON SESSION

The committee resumed at 3 o'clock p.m.

The WITNESS: If it meets with the desire of the members of the committee I will give you a demonstration of this scale model.

The CHAIRMAN: Is that agreeable?

(Carried).

The CHAIRMAN: All right, we will proceed with the witness.

The WITNESS: Mr. Chairman, gentlemen: I had reached the place where the winter club had after some negotiation agreed to reduce their price to \$275,000, and we had obtained Mr. Rankin's valuation of \$272,000 or \$273,000. We were then faced with considering the various values that had been placed on the property. Mr. Rankin had a value of \$275,000; the winter club had itself offered \$275,000, or at least had offered to submit to the members a price of \$275,000 and to recommend its acceptance; the insurance appraisers value which was replacement less depreciation plus equipment, or \$300,000; and the winter club were carrying the property in the last financial statement they had at a book value of \$247,942. After talking with Mr. Rankin we decided to recommend to Col. Gibson, the real estate adviser, that an offer of \$247,942, the actual book value shown in the last balance sheet of the winter club, be made for the property. In doing that we gave consideration to the fact that if the winter club refused it we might have to increase the offer or if they refused it and we could not make a friendly settlement with them that the property might have to be expropriated; and we gave consideration to the fact that in expropriation proceedings that because there was no market value for property of this type, that the exchequer court would most likely set a value which was based on the replacement cost less depreciation plus some amount for forcible taking because we were taking over possession of the club within two weeks from the acceptance of the offer; and there would probably be other expenses, legal and otherwise, that would have to be added to it. And Mr. Rankin and I came to the conclusion that the very lowest price that we could take a chance of offering was the club's asset value; and we could argue if we failed on that basis that that was what the club recognized it was worth according to their own statement; and we recommend to Col. Gibson, the real estate adviser, that we be allowed to make an offer of that figure. We got authority to make the offer and we made the offer and we met the governors of the winter club and were in session with them for a period of some four hours, and finally they accepted this offer subject to certain adjustments. Now, the adjustments—

By Mr. Isnor:

Q. What do you mean by we; who else?—A. Mr. Rankin and myself. The adjustments were: the board of governors of the club stated that since the date of their last printed statement they had installed a new stoker which cost them \$2,000 and they thought that they should be paid for supplies on hand when we were taking over—they had \$72 worth of fuel oil and \$540 of coal; they had planned—we were negotiating the latter part of September and the early part of October—they had spent something in excess of \$1,500 (we called it the round figure, \$1,500) in conditioning it during the summer months for occupancy in

the fall, and the club was just about to open when we were carrying on negotiations; they had paid taxes in advance to the 31st of December, and we agreed to pay them the unearned portion, the prorated unearned portion of the tax bill, which was \$750; they had put in a new coal bin which they paid \$150 complete and we agreed to that; they had certain employees and they said we would have to give these employees something for having been with us for many years, we do think they are entitled to some pay in lieu of notice and we agreed with that; it was suggested that we agree that their manager who was receiving \$275 per month should be paid six months' salary; and we added that in with one clerk who had been with them many years and who was receiving \$125 a month and we agreed that he should be paid six months salary. And another one who was getting \$75 a month who had not been with them quite so long should receive three months salary; and then they asked us to take care of—they said they would have to retain an office away from the club because we wanted possession immediately and it would take them some months to clean up the details of winding up their affairs, and we agreed to pay a rental of an office for six months at a rental of \$50.

