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Canada. Parl. Senate. Standing
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and Harbours, 1937.

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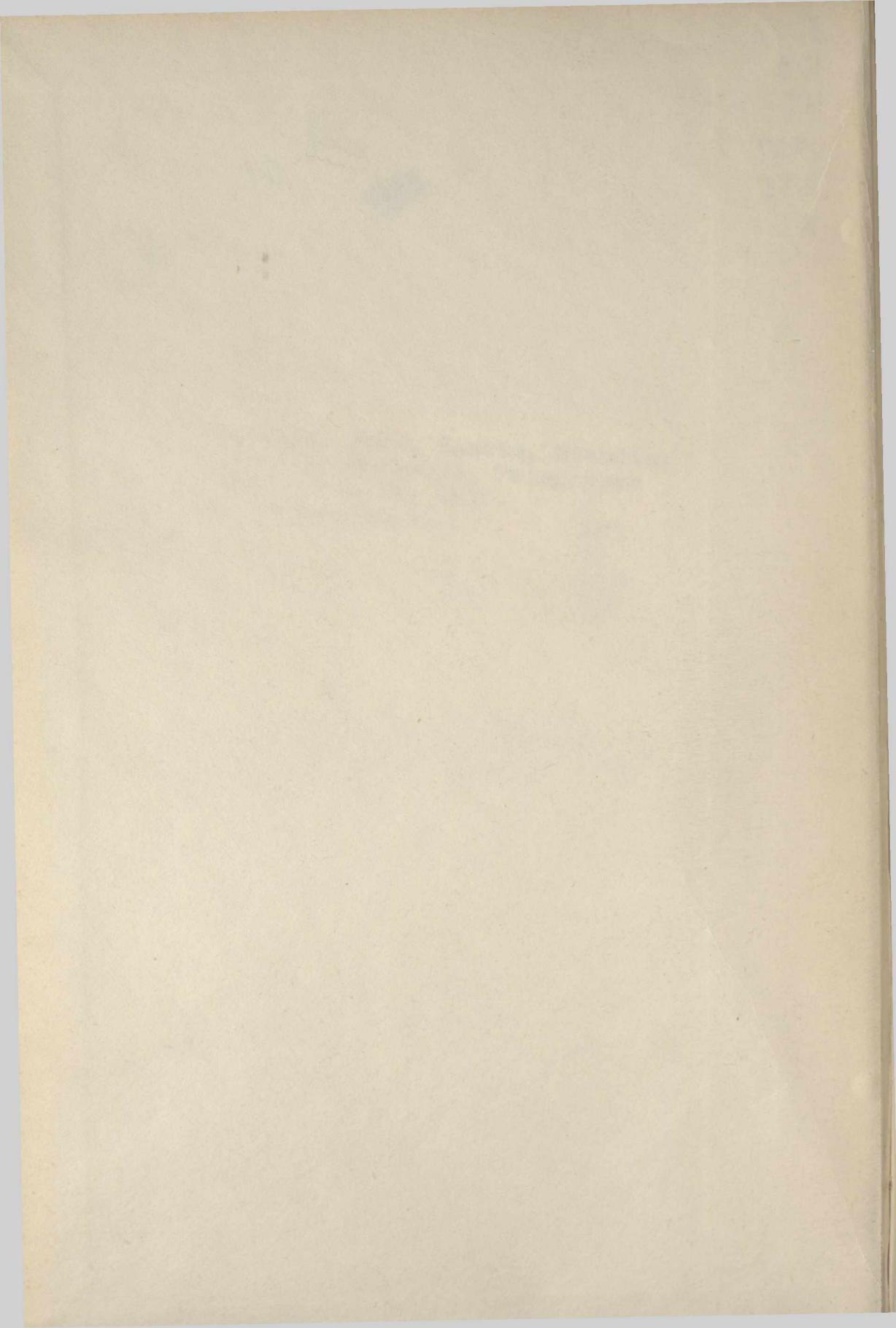
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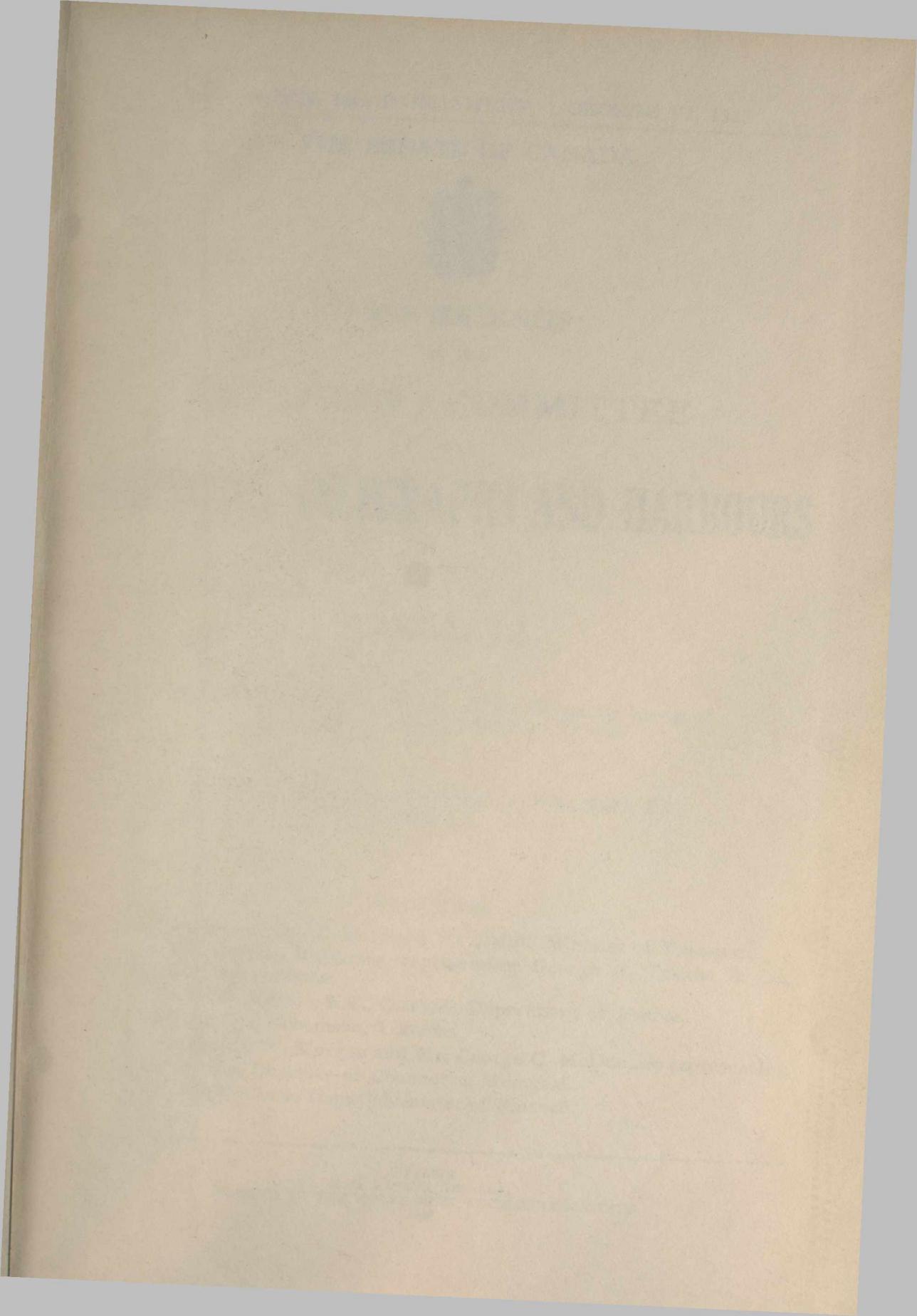
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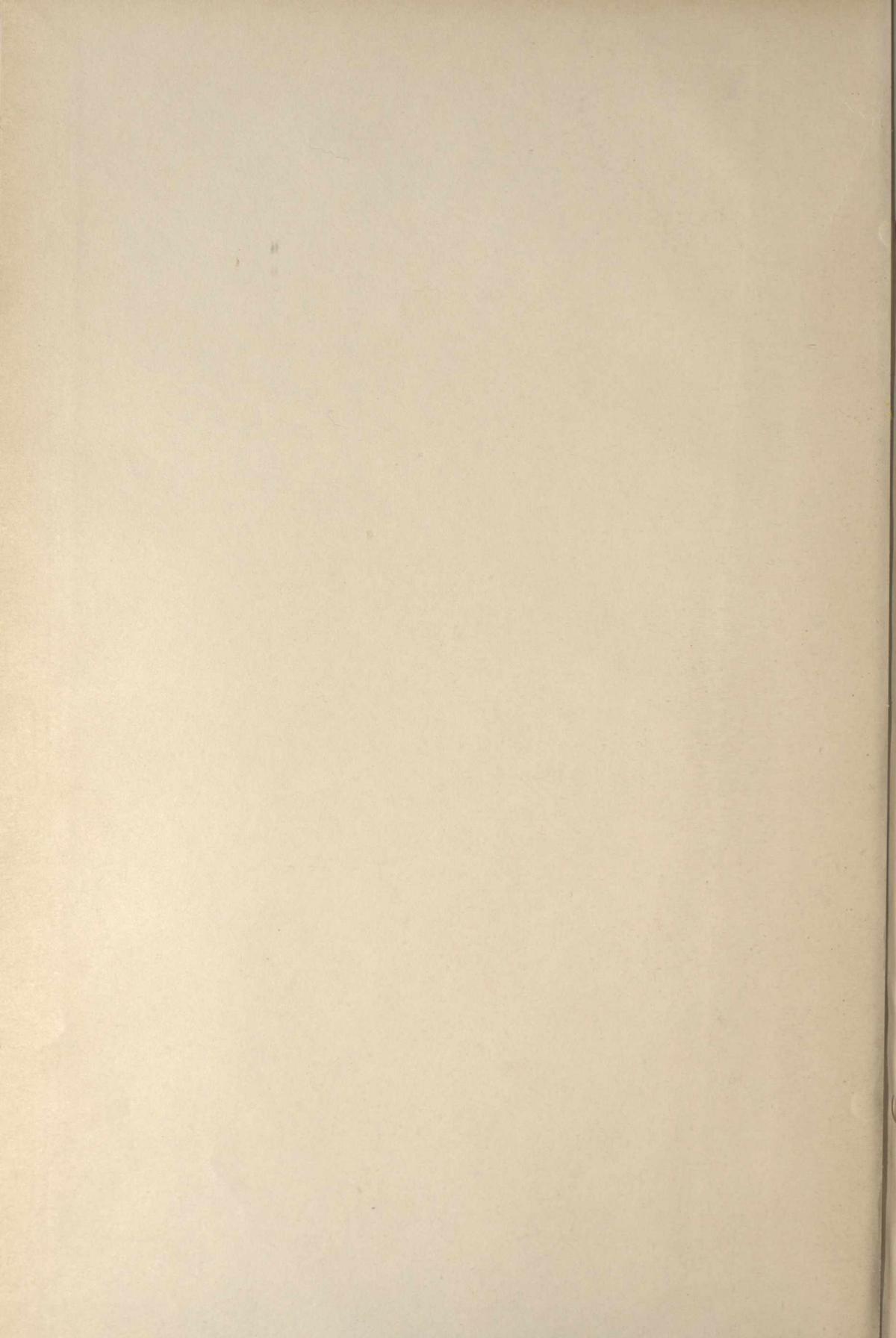
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THE SENATE OF CANADA



PROCEEDINGS

OF THE

STANDING COMMITTEE

ON

RAILWAYS, TELEGRAPHS AND HARBOURS

ON

BILL 12

An Act to provide for revision of the accounting set-up of
the Canadian National Railway System.

The Right Honourable GEORGE P. GRAHAM, P.C.,
Chairman

WITNESSES:

- The Honourable C. D. Howe, P.C., M.P., Minister of Transport.
Mr. Overton Matthews, representing George A. Touche & Co.,
Chartered Accountants.
Mr. F. P. Varcoe, K.C., Counsel, Department of Justice.
Mr. R. G. O. Thomson, Toronto.
Mr. Henry W. Morgan and Mr. George C. McDonald, representing
The Canadian Chamber of Commerce, Montreal.
Dr. W. C. Clark, Deputy Minister of Finance.

THE STANDING COMMITTEE ON RAILWAYS, TELEGRAPHS AND
HARBOURS

The Rt. Hon. GEO. P. GRAHAM, P.C., Chairman

The Honourable Senators

Arthurs	L'Espérance
Ballantyne	Logan
Barnard	MacArthur
Beaubien	Marcotte
Black	McDonald (<i>Shediac</i>)
Bourque	McGuire
Buchanan	McLennan
Calder	McRae
Casgrain	Meighen
Copp	Michener
Dandurand	Molloy
Dennis	Moraud
Farris	Murdock
Gillis	O'Connor
Gordon	Parent
Graham	Pope
Green	Rainville
Griesbach	Raymond
Haig	Robinson
Hardy	Sharpe
Harmer	Spence
Horner	Sutherland
Jones	Tobin
Lacasse	Turgeon
Laird	Webster—50.

(Quorum 9)

EXTRACT from the Minutes of Proceedings of the Senate, 7th April, 1937.

The Right Honourable Senator Graham, from the Standing Committee on Railways, Telegraphs and Harbours, to whom was referred the Bill (12), intituled: "An Act to provide for revision of the accounting set-up of the Canadian National Railway System," reported that they had gone through the said Bill, and had directed him to report the same to the Senate with several amendments, which he was ready to submit whenever the Senate would be pleased to receive the same.

The said amendments were then read by the Clerk, as follows:—

Page 1, line 23. After "advances," insert "and".

Page 5, lines 13 to 22, inclusive. For subclauses (2) to (5), inclusive substitute the following:—

"(2) Such by-laws shall provide for—

- (a) the custody of the corporate seal of the trust;
- (b) the execution of instruments by two or more trustees;
- (c) meetings of the trustees, to be held at least once in every year, the giving of notices of meetings, the appointment of a presiding officer at each meeting and the number of trustees necessary to constitute a quorum at meetings."

Page 5, line 28. For "Secretary" substitute "secretary".

Page 6, lines 6 to 8, inclusive. For clause 22 substitute the following:—

"22. The Securities Trust is hereby declared for the purposes of the Canadian National-Canadian Pacific Act, 1933, and the Canadian National-Canadian Pacific Act, 1936, to be a corporation comprised in the National Railways provided, however, that subsection three of section eight of the Canadian National-Canadian Pacific Act, 1933, as enacted by section three of the Canadian National-Canadian Pacific Act, 1936, shall not apply to the said Corporation."

Page 6, lines 15 to 21, inclusive. For clause 24 substitute the following:—

"24. The Minister shall include annually as an appendix to the Public Accounts of Canada a detailed statement of the assistance, whether by way of grant or unpaid loan of money, undischarged guarantee, grant of land or otherwise given by the Dominion of Canada to every railway showing separately the assistance given (a) in aid of construction and (b) to meet losses in operation. Such statement shall, as far as possible, show separately for each item of assistance the name of the Company to which granted; the date upon which granted; the authority for the grant, whether by statute, contract or otherwise; the purpose for which granted, and the manner in which such assistance has been dealt with in the Public Accounts of Canada. The appendix shall also contain a similar statement in respect of loans which have been repaid and guarantees which have been discharged, showing the same details and also the dates of repayment or discharge. Grants to relieve unemployment shall not be considered as assistance to the railways."

In the Title

For "An Act to provide for revision of the accounting set-up of the Canadian National Railway System" substitute "An Act to provide for cancellation of capital stocks and certain indebtedness of the Canadian National Railway System to His Majesty and for adjustment of the accounts of the System."

The said amendments were concurred in.

EXTRACT from the Minutes of Proceedings of the Senate, 8th April, 1937.

Pursuant to the Order of the Day, the Senate resumed the adjourned debate on the motion for the third reading of the Bill (12), intituled: "An Act to provide for revision of the accounting set-up of the Canadian National Railway System."

After further debate,

It was moved that the said Bill be not now read a third time, but that it be amended by adding the following at the end of Clause 11:—

"A footnote shall appear in the said accounts stating that the proprietors equity is disclosed in the net debt of Canada and in the historical record of government assistance to railways as shown in the Public Accounts of Canada."

After debate, and in amendment to the amendment, it was—

On motion of the Honourable Senator Beaubien, seconded by the Honourable Senator Ballantyne,

Moved, that after the word "equity" in the said amendment, the following words be inserted:—

"representing an aggregate indebtedness of \$1,334,567,414."

The question being put on the amendment to the main amendment,

The Senate divided, and the names being called for they were taken down, as follows:—

CONTENTS

The Honourable Senators

Arthurs,	Coté,	Lynch-Staunton,	Paquet,
Ballantyne,	Donnelly,	Macdonald	Quinn,
Barnard,	Fauteux,	(Richmond-West	Robicheau,
Beaubien,	Green,	Cape Breton),	Sharpe,
Bénard,	Griesbach,	Marcotte,	Smith (Wentworth),
Black,	Haig,	McDonald (Shediac),	Sutherland,
Blondin,	Horner,	McLennan,	Tanner,
Bourgeois,	Jones,	Meighen,	Webster,
Bourque,	Laird,	Michener,	White—37.
Calder,	Leger,	Mullins,	

NON-CONTENTS

The Honourable Senators

Aylesworth (Sir Allen),	Harmer,	McGuire,	Robinson,
Buchanan,	Horsey,	Molloy,	Sinclair,
Copp,	Hughes,	Murdock,	Tobin,
Dandurand,	King,	O'Connor,	Turgeon,
Gordon,	Lacasse,	Parent,	Wilson
Graham,	Little,	Prevost,	(Rockcliffe)—26.
Hardy,	MacArthur,	Riley,	

It was resolved in the affirmative.

The question being again put on the motion for the amendment, as amended, it was—

Resolved in the affirmative.

The question being again put for the third reading of the Bill, as amended, it was—

Resolved in the affirmative.

The question was put whether this Bill, as amended, shall pass.

It was resolved in the affirmative.

Ordered, That the Clerk do go down to the House of Commons and acquaint that House that the Senate have passed this Bill with several amendments, to which they desire their concurrence.

MINUTES OF EVIDENCE

THE SENATE,

FRIDAY, April 2, 1937.

The Standing Committee on Railways, Telegraphs and Harbours, to whom was referred the Bill 12, an Act to provide for revision of the accounting set-up of the Canadian National Railway System, met this day at 10.30 a.m.

Right Hon. George P. Graham in the chair.

The CHAIRMAN: Gentlemen, whom shall we hear first this morning?

Hon. Mr. DANDURAND: Our own auditor, the representative of the firm which audits the books of the Canadian National Railways.

Mr. OVERTON MATTHEWS, representing Messrs. George A. Touche and Company, chartered accountants, was called as a witness.

The CHAIRMAN: Does the Committee want Mr. Matthews to make a statement, or shall he be asked questions?

Hon. Mr. DANDURAND: To start Mr. Matthews off, I will ask him one or two questions. How long have you been with George A. Touche and Company, Mr. Matthews?

Mr. MATTHEWS: Twenty years.

Hon. Mr. DANDURAND: How long have you been connected with Canadian National Railways accounts?

Mr. MATTHEWS: Well, we first came into the picture in 1915 when we were asked by the Canadian Northern to make an examination of the Duluth, Winnipeg and Pacific Railroad, in respect of a bond issue which it had outstanding. Following up on that, we were appointed auditors of the Canadian Northern Railway. And in 1921 or thereabouts we were asked to look into the accounts of the Canadian Government railways. And prior to the establishment of the present Canadian National System we made an investigation of the Grand Trunk and the Grand Trunk Pacific; and in 1923 we worked on the consolidation of the presently existing National System accounts. With the exception of one year we have been auditors of the National System since that time. There was, however, a difference in our status, prior to the Canadian National-Canadian Pacific Act in 1933. Prior to that time our reporting had been confined to the Board of Directors of the Canadian National, but with the passage of the Canadian National-Canadian Pacific Act the auditors became the auditors of Parliament, making a report to Parliament. So it might be said that since 1933 we have represented the Parliament of Canada in the audit of the National System accounts.

Hon. Mr. DANDURAND: I do not know at what date, but your company once, and perhaps more than once, suggested to the Parliament of Canada, since 1933, or before that time, to the Board of Directors, that there should be a readjustment of the financial statement of the Canadian National. Were you a party to these suggestions?

Mr. MATTHEWS: Yes, sir. In 1934, in the first report that we made to Parliament after the passage of the Canadian National-Canadian Pacific Act, we did set out certain recommendations having this revision in mind; and again in 1935. Now prior to the passage of that Act we had no access to Parliament, no means of making a report to Parliament. But we did in those previous years work in conjunction with some proposals that had been under consideration by the railway officers. It has been said that the suggestions that were contained in our reports of 1934 and 1935 were very similar to those that had been sanc-

tioned by the railway officers. That is very easily explained, in that over a long period of years, in regard to a subject of this kind there naturally does result out of these various considerations a crucible, so to speak, a basis that seems reasonable all around. So it can be truthfully said that the report or recommendation such as we have made follows quite closely the views of the railway officers; because, as I say, prior to 1934 we had studied the matter with them back to about 1927. But officially our reports on this matter were made in 1934 and 1935.

Hon. Mr. DANDURAND: Was there a change in the report of the Canadian National, through the Canadian National-Canadian Pacific Act of 1933, relating to the accounting for the payment of deficits and interest?

Mr. MATTHEWS: Yes, sir, a change to this extent: that the amount of the final loss carried forward on the balance sheet did not include the amounts voted by Parliament; but in the annual profit and loss statement, as published and as submitted to Parliament, the total loss for the year was continued as previously. And at the bottom of the profit and loss account is shown the amount contributed by Parliament annually, under both the Canadian National-Canadian Pacific Act and under the Maritime Freight Rates Act of 1927. The reason for that, honourable gentlemen, is that you could not justify setting up as a liability on the balance sheet of the Canadian National Railways a contribution by legislation. The Act of 1927, the recommendations of the Royal Commission in 1931, the financing Acts since 1932, all make it very clear that these moneys are in the form of a contribution by a shareholder; that is to say, a contribution by vote of Parliament. We have to regard the Dominion of Canada as nothing more than the owner of these properties. It ceased to be a creditor in the true sense of the word when it acquired the stock ownership of these properties.

Hon. Mr. BLACK: It is a contribution by Parliament, but as it is an investment of money in the railway system it must be capital, because it was not earned by the railway. Is that not so?

Mr. MATTHEWS: Well, sir, it is an amount of money put in by this shareholder. But, we repeat, it is not a liability.

Hon. Mr. BLACK: Is it not capital? Suppose it was a privately owned corporation. The money must come from somewhere, either from the sale of securities or from contribution by shareholders. If the money goes into the company it must go in as capital. There is no other word in financial language to describe it, is there?

Mr. MATTHEWS: Well, sir, does it not depend upon the basis upon which the money was put in?

Hon. Mr. BLACK: I am trying to make clear that what is in there is actual capital.

Mr. MATTHEWS: It is actual money, sir, actual cash.

Right Hon. Mr. MEIGHEN: You say it is money put in, but it should not appear in the company's balance sheet. I never heard of anything like that before.

Mr. MATTHEWS: Well, Senator Meighen, do you say that the balance sheet of all corporations reflects all the money that has ever been put into the corporation, regardless of what the position between the company and its shareholders and bondholders has been?

Right Hon. Mr. MEIGHEN: Perhaps not, because the public are not interested as they are in this case, and it may be agreed by the shareholders that there should be a writing down. But how can you wipe these moneys out of the balance sheet when there is this public interest and necessity for the public to be informed as to the actual history in judging the present position of the system? I do not think the Duff Report recommended this.

Mr. MATTHEWS: I think, Senator Meighen, that, starting with the Duff report, they took the capital liabilities of the System as then existing and made the definite recommendation that they should be heavily written down. Now, let us start from there—

Right Hon. Mr. MEIGHEN: But for what reason did they recommend that? We have to consider the reason they gave. They said, first, it is clear from the standpoint of earnings that the capital should be or could be written down. Well, certainly if you take it from the standpoint of earnings you would write the capital down. But that is not going to serve the public of this country. The public of this country want to know the history of the System. And then they said further that we could regard a great deal of that capital as lost and it could be written down on that account. Now, it may be that in a private concern a thing like that ought to be done, but I do not see how it can be done in a public concern. I admit the money is lost; that is a statement of fact. But is that a real reason for acting in this way in relation to a company of whose history the public ought to be aware in order to be able to judge as to questions of policy?

Mr. MATTHEWS: Senator Meighen, the Royal Commission did refer to the two situations, as you say.

The CHAIRMAN: The Duff Commission?

Mr. MATTHEWS: Yes, the Duff Commission of 1931 and 1932.

Right Hon. Mr. MEIGHEN: If you have the report there I will show it to you.

Mr. MATTHEWS: Yes. They went on to say in recommending to the early attention of the Board of Trustees the whole question:—

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

Right Hon. Mr. MEIGHEN: Yes, that is what I say.

Mr. MATTHEWS: Now, it is rather difficult to see how the capital liabilities could be heavily written down and at the same time continue to increase by the contribution of deficit moneys.

As a matter of fact, Mr. Rhodes, who brought down his budget in 1933, made that very clear, sir, by deducting and making provision in the legislation for the reduction of loans to the extent of \$53,000,000. I think that was voted for in 1932.

The Finance Minister of the day recognized the fact of writing down liabilities by himself including the matter in the legislation. \$56,500,000 had been voted as loans, and Mr. Rhodes made provision in his legislation that those loans be written down.

The CHAIRMAN: They were not loans, they were contributions.

Mr. MATTHEWS: They were loans in the beginning, and then those loans were written down.

Hon. Mr. HARDY: By writing down you mean they were wiped out entirely?

Mr. MATTHEWS: Yes, sir.

Right Hon. Mr. MEIGHEN: That is so, and I admit they say that because the money is lost it should be written down. But I cannot see how we are serving the public by presenting a balance sheet which does not show the loss of that money.

Hon. Mr. DANDURAND: That comes to the question which I will now put to Mr. Matthews. What has prompted you and your firm to suggest that there be a readjustment of the balance sheet of the Canadian National?