By Mr. Douglas:

Q. That is all in addition?—A. To the book value, quite.

Q. In addition to that?—A. In addition to that. And then we agreed to allow them \$150 for moving and packing that part of the furniture which we had agreed to allow them to remove; that was a total of \$8,085. And therefore the final offer was the book value of the land, building, and equipment apart from this \$8,085, which in effect were adjustments, and that was submitted and a further condition to that which we made which they agreed to—that they would invest the whole proceedings of the sale less the amount they had to pay off the mortgage they had on the club, \$19,000; and after that was paid and other liabilities take care of they would invest the full proceeds of the sale in the forthcoming victory loan. There was a victory loan about to take place—I think that was the Third victory loan, in the fall of 1942. And they subsequently invested \$235,000 in the bonds of that loan; but the condition was that they would retain half of those bonds for the duration of the war and that they would only sell the remaining half in the event of their requiring funds to buy property for the purpose of starting another winter club. We were prompted to make that condition purely because there was an element in the winter club who were afraid that if the club was closed up it would never get started again in Winnipeg. And now, while they do not like to object to this still I think they felt that if it were sold and the thing wound up that probably Winnipeg would never again have a winter club; and as it had taken a lot of hard work without any remuneration on the part of those who undertook the organization of this club I think they felt that once the property got away from them they would likely never have a winter club there again. This club was a family club, not a man's, not a woman's; it was a club for a man and his family, the whole family belong to it; and there were usually more ladies and children there than there were men, but the men were there also; and I imagine a great many of the members had a difficult time convincing their wives that they should sell it; and I think that was one of the reasons why it was suggested to us that this condition might be added to the offer.

By Mr. McGeer:

Q. Just one question there; what remuneration did you receive?—A. I received nothing, sir. I was not a member of the winter club and never have

been. Ever since the beginning of the war I have been acting as an assistant to the real estate adviser, Col. Gibson, in carrying on this sort of work in the Winnipeg district.

Q. You contribute your services to the government?—A. I have been right along.

By Mr. Noseworthy:

Q. Therefore the deal was carried through entirely by the naval department, there was no agent?—A. There was no agent of any kind. There was no agent paid a commission by the winter club or anyone, in so far as I know, by the dominion government.

By Mr. McIvor:

Q. What was the final price?—A. The final price was the book value as shown in the last statement of the winter club—\$247,000 odd.

Q. I mean what the government paid?—A. \$256,000 in round figures.

By Mr. Johnston:

Q. That includes everything?—A. That includes everything.

Q. That includes the office expense, removal cost and all those items that you enumerated?—A. Yes.

By Mr. Isnor:

Q. I understood you to say that you had been looking around to find a site suitable for the purpose for a considerable period of time; how long a period of time would that cover?—A. I do not know, I cannot remember now, but it would be over a period of months. I think we looked at such buildings as the one that was known as Sparling Hall, behind the Wesley Hall; a number of warehouse buildings which we thought the government might be able to use. I know that we looked at every building that we thought the navy might be able to use, or that would be suitable for the uses of the personnel of the navy in Winnipeg, and then we finally got to the place where it was apparent that there was no large building that could be obtained and then we got down to looking at vacant property and areas of land.

Q. And during all this time you did not receive any remuneration?—A. I have been doing that sort of work since the war broke out, not only for the navy but for the army and the air force, through Col. Gibson—I have been his assistant.

Q. And, did I understand you to say that you were not a member of the winter club?—A. I have never been a member, no one in our family was a member.

By Mr. McGeer:

Q. You made the statement a moment ago that you thought in the event of expropriation proceedings that the value would be, in view of the fact that there was no market value, that the value would be the replacement value.—A. Yes sir.

Q. You are conversant with the law, I suppose, in so far as it has been decided by the Exchequer Court of Canada?—A. I do not know that I am fully conversant with it, no.

Mr. McGEER: We have had some discussion, Mr. Chairman, and I thought, in view of this witness's statement, we might put that information on the record. It was a case of expropriation by the Department of National Defence in 1939 and it is reported in volume XXXVIII, 1939, Canada Exchequer Court Reports.

It was a decision in a case where the government wanted property and the parties did not want to sell. In any event, the decision is summarized very shortly, and I should like to read it into the record. At page 352, the Judge says:—

One of the main factors to consider in endeavouring to arrive at a fair valuation of the property is the market value. *Dodge v. The King* (3); *The King v. Macpherson* (4). In the present case, however, the evidence discloses that it is extremely difficult, nay, even practically impossible to determine the market value of the Spencer property on account of its size and character. It is not unique in its kind, but it is not at all common. Demands for this type and standard of residential property are very limited.

I may note that the market price is not necessarily a conclusive test of the real value: *South Eastern Railway v. London County Council* (1); *Pastoral Finance Association Limited v. The Minister* (2); *Cripps on Compensation*, 8th ed., p. 182.

Sales of parcels of land in the vicinity have been mentioned and the prices paid therefor in 1937 or 1938 offer a basis to value the land of the Spencer property. In the sales referred to there is nothing however to compare with the Spencer residence; the properties forming the object of these sales differ from the Spencer property either in size, location or character. In these circumstances it seems to me that the only manner in which a value may be set on the Spencer buildings is to figure out the replacement cost and deduct therefrom the depreciation which the buildings now standing have suffered since their erection. The figure thus obtained will, in my opinion, represent the value to the owner at the time of the expropriation, which is the basis of the compensation allowable in cases of compulsory taking: *Federal District Commission v. Dagenais* (3); *Cedars Rapids Manufacturing and Power Co. v. Lacoste et al.* (4); *Pastoral Finance Association Ltd. v. The Minister* (5); *In re Lucas and Chesterfield Gas and Water Board* (6); *Sidney v. North Eastern Railway Co.* (7); *Stebbing v. Metropolitan Board of Works* (8); *The King v. Quebec Skating Club* (9); *The King v. Wilson* (10); *Cripps on Compensation*, 8th ed., p. 174; *Nichols on Eminent Domain*, 2nd ed., vol. 1, p. 630, No. 208.

By Mr. McGeer:

Q. I presume that that was the interpretation of the law, as you understood it, at that time?—A. Yes.

Q. In any event, the Department of National Defence had that decision rendered by the Exchequer Court?—A. Yes.

By Mr. McIvor:

Q. I should like to ask a question of Mr. Woods. If you had been selling this Winter Club for your real estate firm, would you have taken the sum of \$256,000?—A. Frankly, I do not think you could have sold it, because I do not know who would buy such a building.

Q. Mr. Chairman, the interest that I have in this club is a matter of sentiment. First I should like to thank Mr. Noseworthy for bringing this question up. I think he has done a splendid service to the Department of National Defence for Naval Affairs. If he had heard certain rumors in the city of Winnipeg that the government was paying a big sum and that somebody was getting a rakeoff, I think he was doing his duty in showing this up. Of course, they do things differently in the city of Winnipeg from the way they

do them in the city of Toronto. When they have a club like this, a recreational centre, a community centre, a family affair, they are not going to sell it without considerable opposition. The word that I got from shareholders was that they did not want to sell this and they wanted the sale stopped. But of course, Mr. Chairman, I could not stop it and nobody else could stop it except the Department of National Defence for Naval Affairs. As I knew this club, it was a going affair. It was a going affair, was it not, when it was sold?—A. Very much so.

Q. There was no reason to sell it as far as the shareholders were concerned. I think that if fair play were given to this club, they would not only be thanked for their magnanimous acceptance of this offer, but the government should pay them what the club was worth, according to your valuation and according to the expert from Montreal. The point I want to make is that Mr. Noseworthy has brought this to the attention of the Public Accounts Committee, and I think that now he has admitted it was not only a good bargain but a generous bargain, on the part of the Winter Club. I think I make myself clear. To my mind, the people who have lost are the shareholders and the people who have gained are the government of Canada.

By Mr. Purdy:

Q. I wonder if the witness could give us any idea of the length of time which elapsed from the time the club vacated until the navy was able to move in and start operations. Have you any idea about that?—A. Part of the condition of the offer was that the club would give up possession of the building within two weeks, and that was carried out. The navy was in.