Mr. MATTHEWS: We have had just one reason, sir, and it has been a reason that we have not felt very free to discuss, because after all we are a firm of chartered accountants and are perhaps bound by certain precedents. But in our organization in London and New York over the years we have had some contacts with financial interests, and naturally we have always had a keen concern in anything that affected the Canadian National Railways or the Dominion of Canada, particularly the dominion, because our viewpoint on this is not that it stops with the Canadian National. Speaking for ourselves, this is a matter that, in our opinion, vitally affects this country. We have on more than one occasion seen at very close range the misunderstandings that even the so-called well-informed financial people have of this debt situation of Canada.

This balance sheet of the Canadian National Railways goes into every financial centre of Great Britain and the United States. It is not a balance sheet that is distributed only amongst the people of Canada. It is a balance sheet that fundamentally is the starting point of the consideration of those countries of our financial position. Whether we accept that as a fact or not, that is what happens. In our London organization we have contacts with investment trusts of £60,000,000—this is outside our chartered accountants' work altogether—and we have knowledge of the views of some people in Great Britain at least. At this stage I do not think it would be out of place for me to read an article which appeared in the *Investors' Chronicle* and was called to the attention of our people in Toronto. It appeared in that paper in November, 1935, eighteen months after this question of the debt structure of the Dominion and of the National Railways had been aired in Parliament and in the parliamentary committees, and we had been told time and again that everybody who was worth anything understood the situation fully. This article is headed, "The Future of Canadian Bonds."

Hon. Mr. BLACK: What date was that?

Mr. MATTHEWS: It was in November, 1935. If this committee is interested we can get a copy of the whole article. The *Investors' Chronicle* and *Money Market Review of London*, reputed to have the largest net sales of any weekly financial newspaper in Great Britain at that time, printed the following article under the head of "The Future of Canadian Bonds." This, gentlemen, was in the fall of 1935, after there had been two parliamentary committees engaged in a study of this thing. This is the article:—

An acute observer who recently visited the Dominion reported to his friends on the railway situation as follows:

" It has been estimated that the operation of the Canadian National Railways since the war has involved the capital structure of the Dominion—

You see, they are getting into the capital structure of the Dominion.

—in losses and profitless investments aggregating over \$3,000,000,000. No country with little more than ten million inhabitants can continue to sustain an interest burden of anything like this magnitude. Two alternatives, and only two, present themselves. Unification of the two railways; or, sooner rather than later, a serious financial crisis, in which the whole Dominion will be involved."

The "capital structure of the Dominion," that is, the combination of the Canadian National System and the public accounts of Canada, is stated in this widely-read financial journal in Great Britain to have been involved since the war to the extent of more than \$3,000,000,000. The fact is that since the war the so-called National System losses, pyramided with Government interest accruals on deficit advances, together with capital expenditures for new equipment, additional facilities and general betterments approximated one-half the figure quoted. Where the additional \$1,500,000,000 is drawn from is anyone's

guess, but it is significant that approximately \$1,500,000,000 of the published liabilities as shown on the National System balance sheet are duplicated in the net debt of Canada.

That is only one article, gentlemen. In the two appearances we made before the parliamentary committees of 1934 and 1935 we attempted to bring some newspaper comments and statements made by public men in this country concerning the situation—

Hon. Mr. COTE: Before you go further, Mr. Matthews, may I ask what you mean by saying the figures are duplicated in the public accounts? Will you point out what the public accounts were so we may follow you?

Mr. MATTHEWS: Yes, sir, gladly.

Hon. Mr. DANDURAND: You will not forget the point at which you were interrupted?

Mr. MATTHEWS: No, sir.

The balance sheet of the Dominion of Canada is shown in the public accounts. This balance sheet shows assets and liabilities, and the difference between the two is the net debt of Canada and is so published to the world. In 1920, when Sir Henry Drayton was Minister of Finance, he moved out of the assets the then existing loans that the Dominion of Canada had made to the Canadian National System. When that was done duplication started, because the liabilities are contained in the accounts of the Dominion; the same liabilities are in the accounts of the National System.

Hon. Mr. COTÉ: That is exactly the point I am interested in. Are the liabilities of the Dominion shown on the liability side all the liabilities of the railway?

Mr. MATTHEWS: No. But in the analysis of the net debt the loans to the railways are set out as a component part of that net debt.

Hon. Mr. HUGESSEN: And they are also shown on the Canadian National Railways own balance sheet?

Mr. MATTHEWS: Yes.

Hon. Mr. HUGESSEN: So there is duplication.

Mr. MATTHEWS: Yes. Now, it has been said it is only an ordinary business transaction that where a parent company borrows \$1,000,000 and issues its securities and loans that \$1,000,000 to a subsidiary to have the same \$1,000,000 shown twice; that is perfectly right. But the difference in this case is that the liabilities were written out of the assets of the parent company.

Right Hon. Mr. MEIGHEN: Because they were not of value.

Mr. MATTHEWS: Well, sir, that is not the point at issue. The point at issue is that duplication started when the assets of this country were reduced before the determination of the net debt, and the net debt published to the world includes the liabilities of the National Railway System which, up to 1920, were regarded as assets. It was at that point this difficulty started.

Hon. Mr. BLACK: I do not think duplication is the right word. It is misleading, because after all any parent company with one or more subsidiaries would be in exactly the same condition as that existing between the Government and the Canadian National Railways.

Hon. Mr. DANDURAND: But we are now dealing with the effect produced by that joint entry.

Hon. Mr. BLACK: But the public of Canada has the same amount of money invested in its railways whether we remove the entry from one or both accounts. In any event the Railway System still costs so much.

Right Hon. Mr. MEIGHEN: Would you not get over your difficulty, Mr. Matthews, of perhaps misleading some people as to what is the total debt by also publishing a consolidation sheet?

Mr. MATTHEWS: Then this duplication would be immediately apparent.

Right Hon. Mr. MEIGHEN: But you would not mislead by publishing them both separately and then consolidated.

Mr. MATTHEWS: Unfortunately, Senator Meighen, the accounts of the Canadian National Railways—let me repeat this—are the accounts distributed in the financial centres of this country, the United States and Great Britain, and at least our experience has been that the position is not understood. We have heard many statements that anyone with any sense should know the actual position, but that is not always the case.

Hon. Mr. LYNCH-STAUNTON: Why don't you explain all this in the accounts which are distributed? You say the accounts go out among financial men. Well, they are all experts and if the accounts contained a simple explanation they certainly would not be misled, would they?

Mr. MATTHEWS: Do you mean that the accounts of the National Railways should be so drawn as to show this accumulation as liabilities, regardless of the terms of legislation, and so forth, and then have some kind of footnote to explain that this accumulation is included in the national debt?

Hon. Mr. LYNCH-STAUNTON: No. Draw up the accounts so that financial people would not come to the conclusion that we owe two debts when there is only one debt. The statement must be very badly prepared if it misleads financial men.

Mr. MATTHEWS: I am speaking now principally of Great Britain.

Hon. Mr. LYNCH-STAUNTON: But financial men in Great Britain are pretty sharp, and the position must be fairly well disguised if they do not understand it.

Mr. MATTHEWS: No, there is no disguisement in the Canadian National Railways accounts. I make that statement to the committee unreservedly.

Hon. Mr. LYNCH-STAUNTON: Why then does it deceive the people if it is a correct statement?

Mr. MATTHEWS: It does not deceive people in its present form; it misleads them.

Hon. Mr. LYNCH-STAUNTON: Misleading is deceiving.

Mr. MATTHEWS: Well, the liabilities of the National Railways are set up to-day in strict accordance with the legislation as passed by Parliament.

Right Hon. Mr. MEIGHEN: I am absolutely sure that is correct. But I think all you are seeking to get over by a method that seems to be certain to lead to misconception on the part of the country of the history of the National Railways can be got over by the very simple practice followed by large companies; just publish a consolidated balance sheet of Canada and her subsidiaries.

Mr. MATTHEWS: Senator Meighen, if there were to be a consolidated balance sheet published of the Dominion of Canada, you would have to do just what is being suggested here, you would have to make these eliminations.

Right Hon. Mr. MEIGHEN: That is correct, but then you have your balance sheet of Canada right, and the balance sheet of the National Railways also right. The consolidated balance sheet would show the joint position, and you would have nothing wrong about either of them.

Mr. MATTHEWS: Senator Meighen, so long as the financial accounts of the Canadian National Railways are published, and are used as the starting point, mark you, of financing, subject of course to the final guarantee of the Dominion, you cannot avoid these difficulties that have presented themselves in the past.

Now, Senator, if you were to present a consolidated balance sheet like that of the United States Steel Corporation, for instance, the problem would automatically eliminate itself. But I do stress this fact, that these accounts of the Canadian National Railways, with these liabilities and these accumulating deficits that are already duplicated in the accounts of the Dominion of Canada,

are bringing to foreign investors an impression which is not according to the facts. The only alternative is a consolidated balance sheet for the Dominion of Canada in its entirety. And if you continue the present published accounts of the Canadian National Railway System, then the only suggestion is that they be so drawn that when they are put together with the accounts of the Dominion of Canada there will be a true picture of the financial obligations of Canada, including those pertaining to its railway enterprise.

Right Hon. Mr. MEIGHEN: I agree with every word of that. Under your new plan, if you consolidate those accounts with the accounts of the Dominion you will have a real picture.

Mr. MATTHEWS: Yes sir, so far as the Dominion's position is concerned.

Right Hon. Mr. MEIGHEN: But you do not need to remodel the structure of the Canadian National, in respect of money advances. You can get a true picture just the same by consolidating the accounts just as they are. In that way you get a faithful picture of both accounts, separately and together.

Mr. MATTHEWS: Senator Meighen, within the last three months Canada has done some financing, through New York underwriters. I think the Minister made passing reference to this in the House of Commons Committee, and perhaps I may be allowed to enlarge upon it a little in this Committee. Under the securities requirements in the United States to-day, any financing that is done for the Canadian National Railways under Dominion guarantee, or any financing that is done for the Dominion of Canada, involves the use of the Canadian National Railways published accounts. Morgan, Stanley and Company were here for a number of weeks before the close of this year. We sat in on a conference with Morgan, Stanley and Company and officers of the Department of Finance and of the Department of Transport, and we took up with this firm of underwriters whether or not it was a fact that the balance sheet and financial accounts of the National Railways, as they stand to-day, present a difficulty from the point of view of underwriters. And personally I asked them a few questions. I asked them if it was a fact in their case, for instance, that they understood this duplication clearly, and I was told definitely that it had taken them some time to get the real picture of the Dominion at this particular stage. I also asked Mr. Jones, of Morgan, Stanley and Company, as an underwriter having to do with financing of Canada's bonds in the future, whether in his judgment the perpetuation of these accounts of the National Railways was likely to be detrimental to the interests of Canada in its financing. He said, "Yes." I asked Mr. Jones if he thought it would be a good thing if the Parliament of Canada were to choose to adjust the situation so that those having to do with future financing would merely have to put these two sets of accounts together, as you would do in any ordinary corporate enterprise where you have subsidiaries. And he said, "In the long range interest of this country I hope it is done."

Right Hon. Mr. MEIGHEN: Why not do it the way it is done now?

Mr. MATTHEWS: Well, sir, the only way you can do it is by eliminating from the National Railways' balance sheet these liabilities that are duplicated in the net debt of Canada.

Right Hon. Mr. MEIGHEN: You said yourself that a true picture could be got by consolidation.

Hon. Mr. DANDURAND: I should like to put this question. These amounts that are lost have been furnished by Parliament. In the new set-up will they not appear somewhere?

Mr. MATTHEWS: There are two provisions for them, sir. The first,—

Right Hon. Mr. MEIGHEN: They appear as appendices.

Mr. MATTHEWS: In addition to that, sir, section 23 provides that the Securities Trust shall present a statement to Parliament annually. The balance

sheet of that Securities Trust will be the perpetuation of the claims that are now being transferred from the Canadian National balance sheet. That is only one thing. In addition to that, gentlemen, this plan provides, in section 24 of the Bill, that for the first time this country will really have in its public accounts a complete statement of the cost of the railways of Canada.

Hon. Mr. DANDURAND: At last.

Mr. MATTHEWS: Yes sir.

Right Hon. Mr. MEIGHEN: As an appendix to the public accounts.

Mr. MATTHEWS: Yes, as part of the public accounts. And, after all, these public accounts are the record of Parliament. There is much misunderstanding because of the statement that liabilities of the Canadian National Railways System represent the cost to the people of Canada, and that if these sums are left out the people of Canada would lose the record of them. A more misleading statement could not be made. The fact of the matter is that under legislation it is impossible to carry these sums forward as liabilities. At the present time there is the sum of \$400,000,000, exclusive of interest, that has been advanced by the Parliament of Canada since Confederation, which is not in the records of the liabilities of the National System. It could not be. Any firm of auditors that would set them up as liabilities would be doing so without justification.

Right Hon. Mr. MEIGHEN: Because of the statute?

Mr. MATTHEWS: Yes.

Right Hon. Mr. MEIGHEN: I agree with that.

Mr. MATTHEWS: As late as last month newspaper editorials have continued to state that this balance sheet is a record of accumulated costs. It is nothing of the kind. The balance sheet of any corporation is not a record of all the moneys that have been put into the institution, if the shareholders or creditors or security holders at any time in its history have seen fit, in the interests of the institution, to make an adjustment.

Hon. Mr. HARDY: That is done almost every day in the reorganization of great companies, is it not?

Mr. MATTHEWS: Senator, the record of business during the last seven years—and I am sure Senator Meighen will agree with this—is full of that kind of thing. A large number of institutions, for the sake of their very self-preservation, have had to make a recapitalization.

Hon. Mr. LYNCH-STAUNTON: Do you mean financially sound institutions?

Mr. MATTHEWS: Yes, sir, many of them, indeed.

Right Hon. Mr. MEIGHEN: That is true. But the purpose they had in mind is not a purpose that we need at all. We do not need to do this in order to maintain the solvency of the institution. Our institution would not be a bit more solvent afterwards than before; it would be just the same. If this Bill is passed we shall find in an appendix to the public accounts after this certain advances which cannot appear in the public accounts now. My point is that this appendix would not be needed and there would not be any need for this section 23 if the two balance sheets were consolidated and published separately. Under this new plan the National Railways would show a much better statement. But the newspaper editor who looks at that statement will not bother to look up the appendix to the public accounts. He will simply take that balance sheet and say, "Things are looking pretty good here. The debt is only such-and-such a sum." Then he will write a favourable account of the railway, pointing out how things are improving. The next thing will be a demand for lower rates, because of this misleading balance sheet—or, rather, of the failure to state a history which it is essential to have stated for public information.

Mr. MATTHEWS: Senator Meighen, you lay great stress on the historical record of the costs of the railway to this country. So do we. As a Canadian,

how could I do otherwise? We are not unmindful of the serious situation, but we do not believe it helps the matter by publishing to the world a statement concerning this property showing to-day an accumulated deficit, and interest on deficits, of \$904,000,000, which is already in the net debt of Canada. We do not believe it helps the situation by including in its liabilities one and a half billion dollars that are already taken into the net debt of Canada. And it would be a peculiar situation if the public of this country and future parliaments could not be kept properly informed, to the extent necessary to restrain them from making extravagant expenditures, through the public accounts.

Hon. Mr. COTE: But, Mr. Matthews, your argument amounts practically to this, that this subsidiary of the Government should not be allowed to show in its accounts a debt to the Government, whether that debt is for loans or interest on loans. While you were arguing along that line, the point occurred to me as to how we are handling the harbours of Canada. We have lent them money. Are we going to wipe out the money they owe to the Dominion, in order to prevent duplication of an amount which appears in the Government's accounts as having been borrowed for the purpose of making such loan?

Mr. MATTHEWS: The Canadian National's balance sheet, Senator, is somewhat different from the balance sheets of the harbours. In the first place, the Canadian National's balance sheet is a starting point in financing and is used under the new securities requirements of the United States, as I have already pointed out. And even in financing for the Dominion, these published accounts of the National Railways must be produced over there.

Hon. Mr. DANDURAND: They must be furnished to Washington, too.

Mr. MATTHEWS: Yes, sir.

Hon. Mr. HUGESSEN: Mr. Chairman, may I support what Mr. Matthews said a few moments ago? About three months ago, I happened to be Canadian counsel for those underwriters, and I had something—not much—to do with the preparation of the registration statement which has to be filed in Washington by any foreign corporation or government which wishes to finance in the United States. This registration statement not only has to be filed in Washington, but copies of it must be furnished to every prospective purchaser of bonds in the United States before his order is taken. I hold in my hand a copy of this registration statement. It was considered necessary to make it very clear to prospective purchasers, in this statement, that they must not duplicate the total debt of the Dominion of Canada with the total debt of the Canadian National Railways as now appearing on its balance sheets. After setting out the indebtedness of the Canadian National Railways to the Government, as apart from the indebtedness of the Canadian National Railways to the public, this registration statement says:—

Under no circumstances should the loans set forth above and the interest accrued thereon be included in any figure for the gross debt of the Dominion plus the debt of the Canadian National Railways, as to do so would involve an overstatement of the total debt of the Dominion and of the railways due to the public by the sum of the above loans and accrued interest thereon to wit, \$1,250,000,000.

That is a clear indication that the underwriters of these securities knew they would have to explain this position to prospective purchasers of the bonds in the United States. And it is a clear indication of the danger which at present exists, by reason of that duplication of debt, when the Dominion comes to do financing in other countries.

Hon. Mr. DANDURAND: Is that your view, Mr. Matthews?

Mr. MATTHEWS: Yes sir.

Hon. Mr. LYNCH-STANTON: Does any corporation which has subsidiaries issue to the public anything more than a consolidated balance sheet?

Right Hon. Mr. MEIGHEN: Very often. They have to, if there are public stockholders.

Hon. Mr. LYNCH-STAUNTON: The United States Steel does not.

Mr. MATTHEWS: That is quite right. That is the most nearly perfect illustration we could give to this Committee of the recognition of the need to keep out duplication. It is a consolidation in the most nearly perfect sense, even going to the extent of picking out the sales made by one subsidiary to another, carried in the inventory of the receiving company—they even go to the extent of eliminating profit on the sales.

Hon. Mr. LYNCH-STAUNTON: They show a true picture of what the company is?

Mr. MATTHEWS: A consolidated picture of the company as a whole.

Hon. Mr. LYNCH-STAUNTON: The whole picture is set out there without any duplication?

Mr. MATTHEWS: Yes sir.

Hon. Mr. LYNCH-STAUNTON: Is that what you propose to do?

Mr. MATTHEWS: We are not proposing it, sir; but if the Bill, as we understand it, were made law, the two sets of accounts when put together would produce a statement or picture just as is produced in the case of the United States Steel.

Hon. Mr. LYNCH-STAUNTON: But is it planned to put them together?

Mr. MATTHEWS: No sir.

Right Hon. Mr. MEIGHEN: That is exactly what the United States Steel does, and exactly what is not proposed here. Suppose the United States Steel had a separate company, which had public stockholders. Could it take that separate company and write down a lot of its liabilities and readjust its assets in order to avoid a consolidated statement of the United States Steel Corporation and its subsidiaries? No. They publish the consolidated statement. What I am saying is that we can keep the accounts of the Government and of the railway in their true position, so as to reveal the facts, and publish a consolidated statement, in that way attaining everything that is sought to be attained by changing the accounts of the subsidiary.

Mr. MATTHEWS: Would you still publish the accounts of the National Railways?

Right Hon. Mr. MEIGHEN: Yes.

Mr. MATTHEWS: Then the consolidation effect would be largely nullified, would it not, Senator?

Right Hon. Mr. MEIGHEN: No. It is true the Dominion has liabilities of the Canadian National Railways, a subsidiary. Well, a consolidated balance sheet would show the consummate position of both the Government and the railway.

Hon. Mr. LYNCH-STAUNTON: Why do you want to set up for Canada something that a corporation, in the same position as this country is, would not do?

Mr. MATTHEWS: That is not the proposal, sir. The proposal is to do what a corporation, under similar circumstances, would have to do.

Hon. Mr. LYNCH-STAUNTON: You refer to "a" corporation. But what do corporations in general do?

Mr. MATTHEWS: May I answer it in this way, sir? There is no law, of which we are aware, which makes it necessary for the books of the parent company and of the subsidiary company to agree on the amount of the liabilities, on the one hand, and the value of the assets, on the other.

Hon. Mr. LYNCH-STAUNTON: Does that mean they do not tell the truth?

Mr. MATTHEWS: No sir.

Hon. Mr. LYNCH-STAUTON: What does it mean?

Mr. MATTHEWS: It is not uncommon for a parent company to lend \$10,000, let us say, to a subsidiary, and in the process of time the parent company may decide that loan is without value. It does not always follow that the subsidiary company at the same time will reduce the liability. We say there is no law requiring that. But what we do say, sir, is that if that affiliated company is part of a corporate group, is publishing its accounts for purposes of financing, you will find that the accounts of that subsidiary are adjusted in line with the parent company, in order to avoid the very situation that the underwriters found with respect to this last issue of Dominion of Canada bonds.

Hon. Mr. LYNCH-STAUTON: If the parent company considered that the loan of \$10,000 to the subsidiary had become valueless, how would the item be treated on the books of both companies?

Mr. MATTHEWS: In the first place, when the parent company loaned that \$10,000 it would set that up as an asset. We will assume it had to borrow the money from the bank. So the parent company set it up also as a liability to the bank. Concurrently, the affiliated company would take the money into its bank and set it up as an asset, and credit as a liability the accounts of the parent company. That would be the first transaction.

Hon. Mr. LYNCH-STAUTON: There would appear a debt to the parent company?

Mr. MATTHEWS: Yes.

Hon. Mr. LYNCH-STAUTON: And the parent company would appear as a creditor?

Mr. MATTHEWS: Yes, sir, at that point. Let us follow it a little further. In due process of time the parent company decides that this investment—

Hon. Mr. DANDURAND: Or loan.

Mr. MATTHEWS: —is no longer of any value. It writes off this loan—precisely what the Dominion of Canada has done—into its net debt. Then the affiliated company—and I make it very clear that we are talking only of affiliated companies which publish their accounts for financing purposes—the affiliated company in those circumstances would be required by the directors and shareholders of the parent company to adjust its accounts.

Hon. Mr. LYNCH-STAUTON: What do you mean by “adjust”? Do you mean to wipe out that sum?

Mr. MATTHEWS: Yes, I should say so.

Right Hon. Mr. MEIGHEN: To wipe out the debt of the subsidiary?

Mr. MATTHEWS: Yes sir; if the parent company had written the amount off and the accounts of the affiliated company were being used for financing—I make that very clear. There are plenty of companies which are privately owned, and there is no law that requires them to act in that way. But as a matter of prudent business, how long would any board of directors allow a subsidiary company to be accumulating liabilities for loans which had already been taken into the parent company's account?

Right Hon. Mr. MEIGHEN: Of course, if the parent company owns the subsidiary, it can direct the subsidiary to do as you suggest.

Mr. MATTHEWS: I am speaking of that.

Right Hon. Mr. MEIGHEN: But if the public is affected, unless that debt is cancelled by the holding company it cannot be removed from the books of the subsidiary. And in our case the public is affected. Public policy will be affected if the railway writes these amounts out of its accounts, because the public will think the railway is doing better than it is.

Mr. MATTHEWS: Senator Meighen, the Parliament of Canada has in preceding years voted these moneys as loans under legislation. Up to the time that

the Grand Trunk and the Canadian Northern and the Grand Trunk Pacific were acquired, this country was in fact a creditor. But when this country acquired the stocks of these companies it became the owner of the properties.

Right Hon. Mr. MEIGHEN: Yes.

Mr. MATTHEWS: Now, since that time the Government has continued to treat itself as a creditor. This measure seeks the authority of Parliament to recognize the fact that Canada owns the National Railways, that the Dominion is the proprietor of the property. The balance sheet will preserve the investment of the Dominion of Canada, so far as that investment has been represented by assets. It goes one step further. It says that in order that the people of Canada may be truthfully informed in perpetuity, and in order that future parliaments of this country may be restrained if there is any tendency to imprudent undertakings, there will be a permanent and complete record,—something that there has not been hitherto.

Right Hon. Mr. MEIGHEN: In the appendix?

Mr. MATTHEWS: In the public accounts of Canada, sir.

Hon. Mr. DANDURAND: If I understand it, it is officially acknowledged and agreed by all to be the fact that these are loans which will not be recovered?

Mr. MATTHEWS: Yes sir. They would be the total amount of moneys that Canada has put into her railways from the beginning.

Hon. Mr. COTÉ: But, Mr. Matthews, they are more than loans. They are capital investments as well.

Mr. MATTHEWS: Everything, sir.

Hon. Mr. COTÉ: I mentioned the harbours. We have a number of them; they are subsidiaries of Canada and incorporated. Commissions have been set up. Some of these commissions have the right to issue their own debentures and some have borrowed money from Canada, and some have done both. They publish their financial balance sheets at the end of the year, and this year we have all the balance sheets in one book. Now, let us take the harbour of Halifax, for example. It has borrowed money from the public on debentures to the extent of \$2,500,000. That is on the liabilities side. It has also borrowed money from the Government of Canada, loans and advances, interest bearing. The total there is \$24,000,000. Then the harbour of Saint John has borrowed \$3,000,000 on debentures and \$18,000,000 from the Government of Canada. I will not take the time to deal with the other harbours. The total liability of all the harbours to Canada is in the neighbourhood of \$100,000,000, a rather respectable amount. Besides that there are their direct liabilities to the public. Now, according to your argument, these balance sheets are wrong; they should not be drawn up in this way at all, because the Government of Canada owns these properties, and it should not be shown anywhere in these statements that these commissions, these subsidiaries owe any money to Canada. That is the way you are arguing with regard to the Canadian National, not only with respect to interest on past advances, whether these were to pay for deficits or for construction, but also with respect to the advances themselves which have been put up for capital construction.

Mr. MATTHEWS: Oh, no.

Hon. Mr. COTE: Why do you say "no"?

Hon. Mr. HOWE: May I answer that? The assets of the harbours are carried as active assets of the Dominion and do not appear in the net debt of Canada. They are quite different from the assets we are discussing here, which have been written into the net debt of the Dominion.

Hon. Mr. LEGER: Why not treat the railway debts in the same way as the harbours' debts?

Hon. Mr. HOWE: Because the Dominion Government treats them as inactive assets.

Hon. Mr. HARDY: The situation is entirely different.

Right Hon. Mr. MEIGHEN: There is no book-keeping duplication, that is all.