Q. After the club gave up possession, how long was it before the navy could make use of the premises?—A. I imagine they could make use of a large part of them immediately. But I had no further interest in it. I had nothing further to do with it, once I got the offer accepted.

Q. You mentioned that there had been certain vacant properties offered to the navy free of charge on which they could erect a building?—A. Yes.

Q. Is that right?—A. Yes.

By Mr. Isnor:

Q. Just the land?—A. The land only.

By Mr. Purdy:

Q. Based on your experience of twenty-five years in Winnipeg, and of your knowledge of the cost of building in Winnipeg under war conditions and so on, what would you say by way of comparison between what the present building cost the navy, with the alterations that were necessary to make it fit for their use, and what it would cost them to erect a new building comparable to the building after alteration?—A. I am sorry, sir, but I have not seen the building since it was altered. I have no knowledge of the amount of money that the navy spent on it to alter it. But I have no hesitation in saying that if the navy started out to build in the year 1942 a building comparable with that one, first, it could not have done it because it could not have secured the material and equipment. But if such could have been secured, they would have spent something over \$400,000 for that property. I am certain of that.

Q. In other words, as a business man you would say the government made a very excellent deal on this?—A. I would say if the government needed it, if they required it and if they are going to continue to use it, they made an excellent deal.

Q. Thank you.

By Mr. McIvor:

Q. There is no comparison between Sparling Hall and this particular property up there?—A. None whatever.

Q. There is no comparison between the two properties?—A. No.

Q. Not only in regard to conveniences but in hotel accommodation. There is no comparison between the two.

By Mr. Noseworthy:

Q. The question has been brought up as to the discrepancy between the price paid, which was the club's book valuation and the assessment value of the property?—A. Yes.

Q. Were you familiar with the assessment valuation of the property?—A. Yes. Before we started, before I made any offer to purchase the property, before we approached the Winter Club, one of the first things I did was to go to the assessment department and get a history of the assessment. I get that in every real estate transaction. I do not allow it to influence me because, after all, it is just somebody else's opinion of what it is worth. I found that this property was assessed—that is, the building, or was valued for assessment purposes at only a fraction of what it had cost; and that it was so assessed in the year 1930 when it was completed and at a time when the assessment department were in possession of all of the information as to costs. In other words, they knew in the year 1930 exactly what that property had cost, and if they had regarded its value for assessment purposes had a relationship to its cost, they would have assessed it at approximately two-thirds of what the building cost. I do not know what the general practice is, but I know that in the city of Winnipeg what are known as special purpose buildings built for special purposes and for one use—not commercial buildings but club buildings, churches or buildings of that sort—are never assessed at their full value; and I think quite rightly so, because I think the assessment department recognized that unless the club was enabled to operate successfully, all you have is a bunch of buildings which have no value except a salvage value or perhaps a little better than a salvage value if you can find an alternative use for them with the expenditure of a lot of money for alterations. On the other hand, to replace them, it has a different value. I think, when they arrived at their assessment on a building of that kind, they tried to arrive at some happy medium between the two extremes. The fact that over the next ten-year period they never changed the assessment is a further indication that, having in the year 1930 put an assessment on it which they thought was perhaps nominal, they left it there. I was interested in the assessment of the land, because in Winnipeg—I can only speak of Winnipeg assessments—there is a relationship between the assessment on one piece of land and another, because they try to get what is known as equality of assessment on similar type of property in the same area. I got the assessment because I always—as I say I always get it, and I was particularly interested in the city's valuation of the land; and further because I wanted to find out what the taxes were on that property, which would give me an idea of just what rental the Winter Club might ask for the property.

Q. Would you say there was no special consideration given to the club on the assessment value of the land?—A. Not to my knowledge.

Mr. ISNOR: What was that question again?

Mr. McGEER: On the land.

Mr. ISNOR: Oh, on the land; yes.

The WITNESS: It does not appear as though there was, no.

By Mr. Johnston:

Q. What relation would the rental value have to the taxation? You mentioned a moment ago that you wanted to find out what the taxes were, or what the assessment value was, so you would have an idea as to the rental value of the property.—A. Because I was about to ask the Winter Club first if they would rent it, and I knew that one of the largest factors in determining what their rental should be would be the taxes that they had to pay for the property.

Q. What relation would that bear?—A. Well, the taxes in the year 1942 were \$3,674. They asked a rental in that year of \$35,000 for the building. It was not a major item; but it was the third largest item. The largest item was 5 per cent return on the valuation of the property; the second largest item was depreciation on both equipment and building.

Q. Did \$35,000, in your estimation bear a fair relation to the amount of taxes paid?—A. The amount of taxes paid represented only one item in figuring what went to make up the rental. I think I gave this information this morning, but I shall be glad to do it again. The \$35,000 rental was made up—

Q. You gave that. You said a moment ago you looked up the taxes to see if there was a proper relationship between that amount and the amount of rent they were asking.—A. I perhaps did not express myself particularly well. I was about to ask the Winter Club if they would rent their property and at what rental. I knew that one of the major items of expense that they would take into account in arriving at the rental would be the taxes paid. So I went to the city hall to get the assessment and the taxes so that I would have that information and could check the rental they submitted.

By Mr. Noseworthy:

Q. Did you, in consulting regarding the valuation of the land, discover on what basis the building was assessed? Had the assessment department any breakdown?—A. No.

Q. Or did you find any facts on which they based their assessment?—A. I did not ask them, no.

Q. It was just a general fixed amount, without any breakdown or any reason for having arrived at it?—A. All I got from the assessment department at that time was a record of the assessment of the land and building from the year 1930, the first year in which the club was built. I did not ask them how it was arrived at, or why.

Q. Did the assessors in the city of Winnipeg, judging from your experience with them, have such a formula or basis for arriving at the assessed value of the building?—A. I presume they have, I think they have, yes.

Q. You did not find out whether there was any in this case?—A. No, I did not.

By Mr. Isnor:

Q. I think it is fair to say in all cities in arriving at an assessment such as this that properties such as a club or Masonic hall or anything like that are taken into consideration.—A. That is correct.

Q. As I recall it, this morning you said the value of this building in 1930 was \$333,302. In addition to that there was expended on it \$30,000, which would make a value in 1930 of \$363,302. If you take two-thirds of that—A. 1942.

Q. If you take two-thirds of that gross \$363,000 it would mean that the value from the assessment standpoint for a place of business would be \$242,000.—A. You first take off the land; you must take off the \$24,000 or \$25,000 value of the land.

Q. Apart from that?—A. Then you have to take off the value of the equipment, which was approximately—

Q. Did that \$333,000 include equipment?—A. Yes, that included equipment, furniture and equipment.

By Mr. Noseworthy:

Q. You would allow a certain depreciation off that?—A. Off equipment?

Q. Buildings.—?A. Yes. Over the ten-year period the city did not touch it for depreciation. They must have thought in 1930 that they had taken that into consideration, as they left it there for ten years.

By Mr. McGeer:

Q. In other words, they gave them an arbitrary taxation basis?—A. I do not know that.

Q. They would have been entitled to depreciation otherwise. As far as assessment is concerned in some instances the assessment is below and in some instances above the market value.—A. That is quite true.

Q. I do not know what the situation is in Winnipeg, but I do know in the city of Vancouver, with which I am familiar, there are dozens of places where the assessment has been fixed on the assumption that the property was going to develop into a business property which did not materialize, and the property on its market and on its rental basis is away below its assessment value.—A. That is true.

Q. To take the assessment value as being any guide at all as to the actual value of any given piece of property in any community in Canada is utterly absurd. Anybody conversant with the basis of assessment knows that. For instance, we have a law in Vancouver which says that if the assessment arbitrarily goes down 10 per cent each year—I think that is still going on—then there can be no appeal against the decision of the assessment to the court of revision.—A. All you have to do is to put it high enough to start with.