Hon. Mr. COTE: I should have made one qualification in my statement that you will not carry forward, at least for 1936, a debt of the railway to the Government of Canada. You do, \$77,000,000. I see on the revised balance sheet, as it will be if this Bill goes through, a debt to the public of \$1,184,000,000. And then there are loans from the Dominion of Canada, temporary loans, \$35,000,000. This is carried forward next year, with another item of \$42,000,000, to make up \$77,000,000.

Hon. Mr. HOWE: Since repaid.

Hon. Mr. COTE: You mean, repaid how?

Hon. Mr. HOWE: By the issue of bonds of the Canadian National Railways, the proceeds of which went into the Dominion of Canada.

Hon. Mr. COTE: Because you have allowed the Canadian National Railways to borrow money on their own debentures to pay their debt to Canada. And next year there will be a debt to the public?

Hon. Mr. HOWE: Yes.

Hon. Mr. COTE: Why do you not do the same thing with regard to the \$270,000,000 that have been put into the railways for construction?

Hon. Mr. HOWE: We could do that. One way would be to retire bonds of the Dominion of Canada and issue bonds of the Canadian National Railways instead. The Finance Minister of Canada in 1920 started the procedure; he first moved the railway debt into the net debt of Canada. It can be wiped out either way. We can either put the debt on the railway instead of on the Government, but it should not be in both places.

Hon. Mr. COTE: Well, if we are starting a new sheet, why not do so with regard to this?

Hon. Mr. HOWE: Because we have already on the balance sheet of the railway an item of over \$900,000,000 of loans. That is, the liabilities of the railway exceed the assets of the railway, on the face of the balance sheet, by over \$900,000,000 now.

Hon. Mr. COTE: I am not quarrelling with the policy of writing off interest on deficits advanced, or even the deficits themselves. But I do not think it is quite sound accounting to wipe out, on the ground of reorganization, moneys actually advanced by Canada for the acquisition of property, or for capital investment, improvement of that property. But that is exactly what that revised balance sheet will do.

Hon. Mr. HOWE: We have not written off five cents that went into improvement of the property.

Hon. Mr. LYNCH-STAUNTON: What do we gain by doing this kind of thing?

The CHAIRMAN: Gentlemen, if this was your own private property—of course, we are all shareholders in it, but if it was your own private property, what would you do with it?

Right Hon. Mr. MEIGHEN: This plan would be all right then. What I am trying to urge is this, that in respect of our National Railways we should keep things in such state that the public will be intelligibly informed when determining the policy of that system.

Hon. Mr. DANDURAND: That has nothing to do with the financial aspect and the financing of the road.

Right Hon. Mr. MEIGHEN: It has a lot to do with determination of policy. What I fear is that on publication of the new balance sheet, which is what newspaper editorials and the mass of the public will look at, they will say the time has come when we can start another fling.

Hon. Mr. DANDURAND: My right honourable friends says the mass of the public will look at the balance sheet. I should like to see the mass of the public pouring over these accounts.

Right Hon. Mr. MEIGHEN: I will admit that it is a comparatively small mass which cares anything about the balance sheet of the Canadian National, or about the debt of Canada, but in any event the number of people who would look at the balance sheet would be a great deal larger than those who would study this appendix. So far as we can, we should inform that mass, however small it is, of the facts.

Hon. Mr. DANDURAND: Do you not think that under sections 23 and 24 a full picture would be given, and in a manner which would reach the mass of the public as well as Parliament? With these figures before Parliament, subject to criticism by one or more opposition groups, would not the public have a true source of information? Discussions would be made upon those figures. My right honourable friend seems to question the value of the appendix, but it seems to me that the present House of Commons and its successor, if furnished with these statements under sections 23 and 24, would challenge any extravagant expenditures likely to increase the liabilities of the railway.

Hon. Mr. O'CONNOR: Mr. Matthews, is there any percentage of amount to arrive at your conclusions in a write-up of the physical assets of the Canadian National Railways?

Mr. MATTHEWS: Depreciation?

Hon. Mr. O'CONNOR: Yes.

Mr. MATTHEWS: No.

Hon. Mr. O'CONNOR: If that were the method used in arriving at a conclusion, perhaps it would be the equivalent of the money supplied by the Government annually, and the whole thing would automatically take care of itself.

Mr. MATTHEWS: Dealing with the question of depreciation, sir, \$373,000,000 of deficits includes retirements of property. It has not been based upon the usual depreciation basis adopted by the British and the United States roads for equipment. But it does take in the properties that have been retired and charged against that deficit. If you were to make a survey of the physical condition of the property to-day, you would of course not have the asset value that the books show, but the fact remains that the Canadian National Railways and other railways in Canada have operated on a retirement basis.

The CHAIRMAN: You mean retiring rolling stock, and so on?

Mr. MATTHEWS: Yes, sir.

Hon. Mr. LYNCH-STAUNTON: So that suggestion will not help the railways?

Mr. MATTHEWS: What would it do, sir? It would write down still further the value of the property, whereas the property has been written down in this proposal only to the extent of the Grand Trunk arbitration and that proportion of the Canadian Northern capital stock that was declared to be without value, together with \$15,000,000 of old Grand Trunk debentures; no depreciation.

Hon. Mr. GORDON: I suppose if it were written down to the present value it would be next to nothing?

Mr. MATTHEWS: It depends on what you mean by value. Do you mean reproductive value, cost value earning power value?

Hon. Mr. GORDON: What value would you put on a property that loses \$50,000,000 a year?

Mr. MATTHEWS: Then you get down to earning power value.

Hon. Mr. LYNCH-STAUNTON: Don't you keep a road up to a standard?

Mr. MATTHEWS: Yes, sir.

Hon. Mr. LYNCH-STAUNTON: Necessarily so.

Mr. MATTHEWS: I think the senator hit the real nail on the head. That is the value of any institution for commercial purposes. But this is a national property, it has had connection with the growth of the country, and it cannot be just treated in the same sense that we might buy and sell a sausage factory, on the basis of its earning power.

The CHAIRMAN: After full consideration we bought this property, and it is ours.

Hon. Mr. BLACK: And we could not sell it if we wanted to.

The CHAIRMAN: No. Now, what are we going to do with it? No matter what has happened in the past in connection with it, what is the best way of managing this property in the interests of the Dominion of Canada?

Right Hon. Mr. MEIGHEN: It is not a matter of management at all. It is a matter of what is the soundest thing to do from the public standpoint in the way of presentation of the accounts.

Hon. Mr. DANDURAND: Mr. Matthews, who is at the very heart of the difficulty and has his finger on the pulse of the financial world, tells us that the present situation presents a damaging picture of the financial situation of the Dominion of Canada.

Right Hon. Mr. MEIGHEN: That is right.

Hon. Mr. DANDURAND: He suggests a modus operandi by which we shall present a true picture to the people who are investing in bonds of the Dominion as well as of the Canadian National Railways, but endorsed by us. I see no harm to anybody in this proposed capital revision. The only fear which has come out of the crucible of discussion which we have had in the last day or two is that expressed by Senator Meighen, that if we abandon the deadwood, which we all recognize to be deadwood, himself particularly for he said so yesterday on the floor of the Senate, we shall give an incentive to the people of Canada to ask for larger expenditures and to the employees to claim higher wages. Well, does the more prosperous situation developing with the Canadian Pacific justify its wage-earners in claiming increased wages? I do not think going up the hill as we have to with the deficit facing us that within our generation we shall see such abounding prosperity in relation to our Railway System as to justify extravagant expenditures and wage increases. It seems to me we must consider the very situation which we are facing, and we must not forget that we are a borrowing people. We are told by the official auditors that our very pressing duty is to set our house in order, because to-morrow we shall be in London or New York as borrowers.

Hon. Mr. LYNCH-STAUNTON: We cannot fool those financial men.

Hon. Mr. BLACK: I can quite agree with Mr. Matthews that some set-up of this kind might be slightly more intelligible, but I have too high an opinion of the acumen of those men in financial matters to think that they are fooled now or will be in the future. The mere clarification of the account does not mean very much, if anything, to financial men. But it does mean something to the people of Canada who study the balance sheet and want the standing of our institutions published in the newspapers. I fear that with this kind of financial structure, where you have a special depository for all past losses, including capital expenditure as well as interest and other items, set entirely apart from the rest of the railway debt, you will create a misapprehension which will be injurious in the long run. I may be wrong, but I think it will have a prejudicial effect. But it will not affect the amount we owe. In view of that possibility, I ask Mr. Howe, would you not get the same result and have a simpler perspective to put before the people of Canada if instead of using this set-up, you simply revamped the balance sheet both of Canada and of the Canadian National Railways and consolidate them.

Hon. Mr. HOWE: Of course, we are doing that in effect by this revision of the balance sheet. We are consolidating the debts of the Dominion with the debts of the railways. Nevertheless a man buying bonds of the railway must have some record of the assets behind the bonds, apart from the guarantee, and it must affect the rate. As a matter of fact the indebtedness that the Canadian National Railway System is called upon to carry, aside from the portion in the public accounts that the Dominion is carrying direct, is the part that will be shown as debt in the new balance sheet. There is a vast difference. To-day we ask a man to buy bonds of a railway system which shows on its face as having \$900,000,000 more of debt than of assets. Not a very rosy picture.

Hon. Mr. BLACK: We still have the same debt.

Hon. Mr. HOWE: Yes. But why go to our creditors and say, "We have a certain debt that we meet as part of the public debt by direct taxation; then we have a certain other debt that is carried by our railroad system." If you add the two together you get a billion and a half dollars more than we owe. I had the job of explaining that to Stanley, Morgan and Co. not long ago, and it took me all day to do it.

Right Hon. Mr. MEIGHEN: It would not take you five minutes if the statute provided for a consolidated balance sheet of the Dominion and its subsidiaries.

Hon. Mr. HOWE: How can you do that unless you change the balance sheet of the railway? A consolidation is simply an addition of one debt to the other.

Right Hon. Mr. MEIGHEN: You would not have any duplication of debt in a consolidated balance sheet.

Hon. Mr. HOWE: We are keeping them alive in the Securities Trust, which publishes its balance sheet as part of the statement of the railways.

Right Hon. Mr. MEIGHEN: That is the only way in which you can make these liabilities that are now liabilities for money appear on the balance sheet as not liabilities but simply as a statement of the capital of the company. You are seeking to avoid duplication of the debt so that it may not appear greater than it really is. You get over that difficulty completely by a consolidated balance sheet of the Dominion and its subsidiaries. You cannot have any duplication of debt by that method.

Hon. Mr. HOWE: I cannot see how you can consolidate those debts without adding them together.

Right Hon. Mr. MEIGHEN: Then the debt of one cancels the debt of the other. That is what consolidation means. Take United States steel, there is no duplication of debt in the whole organization when you see its consolidated balance sheet.

Hon. Mr. HOWE: In inter-company capitalization you will see no borrowings from the parent company.

Right Hon. Mr. MEIGHEN: But you have your duplications again.

Hon. Mr. HOWE: That is exactly what we are trying to avoid and get rid of.

Right Hon. Mr. MEIGHEN: You are getting rid of it, I know that, but at the expense of presenting to a considerable part of the Canadian public a wrong story of the Canadian National Railway System.

Mr. MATTHEWS: Not at all.

Right Hon. Mr. MEIGHEN: You can get rid of it in the other way without any wrong story at all.

Mr. MATTHEWS: Is this the right story? We say that in 1932 we lost \$70,000,000 capital. We give you \$70,000,000 to replace that capital. We say in our balance sheet that we are giving you \$70,000,000 as a further investment in your railroad. It is not an investment in the railroad; it is simply a restoration of lost capital.

Right Hon. Mr. MEIGHEN: Now you are away from duplication. I would not object to the removal of those deficits; but I do object to the removal of what has gone into the system as loans.

Hon. Mr. DANDURAND: Let us settle that. You say, "I don't object to striking out the deficit and interest on deficit." But you do object to some money that has gone into capital account.

Mr. MATTHEWS: As loans.

Hon. Mr. DANDURAND: Representing \$270,000,000.

Right Hon. Mr. MEIGHEN: And that is now deducted to the extent it is duplicated. That is the only thing I take exception to.

Hon. Mr. HOWE: It is deducted as a funded debt. It still appears in the balance sheet.

Right Hon. Mr. MEIGHEN: Under cover of a Securities Trust.

Hon. Mr. HOWE: No. It appears in the balance sheet as owner's equity.

Hon. Mr. DANDURAND: Will you explain that, Mr. Matthews?

Mr. MATTHEWS: I think we might explain that this way. There is \$1,843,000,000 shown on appendix No. 4, at page 13 A, as the adjustment of the liability position. We just break that down and see what happens to the whole \$1,843,000,000.

Hon. Mr. DANDURAND: We are on that figure of \$270,000,000.

Mr. MATTHEWS: We will come to that. We will show the whole disposition of this \$1,843,000,000 and what really happens to it, as there has been so much misunderstanding about it.

In the first place, the first write-out is \$262,000,000. That is covered by the Grand Trunk capital stock, \$165,000,000, which was declared by arbitration to be worthless, and there is \$82,000,000 of the Canadian Northern declared by arbitration to be worthless. That is to say, the Canadian Northern Board of Arbitration in 1918 awarded a value of \$10,800,000 to 600,000 shares of Canadian Northern stock. There were 1,000,000 shares, and on that basis the value as given to the total capitalization of the Canadian Northern was \$18,000,000. That left \$82,000,000 to be written out. The next was \$15,000,000 of old Grand Trunk debentures, covering moneys advanced by the province of Canada prior to Confederation. In the report of the first Auditor General in 1868 it is pointed out that there had ceased to be any real value in those debentures even at that early date because of the reorganization of the Grand Trunk. That makes \$262,000,000 of the \$1,843,000,000 that essentially is based upon arbitration awards.

I may say the only money out of that which represents an investment by the Dominion or by the province of Canada prior to Confederation is \$15,000,000. So \$247,000,000 of that sum can be said to represent no cash consideration as far as the Dominion is concerned.

The second item is the elimination of loans applied to deficits. \$373,000,000 represents accumulated deficits on operation after paying interest charges due the public. \$530,000,000 is for accrued interest.

Right Hon. Mr. MEIGHEN: That is accrued interest on Government advances, not deficits.

Mr. MATTHEWS: I do not say that, sir. I am saying that the \$530,000,000 is for the elimination of accrued interest on deficits and advances for other purposes. It is the total accrual of Government interest on the railway books. It is not charged against the railway in public accounts, but is included in the consolidated revenue fund annually.

Those two items make \$904,000,000, which is the deficit of the property.

That makes a total reduction in capital liabilities of \$1,167,000,000.

Hon. Mr. CORÉ: Are the deficits since 1932 included in those amounts?

Mr. MATTHEWS: No.

Right Hon. Mr. MEIGHEN: But that \$530,000,000 included so far is surely a liability of the National Railways?

Mr. MATTHEWS: I have said, sir, it is a liability of the National Railways, but not charged against the railways in public accounts; never has been.

Right Hon. Mr. MEIGHEN: I know, because it is part of what Sir Henry Drayton considered should be so treated.

Mr. MATTHEWS: No.

Right Hon. Mr. MEIGHEN: It is treated in the same way.

Mr. MATTHEWS: No. It was never included in the assets and never transferred. It has never been charged against the railways.

Right Hon. Mr. MEIGHEN: You are removing it from the railway accounts, and it is a direct liability on account of advances.

Mr. MATTHEWS: Well, sir, it has never been taken in the public accounts against the railways. Apart from that, I am giving you an analysis of the figures. We might perhaps deal with the authorities that have had something to say on these matters in past years.

Hon. Mr. DANDURAND: No one ever dreams of the Railway System returning those amounts to the Treasury.

Mr. MATTHEWS: That has been treated, of course, by the Royal Commission, and others, sir.

Right Hon. Mr. MEIGHEN: That is right. I do not dispute it.

Mr. MATTHEWS: That makes a total write-down of capital liabilities of \$1,167,000,000, leaving a balance of \$676,000,000. That is not being written out of the balance sheet. It is represented first by amounts which Parliament is asked to transfer from the category of loans by creditors in recognition of the fact that we are owners of these properties, and that that is the shareholder's equity.

Then there is \$388,000,000 that has been invested in Canadian Government railways since Confederation, and Parliament is being asked to sanction its transfer from liabilities to proprietor's equity. It is Crown property, it has been owned by the Dominion from the beginning, and it is nothing else than a proprietor's equity.

The CHAIRMAN: There was no bond issue against them at all.

Mr. MATTHEWS: No, sir. It was financed entirely from the public treasury since Confederation.

Right Hon. Mr. MEIGHEN: Would you not admit that, suppose we felt like doing it, we could get something for the feeding value of that system to the other railways?

Mr. MATTHEWS: I should hope so.

Mr. HOWE: Not a five cent piece. It has never been operated at a profit since Confederation.

Right Hon. Mr. MEIGHEN: I know, Mr. Howe; but it could have value as a feeder. It is a subsidy every year to our own system, but by your manner of accounting it is concealed from the accounts.

Mr. MATTHEWS: It is not concealed, sir. It is set out on the face of the account and preserved in the full amount.

Hon. Mr. DANDURAND: Senator Meighen, we are doing that with the Inter-colonial. We say that it will not be and is not intended to be recovered. We passed a Bill yesterday by which we wiped out a certain amount of money we advanced to Saskatchewan.

Right Hon. Mr. MEIGHEN: Oh, yes.

Hon. Mr. DANDURAND: We have renounced that debt.

Hon. Mr. HOWE: If you will look at the new balance sheet shown on page 14A you will find Dominion Government Capital Expenditures for Canadian Government Railways set at \$388,290,263.52, preserved in the consolidated balance sheet. We are not throwing that away at all.

Hon. Mr. HUGESSEN: It is not consolidated.

Mr. HOWE: No.

Right Hon. Mr. MEIGHEN: That is part of the Securities Trust.

Hon. Mr. HOWE: Not at all.

Right Hon. Mr. MEIGHEN: That is what I understood. Is not that part of the \$670,000,000?

Hon. Mr. HOWE: No.

Right Hon. Mr. MEIGHEN: Where is it?

Mr. MATTHEWS: That remains on the balance sheet of the Canadian National Railways System. That is the Dominion Government proprietor's equity.

Right Hon. Mr. MEIGHEN: Held by the Securities Trust.

Hon. Mr. HOWE: Not at all.

Mr. MATTHEWS: No.

Right Hon. Mr. MEIGHEN: I thought the Securities Trust held the proprietor's equity.

Mr. MATTHEWS: The proprietor's equity of the Canadian Government railways is not in the Securities Trust, sir, because there were no obligations out against the Canadian Government railways. Therefore there would be no point in having that handled by the Securities Trust. But the \$270,000,000 of loans for capital purposes represents part of the claims.

Right Hon. Mr. MEIGHEN: Those here?

Mr. MATTHEWS: Yes, that represents part of the claims that the Securities Trust acquire. But the Securities Trust does not acquire anything in the Crown property.

Right Hon. Mr. MEIGHEN: I get that point.

Mr. MATTHEWS: Nor does it acquire any stock control of the Canadian National Railways Company.

Right Hon. Mr. MEIGHEN: Of course not.

Hon. Mr. COTE: The Securities Trust gets the bad debts?

Mr. MATTHEWS: They get the total claims, regardless of whether they are capital or otherwise.

Hon. Mr. COTE: The bad debts.

Right Hon. Mr. MEIGHEN: That is right. Interest on those debts does not go even to the Securities Trust, that \$530,000,000.

Mr. MATTHEWS: Yes, it goes to the Securities Trust.

Right Hon. Mr. MEIGHEN: Then you will have a whole lot more than the amount of value.

Mr. MATTHEWS: Senator Meighen, first of all in reviewing this Securities Trust we have to take it in its logical sequence. This Bill seeks authority from Parliament to do certain specific things, which I have just read to you: the elimination of advances for deficits, and the elimination of the interest charged on those deficits, and other capital advances.

The Securities Trust is not a factor in this thing until Parliament gives authority to make these write-downs. Let us be clear on that. There has been so much misstatement in connection with this as if the Securities Trust was being created in some way to hide something. The very first thing this Bill seeks is authority to write down. After getting that authority there are these

priorities to consider. They are important. Perhaps they have some contingency attached to them. Take, for instance, the Grand Trunk Pacific issue of receiver's certificates which the Government holds. The Government also holds \$33,000,000 of first mortgage bonds. Junior to those securities and loans are these series A and B bonds. Then you may move into the relation of the capital stock. Take the Canadian Northern, and so on.

Right Hon. Mr. MEIGHEN: I know that.

Mr. MATTHEWS: If I can just make clear this one thing to the committee it will be worth while. First of all, there is the authority sought to make the write-down. Let us have no mistake about that. Then the Securities Trust comes in if that authority is secured to protect the Dominion in the future. Nobody knows just what the position of these unguaranteed securities may be in the future, and in process of time there will be a continuation of the refunding of these securities. Now, if on the books of the Canadian Northern and the Grand Trunk Pacific and the Canadian National Railways and these other companies within the System they were removed physically from those liabilities, immediately the unguaranteed securities would come up in their position in the event of any attempt for refinancing, which I think is only a reasonable safeguard. Can any gentleman of this committee imagine this Bill coming before Parliament just seeking authority to write down these debts with no provision made to secure this country against claims on the unguaranteed securities? Of course it would be indefensible. But this particular thing has been widely circulated in the press to give the impression that this Bill seeks to do something in the dark through a Securities Trust. It does nothing of the kind, sir. In the first place, it asks permission. The Minister's statement to the Committee on page 3, was as clear a statement as could possibly be made, that authority would be sought to make the write-down and then provide machinery against contingencies in the future.

Right Hon. Mr. MEIGHEN: I think it is quite clear that the Securities Trust is a matter of writing down.

Mr. MATTHEWS: It is only for the purpose of preserving priority.

Right Hon. Mr. MEIGHEN: But there will be a writing down.

Mr. MATTHEWS: But, Senator Meighen, I do think it is only fair to the Minister and those who have been criticized on this thing to point out that, first of all, clear-cut authority is asked of Parliament to do something. If that authority is received, then this Securities Trust will be instituted to preserve such priorities as exist. And it is only through that balance sheet, sir, that you can do that. Because you cannot write these liabilities out of the books of the Canadian Northern without changing the position of the Canadian Northern Quebec stock and all the other securities that are *pari passu* with them.

Hon. Mr. BLACK: Mr. Chairman, I should like to ask a question of the Minister. Suppose we adopt the system embodied in this Bill and a Securities Trust is set up, and there is a deficit in the operations of the next year or two, requiring more capital to meet it. Where would that be shown? Suppose there is a loss of \$15,000,000 next year and money must be borrowed to meet that loss. Where would that appear in the new financial structure?

Hon. Mr. HOWE: There is no change as regards that, Senator. The Canadian National-Canadian Pacific Bill provides that moneys paid by the Dominion of Canada to recoup the railway for losses in operating shall not be funded. In other words, they will be paid out of the funds of Canada to the railway as a gift. That is provided by the legislation of 1932.

Hon. Mr. DANDURAND: And we are now seeking to do retroactively the same thing as we have been doing under the Act of 1932?

Hon. Mr. HOWE: Yes. That would not appear in the balance sheet of the railway, even though this Bill were not passed, for this Bill has nothing to do with that. The money that we paid last year and the year before does not appear in the railway's balance sheet, because of the Act of 1932.

Hon. Mr. COTÉ: Does it mean that because a deficit cannot be funded it cannot be shown in the accounts?

Hon. Mr. HOWE: Yes.

Right Hon. Mr. MEIGHEN: I do not think that is so.

Hon. Mr. HOWE: That is the law on the subject. I am reading from the Canadian National-Canadian Pacific Act, Chapter 33 of the Statutes of 1932-33, section 12:—

The annual budget of National Railways shall be under the control of the Trustees. Estimates of the amounts required for income deficits, for interest on obligations outstanding in the hands of the public, for capital expenditures and for refunding or retirement of maturing securities shall be submitted by the Trustees to the Minister of Finance for the consideration and approval or disapproval in whole or in part of the Governor in Council and thereafter presented to Parliament. Income deficits shall not be funded. Amounts provided by Parliament to meet capital expenditures shall not be diverted to cover deficits in operation unless with the express authority of Parliament.

In other words, Parliament votes two sums to the railway each year. One is a sum required to meet the operating deficit, and that does not appear as an increase in the debt of the railway. The other is a sum for capital requirements, that is for the purchase of rolling stock or for betterments in the railway property, or for the refunding of maturing obligations. That sum does appear in the debt of the railway and will continue to appear in the debt of the railway if this Bill is passed. There will be no change in that regard.

Hon. Mr. COTÉ: Because the railway will finance itself?

Hon. Mr. HOWE: Yes. The railway will issue its own bonds to the public.

Hon. Mr. HUGESSEN: The amounts advanced by the Government hereafter for annual deficits, will, I suppose, under section 24 of this Bill, appear in the appendix?

Hon. Mr. HOWE: Yes.

Hon. Mr. BLACK: Will they be shown under the Securities Trust?

Hon. Mr. HOWE: No. The Securities Trust does not come into play in any shape or manner. Neither the funds voted for deficits nor for capital purposes would appear in the Securities Trust. Funds voted for deficits cannot, because of the legislation of 1932, appear as a liability of the railway, and they have not so appeared since 1932.

Hon. Mr. DANDURAND: I think Senator Meighen will admit that we have attained in about two hours clearer information than he was able to find in the proceedings of the other House.

Right Hon. Mr. MEIGHEN: I feel more confident now. I do not think for a moment that there is anything sinister intended through the creating of this Securities Trust. In reference to the writing down of these stocks I make no criticism whatever, but as to the writing off of \$500,000,000 of interest which is owing, and which hitherto has been showing in the books as owing, I do not think it is good policy to do that.

Hon. Mr. HARDY: Senator Meighen, the present load of deadwood that we have been speaking about has not prevented the railway men from making demands for more wages.

Right Hon. Mr. MEIGHEN: I do believe that to create with reference to this road a public opinion which would be favourable to the granting of lower rates and to further building of lines, and so on, would be to do the very opposite of what is desirable.

Hon. Mr. HARDY: Demands for wages have been made under the present conditions.

Right Hon. Mr. MEIGHEN: I know that.

Hon. Mr. HARDY: And we know the West will soon be making a demand.

Right Hon. Mr. MEIGHEN: I think Mr. Dunning wants to say something—to confirm what I have been saying.

Hon. Mr. DUNNING: I wonder if the Committee would permit me? Senator Meighen mentioned what is in the mind of everyone, when he referred to that large item of interest upon interest.

Right Hon. Mr. MEIGHEN: No, just the interest.

Hon. Mr. DUNNING: But I am developing now the further point of interest upon interest. These sums, aggregating in all \$500,000,000, have always been paid by the Dominion, but never charged in the public accounts against the railways.

Right Hon. Mr. MEIGHEN: But they appear in the railway accounts as owing.

Hon. Mr. DUNNING: Yes. There is, however, this further point, that had they appeared in the public accounts, interest upon those accumulated sums would also have had to be charged each year. Right at the start the absurdity of doing that, the geometrical progression which would have been involved, until we had reached astronomical figures, was realized. And so, many years ago, the Government—I do not even know what government—arbitrarily decided that these amounts should not be charged in the public accounts; because if they were, then obviously interest upon them again would have to be charged each year, and we would have compounded from the commencement all those payments by the Dominion—a sum that goes beyond my comprehension, at all events. My point is that the Dominion has always recognized that there had to be a stopping place in the calculation of interest on these amounts. Now, the present proposal is that we should extend that principle just one step further, in connection with this \$500,000,000, which has never been charged against the railway in the Dominion's accounts, by carrying it through to the railway accounts themselves. In other words, we are not establishing a new principle. What we are really doing is carrying one logical step further a principle which has always existed with respect to the treatment of these moneys.

Right Hon. Mr. MEIGHEN: I think you are establishing a new principle, Mr. Dunning—not in the public accounts but in the railway accounts.

Hon. Mr. DUNNING: I suggest that in the railway accounts we are establishing a new practice, not a new principle. Because in the railway accounts themselves interest upon these sums is not charged.

Right Hon. Mr. MEIGHEN: I know that.

Hon. Mr. DUNNING. All that is carried into the railway accounts is the amount of interest itself, but not the accumulated interest upon these amounts from year to year. That is why I suggest it is an extension of the existing principle rather than an application of a new one. I do not want to enter into any debate, but I thought that point ought to be brought out.

Hon. Mr. HOWE: That policy was determined under a very sound government in 1920.

Right Hon. Mr. MEIGHEN: And what is more, the policy of 1920 is right. I would just like to have the care that was taken in 1920 repeated to-day, with a view to seeing that we do not exclude from the balance sheet of the Cana-

dian National Railways certain liabilities and thus give the public a false impression of what the Canadian National has done and is doing.

Hon. Mr. DANDURAND: We must all recognize that all the roads in this System, beginning with the Intercolonial, are our offspring. They are the children of the Parliament of Canada, and Parliament has been feeding them, on account of deficits. Now there appears a duplication of liabilities in the accounts of the Canadian National and of the Government, a duplication which is harmful to Canada's reputation in the financial world. Since we are a borrowing country and must go again to the financial centres to borrow, should we not do the right thing and set our house in order? Senator Meighen says there is another way of doing it than that proposed here. But I think this is a sound one. We are not trying to hide anything from the public. All the figures will be available to Parliament and the public every year. I do not think we gain anything by duplicating these liabilities on the railway's balance sheet, and saying to the public at large, "Look and see how badly we have been administering this road. Behold how black is the situation!" I do not believe that is a fair thing to our own child, the Canadian National.

Hon. Mr. CORÉ: May I ask a question of Mr. Matthews? I am not an accountant and it may be that questions which to me are very difficult would appear simple to an accountant. In appendix No. 4, on page 13A, I do not see an item of profit and loss. That is wiped out. Now, next year the railway may have a loss. I am afraid it will. And naturally in the annual reports that loss will have to be shown, at least until such time as the Government votes the money.

Mr. MATTHEWS: Yes.

Hon. Mr. COTÉ: When the Government votes the money that loss will not be carried forward into the next year. Am I right in understanding from what you said, that the moment the deficit is paid by the Government through an appropriation by Parliament, the deficit is wiped away? And the deficit being wiped away, the profit and loss item on the statement vanishes? So next year you start off without the profit and loss item, and that process will be carried on indefinitely?

Hon. Mr. HOWE: It is being carried on now, Senator, and has been since 1932.

Hon. Mr. COTÉ: In other words, the railway's balance sheet will not carry a cumulative profit and loss account?

Right Hon. Mr. MEIGHEN: It has not since 1932, and it should not.

Mr. MATTHEWS: So far as the annual profit and loss account is concerned, the total amount for the year would be shown as heretofore, with the exception of the Government interest.

Hon. Mr. COTÉ: That would be shown in a separate statement?

Mr. MATTHEWS: Yes.

Hon. Mr. COTÉ: For that year?

Mr. MATTHEWS: Yes. There would be a total result of operations for the year. And as has been done since the Canadian National-Canadian Pacific Act became effective, there would be shown the amount which has been contributed by the Government. And the only amount carried forward is that loss which is not represented by cash contributions by the Government. For instance, there may be abandonment of property. Now, that does not involve replacement. Therefore the Government is not asked to put up that in cash. The fact remains, nevertheless, that there has been a decrease in the equity value of the property. So that so far as the future is concerned, under this new plan, I do not see that there would be any great difference, because you will carry forward only the amount of the non-cash items, which would be shown as a part of your proprietor's equity account. So I do not see any fundamental difference under the new plan.

Now, Senator Meighen, I would still like to answer your question. Senator Meighen takes the view, Mr. Chairman, that the legislation passed in 1933 should not stop with the setting up and the carrying forward of the losses and the setting up of the liabilities. Do I understand aright?

Right Hon. Mr. MEIGHEN: Yes. When you say, not to stop funding, the intention is not to omit the item altogether. The company carries the liabilities but does not fund them, and therefore there is no interest calculated on them. That seems to be as far as the Duff report went in respect of those deficits.

Mr. MATTHEWS: The Minister of Finance in 1933 did not think that.

Right Hon. Mr. MEIGHEN: I do not agree with what was done then.

Mr. MATTHEWS: I have already said that the Minister of Finance of 1933 wrote the loans down by \$53,000,000, because, he said, he was implementing the Duff Commission recommendations and the Canadian Northern and the Canadian Pacific Act that was then being enacted. So I must say it leaves me rather confused in mind when you state it should still be continued in some form as a liability. The Government of the day in dealing with that legislation had the Royal Commission report submitted to it and did just exactly what this plan proposes to do.

Right Hon. Mr. MEIGHEN: I admit you have pretty high authority, but not high enough.

Hon. Mr. DANDURAND: No. I think he has the highest authority, because Senator Meighen was jointly responsible for that statement of the Minister of Finance.

Right Hon. Mr. MEIGHEN: That is right. The trouble is I had so much to attend to in the Senate that I never saw it.

Hon. Mr. DUNNING: I support the Senator Meighen of 1932.

Mr. MATTHEWS: May I be permitted to develop one step further what to my mind is the most important consideration in this Bill—the question of the authorities upon which it is based. There is no need for this committee to take the view of my firm on this matter, because every move proposed in this Bill can be referred to what we regard as competent authority over the years. I believe Senator Meighen was under the impression that this Bill goes much further than the authorities, and, in fairness to his views I should like to take this step by step and examine what authorities there really are behind them.

There has been a great deal said about this doing violence to sound finance. Let us see what a man like Sir Joseph Flavelle has said on the subject. He is head of the Canadian Bank of Commerce to-day. He made certain specific recommendations concerning this matter, and I think they can be accepted even to-day, fifteen or sixteen years later, as having been pretty soundly presented.

There is no question in your mind, Senator Meighen, about the \$262,000,000?

Right Hon. Mr. MEIGHEN: The old stocks? You can strike that sum out.

Mr. MATTHEWS: Now then, we move to the next point, the elimination of advances for deficits, moneys found by the Dominion of Canada and put into the treasury of the Canadian National to restore its losses. There is no question about their being real money. But what kind of authority have we got for suggesting such a move? First of all, in 1925, under the Board of Audit Act there were two firms of chartered accountants specially brought in, Edwards, Morgan and Co., who for many years had made a study of the Government situation and knew Government finances probably better than any other firm in Canada; and Peat, Marwick, Mitchell and Company, an organization of world-wide repute. They came here in 1925 and spent months in studying the position of the Dominion finances with those of the National Railways, and in submitting their report they made a definite recommendation that the capitalization of deficits be discontinued. I quote that to begin with as an authority.

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

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

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

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

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

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

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

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

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

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

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

to give it the same treatment that is conceded to other companies? They got the money. We are not arguing that the other railways did not return something to Canada. But did the Canadian National return nothing to Canada? I am not defending its policies or anything of the kind, but I am just trying to place before this committee both sides of the question.

Right Hon. Mr. MEIGHEN: One side.

Mr. MATTHEWS: No, both sides of it, sir. Will the members of this committee please remember that my firm has nothing to gain by attachment to this thing.

Right Hon. Mr. MEIGHEN: I know.

Mr. MATTHEWS: We have every loss through misrepresentation and all that goes with it because we have attempted to take this position. So we are not presenting one side, Senator Meighen. We are endeavouring to present this matter from both points of view. I repeat, there is not one step in this Bill that is not supported by precedent and by authority that surely must be regarded by the Parliament of this country.

Right Hon. Mr. MEIGHEN: If you support both sides, what is your heaviest argument against it?

Mr. MATTHEWS: What?

Right Hon. Mr. MEIGHEN: The measure.

Mr. MATTHEWS: Against the measure?

Right Hon. Mr. MEIGHEN: Yes.

Mr. MATTHEWS: Well, now you have asked me—

Hon. Mr. HOWE: There is no argument.

Mr. MATTHEWS: —I have not got anything ready on that, sir.

Hon. Mr. HOWE: You talk about the effect on the public. We lost last year in cash \$43,000,000 in operating this property. The balance sheet said we lost \$99,000,000. Who outside the *Financial Post* has mentioned \$99,000,000 in connection with this railway? It is a sum that does not mean anything, and I think everybody accepts it as such.

Hon. Mr. HARDY: It is used by those who would like to see the C.P.R. take over the Canadian National Railways.

Hon. Mr. DANDURAND: Yes, there is very much to be said in favour of that atmosphere.

Hon. Mr. HARDY: I think that has been the atmosphere over a long term of years. Year after year the people of Canada are horrified by the tremendous balances against us. Some of these are quite properly shown, such as payment of deficits on operating expenses and on our bonds. But they are always brought in by persons advocating amalgamation. The public are given these gigantic figures for the purpose of damning the National Railway as a public institution. Those who would like to see the C.P.R. take over the Canadian National have used those figures for years.

Hon. Mr. HUGESSEN: There was a striking example of that only the other day. Sir Edward Beatty gave an address at Halifax, and said in effect: notwithstanding what anybody can say, the deficit of the Canadian National Railways last year was \$120,000,000.

Hon. Mr. COTE: Has the Justice Department ever given an opinion as to whether the Canadian National-Canadian Pacific Act of 1932, which permits the funding of deficits, eliminates liability of the railway to the Government when the Government puts up the money to pay the deficits?

Mr. VARCOE: I do not know.

Hon. Mr. COTE: Would you be willing to enlighten me now?

Mr. VARCOE: I should not like to undertake to answer the question offhand.

Right Hon. Mr. MEIGHEN: Does the Act which permits the funding of deficits enjoin the accountants against having the deficits appear at all?

Mr. VARCOE: Does it practically wipe out the liability?

Hon. Mr. COTE: That is my question. I think it is very important.

The CHAIRMAN: I think it is sufficiently important, Senator Cote, for you to put in writing and hand to the Justice Department.

Hon. Mr. COTE: That would be side-tracking it.

The CHAIRMAN: I am not a lawyer and do not know what you mean.

Hon. Mr. COTE: Since 1932 these deficits have not been shown in the balance sheet of the Canadian National. The authority for not showing those deficits in the balance sheet is exactly the section that I am making my inquiry about.

Hon. Mr. DANDURAND: Does that involve a question of policy or of interpretation?

Hon. Mr. COTE: It is not a question of policy, it is a question of straight interpretation of the Act. An accountant who certifies that the balance sheet is a true statement of the finances of the company must have the law to back up his statement.

Hon. Mr. HOWE: This is the Appropriation Act passed each year as part of the Financial Bill of Canada:—

Amount required to provide for payment to the Canadian National Railway Company of the net income deficit, including profit and loss, incurred by the system during the year 1934, as certified to by the auditors in the annual report of the company but exclusive of all non-cash items, including interest on Dominion Government advances, as further certified to by the auditors and approved by the Minister of Railways and Canals; this payment to be applied in reduction of accountable advances made to the company from the Consolidated Revenue Fund under authority of the Canadian National Railways Financing Act, 1934—

That is, it states definitely that the payment from the Government is to be applied in reduction of accountable advances. In other words, the Government advances this money throughout the year, and they are to be reduced by the amount of the deficit payment. That is the law, and I do not think you need much interpretation. The Act says definitely it is to be done in that way.

Mr. MATTHEWS: Furthermore, you ask why the auditors certify the figures on this basis. They do not certify them on the basis of the Canadian National-Canadian Pacific Act, but on the basis of the legislation each year which limits the borrowing powers of the railways for capital purposes.

Hon. Mr. COTÉ: Pardon my misunderstanding the situation. I thought you yourself justified elimination of the deficits on the basis of the Canadian Northern-Canadian Pacific Act.

Mr. MATTHEWS: I quoted that to show the Minister of Finance had recognized that his Government was implementing that legislation; but I did not say that was the basis for certifying the accounts.

The Committee adjourned at 1 p.m. to resume after the Senate rises this afternoon.

AFTERNOON SITTING

The Standing Committee on Railways, Telegraphs and Harbours, to whom was referred Bill 12, an Act to provide for revision of the accounting set-up of the Canadian National Railway System, resumed this day at 3.50 p.m.

The CHAIRMAN: Senator Meighen wishes to ask some questions of Mr. Matthews.

Mr. OVERTON MATTHEWS was recalled.

Right Hon. Mr. MEIGHEN: Mr. Matthews, we talked quite a lot about the appendix, this morning, and I must admit that when I was talking about it I thought it was a supplementary statement to be given out with the annual reports of the Canadian National, with the balance sheet. But if you will look at section 24 of the Bill you will see it is not that at all. That section says:—

The Minister shall include annually as an appendix to the Public Accounts of Canada a statement showing the total assistance, whether by way of cash outlay, land grant, loan, advance, guarantee or otherwise, given by the Dominion to all railways. Such statement shall also show the manner in which such assistance has been dealt with in the Public Accounts of Canada.

Now, anybody who is looking up our National Railways accounts to see just how we are getting along will not find these sums at all. If he wants to go to the trouble of looking up the public accounts he will find them there, but they will be shown as an asset. In a word, section 24 does not help us in the least in so far as presentation of the National Railways' accounts is concerned. Further, if a man wants to find out what assets we are still keeping, which are in the hands of the Securities Trust, he will have to look at the report of the Securities Trust. That is, a man would have to look in three places to find out what the National Railways have done and how they stand. Is that not correct?

Mr. MATTHEWS: I am afraid I could not agree with that, sir. In the first place, the balance sheet of the National Railways, under the proposed legislation, is to be a statement of condition as of a given date, based upon whatever arrangement is provided by the present creditor, the Dominion of Canada. The Securities Trust is not necessary in determining the cost to the people of Canada, because the public accounts will contain for the first time a complete record of all costs, whether by way of capital advances, deficit advances, subsidies or what-not. The one place and the only place where there would be a complete historical record of the moneys put into the properties would be the public accounts of Canada.

Right Hon. Mr. MEIGHEN: But in order to see how the railway is getting on and with what efficiency it is being run, people are not going to the public accounts. They will look at the railway's accounts.

Mr. MATTHEWS: For the operations of the individual year the figures will be shown there, as they are shown to-day, with the application of the moneys voted by Parliament under the various financing acts each year. There will be no change in that.

Right Hon. Mr. MEIGHEN: The railway accounts will show the operating results for one year. But why should they not show the amounts of money which have gone into the railway and have been lost?

Mr. MATTHEWS: Again I say that the historical record of the National System, since pre-Confederation days, would be in the public accounts of Canada, precisely in the same way as they are handled in the majority of

cases in Australia and New Zealand. Now, just at this time, it might be of interest to point out to the Committee what has been done within recent years in regard to other state owned railways.

Right Hon. Mr. MEIGHEN: You will never convince me that the railway's accounts should not show the real position, no matter what anyone else is doing.

Hon. Mr. DANDURAND: Are these things shown in the balance sheet of the Canadian Pacific Railway? I put the question because I know they are not.

Right Hon. Mr. MEIGHEN: The balance sheet of the Canadian Pacific shows every debt that railway owes and all the money that ever went into it. That is all I ask to be done with regard to the Canadian National.

Mr. MATTHEWS: Does the Canadian Pacific balance sheet show the moneys that the Dominion of Canada contributed to the property as liabilities?

Right Hon. Mr. MEIGHEN: No, because the railway gave something to the Dominion of Canada for that, by way of service.

Hon. Mr. DANDURAND: By way of service?

Right Hon. Mr. MEIGHEN: Yes. They built the road. If money is granted as a subsidy, well and good. But if it is granted as a loan, the loan and the interest on it are certainly shown. And so they should be shown in the Canadian National's accounts.

Mr. MATTHEWS: Was there not some discussion this morning about moneys contributed by the Dominion in the form of subsidies? And was there not some contention that these should be continued in the balance sheet of the National Railways?

Right Hon. Mr. MEIGHEN: Yes, that point was raised.

Mr. MATTHEWS: If we are going to say that the balance sheet of the National Railways must be a historical record of all the moneys that the Dominion has put into the property, then logically would we not expect to find these things on other balance sheets?

Right Hon. Mr. MEIGHEN: A subsidy is a very different thing from a compulsory loan to a road. What objection have you to adding an appendix to the railway's balance sheet to show these obligations?

Mr. MATTHEWS: That matter was brought up in the parliamentary committee of the other House, and I believe that committee reached a conclusion that such an appendix should not be attached to the railway accounts.

Right Hon. Mr. MEIGHEN: They are usually wrong there, you know.

Mr. MATTHEWS: I can only call attention to the fact that that matter was considered there.

Hon. Mr. DANDURAND: Was it generally agreed that that should not be done?

Mr. MATTHEWS: It was agreed in the committee, Senator Dandurand. The question was raised on more than one occasion in the committee, according to the Minutes, and on a vote of the committee it was decided that the complete historical record of all the moneys put in by the Dominion should appear in the public accounts of Canada and not as an attachment to the balance sheet of the National Railways.

Hon. Mr. CALDER: Was that a political vote, a party vote.

Mr. MATTHEWS: I cannot say that, sir.

The CHAIRMAN: That was a vote of representatives of the people—which we are not, exactly.

Mr. MATTHEWS: But the present balance sheet is in many places believed to be just that, a reflection of the moneys put in the property by the Dominion. And that is indeed a very misleading belief. Now, the proposal in this Bill is for once and all time to establish a proper and complete record of all kinds of

assistance given to the National Railways. I ask again what I asked this morning. If we are considering the dangers of imprudent undertakings as of the past, can it be argued that the accounts of the Dominion have no weight, that there must be a duplication by way of liability on the books of the railway? And again I point out that these statements of the railway go to the large financial centres of Canada, Great Britain, and the United States. They go to stock exchanges and to financial institutions. They are widely distributed, not as part of the public accounts of Canada but as the accounts of the National Railways. I have nothing to say about the decision of the Railway Committee on this point; I simply say that such a decision as I have indicated was made there.

Hon. Mr. BLACK: Mr. Matthews, when I went over the Bill and the Minutes of the Committee's proceedings, I made below appendix No. 6 a note to the same effect as the point raised by Senator Meighen. I noted this suggestion: "Should not this appear as an appendix to the railway's balance sheet?" The balance sheet, after all, is supposed to show the standing of the railway. The moneys shown in appendix No. 6 are moneys that did go into the railway system. I cannot see how the railway would be prejudicially affected if an appendix, such as has been suggested were added to its accounts. If you wish, you could have a similar appendix to the public accounts as well. Personally, I could get information very much more readily if that appendix were attached to the annual statement of the railway.

Mr. MATTHEWS: I do not think, sir, that Senator Meighen's reference was to appendix No. 6. However, to answer your question, sir, may I say that in section 23 of the Bill there is a provision for rendering to Parliament annually a balance sheet or the Securities Trust. Now all of the information that would be shown in the balance sheet of the Securities Trust would also be included in this complete statement of costs in the public accounts of Canada. Section 23 was put in so that Parliament would be able to see from year to year just what the trustees had done in respect of any of the claims either for moneys advanced on principal or deficits or for interest accrued thereon.

Right Hon. Mr. MEIGHEN: Mr. Matthews, under section 23 the trustees of the Securities Trust would not even have to have a list of what the National Railways owe them. There would be no need of that.

Mr. MATTHEWS: That balance sheet would in a sense, Senator Meighen, perpetuate the claims for deficits and accrued interest that are being written out of the consolidated balance sheet.

Right Hon. Mr. MEIGHEN: The balance sheet does not perpetuate the liabilities. But under section 23 the trustees of your Securities Trust can issue a balance sheet that does not contain even a list of what the railways owe them.

Mr. MATTHEWS: The insertion of that section 23 in the Bill was, as I understand it, not for any purpose of acquainting anyone with what the railways have cost, but in order to keep Parliament advised with respect to any of the private claims.

Right Hon. Mr. MEIGHEN: The trustees of this Securities Trust cannot sell those assets. What on earth can they do with them?

Mr. MATTHEWS: Senator Meighen, in the present involved capital structure of the Canadian National Railways—I am speaking now of the structure of the funded debt—there are, as you know, a great number of issues held between companies of the system where there are underlying mortgages, and partly held by the public. In the course of the next few years it is hoped that an amalgamation of a number of these companies will be made practicable. Under the present circumstances progress in that direction is greatly retarded because of the fact that past legislation has made it so that the Department of Finance is not able to release claims and securities between companies within the system that make amalgamation possible. The trustees of the Securities Trust, with the approval

of the Governor in Council, would be able from time to time to make those releases where it was believed that advantage would be secured by way of amalgamation, and so on. That is one of the things, Senator Meighen.

Then there is even the broader question that there is a large amount of unguaranteed securities outstanding to-day in the hands of the public, and it is naturally hoped that over the future years refinancing undertakings may bring about a reduction in the present mortgage rates. At present it is almost impossible at times for the railway financial officers to make any progress in that direction because of the existing legislation. The Securities Trust would be able to release these claims from time to time between the corporations that it is hoped over the years would bring about a considerable simplification.

Right Hon. Mr. MEIGHEN: I understand that. There would probably be a certain measure of adjustment between the companies to enable amalgamation?

Mr. MATTHEWS: Yes.

Right Hon. Mr. MEIGHEN: Very good. That answers one point. There will be something perhaps for the trustees to do of a formal character. Nevertheless the balance sheet may just show the assets taken over and held under legislation so and so at such a figure. That is all they ever have to do.

Mr. MATTHEWS: But, Senator Meighen, under that clause there will be necessity for the trustees to make a report of the transactions in the year.

Right Hon. Mr. MEIGHEN: Oh, yes.

Mr. MATTHEWS: In other words, there was apprehension that if you just allow this Securities Trust to be in the hands of the five trustees, with the approval of the Governor in Council, Parliament might feel that things would be done which they should be kept informed of. That was the only reason for the insertion of the clause.

Right Hon. Mr. MEIGHEN: But we are now at the point of the details of the debt, and section 23 does not help.

Mr. MATTHEWS: It was not intended for that purpose.

Right Hon. Mr. MEIGHEN: Suppose we fall in line with you and put the balance sheet in the form you want it, why do you object to having an appendix showing the exact things that go into the public accounts under section 24.

Mr. MATTHEWS: Senator Meighen and gentlemen, just for one reason. I come back to where we started. The only reason in the world we had at the beginning of making a public recommendation to Parliament on this matter was that we believed the present Canadian National accounts, distributed as they are to the financial centres of the three countries, should be brought into line with the realities of to-day without attaching to it the history of all the past mistakes. After all, the balance sheet is supposed to be a statement of conditions of the day. I do not know of any other definition of a balance sheet. I have never heard it advanced in any quarters in my profession at least that a balance sheet is fundamentally a historical record of all the moneys that have been put into the company by the shareholders regardless of what during the process of time may have been arranged between the shareholders, bondholders and the creditors. This is a borrowing country. What advantage can there be in telling everybody all over the world wherever we are doing business financially that this property has cost so much in losses and so forth since its inception? That is fundamentally necessary of course for the guidance of Parliament. Our view is—and I am only expressing our own view—that that has its place in Parliament where future restrictions of moneys granted to this property will be made.

We are convinced of the fact that this balance sheet is going to be a costly thing to this country in due time. We say that advisedly because of the contacts we have had in the last three or four years with institutions and people

who know something about financing. Our contacts, as I have said, within the last three months right in Ottawa here with your own underwriters who made your last issue is just about the very best illustration I can give you. I do not know of anything I could say that would be as effective as the little statement which the gentleman over here read this morning. It confirms our opinion that the balance sheet of the National Railways should be converted to a statement of present day realities, and it can only be brought about by the consent of Parliament, because to-day the Government of Canada is the creditor.

No matter what we may say to the contrary, when the Dominion of Canada acquired the stocks of the Grand Trunk, the Grand Trunk Pacific and the Canadian Northern, and when those particular issues, like the Canadian Northern 5 per cent income charges and the Grand Trunk 4 per cents, were retired, and when after arbitration the need for the carrying of interest against the Grand Trunk and the Canadian Northern ceased to be a factor, this country became the proprietor of the railway. This legislation seeks authority from Parliament to make the balance sheet a statement of conditions in the light of present day realities. That being so, and having in mind the fact that this balance sheet goes to the financial centres of the world, our view is that it should be a statement of conditions under to-day's realities, and that the historical record, as a restraining influence on future Parliaments, if you will, should be in the accounts Parliament deals with, namely, the public accounts.

Hon. Mr. BLACK: Mr. Matthews, the last loan to which you refer will appear in the balance sheet of the Securities Trust. They will know that.

Mr. MATTHEWS: Who, sir?

Hon. Mr. BLACK: Any loan company or financial house which is going to sell our securities will have access to the Securities Trust balance sheet after it is set up, will they not?

Mr. MATTHEWS: There is no reason why they should.