Q.: That is exactly what happened in a great many of those western cities, including Winnipeg. The assessment was based on the assumed value in a speculative period which never materialized.—A. That is true.

Q. In cases of this kind where you have a community property the assessor takes that into consideration and gives a fixed taxation basis in order that the club can go on, on a fixed basis of operation.—A. That is correct.

Q. And it has nothing to do with the value at all.

By Mr. McIvor:

Q. Would you say the position of this property is near the centre of the city of Winnipeg?—A. Right in the centre, yes; it is very centrally located.

Mr. McGEER: If all the deals the government has made are as successful as this one and as advantageous to the government, I think it is to be commended and I think the committee should thank both Mr. Rankin and Mr. Woods for the able manner in which they have done their work, the care they have taken and the way in which they have presented their evidence to the committee.

Mr. NOSEWORTHY: Would the naval officer be willing to enlighten us on the cost of equipping the building and so on?

Mr. McGEER: The cost of making changes and alterations, making it ready for naval use? Is that available from any of the witnesses?

MAJOR A. B. COULTER, *called:*

The WITNESS: You would like to know the cost of the—

By Mr. McGeer:

Q. Let us have your name.—A. Alan Coulter.

Q. What is your position?—A. Acting Assistant Deputy Minister, Naval Services.

Q. To the Department of Defence for Naval Services?—A. Yes.

Q. What is your previous experience?—A. I have been twenty-five years in the government.

Q. In the civil service?—A. Yes.

Q. What department?—A. I have always been with the Naval Services.

By Mr. Isnor:

Q. Which department?—A. Naval Services.

Q. What particular work?—A. I was the supply officer as acting director of naval stores.

Q. Do you know of the purchases and so on?—A. Of equipment and supplies?

By Mr. Noseworthy:

Q. Have you had any experience in the purchase of property, civilian property?—A. No, sir, that was not in my line.

By Mr. McGeer:

Q. I take it, as far as the work of making the changes and alterations are concerned you had nothing to do with that; what you have is a record of their cost?—A. Absolutely, sir, that is all.

Q. The engineering department would supervise the changes and alterations with the naval officers and administration staff there?—A. I had nothing to do with that, no.

Q. Give us a record of the cost of altering that building.—A. Well, sir, the cost of alterations was \$34,723.

By the Chairman:

Q. Alterations actually made?—A. Yes.

Q. Does that complete the whole thing?—A. That would not complete the whole thing because as time goes on certain changes are found to be necessary.

By Mr. Noseworthy:

Q. That is the expenditure on it?—A. That was the expenditure, yes, according to the last return I have.

By Mr. Isnor:

Q. What date was that return?—A. That return, sir, was dated the 7th of the 4th month, 1943.

By Mr. Perley:

Q. Can you give us any idea of the size of this establishment, how many men it will accommodate?—A. Yes, sir; this building we consider will hold 4 officers, 8 petty officers, and 325 men. In addition to that we can train on the floor up to about 500 people and we are now making these facilities available to the sea cadet corps in Winnipeg which at the present time totals 767 boys.

By Mr. Isnor:

Q. That is, for training them?—A. Yes, they come in in the evening.

By Mr. McGeer:

Q. That is a permanent barracks for the officers and men you mentioned?
—A. Yes.

Q. If it were not for this place they would have to be housed?—A. Housed, and they would have to be put on what we call lodging and compensation, and in that connection I should like to point out, for the information of the members of the committee, that when we considered the acquisition of this property we worked out that we would save \$108,000 a year inasmuch as we would not have to pay out these men lodging and compensation, which is \$1.45 per diem. In addition to that we would give up the three old buildings we had rented out there, which amounted to \$4,380 a year. That showed a saving to us of \$112,380 per annum.

By Mr. Noseworthy:

Q. I understand this building houses 300 men and the officers.—A. Yes, as I said a moment ago.

By Mr. McGeer:

Q. A permanent barracks?—A. A permanent barracks; they eat and sleep there, which is most desirable for disciplinary purposes, to build up the morale. If we can keep the men right under the eyes of their training officers they have a much better chance to see how they are developing. If they come in at 8 o'clock in the morning from some boarding house we do not know what they are doing in the evening. If we have them right under our eyes and hands we can give them the best training in the world.

By Mr. Noseworthy:

Q. Was there very much of the original equipment purchased in there? We were told, for instance, that there were courts, lounge rooms, a skating rink, swimming pools and so forth. Was there very much of that that had to be discarded?—A. No, sir; what we did was this, we sent the stores officer out there and all the equipment was surveyed and listed and then we decided how much we would leave with the Winnipeg division, the balance of the equipment we took away. A lot of the steel lockers were needed for Vancouver and elsewhere and it saved us buying them. There was nothing there, to my knowledge, that could not be made use of.

By Mr. Tripp:

Q. So \$35,000 made the building suitable for your purposes with alterations?—A. To make the alterations, sir? We moved in on the 16th of October and the first thing we did was the laying of the drill floor. That took about a month. Some of the other work took slightly longer because we could not get the electrical fixtures. I have not the exact date when it was all completed.

By Mr. McIvor:

Q. You do not think the building is too large?—A. No, sir, not at all, because Winnipeg is a very strong recruiting centre for the navy.

By Mr. Winkler:

Q. Have you any idea of the value of the material salvaged and taken elsewhere, such as lockers and things you mentioned?—A. No, I did not work that out, but I know how many were sent to Vancouver and places like that. We did not work out—

By Mr. McGeer:

Q. You did not lose anything?—A. No, we did not lose anything.

By Mr. Noseworthy:

Q. I think there is a return which was brought down on March 25, which gives the disposition of much of that stock. At that time there was still a considerable portion of the \$40,000 worth that was not disposed of. But you would say that that \$40,000 worth of equipment was used somewhere else in the navy?—A. We got good value; it saved new purchases, and particularly lockers. We cannot buy lockers today. Even at that time you could not buy lockers.

Somebody asked the question what it would cost to build a new building in Winnipeg provided you could find the land. Mr. Woods gave a figure of roughly \$400,000. We had that worked out by our engineering branch and we do not go quite as high as he did, but we have \$372,739.

By Mr. Tripp:

Q. How long would it take you to build that building?—A. It takes quite a while these days.

By Mr. Johnston:

Q. Is that at present day prices?—A. Yes. The basis of that is what we have on recently commenced construction of other buildings for the R.C.N.V.R.

Q. What was your figure again?—A. \$372,739.

Q. That would build a building comparable to the one you took over?—A. Yes, if we could get the land.

Q. And with all the facilities and accommodation that would be required?—A. Yes.

Mr. McIVOR: You cannot get land there.

Mr. JOHNSTON: The point is you paid all it was worth. You may not have paid more but you paid all it was worth. You would have had a new building, so you paid what it was worth. I am not complaining about it, mind you, but I am just saying you paid what it was worth; you did not get any great bargain.

Mr. ISNOR: What do you mean? There is a saving of \$116,000.

Mr. JOHNSTON: Yes, but one would be a new building.

Mr. McGEER: The charge that was made was not that the navy paid what it was worth. The charge was made that far more than what it was worth was paid. That is why the committee is here investigating it. Surely the government do not need to come down to the point where there is going to be any issue where a fair price is paid.

Mr. JOHNSTON: I am not arguing that point.

Mr. McGEER: The committee came here to investigate a direct charge of misuse of public money by paying more money than it was worth.

Mr. JOHNSTON: That did not have anything to do with what I was speaking to the witness about a moment ago.