Hon. Mr. BLACK: Our accounts are published, and if that is attached to the public accounts of Canada, then it is available.

Mr. MATTHEWS: It will not be attached to the public accounts of Canada because the public accounts of Canada will involve all that is in there and a great deal more.

Hon. Mr. BLACK: But will not this be segregated? Or is it to be concealed further?

Mr. MATTHEWS: Segregation of the public accounts would be a matter for the Minister of Finance. This legislation does impose on the Minister the need of attaching in the public accounts that complete statement, which is all-inclusive.

Hon. Mr. BLACK: While recognizing all you say, Mr. Matthews, it seems to me that if I had the balance sheet of the Securities Trust attached to the balance sheet of the Canadian National Railways, I should have before me a more convenient record of all the investments in our railway system than if I had to refer to some remote section of the public accounts.

Mr. MATTHEWS: I repeat, sir, if the Parliament of Canada were to authorize this Bill, investing companies would be interested in just two things and nothing else—the published balance sheet and profit and loss account of the Canadian National Railway System on the one hand and, on the other, the assets and liabilities of the Dominion as shown in the public accounts. When they put those two together they have instantaneously the position of this country.

Hon. Mr. BLACK: Then what is your objection to attaching this balance sheet of the Securities Trust to the National balance sheet?

Mr. MATTHEWS: Because, sir, outside of the \$270,000,000 which is held by the Government, it has ceased to be a part of the present existing liabilities

of the railways. I repeat, the public accounts of Canada should include the assets and liabilities of the National Railways, if Parliament agrees to recognize the fact that they are the proprietors of this enterprise and not the creditors. Let me give the substance of a conversation which I had with Stanley Morgan and Co. about three months ago. They told us that the bringing together of these two balance sheets on the basis of this Bill would have made it very much easier for them to arrive at the conclusions which they ultimately reached after a great deal of elimination and difficulty.

The securities trust balance sheet is shown here as an appendix, so that Parliament may see in just what way these claims are being taken over, how the value is determined, how the amount of the capital stock and the securities trust is held by the Government, and how it appears in the consolidated accounts. But by no stretch of the imagination can it be said to be a necessity in determining the present position of the enterprise, or as a record of the total costs. If this legislation were made effective the position of the Dominion Government would be immediately available for the combination of assets and liabilities. That is what is done to-day, but unfortunately they do not paint the right picture.

Hon. Mr. BLACK: That is a good explanation, but it does not satisfy me at all.

Hon. Mr. CALDER: You speak of the balance sheet as giving a picture of the realities of to-day, and you say that, and that only, is a true balance sheet.

Mr. MATTHEWS: Yes, sir.

Hon. Mr. CALDER: Can you give us an illustration in the business or commercial world of a situation that will reflect your idea?

Mr. MATTHEWS: Yes, sir. Take any of the public companies which in recent years have decided, either by the shareholders or by arrangement with the bondholders, to change the liability position of the company. In many cases bondholders have agreed to accept bonds of lesser value, or, in other cases, to accept capital stock and various other things. Now, the balance sheet of that company at the end of the year in which the old situation prevailed would naturally show the securities in the figures at which they stood before the alteration. We will say that on the 1st of January in the following year a recapitalization was undertaken, and that it was approved by the shareholders and the bondholders. Now, that balance sheet, when that company has completed its plans, will be a different balance sheet from what it was a year previous, simply because the relationship of the security holders, by consent, has changed; and the balance sheet then becomes a statement of conditions as of that date.

Hon. Mr. CALDER: And henceforth they leave out the historical record?

Mr. MATTHEWS: Oh, yes.

Hon. Mr. CALDER: That happens in the case of bankruptcies.

Mr. MATTHEWS: Not only bankruptcies. If this committee were interested in companies of that kind, all you would need to look at would be Poor's or Moody's or Standard Statistics to find plenty to support balance sheets showing statements of conditions vastly different from one year to another, all of which supports the contention that a balance sheet is a statement of condition as of a given date.

Hon. Mr. CALDER: This in effect is a reorganization of the situation so as to create a new balance sheet.

Mr. MATTHEWS: It seeks to have the creditor at the present time, the Dominion of Canada, consent to a new arrangement. It seeks to have the Dominion recognize the fact that since the acquisition of the capital stocks of the Canadian Northern, the Grand Trunk and the Grand Trunk Pacific, the situation that was factual before that time—which was one purely of creditor—

has changed. This Bill seeks to record that change on the balance sheet of the National Railways, because to-day the position of the National Railways in the treatment of these liabilities as liabilities—treating the Dominion of Canada as a creditor—is just what it would have been in the days prior to the acquisition of control of the properties. Now there has been a change.

Hon. Mr. CALDER: I can understand that in so far as certain liabilities are concerned. Take, for example, those worthless stocks. They might as well disappear. But if Parliament last year voted \$20,000,000 to take care of a deficit, is it asked now that that should disappear from the balance sheet?

Right Hon. Mr. MEIGHEN: Oh, yes.

Hon. Mr. DANDURAND: It has disappeared.

Mr. MATTHEWS: Under the legislation since 1927 in respect of the Maritime Freight Rates and deficits on the Eastern lines, and since 1933 in respect of the deficits on the National Railways proper, the deficits annually have been shown in total in the annual profit and loss account, and have been shown as a deduction indicating the contribution by the Government, because the legislation voted the money in the form of a contribution, not a loan or advance. If you look at any of the financing legislation since 1933 you will find, first, that the borrowing powers of the company are restricted to capital expenditures and debt refunding. In the appropriation acts themselves it is provided that the amount of money advanced for deficits—or the deficits, when determined—shall be applied against the accountable advances during the year. This makes it very clear that Parliament, since 1927 on the Eastern lines and since 1933 on the National system proper, has contributed these moneys in the form of a shareholder's contribution in exactly the same way that the Interstate Commerce Commission provides for incorporate treatment. Where one railway makes a contribution to another it has to show as a contribution, but not as a liability.

Right Hon. Mr. MEIGHEN: This converts all our contributions by way of loans into the same position they would be in if they had been subsidies. We become the proprietors and have a fresh slate to make more losses.

Hon. Mr. CALDER: There is just one other point. Personally I cannot see any reason why the appendix we are referring to should not be put in as an appendix to the C.N.R. balance sheet. Would you state again, briefly, the objection to that?

Mr. MATTHEWS: Yes, sir, I should be glad to.

Hon. Mr. CALDER: You get your balance sheet, which gives a picture of the realities of to-day.

Mr. MATTHEWS: Yes, sir.

Right Hon. Mr. MEIGHEN: As changed by this Bill.

Hon. Mr. CALDER: In addition to that, as an appendix to the balance sheet, not part of it, what is the objection?

Mr. MATTHEWS: Again we are only expressing our opinion and are not wishing to force our views on the Committee at all. Our view is that the balance sheet of the National Railways, distributed as it is to the financial centres—

Hon. Mr. CALDER: They want to get their money as cheaply as they can and do not want that picture to go out?

Mr. MATTHEWS: That is the statement of conditions. For the same reason you would not attach to the statement of the company you had reorganized a list of all its past arrears, you would endeavour to give the bankers a statement of the situation as it prevails to-day.

Right Hon. Mr. MEIGHEN: That is true, but you have another situation when you have a public who, on that balance sheet, are going to decide how we will handle these railways in future. You simply draw a merciful curtain

over the past; but I am thinking of the public of Canada who are looking at the balance sheet, and I want them to take warning that we are going to head straight for the precipice—

Hon. Mr. HOWE: Was this not started when the roads were taken over? Many of those deficits were created before we ever acquired the roads at all. We were fighting a war at the time, and could not afford a financial upset.

Right Hon. Mr. MEIGHEN: We had to have the railways running.

Hon. Mr. HOWE: We could have put them through bankruptcy.

Right Hon. Mr. MEIGHEN: Who would run them?

Hon. Mr. HOWE: The Receiver.

Right Hon. Mr. MEIGHEN: What would he run them on?

Hon. Mr. DANDURAND: Of course my honourable friend knows very well that the debts would be suspended the interest would be suspended.

Right Hon. Mr. MEIGHEN: Whose debts were they? They were ours.

Hon. Mr. HOWE: No. If we put those roads through bankruptcy the present situation would not exist.

Right Hon. Mr. MEIGHEN: Of what value is it to a man with a mortgage on a property to let it go into bankruptcy?

Hon. Mr. HOWE: We were not by any means the only mortgagee. We had only a comparatively small part of the debt.

Right Hon. Mr. MEIGHEN: We had guaranteed practically the whole thing. It is true we could have said we would lose all our money and let someone else issue receiver's certificates, but no one but a foolish man would do that. We just went in as mortgagees in possession because we were behind the mortgages, and had to lose everything first.

Hon. Mr. DANDURAND: We were second rank.

Right Hon. Mr. MEIGHEN: That is the trouble.

Hon. Mr. DANDURAND: We were only responsible for our second-class mortgage, and had to carry the first. But we took the shares.

Right Hon. Mr. MEIGHEN: We didn't pay a cent for the shares.

Hon. Mr. DANDURAND: By securing the shares we became the shareholders and had to carry the hundreds of millions behind, for which we were not responsible.

Right Hon. Mr. MEIGHEN: Take the Grand Trunk. You would have been in a fine position.

Hon. Mr. ROBINSON: We had to put the railways in shape.

Right Hon. Mr. MEIGHEN: You could not do anything else.

Hon. Mr. BLACK: I am not at all sure that it might not have been better for Canada had we let them go into bankruptcy, and I want to say further that if we had done that Mr. Matthews' statement would be applicable. But when he compares this situation with a private corporation that goes into bankruptcy or reorganizes, he brings in an entirely different situation.

Now, take Fraser's, for instance. When that company went into liquidation, so to speak, what did it do? By that liquidation it cancelled a very large amount of its securities. And who suffered? The people who invested in Fraser's Limited. But, you see, those securities were washed out. Now, if you want to make a comparison, you ought to say that Canada must renege on those obligations.

Mr. MATTHEWS: No.

Hon. Mr. BLACK: Yes, in order to make a comparison. But we are not doing that; we are still paying interest on these moneys that we put into the railways.

Mr. MATTHEWS: Yes, as shareholders.

Hon. Mr. BLACK: If we were shareholders in Fraser's we would not be paying money on these loans, because they were wiped out. And that is why I say a true picture will not be presented by putting these moneys in the Securities Trust, whether they are put in the appendix or not. We are not going into bankruptcy. And we are not relieving ourselves from any obligation, by this Bill; we have never proposed to exempt ourselves from these obligations. The case here is not the same as that of a private corporation that goes into bankruptcy.

Hon. Mr. CALDER: Take the two factors that Mr. Matthews has given us. Take these worthless stocks and then the moneys voted by Parliament since 1927 and 1932, admittedly given by Parliament as a subsidy, virtually. Now, if these are shown in the balance sheet of the Canadian National we shall not be giving a picture of the realities as they exist.

Hon. Mr. BLACK: In the first place there will be an operating balance sheet each year showing operating loss.

Mr. MATTHEWS: Yes, as at present.,

Hon. Mr. BLACK: And then you will set up your capital structure as a private company does, I suppose. And if you wanted to do that you would have to go into all these moneys that had been put into the railway from the beginning to the present. But it is not proposed to do that. In order not to do that, you have eliminated certain features, and as to some of them I agree that you are perfectly correct. Then you have set up a new organization, the Securities Trust, and having segregated these amounts, taken them out of the capital structure of the Canadian National Railways altogether, you put them into another appendix. But after all these are a part of the investment in the Canadian National Railways. I can see that you may not want to show them as part of the capital structure, but you should at least attach them as part of the set-up of the Canadian National. I do not believe they would have any bearing upon the opinion of the great financial houses such as Morgan and Company, or the Bank of Canada, or any other underwriters of our issues in the future. These people will know what the facts are. So why not put these liabilities in their proper place, if I may so call it, so that any person wanting to get full information will not have to go to the public accounts but will be able to find it in the railway accounts.

Mr. MATTHEWS: I will have to repeat part of what I said to Senator Meighen when he raised a similar point. Section 23 is inserted for only one purpose. It is not in any sense written into the Bill with the view of maintaining a historical record. As I said before, Parliament is first asked very frankly, according to the Minister's opening statement to the other committee, to authorize the writing down from the consolidated balance sheet of these advances for deficits and interest accruals. Now, it was thought later that by transferring these to the Securities Trust and having only the trustees and the Governor in Council in control, that Parliament should be appraised from year to year on what change had taken place in the status of those claims that had been transferred to that Securities Trust—for one purpose only, to protect the Dominion in future in respect of those unguaranteed securities. Now, the purpose is not in any sense to maintain a historical record; because, sir, to begin with, the figure that is transferred for those claims for deficits and interest on deficits is again affected by this legislation of which we have been speaking. It is only the amount of the deficits and the interest, apart from the legislation since 1927 and 1932. And the only place where it is possible to have a true and complete record of the moneys put into this property by the Dominion is in the public accounts, because there it will not be influenced in any sense by legislation; it will be a complete record of all moneys, classified in any way that Parliament may wish it done. The Securities Trust is not devised with any intention of maintaining accumulated

costs at all. Its purpose is to keep Parliament appraised of the changes in the status of these claims. There are a hundred companies in the National System to-day. It is just honeycombed with mortgages, underlying bonds, and all those things. These matters should be handled through a separate institution, to which Parliament authorizes the transfers. And, as I say, in this way Parliament can be appraised annually of all the changes with regard to those claims that the trustees and the Governor in Council have made during the year. I repeat that to attach these figures to the balance sheet of the National Railways would be to attach a statement that is not complete, because of the legislation, and by doing so you would not be adding anything to the statement as to the condition or annual earnings of the National Railways. In other words, such an attachment would give no valuable information and would cause only confusion.

Hon. Mr. COTÉ: Mr. Matthews, you object to an appendix being attached to the balance sheet of the railway, which appendix would show all the contributions of Canada to this railway in the past as well as contributions which are made from time to time as we go on. You object to that being done because you say the appendix should be attached to the public accounts of Canada, and your hope is that persons abroad who study the National Railways' accounts will not see the public accounts of Canada?

Mr. MATTHEWS: No sir, that is not so. We are not hoping anything of the kind; we have no reason for such a hope.

Hon. Mr. COTÉ: Then, if you are not hoping that persons abroad will not see the full accounts, what is your objection to the statement being attached to the railway accounts?

Mr. MATTHEWS: If the public accounts of Canada are required and distributed abroad, I can see no objection to anyone inquiring into them so as to find out what these railroads have cost the country. But I repeat, sir, that there is no more justification for continuing that historical record in your balance sheet of the National Railways than there is for any other institution which has gone through a form of financial adjustment in recent years doing the same thing.

Hon. Mr. COTÉ: It may be in the minds of some of us that if an appendix were attached to the balance sheet, a man looking at both combined would realize that the National Railways have been and are still a burden to Canada, and he would not be likely to form an opinion that everything is going very well and so there should be an increase in wages or greater expenditures along other lines or perhaps a reduction in freight rates. There may be an advantage of that kind in having the appendix attached. I was trying to get from you what disadvantage there would be in having the figures printed with the railway accounts as an appendix.

Right Hon. Mr. MEIGHEN: As a schedule.

Hon. Mr. COTÉ: As a schedule. And I thought you had expressed the view that the disadvantage would be this, that if foreign investors saw that balance sheet together with the appendix they would be deterred from investing. Did you not say that?

Mr. MATTHEWS: I did not say the appendix would deter them from investing. I said that in our opinion the balance sheet and the annual accounts of the National Railways should deal with the facts as they are to-day, and that the accumulation of past problems is something apart.

Hon. Mr. COTÉ: I am directing my question to practical results. I am trying to find out from you whether there would be a disadvantage which might be reflected in dollars and cents, for instance, by the railway having to pay more interest on its bonds. That is the angle I am trying to clarify. My opinion is that if you publish in an appendix to the public accounts that statement which

is described in section 24 of the Bill, and do not attach it to the balance sheet of the railway, investors will find the information in the public accounts. I do not think we can hope that investors will not see the figures. So we shall not be hiding anything from them. On the other hand, if the appendix were attached to the railway's balance sheet, the average Canadian who had the combined document before him would have a complete picture of the past and the present.

Mr. MATTHEWS: Well, sir, you are asking the Canadian National Railways to do something that I do not know any other company in the world does. Maybe you do. But I can say this quite confidently, that when any enterprise has its position adjusted by its creditors, the balance sheet reflects the position as adjusted and, so far as I know, does not maintain the historical records to present to its investors from year to year.

Hon. Mr. COTÉ: The answer is that this is not an ordinary company. It is a state undertaking which cannot repudiate any obligations nor compromise with creditors, which have paid and will continue to pay 100 cents on the dollar.

Mr. MATTHEWS: Senator, there is not anything in this plan at any time to indicate that the Dominion of Canada contemplates any adjustment with its creditors.

Right Hon. Mr. MEIGHEN: Certainly not.

Mr. MATTHEWS: After all, that is introducing something into this measure which is not there.

Hon. Mr. COTÉ: But that is the difference between this company, which is a public undertaking, and a commercial company.

Mr. MATTHEWS: The fact still remains, sir, that the Canadian National Railways System is constituted of corporations.

Hon. Mr. COTÉ: That is for the purpose of administration.

Mr. MATTHEWS: Nevertheless they are corporations, and the Dominion of Canada is the shareholder in those corporations in the same way as the public generally are shareholders in any other company.

Hon. Mr. COTÉ: It is purely a formality for purposes of administration.

Mr. MATTHEWS: But it still remains that they are the shareholders. Furthermore—I do not want to repeat unnecessarily—the balance sheet and financial accounts of the Canadian National Railways System are used in financial circles of the three countries, and are regarded as the combination of the railway companies. If you say you should impose on the Canadian National Railways something that is required of no other institution within my knowledge at least, then I really have not anything to say about it. If Parliament should see its way clear to agree to a change of status in line with the facts of the day, then the need, which, I am sure, is recognized by all, to keep before Parliament—and I speak as a Canadian—in perpetuity the costs of its railway undertakings is very necessary, and it is so provided. I have great respect for our parliamentary institutions. After all, these are the accounts of the people. I have heard it said, “Oh, well, the only thing they look at is the National Railway accounts.” Surely we cannot accept that statement. The public accounts are the official accounts of the Dominion, and members of the Senate and the Commons surely have a very keen interest in the public accounts; and that is the basis of this Bill.

Right Hon. Mr. MEIGHEN: What you say is perfectly right. But keep in mind the point, that those who are asking for this, that and the other thing on the National Railways are going to present the National Railway accounts, and that is what the press is going to present. Suppose there is some special reason from the public standpoint that would not be applicable to a private company at all for letting the public see with the statement the fact that hundreds of millions of dollars have been written off the debts of this railway, what

difference does it make to the Government? Then you have everything you are after; you have your new financial set-up, and you have avoided duplication, which you think very essential.

The CHAIRMAN: Are there not millions now on the account which should never have been there?

Right Hon. Mr. MEIGHEN: Very good. That is written off. That is not the important thing to me, for it is not fair to the National Railway that it ever should have been there. But the other is perfectly fair to the National System. The Government has everything there; it gets the balance sheet that is asked for. Why not take this precaution of saying to the public by way of appendix to the balance sheet: We get this balance sheet by this method, and you are not to think that the National Railways are in a position now to go ahead and incur a whole lot more of these obligations, to be written off later on.

Hon. Mr. DANDURAND: Don't you think, Senator Meighen, the Canadian public will know exactly where we stand by reference to the annual statement of the Canadian National Railways, and by the amount that Parliament will yearly have to vote to meet any deficits? Is this not the indication of our position to the Canadian public?

Right Hon. Mr. MEIGHEN: Yes, to some extent the actual results of operation will be shown. But I think it is important from the Government standpoint just as much as ours that people shall not be able to make out a plausible case and say: There is no longer any need to worry about the National Railway. Here is a balance sheet. It looks fine. We have millions of equity.

Hon. Mr. DANDURAND: But that ambition will reflect itself by some kind of proposal in the House of Commons or in the Senate, and there the public accounts will be at hand. I do not see that any headway can be made by the fact that we are treating the balance sheet of the Canadian National so that it will show the present situation at it is. We established that principle in 1932. Then we declared we would advance a certain amount to cover the deficit; we would not loan. Now we are carrying out this very principle to which you have bound yourself.

Right Hon. Mr. MEIGHEN: Yes, I admit something has been done along that line already.

Hon. Mr. DANDURAND: You declared in 1932, under the Canadian National-Canadian Pacific Railway Act, that these advances would, in common parlance, be under the form of subsidies. We are simply going back to that principle. That is all.

Right Hon. Mr. MEIGHEN: Suppose we agree to that for the moment—and I know a great many who feel disposed to do so—are you not going to be ahead rather than behind to make the financial statement and the information that goes with it a really informative document in itself, that while it shows a writing-off and a nicer balance sheet a hundred times, it nevertheless contains within its own fold, without your having to go somewhere else, a warning, and a very wholesome one, for the people of the country?

Hon. Mr. CALDER: That is the whole point, Mr. Chairman. In so far as lenders are concerned, if bonds are to be issued, I do not think it makes a bit of difference at all. They will take care of themselves. They know what they can or should pay for bonds. But in so far as both Parliament and the public are concerned, I think it is important that they should have a full picture of the situation, not only through the public accounts but also through the statement issued by the National Railways. For the life of me I cannot see what harm it will do; on the contrary, I think it will do good. We who have been in public life for years know there has been and always will be an insistent demand for huge expenditures in connection with our railways. That is the situation we have had for twenty or twenty-five years, and it is going to obtain to-morrow and the day after; it will never cease.

Now, it seems to me that those who have the duty of resisting those demands which are bound to come must have the fullest protection possible in the way of statements indicating what the true position is. Those statements are found only in two places — the public accounts of Canada and the statement made by the National Railways annually. All it means is an appendix, not as part of the National Railways balance sheet, but simply as a statement indicating the huge sums of money that Canada has in the past been forced to contribute towards this System. What possible objection can there be to it? It may be unusual, other companies may not do it, it may possibly have some effect upon borrowings from the public; but I cannot conceive that it will cause any man who is going to lend money to the Canadian National to hesitate. He will know exactly what the situation is.

Hon. Mr. DANDURAND: That statement has been contradicted, based on experience, by Mr. Matthews and by Mr. Howe.

Right Hon. Mr. MEIGHEN: What they have encountered in the past will all be cleared up by the balance sheet.

Hon. Mr. DANDURAND: It will not be cleared up by the balance sheet if on the next page it is shown that there is a difference.

Right Hon. Mr. MEIGHEN: Oh, yes, it will, because then the public accounts, plus the balance sheet, will show only the debt. There will be no duplication; that was the difficulty before. But if you attach to that balance sheet a statement that to put the balance sheet in that shape we had to write off all these amounts of money in the appendix, I think it will be a lot more difficult to work up public opinion in favour of an extravagant capital investment program.

Hon. Mr. DANDURAND: I am not thinking of public opinion or of what assault may be made upon Parliament and the Government. I am thinking of the situation which will present itself to-morrow when we go out to borrow money. Unfortunately we have to. I wonder what will be the effect upon the borrower when he sees the huge sums of money that have been expended. He will not realize that as a matter of fact to-day the situation is as it will be if we pass this Bill with the credit of the Government. If you present a balance sheet and say "Look at what the System has absorbed in deficits and interest," I wonder what effect it will have upon the three markets to which we have to appeal for loans.

Right Hon. Mr. MEIGHEN: I see that all right. But the great bond houses go into things very fully, and they will say, "What do we care about the past? There is the actual situation, there is the debt, and it is the Government's debt. That is all we are concerned with." They know all that, but the public will take this balance sheet and say, "Now is the time for a new start in railway expenditure."

Hon. Mr. MOLLOY: Might not this be true, that the Canadian people are sick and tired of looking at the historic picture of this railway System and would be very glad to forget the mistakes and mismanagements of the past, Mr. Matthews?

Mr. MATTHEWS: I think in recent years—

Right Hon. Mr. MEIGHEN: I think that is true.

Mr. MATTHEWS: —there have been some who have made it their business to see to it that the people of Canada shall not forget that side of it. But if they think they are doing the credit of this country any good, I should like to find it as a fact. We may have certain differences, but when we carry them outside the family into the neighbourhood, so to speak, in process of time these bond houses and investment bankers are not the ultimate controllers of the psychology of the public. In due time the public becomes impressed with these things, and I think it has been demonstrated time and again over

the years that when the public becomes persuaded of something no set of bond holders can change its attitude. You must not lay too much stress on the fact that bankers know all there is to know. After all, the bond houses underwrite bonds to sell to the public.

Hon. Mr. BLACK: But, Mr. Matthews, there is nothing in this proposed legislation or in any Canadian statute which would prevent any person publishing the amount of money invested in the railway system.

Mr. MATTHEWS: No, sir, there is not anything to prevent it. But is there not a difference between the constant holding before the public not only of Canada but of other countries? We get information from London that at times amazes me. Discussions in Canada are not limited to Canada by any means. Men in New York who have endeavoured to form some opinion of the situation known to us have reached some of the weirdest conclusions.

Hon. Mr. BLACK: If you can tell us how this Bill will prevent that I shall be glad to hear it.

Mr. MATTHEWS: When this balance sheet—

Hon. Mr. MOLLOY: Just a minute before you answer that question. Is it not true that public opinion influences the loaning of money outside of any report?

Mr. MATTHEWS: It is the only thing that influences it. I think the history of the last few years has demonstrated beyond anything I can say that once the people of a country become obsessed with an idea there is no small group of bankers or other individuals can stop it. Misconceptions, misstatements and exaggerations of fact, and even the constant hammering away of a situation that has been difficult, will take root and some day will repay itself in dividends. In our connections over these years we have come definitely to the opinion on our own account, not wishing to force it on anyone else, that the present situation of the Canadian National Railways is of itself serious enough, goodness knows. No man of common sense would discount the seriousness of the situation for one moment. If by continually hammering away at that historical situation and exaggerating it we think it is going to help us out of our difficulties, then I do not know anything about human nature.

Hon. Mr. LAIRD: How do you propose to wipe out all this background that you speak of?

Mr. MATTHEWS: Wipe it out?

Hon. Mr. LAIRD: From the people's memory, I mean.

Mr. MATTHEWS: Naturally we could not do anything of that kind.

Hon. Mr. LAIRD: I thought that is what you were advocating.