Mr. WARD: It should be pointed out that including roughly \$35,000 of equipment and other stores there was \$151,000 of a difference between your figure as to the cost of a new building and the price at which we could purchase this building.

The WITNESS: Yes, if I may make that point, this \$372,739 does not include any equipment. That is just the bare building.

Mr. PURDY: Then there would be \$40,000, or whatever the comparable figure would be, added on to that figure.

Mr. McGEER: We can discuss that when the report is made.

Mr. NOSEWORTHY: It would be \$250,000 as against \$372,000.

Mr. McGEER: \$372,000 plus equipment.

Mr. NOSEWORTHY: I am deducting the equipment. It would have been \$250,000 less equipment.

By Mr. Tripp:

Q. Time was something you had to consider, too?—A. Yes, sir.

Q. Time was precious?—A. Yes.

By Mr. McGeer:

Q. The evidence was you just simply could not get the material and the means to build a building even if you could have found a suitable site in Winnipeg. Is that not right?—A. That is right.

By Mr. Ross (Souris):

Q. You anticipate that this building in this section will also render a useful purpose after the war? There will always be a demand for a training centre in Winnipeg?—A. Absolutely; Winnipeg has contributed to our naval service a large number of very good recruits. At the time we thought of this purchase by the naval service we did not own anything except our two bases from coast to coast that we could call our own, and in all fairness to the magnificent support we were getting from the western provinces, and particularly Manitoba—Winnipeg is the only place we have R.C.N.V.R. in Manitoba—it appeared essential and desirable to the minister on the advice of his officers that we should acquire a permanent place there for the naval service.

Q. And in normal times this will likely be fully utilized?—A. There is no reason why it should not be.

Q. It is not just a war set-up alone?—A. No.

Mr. McGEER: It is too bad we did not have it long ago. We should have had naval barracks and naval centres all across Canada.

Mr. ROSS (*Souris*): Then this is not necessarily particularly a war set-up.

Mr. McGEER: It would be a crime after the experience we have had if we ever abandon these things again.

Mr. ROSS (*Souris*): I quite agree with you. That is just the point that I want to bring out.

By Mr. Tripp:

Q. A lot of these recruits that you get at Winnipeg come from Saskatchewan and other provinces west?—A. No, sir. In each of the other provinces we have R.C.N.V.R. divisions, Regina, Saskatoon, Calgary, Edmonton.

Q. But it would serve as a recruiting point for southern Saskatchewan, for instance.

Mr. McGEER: For all that whole area; for whatever centre Winnipeg is for naval barracks it will serve that whole area.

Mr. TRIPP: I know all our recruits from southern Saskatchewan go into Winnipeg.

Mr. ISNOR: I suppose it is because of acceptance of these prairie sailors that you are unable to accept all those who do apply from the maritimes?

The WITNESS: I do not want to be tied down on that.

The CHAIRMAN: Any more questions, gentlemen?

Mr. McGEER: Are there any more witnesses? Have you any more witnesses, Mr. Noseworthy?

Mr. NOSEWORTHY: I think that is all.

Mr. McGEER: Then I would move the adjournment.

The CHAIRMAN: Gentlemen, I am sure the committee will concur in a vote of thanks to our good friend, Mr. Woods from Winnipeg, for attending this meeting. Before we adjourn this afternoon I want to get this motion through. It is moved by Mr. Golding:—

That the clerk of the committee be authorized to return to the proper departments and officials the originals of documents and departmental files produced before the committee and filed as exhibits in the course of its proceedings.

Mr. ISNOR: I second that.

The CHAIRMAN: All in favour?

(Carried.)

The CHAIRMAN: If hon. members will concur the secretary will prepare our fourth report to the House of Commons and we will table our evidence. I should like to take this opportunity of thanking each and every member of the committee for the courteous way you have carried on the inquiries before us.

The committee adjourned sine die at 4.10 o'clock p.m.