Mr. MATTHEWS: Quite the contrary, sir. We simply say that in the preparation of the National Railways accounts it should be borne in mind that primarily they are not distributed to the people of Canada. The public accounts are the accounts that are given the Parliament. We are not saying that the National Railway debts should be written off and forgotten; not at all. I am only dealing with the question the gentleman raised as to what in the long run is to be accomplished by continually enlarging upon the situation. This plan does not for a moment purport to take away from the knowledge of the people of Canada and their representatives in Parliament the facts of the past; and if, in future years when these demands are to be met, as undoubtedly they will be, surely the public accounts of Canada are the starting point, or become the starting point for the consideration of the wisdom or otherwise of the moves that are proposed.

Hon. Mr. BLACK: I do not think this Bill was intended to be a camouflage measure at all, but if I accepted your advocacy, I would be inclined to think it was.

Mr. MATTHEWS: Well, sir, would you say that a balance sheet that is drawn and adjusted to the situation as it exists to-day—which certainly is that this country is the proprietor of this enterprise—would you say there is any camouflage in acquainting the people of the country with the fact that there is no question of these moneys, or this property, being collectible and that you are setting the accounts on the basis of conditions as we believe them to exist? Regardless of the amount of money you have poured into these properties the fact of the matter is that out of the mess you have only a certain equity, and that is the money you have put into the capital.

Hon. Mr. BLACK: I do not think this measure was intended as camouflage at all, but the explanation you are giving now would almost lead me to believe it was. I say the truth will prevail.

Mr. MATTHEWS: Yes.

Hon. Mr. BLACK: And I can see no objection to stating the facts and having a clear concept in the minds of the legislators at all events.

Mr. MATTHEWS: That is what is proposed, in the public accounts of Canada, without qualification of any kind.

Hon. Mr. COTÉ: We do not sell the bonds of the Canadian National Railways on the basis of the balance sheet, but on the credit of the Dominion of Canada.

Hon. Mr. HOWE: How do you account for the difference in the price?

Hon. Mr. COTÉ: If publication in the appendix is going to hurt the credit of anybody it will be the credit of Canada.

Hon. Mr. HOWE: It seems to me the position is this. In our public accounts we show the total amount of the debt of Canada. It is quite proper for us to break down that debt in any way we like. We can say that debt arose to a very considerable extent out of our expenditures on railways. But when we take the Canadian National balance sheet we have a debt that is all the debt of the Canadian National Railways, or will be if this Bill goes through, and we show certain assets that have been created by that debt. Why paint a historical record there? I cannot imagine any man taking that up. He will want a definition of what this is. Is this something extra to the balance sheet? How does it arise. It does not arise out of the balance sheet. What has this to do with the annual report of the Canadian National Railways? You will have to explain that it is a historical record. How can you explain to a business man the putting of a historical record in what purports to be an annual statement?

Hon. Mr. DANDURAND: Except to frighten him.

Hon. Mr. HOWE: I could not think of an explanation. It seems to me it is a question of putting the statement in the right place. If anybody wants a historical record of what we have spent in railways he will find it in the report of the Department of Railways and Canals, now the Department of Transport. That is quite all right, and I am entirely agreeable to putting that in where we have a record of the public money that we have spent on it.

Hon. Mr. DANDURAND: And producing it yearly to Parliament.

Hon. Mr. HOWE: Certainly. How did the debt arise? Turn over the page and we will see what we spent on railways. That is very proper. You can show what we spent on canals and harbours too. But why further befog the balance sheet when the purpose of this Bill is to clear it up?

Hon. Mr. LAIRD: What would the value of these securities be on the market if it were not for the guarantee of the Dominion Government behind them?

Hon. Mr. HOWE: I do not know. I would not say they would be valueless over a period of years, because the Canadian National Railways are making

progress to-day. I look to see the year when the balance sheet will actually balance. I think that will come before any of us expect it.

Hon. Mr. LAIRD: Aberhart's dividend?

Hon. Mr. HOWE: No, not Aberhart's dividend. Five years ago the Long Lac to Port Arthur line had no traffic whatever; to-day it is one of the best traffic lines on the system.

What we are trying to do to-day is to present a picture of this railroad which shows, in the balance sheet, the investment in the property. Surely we cannot expect the railroads to earn on money that was never invested in the property. We have added these losses and have pyramided interest, and have a picture that has no relation to the property. The investment in the property has a relation to the earning power of the road, or should have, and that is what we are trying to set up. We are trying to put our earnings or losses on the basis of the actual investment in the property.

Hon. Mr. CALDER: I have only one further word. So far as the future is concerned, when it comes down to the expenditure of money in connection with the Canadian National Railways by Parliament, I doubt very much if the balance sheet or public accounts will make any difference at all. You have been on the job a good many years, Mr. Chairman, and know that whether money is spent or not all depends on the amount of pressure that comes from the constituencies and the political outlook generally. That has been the case in the past and it will be the case again. So all we have said as to this method giving some control over public expenditure is neither here nor there. I do not think it makes the slightest difference from the purely practical political standpoint. If there is going to be a demand from the public for an expenditure of a million dollars, the money will be spent if Parliament deems it wise and if public pressure is very great. That has been our past history, and I think it will be our future history.

I have been very much impressed by all Mr. Matthews has had to say. He is a trained accountant and represents a firm of accountants. In his judgment it would be a mistake to include certain figures in the balance sheet. I would like to see them there, but so far as I personally am concerned, I am going to abide by his judgment.

The CHAIRMAN: Gentlemen, it has been intimated here that the balance sheet of the Canadian National will be studied more thoroughly than the public accounts of Canada. As a matter of fact, the public accounts of Canada are studied far more thoroughly in every newspaper office of this Dominion than is the balance sheet of the National Railways. I have a newspaper, and my editor spends hour after hour digging out items from the public accounts. I do not think he ever looks at the Canadian National account for information; he gets what he wants from the public accounts. And that is where nine out of ten of the live newspaper editors of Canada will look for their information concerning these railway items as well as all other items of expenditure. That is a matter of practice. My editor will want to know why such-and-such a sum is voted. He always has a selfish motive, I will admit; he wants to see why more has not been spent in his territory. It is a mistaken idea that the balance sheet of the Canadian National or of any other railway in Canada is studied as thoroughly as are the public accounts of Canada.

Right Hon. Mr. MEIGHEN: What object is to be served by making a purely holding company a part of our railway system? It is not a subsidiary of the railway system, but a separate subsidiary and a financial one solely, of the Government of Canada, the same as the railway system itself is. It is not a railway and has no railway activities. It does seem to me an extraordinary thing to make it a part of the system and thereby merge the accounts for that purpose of achieving an object that I fully understand.

Hon. Mr. HOWE: You are referring to Securities Trust?

Right Hon. Mr. MEIGHEN: Yes.

Hon. Mr. HOWE: We have these securities that all stand on the same basis; that is, they are advances from the Dominion Government to the railway. Some of them were advances for purposes of improving the railroad. These we want to keep in our balance sheet, because we want there a record of every dollar ever spent on the railway itself. With them, and sometimes part of the same security, we have moneys spent for deficits. We put these securities in there and we give them stated value which represents the part of those securities that cover expenditures on the property. And although it is a company in the Canadian National, it is actually owned by the Minister of Finance, separately from the Railway.

Right Hon. Mr. MEIGHEN: I do not say I am opposed, because actually I do not grasp it yet.

Mr. MATTHEWS: You had in mind, first, that the Securities Trust is not related to any of the other companies?

Right Hon. Mr. MEIGHEN: It is not. It is a separate financial concern, held by the Dominion.

Mr. MATTHEWS: Just at the present time we have the Canadian Northern and the Canadian National companies. Now, the Canadian Northern is not related in any way to the Canadian National. The capital stocks and the ownership are vested in the Minister of Finance. Now, I think I see your difficulty. The Securities Trust seems to be off by itself, owned by the Government but without any apparent relationship to any of the other companies in the system. But I will try to show why it is necessary. On the books of the Canadian Northern, the Grand Trunk Pacific and the Canadian National Railway, and so on, there are to-day liabilities to the Dominion of Canada. Now, because of the need to preserve these priorities, you cannot write these liabilities off the books of the Canadian Northern Railway Company as such, because that would immediately bring up the prior position of the junior securities. That being so, the Securities Trust has to be the medium within the system where the liability is retained for purposes of priority on the books of the Canadian Northern. The only change that takes place is that the Canadian Northern becomes obligated to the Securities Trust. Then in order to bring out the consolidated balance sheet, with the write-downs that are sought from Parliament, the liability on the books of the Canadian Northern as a constituent company is offset by the claim taken over by the Securities Trust. In that way everything washes out within the system, except \$270,000,000 capital stock that is owned by the Dominion, and the relative investment in property on the books of the various constituent companies. I grant it is a difficult thing to understand.

Right Hon. Mr. MEIGHEN: I understand the existence of it thoroughly, and why you want it. In fact, I will go further and say that I do not see how you will get what you want without it. But why it should be a part of the National System, for the purpose of the consolidated balance sheet, I cannot understand.

Mr. MATTHEWS: I sympathize with your difficulty. It comes back again to the corporate books of the system. We cannot wipe out those liabilities on the corporate books, because of these priorities. In other words, we must keep the position of the Canadian Northern and other units undisturbed in relation to all Government priorities. Now, if we leave the liability of the Canadian Northern and other companies as is, except for changing the name of the creditor, we also leave the deficit on the books of the Canadian Northern and other companies. Then in this balance sheet, the claims for the principal of the loans here will wipe out on consolidation against the liabilities that must remain on the books of the Canadian Northern and other companies.

Right Hon. Mr. MEIGHEN: That is to say, you cannot get a consolidated balance sheet which really reflects the writing down unless you include this within it?

Mr. MATTHEWS: Yes sir.

Hon. Mr. O'CONNOR: Mr. Chairman, one of the most important points that I think has been brought out here to-day was that brought out by Senator Hugessen, when he read a paragraph from the financial statement which was presented to prospective purchasers of bonds on the occasion of a recent issue which we sold in the United States. As Senator Hugessen pointed out, a special paragraph had to be inserted in that statement calling attention to the fact that \$1,250,000,000 of liabilities as shown in the railway accounts were duplicated in the accounts of the Dominion Government. This was saying, in effect, that there was a kind of mistake in bookkeeping, and that prospective purchasers of bonds should not regard the financial situation of the National Railways and of the Dominion as being as bad as it would be if this sum were not a duplicate item on the liability side. Now, the railways are not the first venture of the Dominion Government that have failed to make a profit at once. They are part and parcel of the public property of the Dominion, and I think it is safe to say they will remain so. Well, in the Government just as in any other business, efforts will have to be made to increase the earnings of other departments until such time as the Minister of Transport is able to present a balanced statement for the railways.

The CHAIRMAN: Mr. O'Connor, the Law Clerk, wants to ask Mr. Matthews a question.

The LAW CLERK: I will read you a memorandum which I gave to Senator Dandurand and Senator Meighen, which discloses the state of my mind on section 22 of the Bill:—

I cannot extract the intent of section 22. It occurs to me that possibly the words "this Act" represent an error and that the Act of 1933 (which contains the expression "comprised") was meant. Maybe, however, it is *not* desired that the Securities Trust should be "comprised" for the purposes of the 1933 Act. Doubtless the section is capable of an explanation that does not present itself to me.

What is the object of saying that it shall be a company comprised in the National Railways for the purposes of this Act?

Mr. MATTHEWS: At the time that section was inserted this was in mind, that the purposes of this Act perhaps are twofold, besides the cancellation of the capital stocks. First of all, it is to ask Parliament for authority to make these write-downs. Then, let us assume that authority is secured. There is then the purpose of preserving the priorities. That was the thought in mind.

Hon. Mr. HOWE: Would not this Bill be just as good with the omission of these words, "for the purposes of this Act"? The section would then read:—

The Securities Trust is hereby declared to be a company comprised in the National Railways.

The LAW CLERK: I think that from the standpoint of your own interests you are limiting yourselves unduly when you say it shall be an element of the National Railways for the purposes of this Act. I cannot see why you should not have said simply that it shall be an element of the Canadian National Railways. Then it would come under the legislation of 1932-1933.

Mr. VARCOE: The reason, I may say, for the inclusion of these words is that there are provisions in the Canadian National-Canadian Pacific Railway Act of 1932-33 which were thought should not apply to this corporation. I

refer particularly to section 93, which substitutes the trustees of the Canadian National for the Board of Directors of all the component companies. It was not, as I understand it, the intention to put the trustees of the Canadian National in such a relationship to this corporation.

The LAW CLERK: And you do not want to extend it.

Hon. Mr. DANDURAND: Then what about the suggestion that we strike it out?

The LAW CLERK: If that be the intent I would leave it, I would have nothing further to say about it.

The CHAIRMAN: The committee understands that a question has arisen about a certain section which might do something that the Government itself does not want—might make this apply to the legislation of 1932-33, with which it has no connection. When we come to that section it will either be passed or amended. If an amendment is to be proposed someone ought to have it ready.

Are we through with Mr. Matthews?

Hon. Mr. COTE: It might be well in section 22 to describe the purposes that Mr. Matthews has in mind. That would clear up the situation.

Mr. MATTHEWS: That could be done.

The CHAIRMAN: We will leave that section in the meantime.

Hon. Mr. HOWE: I think the only policy is to exclude the provision that the directors of the Canadian National Railways shall be the directors of all the subsidiary companies, because this particular company has its own trustees.

The CHAIRMAN: We will leave you to work it out.

Now, gentlemen, we have Mr. Thomson.

Right Hon. Mr. MEIGHEN: Mr. Thomson, you were on the Canadian Northern accounts for many years?

Mr. R. G. O. THOMSON (of Toronto): Yes, sir.

Right Hon. Mr. MEIGHEN: Up until when?

Mr. THOMSON: 1918.

Right Hon. Mr. MEIGHEN: You have given some study to this Bill and to the readjustment of the accounts. Say anything you feel like saying.

Mr. THOMSON: I do not feel I have given sufficient study to be able to present a very comprehensive view.

Hon. Mr. LAIRD: Have you given it some study?

Mr. THOMSON: Yes, I have given it some study.

Right Hon. Mr. MEIGHEN: What is your general view? Tell us that.

Mr. THOMSON: I feel it is a very good thing that something of this kind has been considered by the Government. The Duff Commission opened the way for consideration of these accounts and the capital set-up of the railways, and intimated that it was a question of time when the matter should be given consideration. Do you wish details?

The CHAIRMAN: You say anything you like. We may ask you some questions, but you do not need to be a bit alarmed.

Mr. THOMSON: Generally, as a business man, I approve of the Bill as it is. I am not a lawyer.

The CHAIRMAN: That will help us.

Mr. THOMSON: I am not a politician, but as a business man I think it is a move in the right direction.

Right Hon. Mr. MEIGHEN: Have you any criticism to offer as to any phase of it?

Mr. THOMSON: I think the "proprietor's equity" might be changed. I think that might be misinterpreted.

Right Hon. Mr. MEIGHEN: You mean the title?

Mr. THOMSON: The title "proprietor's equity" might be changed.

Right Hon. Mr. MEIGHEN: What would you suggest?

Mr. THOMSON: "Capital investment," if you are going to fix the capital investment.

Right Hon. Mr. MEIGHEN: You would have to say "capital investment less deficits and less interest" to be accurate.

Mr. THOMSON: That might be said. The item of \$18,000,000 and the item of Dominion Government capital expenditures for Canadian Government railways, \$300,000,000 and some odd, I think are proper. I think some consideration might be given to the other item, but generally speaking I think the handling is very well done.

The CHAIRMAN: Which other item?

Mr. THOMSON: \$270,000,000 might be further cut down, or it might be increased, depending on what the future is likely to be.

Hon. Mr. DANDURAND: You think that in the interest of the Canadian National Railways balance sheets should appear under this Bill?

Mr. THOMSON: Yes, sir.

The CHAIRMAN: Do you want to ask Mr. Thomson anything else? As I understand it, Mr. Thomson approves of the move to enact such legislation. He has offered an opinion about certain of the items, and has given a view as to the appropriateness of the title "proprietor's equity." He thinks it might be something else.

Right Hon. Mr. MEIGHEN: Could you see any objection to giving the public further information besides the balance sheet, so that they would always have in mind the amount of money that had been advanced and had to be written off in order to give that balance sheet? I mean to give it as part of the Canadian National presentation annually to the people.

Mr. THOMSON: I see no objection.

Hon. Mr. DANDURAND: But you should couple it with the alternative in the Bill, that it will be in the public accounts.

The CHAIRMAN: The Dominion Government will make the statement instead of the Canadian National.

Mr. THOMSON: I am not sufficiently familiar with the public accounts to know what that is, but I do not see any objections to its appearing in the balance sheet as a separate schedule.

Right Hon. Mr. MEIGHEN: Attached to it, not part of it.

Mr. THOMSON: No.

Hon. Mr. HOWE: Did you ever see anything similar to it in a balance sheet?

Mr. THOMSON: No; but I don't think, sir, I have ever seen anything similar to the Canadian National Railway—

Some Hon. SENATORS: Oh, oh.

Mr. THOMSON: It is a problem.

Hon. Mr. HOWE: We are trying to change it from a problem into a business

Mr. THOMSON: I think it is a very constructive move. You can see that a great deal of careful thought has been given to this matter. I am not critical at all. I think something should be done.

Hon. Mr. BARNARD: Do you think the attaching of the information in a schedule would affect the sale of bonds subsequently guaranteed by the Dominion Government?

Mr. THOMSON: I hardly think I am competent to say. I do not think so.

Right Hon. Mr. MEIGHEN: You told me you had found a lot of difficulty in analyzing the present statement so as to decide upon the value of securities. You think that would be clarified?

Mr. THOMSON: I do, considerably clarified.

The CHAIRMAN: Mr. Thomson has given a plain statement, and is willing to answer questions, but if you have nothing further to ask he would be glad to be relieved. He is here to serve you, but if you have not any questions to ask can I let Mr. Thomson go?

Right Hon. Mr. MEIGHEN: All right.

The CHAIRMAN: Thank you very much, Mr. Thomson.

The Committee adjourned until Tuesday, April 6, at 11 a.m.

MINUTES OF EVIDENCE

THE SENATE,

TUESDAY, April 6, 1937.

The Standing Committee on Railways, Telegraphs and Harbours, to whom was referred the Bill 12, an Act to provide for revision of the accounting set-up of the Canadian National Railways System, met this day at 11 a.m.

Right Hon. GEORGE P. GRAHAM in the Chair.

The CHAIRMAN: We have here this morning Mr. George McDonald, of the Canadian Chamber of Commerce, Montreal. Shall we hear Mr. McDonald?

Mr. McDONALD: Mr. Chairman, would you permit Mr. Morgan, the Chairman of the organization, to say a few words first?

Hon. Mr. DANDURAND: We had felt when we adjourned on Friday last that as Mr. Morgan had been heard before the House of Commons Committee and his statement had been printed and was before us, that unless he had something additional to say, nothing would be gained by having him repeat his statement here. At least, that is the way I felt; I do not know if the Committee agreed with me.

The CHAIRMAN: Shall we hear what Mr. Morgan has to say?

Some Hon. SENATORS: Yes.

Hon. Mr. DANDURAND: Would you allow me first to make this statement? We had a very interesting meeting of the Committee on Friday, at which, I am sorry to say, not all members of the Committee were present. Section 24 of the Bill provides that the public accounts every year will include an appendix showing the total assistance given by Canada to all railways, since Confederation. Section 23 says:

The Trustees of the Securities Trust shall present to Parliament annually (concurrently with the annual report of the Canadian National Railways) through the Minister of Transport a balance sheet together with a report setting forth in a summary manner the transactions of the Securities Trust during each calendar year.

I had the impression that when we adjourned on Friday—Senator Meighen will correct me if I am wrong—the only question in our minds was whether this statement should appear in the Public Accounts only as an appendix, or be attached also to the annual balance sheet of the Canadian National Railways. I should like Senator Meighen to tell me if that is his understanding of the point we had reached.

Right Hon. Mr. MEIGHEN: The only understanding we really came to was that we would dispose of this Bill in Committee this morning. The discussion had pretty well centred on that last feature which the leader of the Government has mentioned, as to the wisdom of amplifying the balance sheets of the Canadian National Railways by a fuller disclosure of what had occurred in the way of advances, deficits and so on. I do not want it understood that I am satisfied just because certain sums are duplications they should be left out of the Canadian National Railways' statement. In that I do not know whether I am generally supported by the Committee, as I did not press the matter any further. We should not unnecessarily extend this discussion, but I should like to have Mr. Morgan say whatever he wants to say, and Mr. McDonald too, before we get down to our final consideration of the measure. We do not want to delay the Government.

Hon. Mr. MURDOCK: Senator Dandurand referred to assistance given to railways since 1867. What about Appendix No. 3, which seems to include items totalling over \$15,000,000 chargeable against railways since 1849, 1854 and 1855?

Hon. Mr. DANDURAND: I should have said back to 1849, instead of 1867.

The CHAIRMAN: Shall we now hear Mr. Morgan?

Mr. HENRY W. MORGAN, Chairman of the Canadian Chamber of Commerce, Montreal: Mr. Chairman and honourable sirs, on behalf of the Executive of the Canadian Chamber of Commerce I would like to thank the honourable members of this Committee for the opportunity given to us to outline our considered views on Bill No. 12 as passed by the House of Commons and now being considered by this Committee of the Senate.

I should also like to voice our recognition of the action taken by the Government in amending the original Bill, following our appearance before the Standing Committee on Railways and Shipping of the House of Commons. A new section (24) was inserted in the present Bill which section makes provision for publishing annually, as an appendix to the Public Accounts of Canada, a statement showing the total assistance given by the Dominion to all railways and also for showing the manner in which such assistance has been dealt with in the public accounts.

When appearing before the House Committee, I indicated that the Chamber's Executive was at one with the honourable the Minister of Transport and the honourable the Minister of Finance in believing that the change in the accounting setup of the Canadian National Railways proposed by this Bill should not disguise from the Canadian people the amount of money which all down through the years they have invested in this great undertaking. In carrying that belief to a conclusion, we recommended then that there should be carried forward in a footnote on or as an appendix to the balance sheet of the Canadian National Railways, a complete and continuous record of such accumulated costs from year to year. We stated, moreover, that the Bill, as then drafted, did not in our opinion, make provision for the intended clearness which both the Ministers and we emphasized.

Right Hon. Mr. MEIGHEN: Did not make provision for the intended what?

Mr. MORGAN: Clearness, clarity.

Right Hon. Mr. MEIGHEN: You mean, really, disclosure?

Mr. MORGAN: Yes.

Hon. Mr. DANDURAND: Does that apply to the Bill that was then before you or the Bill now, as amended?

Mr. MORGAN: The Bill, as amended, still does not clarify the situation sufficiently. Notwithstanding the amendments and the inclusion of section 24 in Bill No. 12, however, we still believe that the effect of the proposed changes will not give to the accounts of the Canadian National Railways, the desired clarity to which the taxpayers of this country are entitled.

To carry out fully, therefore, the originally expressed intentions of the Government and our Executive, we urge that Bill 12 should be further amended so as to permit the statement, provided for in section 24 of the Bill, to be applicable to the balance sheet of the Canadian National Railways as far as Dominion advances to these railways are concerned. This action, we believe, is in accord with the sound principles of public finance.

The Vice Chairman of the Chamber's Public Finance Committee, Mr. George C. McDonald, who is a Chartered Accountant and who is here with me to-day, has given further study to the effects of this Bill. He wishes to present a supplementary brief, which has had Executive approval, on the accounting set-up of the Canadian National Railways in so far as it affects the Public Accounts of the Dominion. Mr. McDonald will endeavour to answer any detailed questions

that the honourable members may wish to ask about the recommendations which the Executive of the Chamber are now emphasizing.

I may say that Mr. McDonald is also the past Chairman of the Executive Committee of the Canadian Chambers of Commerce, and is therefore well qualified to speak on its behalf.

I thank you, gentlemen.

The CHAIRMAN: Does anybody want to ask Mr. Morgan anything? If not, we will hear Mr. McDonald.

Mr. GEORGE McDONALD, Canadian Chamber of Commerce, Montreal: Mr. Chairman and honourable gentlemen.

The principal changes in Bill No. 12 as far as the Balance Sheet of the National Railways at December 31, 1935 is concerned are:—

1. To write down Investment by \$262,000,000 against Capital Stock owned by the Dominion Government and Old Governmental Grants.
2. To write off Cash Deficits of \$361,000,000 against loans from the Dominion of Canada by crediting Profit and Loss.
3. To reverse the charge of \$495,000,000 for Interest on Government loans to the credit of Profit and Loss.

With the exception of certain current accounts, the remaining Government accounts are then gathered under the "so-called" Proprietor's Equity.

In the public accounts of the Dominion, the reflection of these entries affected the Consolidated Fund by an amount of \$379,000,000, being the Cash Deficits above referred to (\$361,000,000) and sundry other items. The addition of this amount to Deficits of \$241,000,000 already charged to the Consolidated Fund and not shown on the Railway Balance Sheet brings to \$620,000,000 the amount of the Railway Deficits absorbed in the Consolidated Fund. The charge for Interest having been eliminated, this sum plus the Proprietor's Equity of \$688,000,000 makes a total of over \$1,300,000,000, being the portion of the Dominion debt incurred for the purposes of the National Railways and on which interest is being paid at a rate of slightly over 4 per cent.

Therefore, I would suggest that the Revised Balance Sheet of the Canadian National Railways should carry a footnote to the effect that the Proprietor's Equity represents a portion of the outstanding Dominion Government Debt amounting to \$1,300,000,000. (Schedule to be attached).

In order, however, to obtain a proper appreciation of the situation, it is necessary to go beyond the Balance Sheet of the National Railways.

In the course of the earlier proceedings on the Bill, it was suggested that a consolidation of the Balance Sheets of the Dominion and the Railways should be prepared. This was done and was submitted to the Standing Committee on Railways and Shipping (Minutes of Proceedings and Evidence No 5, Tuesday, March 9, 1937). As this was in very condensed form an elaboration has been prepared and is submitted herewith.

The CHAIRMAN: What committee was that?

Mr. McDONALD: The committee of the Commons.

The CHAIRMAN: We are very jealous of the distinction.

Mr. McDONALD: I trust the addition will be made to my remarks.

The principal points which this redrafted consolidated balance sheet brings out are, first—the total liabilities of the Dominion of Canada, including the railways, of about \$4,750,000,000,—and second—the extent to which this debt is attributed to the acquisition and operation of the railways. In other words, the assets and deficits of the Canadian National Railways have been separated from other assets and deficits of the Dominion of Canada. At the same time, the liabilities have been set up to show the amount of debt applicable to the two sets of accounts.

Reference to the asset side of the enclosed balance sheet shows the tangible assets of the railways at somewhat over \$2,000,000,000. Whether or not the assets are actually worth this vast sum is a question which might well be discussed, but it is not important for the present discussion.

To this figure is added a proportion of the Consolidated Fund arising from the transfer of railway deficits of some \$621,000,000. This latter is merely the Dominion's contribution for cash deficits of the railways—i.e., operating costs plus interest on direct obligations less railway earnings—and does not include interest on the items included in the proprietor's equity, or on that portion of the funded debt of the Dominion which has been employed for meeting such deficits.

The direct liabilities of the Canadian National Railways, as shown in the revised balance sheet, amount to approximately \$1,318,000,000. Deducting this amount from the total tangible assets and deficits, there is a balance of about \$1,363,000,000. This represents the amount of debt incurred by the Dominion Government on behalf of the Canadian National Railways, without taking into account interest on advances, including the sum of \$495,000,000 "accrued interest on Government loans," shown on the balance sheet of the Canadian National Railways at 31st December, 1935. While this figure had been accrued in the books of the Canadian National Railways, it had never been taken into account in the public accounts of Canada. Had this figure been included with the cash deficits in the Canadian National Railways, the deficit shown would have amounted to over \$1,116,000,000, and the deficits on "all other accounts, including war expenditure" in the consolidated fund would have been correspondingly reduced. At the same time, the public debt arising from the Canadian National Railways would have shown at the figures of \$3,177,000,000.

The particulars of the remaining assets, after eliminating the Canadian National Railway items, are shown in much the same detail as in the published accounts, with the exception that the "consolidated fund" has been subjected to analysis. As revised in the public accounts, this item shows at \$1,573,810,265.21. After transferring the railway deficits to the Canadian National Railway account, the balance is shown under two headings:—

(1) Federal portion of relief	\$240,102,587 00
(2) All other accounts, including war expenditure . .	712,374,941 52
	\$952,477,528 52

When considering what the Canadian National Railways are costing the Dominion, account must be taken not only of the annual deficits, averaging well over \$50,000,000 a year for the last six years, but also for interest which the Dominion Government is paying on the \$1,363,000,000, being the portion of debt applicable to the Canadian National Railways. At 4 per cent this represents an annual cash outlay of over \$50,000,000.

In the meantime another year has passed and in his estimate of the national balance sheet as at 31st March, 1937, the Minister of Finance shows the gross debt of the Dominion of Canada as increased by \$99,000,000, compared to one year ago, and the statement of the Canadian National Railways shows an increase in long-term debt of \$30,000,000. The Canadian National Railways' deficits have been increased by \$44,000,000, and federal portion of relief by \$46,000,000.

While it is the suggestion of the Chamber of Commerce that the railway accounts should show the total advances of the Dominion, it is obvious that the largest portion of the Dominion debt, direct and indirect, is due to the National Railways and that in any financing, either for the railways or other Dominion purposes, both accounts must be considered.

LIABILITIES

CANADIAN NATIONAL RAILWAYS:

Long term debt in hands of public..	\$1,154,779,000	79
Minority Interests in Capital Stocks..	4,584,225	00
Current Liabilities..	45,330,201	95
Deferred Liabilities..	3,423,088	12
Unadjusted Credits and Reserves..	35,272,608	46
Governmental Grants..	2,570,904	78
Government Temporary Loans repaid by March, 1936..	72,683,250	00
	\$1,318,643,279	10
*Proportion of Dominion Government Funded Debt applicable to Canadian National Railways..	1,363,401,424	23
		\$2,682,044,703 33

GENERAL:

Funded Debt less Sinking Funds..	\$3,211,347,008	32
*Less: Proportion applicable to Canadian National Railways..	1,363,401,424	23
	\$1,847,945,584	09
Insurance and Superannuation Funds..	150,614,097	08
Other Liabilities..	69,982,921	23
		\$2,068,542,602 40

NOTE:

*A transfer of \$1,363,401,424.23 from the General Debt of the Dominion to the Canadian National Railway Debt has been made representing the excess of railway assets and deficits (excluding interest on Government loans) over direct liabilities. It appears that to the extent of this excess the debt of the Dominion has been incurred for the purposes of the Canadian National Railways. The interest which is not included is an amount of \$495,030,137.29 accrued on the books of the Railway at 31st December, 1935, but eliminated by the terms of Bill 12, together with interest on \$241,704,973 being the Dominion's contribution for cash deficits charged to the Consolidated Fund.

\$4,750,587,305 73

That is my brief. I would just add that I have prepared a further statement, which I should be glad to circulate, showing the proposal of the Chamber of Commerce as affecting the present set-up of the Canadian National Railways (Exhibit A). It merely takes the balance sheet as drafted and shown in the reports of the committee in the other House, with a footnote on the bottom.

Now, the securities trust is being used to carry the claims that are being, so to speak, withdrawn.

Hon. Mr. DANDURAND: Eliminated.

Mr. McDONALD: Well, I do not accept "elimination" because the securities trust is being kept alive in order that other claims will not rank ahead of Dominion Government claims. The securities trust has an equity of \$270,000,000 and that is carried in the proprietor's equity. That \$270,000,000 represents claims of \$1,218,000,000. Those are the claims, I take it, which the Dominion of Canada is not giving up. They are not being abandoned because there are other claims, junior securities of some of the companies involved in the Canadian Government railways, that are not going to be allowed to benefit by the change in this capital structure. I understand that the securities trust is being formed to hold those claims to the extent of \$1,200,000,000. Those claims do not include the \$621,000,000 I have referred to as deficits of the railway that are being charged up in the consolidated fund. If they were included, the claims against the railway would be \$1,839,000,000. Those are claims which the Government really wants to have paid before any of these junior securities rank, and I understand that the purpose of the securities trust is to maintain those claims as good claims.

The CHAIRMAN: In priority.

Mr. McDONALD: In priority.

What the American Securities Commission will say to a balance sheet as drawn so far, without that footnote, I do not know. I think the Securities Commission intend to get the information in regard to all claims, and I think any balance sheet should expose the full amount of the claims. If the Government is giving up the claims, all right, take them out; but if the Government is keeping them on I know very well that any securities commission which has a balance sheet put before it with a proprietor's equity of \$270,000,000, which represents claims of \$1,200,000,000—and which some of us think should represent claims of \$1,800,000,000—before any other claims rank—

Hon. Mr. DANDURAND: Not bonded claims.

Mr. McDONALD: Claims in priority.

Hon. Mr. DANDURAND: But I am thinking of the Canadian National Railways going to New York or London to borrow. Those second-class claims have nothing to do with the value of the security offered.

Mr. McDONALD: Well, they might affect the money loaned, if they ranked in priority to it.

Hon. Mr. DANDURAND: But they do not.

Mr. McDONALD: I suppose that remains to be seen, on the basis of what the loan is.

Hon. Mr. DANDURAND: I am speaking of what is put in the Securities Trust.

Mr. McDONALD: I am quite sure that if we had wanted to make a picture even better for the bankers, they would have been even more satisfied if we had transferred more of the direct obligations to the Government. The direct obligations of the railway are still \$1,310,000,000. If some of these were transferred to the Dominion Government, the balance sheet of the Canadian National could be made to look even better.

Now, the Securities Trust claim is composed of \$700,000,000 advanced for capital purposes and \$530,000,000 accrued interest on loans. The Government's claim, I take it, should be not that interest but the amount of money advanced for capital purposes and money advanced for deficits. That is the amount which I think should be kept as a contingent liability. It is a contingent liability so long as it ranks for the purpose which I understand the Securities Trust is intended to serve.

Now, in the Proprietor's Equity there is being transferred to non-interest bearing securities \$282,000,000, as of December 31, which represents advances for capital purposes prior to 1932, and advances for capital purposes subsequent to 1932 are being carried as interest bearing loans. The remainder of the Proprietor's Equity, of course, represents only the investment in the Canadian Northern Railway and the Canadian Government Railways, on which it has not been the practice to charge interest.

Hon. Mr. HAIG: Why is the \$282,000,000 included?

Mr. McDONALD: That is what I am asking, why that is being brought in. By putting \$282,000,000 in there, they are taking out of interest bearing debt and putting in non-interest bearing debt advances for capital purposes to the National Railways.

Hon. Mr. DANDURAND: Was that done previously by legislation?

Mr. McDONALD: That is being done in this Bill 12.

Hon. Mr. DANDURAND: The Minister has given an explanation. He will give it again.

Right Hon. Mr. MEIGHEN: Is this the balance sheet provided for in the Bill?

Mr. McDONALD: Yes.

Right Hon. Mr. MEIGHEN: And you suggest this footnote which you have here?

Mr. McDONALD: Yes.

Right Hon. Mr. MEIGHEN: Do you suggest that the Bill should provide for a consolidated balance sheet?

Mr. McDONALD: I have not suggested that. I do not know that I want to go as far as that. I think that anybody dealing with the Dominion Government and wanting to see the actual picture before lending money to it, would want a consolidated balance sheet such as that. That would do away with all this talk of duplication. The last railway balance sheet, for the 31st December, 1936, shows that the gross liabilities, including capital of the Canadian National, are \$3,204,000,000. In addition to that, deficits have been written off since 1932 in the National Railways, and since 1927 as far as eastern lines are concerned, amounting to \$284,000,000. So that the liabilities of the Canadian National, as disclosed by this statement, and including the capital, are \$3,489,000,000. Now, \$262,000,000 has been written off by Bill 12. I do not think there is any argument about the writing off of that \$262,000,000.

The CHAIRMAN: You approve of that?

Mr. McDONALD: Yes sir. I would go much further. I think that the recommendation of the Duff Commission should be carried out, so far as reorganization of the balance sheet is concerned. But, for the purposes of this Bill 12, the liabilities of the Canadian National, as shown by the last published balance sheet, are \$3,200,000,000. There is no duplication in that. The public accounts are not brought into that at all.

Hon. Mr. MURDOCK: Mr. McDonald, I see that in your statement you say:—

Therefore, I would suggest that the Revised Balance Sheet of the Canadian National Railways should carry a footnote to the effect that the Proprietor's Equity represents a portion of the outstanding Dominion Government debt amounting to \$1,300,000,000.

And over on the next page you say:—

The direct liabilities of the Canadian National Railways, as shown in the Revised Balance Sheet, amount to approximately \$1,318,000,000. Deducting this amount from the total Tangible Assets and Deficits, there is a balance of about \$1,363,000,000.

Now, there have been a considerable number of high class citizens in Canada who have argued earnestly, day and night, that the Canadian Government should get out of the business of operating a railway. What I want to ask you is this: if the Canadian Government decided to-day to unload the Canadian National, to sell it for what I understand you to say are the real assets, \$1,363,000,000—

Mr. McDONALD: No, sir. The assets of the Canadian National, as shown on the balance sheet, are \$2,000,000,000.

Hon. Mr. MURDOCK: Well, if the Government sold the Canadian National, for whatever the price might be, would the Canadian people not be obligated to continue paying on a certain enormous amount of public debt for many years to come, on account of the National Railways? And how much would that be, approximately?

Mr. McDONALD: \$2,600,000,000.

Hon. Mr. MURDOCK: They would still have that heirloom of liabilities on account of the Canadian National of \$2,600,000,000?

Mr. McDONALD: Practically, because the Government are guarantors of nearly all the direct obligations of the railway. The direct obligations of the railway, as distinct from Government obligations, are \$1,300,000,000, and most of these are guaranteed by the Dominion.

Hon. Mr. MURDOCK: The Canadian National, as a railway, has generally been meeting its operating costs, as a going concern, has it not?

Mr. McDONALD: With the exception of the cash deficits that have been put up by the Dominion.

Hon. Mr. MURDOCK: Which cash deficits were for the purpose of taking care of charges made against the railway back as far as 1849?

Mr. McDONALD: No sir. They are cash deficits for operations and interest on the debt of the railway.

Hon. Mr. MURDOCK: But the interest on those loans of 1849 and 1854, and other loans made since that time, are a part of the money that has been put up, are they not?

Mr. McDONALD: What loans are you referring to, Senator?

Hon. Mr. MURDOCK: Those included in the schedule to the Bill.

Mr. McDONALD: If they are the amounts included in the National Railways debt of \$1,194,000,000, which is the amount of the direct obligations of the railway, that is obligations held by the public, interest has been paid on them. If the money was borrowed by the Dominion, it has not been charged against the railways and they have not been paying interest.

Hon. Mr. MURDOCK: The point I want to find out is this. If it were not for the heirloom of loans and expenditures on account of railway construction in years gone by, the Canadian National Railways, as a going concern, would be doing fairly well, would it not?

Mr. McDONALD: No, sir, I do not think I could go that far. I think most of this debt, the largest portion of it, has been incurred since 1920. And it is going up. The Government debt is piling up at the rate of \$100,000,000 a year. You would understand my point of view, if I said that instead of the Dominion of Canada owning the National Railways, the National Railways practically own the Dominion of Canada. There are two great public railway systems in Canada. The Canadian Pacific has securities of \$1,300,000,000 in the hands of the public. It is a public enterprise. The Canadian National is another great public enterprise. Its securities in the hands of the public, directly, and indirectly through Government loans, amount to \$2,600,000,000.

Hon. Mr. MURDOCK: In schedule A-2, on page 8A of the Bill, there is this item: "Loan Account, 1917 (7-8 Geo. V, Chap. 24), \$25,000,000, principal outstanding." Upon that item there is interest accrued of \$28,571,000.

Mr. McDONALD: Well, Senator, I think that is one of the items that have never been taken into account in the Dominion Government finances and which are now being transferred to the Securities Trust.

Hon. Mr. MURDOCK: But that has been one of the charges on the Canadian National, so far, has it not?

Mr. McDONALD: On the books of the railway, but not on the Government books. On the railway books as at December 31, 1936, that item is part of the total of \$530,000,000 interest accrued but unpaid.

Hon. Mr. MURDOCK: There are many such items. Here is another: "Loan under authority of Vote 127, Appropriation Act No. 4, 1920, \$48,611,000." On that there is accrued interest of \$47,671,000.

Mr. McDONALD: But it has never been charged in the public accounts of Canada.

Hon. Mr. MURDOCK: But has it been charged in the railway account?

Mr. McDONALD: It has been charged on the balance sheet of the railway, and it is part of the loss of \$92,000,000 shown on the books of the railway for last year, December 31, 1936.

Hon. Mr. MURDOCK: Then I am correct in understanding all such items have been a part of the heirloom of debt hanging around the Canadian National's neck.

Mr. McDONALD: They are part of this \$92,000,000, of which only \$44,000,000 is being absorbed by the Dominion Government.

Hon. Mr. HOWE: You said that the American Securities Commission would be interested in the amount of the Proprietor's Equity. You seem to think that is quite a serious situation. This Proprietor's Equity, amounting to \$1,310,000,000, is represented by securities that are held. The Dominion Government is the owner of the National Railways, and the debt is in fact a debt to itself, is it not? That is, it is a loan of money to itself, as proprietor of the National Railways?

Mr. McDONALD: That is the fact, sir, I think.

Hon. Mr. HOWE: Well, how can you say that that interferes with the part in which the American Securities Commission is interested, which is the long term debt of the railway?

Mr. McDONALD: I would take it that any Securities Commission is interested in the liabilities of any undertaking concerning which they are asked to authorize an issue of bonds

Hon. Mr. HOWE: Even though these debts are junior to the bonds that they would be issuing?

Mr. McDONALD: Yes, sir.

Hon. Mr. HOWE: I know that recently we spent a lot of time showing the American Securities Commission that there was a duplication in the Railway and Public Accounts, and in issuing the prospectus for bonds they made a special note on the prospectus that there was duplication, and that this duplication should be eliminated in considering the debt position of the Government and the railway.

Mr. McDONALD: That is what we have tried to do by preparing that consolidated balance sheet, and I think the bankers would say it was exactly what they wanted.

Hon. Mr. HOWE: They would have to make up the balance sheet and eliminate the duplication.

Mr. McDONALD: That is right.

Hon. Mr. HOWE: Then, why did you want to inject this \$1,310,000,000 into the balance sheet after they had eliminated it?

Mr. McDONALD: It either is or is not a liability of the National Railways.

Hon. Mr. HOWE: We are calling it "proprietor's equity." We say it is a debt owed by the railway to its owners, and therefore represents the interest of the Canadian Government in the railway.

Mr. McDONALD: There are other people who have claims that you do not want to change.

Hon. Mr. HOWE: They are entirely junior to that. They are the claims of the Grand Trunk bondholders and people whose securities would be considered to be worthless. We claim those are fictitious claims, but there is no claim included in the funded debt which we say is junior to these claims. We do not take that position.

The CHAIRMAN: Is there anything more?

The LAW CLERK: May I ask for some enlightenment in case necessity should arise for redrafting?

The CHAIRMAN: Is the need great?

The LAW CLERK: I think so.

Hon. Mr. COTE: Mr. McDonald just said something which is rather interesting. He raised a question as to when a debt is not a debt. If I followed his argument on that point, it means that as long as the \$1,300,000,000 is a liability of the Canadian National Railways to anybody—to the securities trust, to the Government, or to John Jones—it is a liability which will take precedence over somebody else—in this case over the junior securities of these various organizations. But am I correct in stating that the point is that when we draw a balance sheet of an organization we should state all its liabilities?

Mr. McDONALD: That is so.

Hon. Mr. COTE: And this revised balance sheet is not accomplishing that?

Mr. McDONALD: That is so.

Right Hon. Mr. MEIGHEN: Even though those liabilities would be junior to the new securities to be issued, your point is that they should be disclosed?

Mr. McDONALD: Yes.

I have here another statement of the public accounts of Canada, as revised to meet the entries due to Bill 12. (Exhibit B.) This statement is an exact copy of the public accounts, except that we have grouped the railway items together in order to show the Canadian National Railways proprietor's equity of \$688,000,000; and down below we have items making up the \$1,573,000,000, which includes relief and all other accounts including war expenditure.

The public accounts in that form show that the investment of Dominion of Canada moneys are the proprietor's equity of \$688,000,000 and the deficits of \$621,000,000, and these are the items we would like to see reflected in a footnote on the Canadian National Railways balance sheet.

Hon. Mr. MURDOCK: On this last statement I notice there is an item, "C.P.R. old accounts, \$62,791,000." That is one of the charges now on the Canadian National Railways.

Mr. McDONALD: No, sir.

Hon. Mr. MURDOCK: Then what is the purpose of it being there?

Mr. McDONALD: Now, Senator, you have asked for it. I think that, along with a lot of other accounts, should probably have been eliminated from the railway balance sheet as either active or non-active assets long ago. That is money advanced to the Canadian Pacific Railway for its establishment, and in connection with railway lands, I believe, in the last century. That is carried on the public accounts of Canada. Now, if it comes to a question of discussing the public accounts of Canada, there are a lot of items in that balance sheet that perhaps it would be well to have clarified.

Hon. Mr. MURDOCK: Canals, for instance.

Mr. McDONALD: Included in the active assets are advances to provinces of \$223,000,000. I believe that only \$125,000,000 is advanced to provinces, and the other items are harbour boards. It seems to me that probably a lot of that will have to be written off. There are a number of other items that I think, from the point of view of the credit of Canada, it would be a good thing to clear up.

The LAW CLERK: You use the expression throughout "National Railways." You know the statutory definition of National Railways. Are your figures confined to National Railways? I am only concerned with words and meanings.

Mr. McDONALD: In talking of National Railways I mean the statutory Canadian National Railways.

The LAW CLERK: That is what I took you to mean. This is a Bill which purports to alter the accounting set-up, as it is called, of the Canadian National Railway System. Do any of your figures relate to the Canadian National Railway System? You know what that means. It is defined in the Act.

Mr. McDONALD: I do not know what it means.

The LAW CLERK: It includes also the railways which the National Railways manage, such as the Intercolonial and the National Transcontinental.

Mr. SMART: And the Canadian Northern.

The LAW CLERK: Do you take in the Canadian Northern in your figures?

Mr. McDONALD: I have taken everything that comes into this railway system. It does not include the Hudson Bay Railway.

The LAW CLERK: Now you are justifying my question. I asked first whether you meant the National Railways. You now say you refer to the Canadian National Railway System when you take in the Intercolonial Railway too.

Mr. McDONALD: Yes. As far as I know, everything except the Hudson Bay Railway.

The LAW CLERK: And leave out the steamship companies. But it will take in the hotels and the land companies and ferry companies, and the companies in which the Canadian National and the Canadian Pacific are in partnership, and that sort of thing. There are, I think, 127 subsidiaries.

Mr. McDONALD: All the figures I have used are contained in the preparation of that consolidated statement, and all the railways referred to are those dealt with in the proceedings before the Standing Committee on Railways and Shipping of the House of Commons on Tuesday, March 9, 1937.

The LAW CLERK: It is the system. It is not the Canadian National Railways, but the Canadian National Railway System.

Now, look at section 24. The proposed balance sheet deals with all railways. This is all railways in Canada, and would take in, would it not, railways other than the Canadian Pacific and the Canadian National?

Mr. McDONALD: Yes, I would say it would.

The LAW CLERK: But does it mean to take in these other systems which you are taking in for the purpose of your figures? Is it possible that section 24 as now drafted would call for different figures than those which relate to the system?

Mr. McDONALD: Yes. Section 24 tends to bring in all railways in Canada.

The LAW CLERK: But the system brings in more than railways.

Mr. McDONALD: Yes, it does.

The LAW CLERK: Would your figures fit section 24?

Mr. McDONALD: I am not interested in 24 at all.

The LAW CLERK: That is my trouble. I will have to grapple with it, and I thought you might be able to help me. Can I assure the Committee that section 24—I do not think I can—takes in all the things you have been speaking of?

Mr. McDONALD: If you want me to go into a conference with myself—

The LAW CLERK: The trouble is that it mentions railways and railways alone.

Mr. McDONALD: I have not discussed 24 at all.

Hon. Mr. O'CONNOR: Mr. McDonald, you have said there are certain figures shown here in the balance sheet, some of which are one hundred year old advances to the C.P.R. that should be eliminated. How do you discriminate between those and the \$1,300,000,000 that the Government now wants to eliminate? What is the reason for saying that some should be eliminated and others should not? How do you classify those that should be eliminated and those that should not?

Mr. McDONALD: The Government admits that these cash deficits of \$620,000,000 should not be carried as assets in the balance sheet. They have been charged to consolidated fund, or the burden of disability, whatever you

like to call it; and the consolidated fund includes all items that are written off, and the money is supposedly gone. The public accounts contain a lot of other items including that C.P.R. matter—items that crept into the public accounts. I do not suppose the Dominion Government, when they made that grant to the Canadian Pacific Railway, could have done anything else. They could have charged it then to consolidated fund. It was an outright gift, and I think it would be much better transferred to the consolidated fund.

Hon. Mr. O'CONNOR: It is a matter of time. It is your idea that if a debt is one hundred years old it should be eliminated, and that if it is three years old it should not.

Mr. McDONALD: It is not a debt. They are assets. There is a penitentiary called St. Vincent de Paul. It burned down once. Now, in the assets of the Dominion of Canada, under Public Works, there is the cost of the original building, and also of the second building. If you are house-cleaning you ought to take that cost out and say that is part of the consolidated fund. You have nothing to show for it.

Hon. Mr. HOWE: Could I ask one question? The test of the solution of a mathematical problem is whether it will stand the reductio ad absurdum. You say the National Railways are responsible for part of the public debt amounting to \$1,300,000,000. The public accounts state that the country is responsible for \$1,700,000,000; the Department of Transport statement shows an investment in railways and shipping, all of which has been taken into the consolidated debt, of \$1,257,000,000, and also an investment in airways and radio of \$14,000,000. Highways show, in the shape of direct contributions, \$63,000,000. Your debt is only \$3,000,000,000. Why do you say the portion of the debt applicable to Canadian National Railways should be kept at its face value when you have to write something down to keep within the amount of the debt?

Mr. McDONALD: It all depends on how you allot the taxes. We are collecting taxes, and in due course, I hope, all will be paid off.

Hon. Mr. HOWE: But if you allot taxes for written-down war expenditures, relief expenditures, public building expenditures, and canals, and tax contributions to shipping and to highways, but refuse to allot any part of the writing-down for highways, how do you distinguish?

Mr. McDONALD: I would have an analysis made of the Consolidated Fund, to see how that item of \$1,579,000,000 has gone, the deficits that have been written off.

Hon. Mr. HOWE: How could you tell?

Mr. McDONALD: Well, it is all subject to analysis. It was a simple matter to dig out the amount of railway deficits that were charged up, and it was a simple matter to dig out the amount of relief, to show it as a separate item.

Hon. Mr. HOWE: You are not very sure of this \$1,310,000,000 that you have in this balance sheet?

Mr. McDONALD: Yes, I am.

Hon. Mr. HOWE: In making up this balance sheet you have taken every cent that was ever expended on railways, since before Confederation, and carried that forward as the portion of the Dominion Government's funded debt applicable to the Canadian National.

Mr. McDONALD: The largest expenditures are from 1920. I quite admit that the general debt of the Dominion of Canada is a gross figure, and you cannot arbitrarily allot parts of it to one thing or another.

Hon. Mr. DANDURAND: One thing I cannot understand is Mr. McDonald's insistence on putting in a footnote to the Canadian National's balance sheet, not so much for the information of investors as for the information of the public

at large, to show that this sum of money has been spent, a sum which appears in the public accounts. I cannot understand why we should make a point of inserting a footnote of this kind to a balance sheet which will go to London and New York, just to give people there the pleasure of looking at it, when it would not affect by one iota the value of the bonds that we offer to the public. Behind the Canadian National stands the Dominion of Canada, inasmuch as the Dominion is the owner of the Canadian National. This footnote would only blur the mind of the investor, cause him to think that there existed an obligation which does not exist at all. I should like to have Mr. McDonald explain to me why he persists in recommending this footnote.

Mr. McDONALD: We are dealing here only with Bill 12, I presume; and with that Bill in its present form, I think that the best means of disclosing what I consider to be the proper position of the railway is by a footnote.

Hon. Mr. DANDURAND: When the Canadian National alone goes out to borrow, with the endorsement of the Dominion Government, why require that on its balance sheet there must appear a secondary claim which does not in the least affect the securities that will be offered to the public?

Mr. McDONALD: If a private company went to the public and did not disclose its claims, it would get into trouble right away.

Hon. Mr. DANDURAND: Because a private company can be liquidated. If a private company has against it very large secondary claims which are valid, they might cause that company to go to the wall. But that is not so here.

Mr. McDONALD: Senator Dandurand, that is exactly what I am afraid of in this case, that if the deficits of the Canadian National continue at the rate of \$100,000,000 a year, the Dominion Government will be liquidated. And facing that, the debt of the Dominion is being diluted year by year. Not only the Dominion, but I will say the same for our city of Montreal and the provinces. I think that there are only two things which can possibly happen: either the creditors will stop lending money to the city of Montreal and the Dominion, and so on, or else there will have to be great inflation, which will cheat the wage earner and the insurance policyholder and other people who have saved anything.

Hon. Mr. DANDURAND: You do not deny that if you load the balance sheet to this extent, you may deter investors from lending money to the Canadian National, although it is backed by the Dominion Government?

Mr. McDONALD: I do not accept the term "load the balance sheet." What I believe to be the true picture is the picture presented by the consolidated balance sheet. I much prefer the position to be considered from that point of view rather than from the point of view of the Canadian National. If you want to discuss the balance sheet of the National Railways, I think that in accordance with the recommendation of the Duff Commission, and with the thoughts of many people who are themselves in the railway, the balance sheet should be further written down, as to assets. That has been suggested quite openly many times. If it is a matter of that balance sheet, I am quite willing to discuss it in its proper place. I do not think that balance sheet is necessarily the thing on which people lend money to the Dominion of Canada. People lend money to the Dominion on the Dominion's ability to meet interest on its loans and obligations at maturity. I think the only proper way to show that is by a consolidated balance sheet.

Hon. Mr. Howe: A considerable part of the long term debt of the railway is that guaranteed by the Dominion Government. Suppose that debt is shown in a consolidated balance sheet of the Dominion Government, a guarantee is automatically given with respect to those securities. Now, some of those securities are selling at only 70 cents on the dollar, whereas if they had a Dominion Government guarantee they would be selling at par or higher.

Mr. McDONALD: On the consolidated balance sheet they should be shown separately, because they are not obligations of the Dominion.

Hon. Mr. HOWE: We can always abandon them. We are considering very seriously whether we should pay them. There is \$260,000,000 of that long term debt which is not guaranteed.

Hon. Mr. HAIG: What part of the railway does that cover?

Hon. Mr. HOWE: Various sections of the railway.

Hon. Mr. HAIG: Branch Lines?

Hon. Mr. HOWE: And some main lines, in fact.

Hon. Mr. HAIG: In Saskatchewan and British Columbia?

Hon. Mr. HOWE: Yes.

Hon. Mr. BALLANTYNE: Mr. Chairman, we all admit this railroad load is the greatest load that Canada is carrying. Now, if we do what Mr. McDonald has so wisely advised us to do, we shall be putting the true picture before the shareholders of Canada and the taxpayers of Canada. If we do not do this, the people of Canada will get a wrong impression of the National Railways. I hope this Government or some other government will some day grapple with this railway question and really solve it.

Hon. Mr. HOWE: You could not get a Bill through the Senate.

Hon. Mr. BALLANTYNE: Oh, yes, you could. All I am interested in is in seeing that there should be a true picture of the Canadian National Railways, just as there is of other corporations. Mr. McDonald would never approve of a balance sheet for a private corporation, if it eliminated the amount that this Bill proposes to eliminate. I think it is the duty of every member of Parliament to see that an accurate balance sheet goes before the public.

Hon. Mr. DANDURAND: I draw the attention of my honourable friend Senator Ballantyne to this fact, that he himself endorsed the policy of my right honourable friend Mr. Meighen, who was a member of the Bennett Government, when he voted for the Canadian National-Canadian Pacific Act. Under that Act, payments made to the Canadian National for deficits since 1923 have been taken as subsidies. And what is proposed now? Simply the carrying backwards of that principle, to make it apply to the years before 1933. No new policy is proposed here. We are simply trying to make retroactive the principle established by the Canadian National-Canadian Pacific Act of 1932-33.

Hon. Mr. BALLANTYNE: Senator Meighen can reply to that better than I can.

Right Hon. Mr. MEIGHEN: I am inclined to take up very little time, because I think we all joined in the undertaking that was given on Friday and we ought to live up to it. What the leader of the Government says is perfectly right, in respect to the position of deficits after the passing of the Canadian National-Canadian Pacific Act. I am of the view, and I have said it before, that the interpretation of that Act, as reflected in the amount, is not correct; that the Duff Commission did not intend to advise the disappearance at all, but only the funding of those debts; and I do not think the action taken—while we are all responsible—really met with the approval of the Prime Minister at that time. However, it was taken, and we are ready to stand by it. I am not going to argue that matter any farther.

The other day I tried to urge just the point Mr. McDonald has urged, that we would get this in much better shape if we could have a consolidated balance sheet. It would be fairer, franker and better. I think it is now too late to do that if we are going to carry out our undertaking. We cannot meet the situation and get a Bill, and I want to meet the Government in every way I possibly can. I want to remind the leader of the Government that almost universally the measures of this Government came before this Committee. I was in charge. We amended

them and amended them most substantially. I do not think we should feel ourselves bound to stick to the last T and dot of the I in the Bill if we can amend it. We amended them before and we ought to do it again, and I plead for that attitude on the part of the leader of the Government here.

Now, I am ready to concede this matter of the joint balance sheet for two reasons, and to get to a conclusion; but I do ask the leader of the Government to agree, first of all, that we be a little more detailed as to what goes to the public accounts—I have not an amendment—and secondly—not for the sake of its effect to the investors or the bond houses that are going to underwrite our issue; I am not afraid of them not understanding the situation, but because our balance sheet is a public document that goes to the people of Canada—that we amend it by putting in a schedule showing just what is embraced in this proprietor's equity. It makes a fairer, clearer statement. Even then it will not include a lot that might be included, but it will be at least a red light, a warning to the people of Canada that this is what we have had to do; that Canada has done something for the balance sheet of the Canadian National Railways, and has done it at Canada's expense.

That is all I am going to suggest. I do not see how it could be expressed better than Mr. McDonald has expressed it, although I never saw his amendment until now.

It is not at all unusual to have footnotes attached to balance sheets. I am connected with many companies, and our debtors insist on a complete disclosure. Many a company has recently insisted on funding rights. They do not appear in the balance sheet. There has got to be a footnote. You almost have to use a footnote if there are arrears in preferred dividends. It is not essential for the fellow that is going to advance money, but it is a definite revelation to the owners of the stock, the people, of what the situation actually is. It is not going to confuse any of the bond houses in New York; they are not going to be confused in the slightest. The people that are going to be misled, if we do not do it, are the people of Canada, and we are going to invite a psychology that will support further extravagance. Goodness knows, I do not want to make the Canadian National any worse than it is. I do not think anyone has more cause to lament its situation than I have. It would be the worst thing in the world if I had any political aspirations. But it is there.

Hon. Mr. DANDURAND: Why start from 1921?

Right Hon. Mr. MEIGHEN: We will not go into that. Look at the Canadian National report and the Duff commission report, and you will find where the blame lies. Just read those, and you will never need to listen to me. When you get \$100,000,000 a year added for nine consecutive years, you know when the period of revelry was. If you want to put blame on me, I will take it.

The CHAIRMAN: Carried?

Right Hon. Mr. MEIGHEN: But for goodness sake let us do the fairest and best thing to bring to public attention the real history and record of the road, so that we will not deceive the taxpayers of Canada into thinking that they are in a pretty fine position. I am willing to frame a resolution if the Government will only accept it. The footnote is this:

The Dominion Government proprietor's equity—

I would rather it was called the Government investment, as otherwise the casual reader will look upon it as a surplus.

The Dominion Government proprietor's equity represents a portion of the outstanding Dominion Government debt applicable to Canadian National Railways, amounting to \$1,310,239,239.44.

It is just a footnote of about the dimensions and character that would be required in the balance sheet of any privately owned company. Accept that and I will support the measure.

I may say that I have not been able to read all of the remarks of the Minister, but he said in the House of Commons on the 5th of February:

I believe a schedule can be set up that will preserve the historical record, and this schedule can be made part of the annual report of the Canadian National Railways. That perhaps will satisfy the purpose as to a record.

That is all I am asking.

Hon. Mr. HOWE: Would you mind hearing the Deputy Minister of Finance?

Right Hon. Mr. MEIGHEN: No, not at all. I just want to keep to the understanding. In fact, if we were at the beginning of the statement—

Hon. Mr. HOWE: The statement is not a correct statement as you wish to put it into the balance sheet. To attach anything to the balance sheet is simply to undo the work of the Bill.

Right Hon. Mr. MEIGHEN: Oh, no. The balance sheet stands just as you want it.

Hon. Mr. CALDER: Mr. Meighen, if your suggestion were carried out would it be necessary to put the schedule in? If there is simply a statement to the effect that the Dominion Government has invested in the system so much money—one item—

Right Hon. Mr. MEIGHEN: That is not really the truth. The truth is that the proprietor's equity represents this amount. There are other investments that are not there. It would be better to put in a schedule than to put it the way the senator suggests, and stop.

Hon. Mr. HAIG: That would not reflect on any government, either.

Right Hon. Mr. MEIGHEN: Oh, no.

Dr. W. C. CLARK, Deputy Minister of Finance: Mr. Chairman, I think it is necessary for me to say only a word in regard to the suggested footnote. The only comment I would make is that I do not think you can say that this represents a portion of the outstanding Dominion debt amounting to so much. I think it is impossible to determine the portion of the present outstanding debt of the railways that is due to the railways. We can analyze the public accounts and can show what the railways cost the Dominion Government, but to show that portion of your present outstanding debt is represented by the Canadian National Railways is, I think, impossible.

Take the interest on the public debt of the country — \$135,000,000 or \$140,000,000 a year — and it is impossible at this stage to allocate that to particular subjects.

I could go into the point Mr. Howe mentioned a few minutes ago. In the public accounts we have a schedule now showing an estimate of the cost of the War and demobilization at something very close to \$1,700,000,000. You can go on and take the amount spent on public works, harbours and highways, and so on, and add to the figures given by Mr. McDonald for the cost of the Canadian National Railways, but you get a figure away above the present debt of the Dominion. I think perhaps that is all that is necessary. I do not think the footnote in its present form would be a true statement.

Hon. Mr. HOWE: That footnote on the face of it includes \$510,000 of interest that never has been included in the public debt.

The CHAIRMAN: When you are speaking of the footnote you are speaking of a proposed footnote.

Hon. Mr. HOWE: To the Canadian National Railways balance sheet.

Right Hon. Mr. MEIGHEN: The wording there you think would not be true.

Dr. CLARK: It would not be true. You could not say it represents a portion of the outstanding debt of the Dominion. We will give the cost; we will try to work out a schedule giving a comprehensive picture, perhaps for the first time in this country, of what this and other railway systems have cost the Dominion. That is what is to go into the appendix to the public accounts under section 24.

Right Hon. Mr. MEIGHEN: That gives all the railways together.

Dr. CLARK: We took the various statements separately, of course.

Hon. Mr. DANDURAND: You would show in detail how much money went to each railway?

Dr. CLARK: Yes. That would be very complicated.

Right Hon. Mr. MEIGHEN: How would it be to word it this way?

11. The annual financial statement of the National Railway System for the calendar year ended 31st December, 1937, and each year thereafter shall include an appendix showing:—

- (a) The amount of the annual surplus or deficit after charging interest (computed at the average rate paid by His Majesty on the funded debt of the Dominion of Canada during its fiscal period ended on March 31st of that year) upon the stated value of the capital stock of the Securities Trust for each calendar year from and after 1st January, 1921, together with the total of such surpluses or deficits, and
- (b) The amount of the capital investment as defined in this Act as at December thirty-first each year from and after first January nineteen hundred and twenty-one.

Dr. CLARK: From listening to that I think your (a) would be only a theoretical calculation, would it not? It does not represent any item we have actually charged in the public accounts.

Right Hon. Mr. MEIGHEN: It does not say "charged".

Dr. CLARK: It says the amount computed on a theoretical basis.

Right Hon. Mr. MEIGHEN: The Ontario Government does that in respect of Hydro. They take the average rate for the year. It is based upon the stated value of the capital stock of the securities trust.

Dr. CLARK: I still think that would be a theoretical calculation, in the sense that it would not represent any bookkeeping entry that would go into the public accounts.

Right Hon. Mr. MEIGHEN: That does not make it theoretical.

Dr. CLARK: Speaking without having studied this with any care, I should say it would be exceedingly difficult to give a true or comprehensive picture that way.

Right Hon. Mr. MEIGHEN: You have only to add sixteen years' deficits together.

Dr. CLARK: Yes, but I do not think that would show a complete picture.

Right Hon. Mr. MEIGHEN: It would show the aggregate deficits and the capital invested. That is all anybody wants to know.

Hon. Mr. DANDURAND: Why should this go with the railway statement and not with the public accounts?

Right Hon. Mr. MEIGHEN: Because the railway statement is a separate document, and it ought of itself to disclose what the people of Canada should know in respect of our railway.

Hon. Mr. HOWE: Dr. Clark, you are responsible for the financing of the Dominion Government and the National Railways. Would it help you in your financing to have a footnote of that kind, or would it make your financing more difficult?

Right Hon. Mr. MEIGHEN: It would not affect him in the slightest, in my opinion.

Dr. CLARK: Well, from the point of view of financing, there is this difficulty. We would want to be sure that every time any statement got into the hands of the public it was correct and not subject to misunderstanding. The difficulty in the past has been that the National Railways balance sheet has got into the hands of the public as a separate document, and the public accounts have got into the hands of certain members of the public as a separate document. The people do not understand the relationship between these two accounting statements, and in a great many cases the two liabilities have been added together. What we are interested in seeing is, that any investor or financial house, which is doing financing for the Government or the National Railways, should get a true picture at one time. I would be worried about an incomplete or incorrect statement getting into the hands of investors or financial interests, separately from and independently of a statement which disclosed the whole story.

Right Hon. Mr. MEIGHEN: Why should there be any difficulty about adding sixteen years' deficits and in simply stating what the capital investment is, as defined right here?

Dr. CLARK: Well, there should not have been any difficulty arising in the past in the case of people reading the Canadian National's balance sheet and the Public Accounts of Canada. But the point is that people do not take the trouble to analyze these documents.

Right Hon. Mr. MEIGHEN: That is very natural, when there are two sets of debts overlapping.

Dr. CLARK: I would be afraid that there would be great difficulty in respect of this. The trouble is that you get not the skilled and competent analyst in the financial house making these analyses, but ordinary investors and particularly writers on financial papers. The man on the financial paper writes his article when he gets the individual statement, and he does not go to the trouble of tying it up with something else.

Hon. Mr. DANDURAND: I should like to ask Mr. Matthews what he feels would be the effect of this footnote and the schedule on the Canadian National's balance sheet.

Right Hon. Mr. MEIGHEN: Perhaps before that is done, could we ask Mr. McDonald just why he words the footnote as he does?

Mr. McDONALD: What the Canadian Chamber of Commerce is concerned about is to show what the National Railways have cost. I think this footnote would be better worded in this way: "The Dominion Government Proprietor's Equity represents advances by the Dominion of Canada applicable to the Canadian National Railways, amounting to such-and-such a sum." I accept Dr. Clark's amendment in that regard.

Hon. Mr. HOWE: Advances and interest thereon, you would have to say.

Mr. McDONALD: No, it does not include interest. There are two things in the Public Accounts: the Proprietor's Equity of \$688,000,000, and the Canadian National deficits, charged to the Consolidated Fund, amounting to \$621,000,000. I think the Canadian National balance sheet should properly tie up with the public accounts, if that revision was made in that way.

Hon. Mr. DANDURAND: Now I will ask Mr. Matthews to give us his opinion.

Mr. OVERTON MATTHEWS: Honourable senators, I do not propose at this late juncture to inflict on the Committee any accounting arguments. First of all I should just like to ask Mr. McDonald if it is not a fact that the consolidated

balance sheet that he has drawn here would be just what would be produced by the adjusted balance sheet of the National Railways and the public accounts?

Mr. McDONALD: Yes, that is what it is.

Mr. MATTHEWS: That is the first point we want to make, that before this consolidated balance sheet, which has been presented here this morning, can be drawn, you would have to make the eliminations and the corrections and adjustments on the basis of the authorities of the last twenty years that have been presented to this Committee. I should like to ask Mr. McDonald one further question. It has been repeatedly said that it is usual for footnotes of this kind to be continued on corporation balance sheets. Mr. McDonald, is it really so that a history of the moneys invested in an enterprise is continued on the corporate balance sheet beyond the time of reorganization? Would you have this Committee believe that?

Mr. McDONALD: If obligations still exist, they should be shown. Now, until this Bill is passed these obligations here exist; and after it is passed they will exist in regard to advances of capital in the Proprietor's Equity and the interest, that is the sum of \$1,200,000,000. Those obligations will exist and will be in the Securities Trust. I think Parliament wants to wipe out the interest that has been calculated in the National Railway books, but I do not think it is willing to forgo the claim for \$621,000,000 deficits. It is usual that so long as claims like that are outstanding and are not given up—I do not think these are given up until this Bill is passed—that a footnote should be placed in the accounts.

Mr. MATTHEWS: But are we not trying to view this matter in the light of the passage of this legislation, the object of which is to get authority of Parliament to recognize the changed status of this enterprise. When the companies now comprising the National system were privately owned, the condition that you mentioned would exist. But is it not a fact that to-day the people of Canada get no idea from that balance sheet that they are the proprietors of this institution? What that balance sheet should show is the investment in that institution by the proprietors, and not a hybrid combination of proprietorship and creditorship.

Right Hon. Mr. MEIGHEN: Let the balance sheet go through and it would accomplish exactly what you want. It would not be affected in the slightest by the footnote, except that more information would thereby be given.

Mr. MATTHEWS: Of course, Senator Meighen, it is not our mission to endeavour to force our opinions on this Committee.

Hon. Mr. HAIG: How can it hur the public to know the facts?

Mr. MATTHEWS: Well, sir, we simply repeat what we have said here before, that the balance sheet of the National Railways is essentially a document that goes to the financial centres of Canada, Great Britain and the United States—

Hon. Mr. HAIG: It does not fool the financial centres.

Mr. MATTHEWS: There is no question of fooling them, sir. There is a question, however, of recognizing the fact that in recent years there have been many definite evidences of misunderstandings. We referred the other day to a conference with your own underwriters, in last December, and what we said was corroborated by an excerpt read by Senator Hugessen from the underwriters' prospectus. We also read an excerpt from one of the widely circulated financial newspapers in Great Britain. If one would care to go back to daily papers and financial papers of the last three years one would find it very difficult to justify the statement that these matters we are concerned with here are fully understood. There is no question of fooling anybody in this Bill. But if the Dominion of Canada is in fact the proprietor, then why should not the balance sheet show it? Mr. McDonald has said that so long as the obligations exist they should

be shown. Certainly. That is why the balance sheet is drawn in its present form, because the creditor, the Dominion of Canada, under the legislation extending over the years, has never recognized the proprietorship of this enterprise. This Bill endeavours to do that. Now, if the principle of proprietorship is accepted by Parliament, shall we not be in exactly the same position as any other institution which has been permitted to make a financial reorganization?

Right Hon. Mr. MEIGHEN: But here the public are affected.

Mr. MATTHEWS: They are the shareholders, Senator.

Right Hon. Mr. MEIGHEN: It is very important from the national standpoint that they have at least this glimpse of the facts.

Mr. MATTHEWS: Well, sir, if the public accounts of Canada do not provide a record to this and future Parliaments and to the people of Canada, why is there the insistence upon a document which really does not go to the public of Canada, the National Railways balance sheet?

Right Hon. Mr. MEIGHEN: Oh, but it does.

Mr. MATTHEWS: Senator Meighen, the distribution of the Canadian National accounts is primarily to financial houses, financial papers and other railroads, in three countries. The public of Canada become acquainted with Canadian National accounts through parliamentary procedure, through the committees, and so on. If there is going to be an adjustment of the position, a recognition of proprietorship in this enterprise, it is absolutely beyond us why it should be said that there must be maintained a historical record based upon a condition of creditorship.

Hon. Mr. DANDURAND: At a moment when the country admits and Parliament admits that these amounts will be a loss.

Mr. MATTHEWS: Yes sir. And if this legislation were sanctioned it would be an admission on the part of the present creditor that it is now the proprietor. I am just trying to lay before this Committee some cardinal facts. It is all very well to take the position that this would not be done in corporate enterprise, but once the shareholders, once the bondholders have agreed to a new financial set-up, that becomes the condition of that enterprise, and you cannot find any enterprise of any importance anywhere that I know of that perpetuates that on the balance sheet by attaching to it. Take the railways of the United States.

Hon. Mr. BLACK: May I ask a question? The people of Canada are in effect the owners of the railways.

Mr. MATTHEWS: Yes, sir.

Hon. Mr. BLACK: It seems to me your argument is sound if we go into receivership and the property is liquidated and certain obligations go by the board. But we do not do that. We owe just as much money when this Bill has gone through as before.

Mr. MATTHEWS: Quite right, sir.

Hon. Mr. BLACK: You continue to bring this up, and say it is just the same as a private company that goes into liquidation.

Mr. MATTHEWS: I did not say that, sir.

Hon. Mr. BLACK: You implied it.

Mr. MATTHEWS: I did not say that, sir. I said it was similar to any corporate enterprise that was able to effect an arrangement with its security holders; and I come back again to the point you make that the Dominion Government cannot pass through a receivership. That statement has been made on very many occasions in connection with this Bill, but where in the Bill is there any suggestion that the Dominion of Canada is being subjected to any financial adjustment? This is an adjustment between the Dominion of Canada and one of its subsidiaries.

Hon. Mr. BLACK: Why not show its obligations?

Mr. MATTHEWS: Well, sir, if the Dominion of Canada as a present creditor is conceded the position of proprietorship, the new balance sheet would be a far more correct interpretation of that position than the present one, because the present one completely ignores the fact that Canada is the owner and proprietor of these railroads. And as far as accumulated costs are concerned, the public accounts of Canada, I repeat, are the accounts of the people of this country. They are there as a reminder and record for all future parliaments; they are there as information for all the people of Canada. But to say that because the shareholders, or the creditors in other words, have put money into this property for various reasons, and that because the money went into the property it must forever and in perpetuity appear in some form on that balance sheet, is not in accordance with usual corporate practice where an adjustment between the two is determined upon.

Right Hon. Mr. MEIGHEN: Because there is not the good reason there that there is here.

Mr. MATTHEWS: What reason?

Right Hon. Mr. MEIGHEN: The reason that the people who want more expenditures will have before them something of a record which will show that a great deal had to be done to put the balance sheet into that form. That reason does not exist in the case of a private company, but it does here. And what harm it is going to do I cannot for the life of me see.

Mr. MATTHEWS: I do not know, Senator, that there is anything further I can say on it.

Right Hon. Mr. MEIGHEN: You are arguing as if we sought to change the balance sheet.

Mr. MATTHEWS: No, sir, I am not. I only say that if you get involved in this sheet the subsidiary companies, you must bear in mind that these accounts are widely circulated in three countries. There is no confusing of the facts in relationship to the public accounts of Canada.

Right Hon. Mr. MEIGHEN: Do you think the people in these three countries are not going to look at our public accounts? They are going to do that, but the people in our own country are going to put their foot on the Canadian National Railways report and say "There it is."

Mr. MATTHEWS: The public accounts of Canada will for the first time, if this legislation passes, be a complete record without qualification, without regard to legislation, of what the people of Canada have become involved in so far as their own railways are concerned. But so far as the balance sheet is concerned, it is not in accordance with corporate practice if you qualify any arrangement you make with your subsidiary.

Right Hon. Mr. MEIGHEN: You do not qualify it at all. You only expose it.

Hon. Mr. COTÉ: If you want to adhere to accounting practice, how do you answer Mr. McDonald's argument that the balance sheet should contain all the liabilities?

Mr. MATTHEWS: It does.

Hon. Mr. COTÉ: It draws the line on total liabilities of \$1,300,000,000, and after that you have the proprietor's equity. It has been well explained that the old claims of the Government and the Crown are now in the hands of the securities trust; still the claims against the system are a debt of the system.

Mr. MATTHEWS: No. It is not the debt of the National system. That is what I endeavoured to explain.

Hon. Mr. COTÉ: What is it?

Mr. MATTHEWS: It is the debt of the individual corporations within that system to the securities trust, which also is within the system.

Hon. Mr. CORÉ: That is the same thing, because this is a consolidated balance sheet of all the companies that form part of the system.

Mr. MATTHEWS: That is right.

Hon. Mr. CORÉ: How can you ask us to pass without a word of explanation a balance sheet that is not an honest balance sheet and that does not state all the liabilities? You have tried to eliminate the debt, and at the same time keep it alive. You cannot blow hot and cold. If you are going to reorganize as an ordinary company does you will have to wipe out certain liabilities. Then those are gone and you do not have to bother with them in future balance sheets. But in this case you are keeping the debt alive and are asking that it be not disclosed in the balance sheet.

Mr. MATTHEWS: Senator Coté has said, or inferred, that this not an honest statement of fact. We challenge that statement, because what has really taken place in regard to the securities trust—as we took some trouble to explain to Senator Meighen the other day—is that the indebtedness is kept alive between corporations within the system. But when the system, or its position as a consolidated enterprise is shown to the public, it is then properly shown provided this legislation passes. It is just like any group of companies. You have your liabilities from one to the other, but you do not carry those into your consolidated balance sheet to the public. That is what this Bill proposes to do—to establish within a system its incorporate relationship, for the purpose of preserving priorities until the \$136,000,000 worth of—

Right Hon. Mr. MEIGHEN: That is right, and you did explain the securities trust. But you are doing something of an extraordinary character—I accept your reasons for it—you are creating a new company within the system in order to wipe out those liabilities. That is certainly a very extraordinary step to take. If you have to take it, I accept it, but for goodness sake disclose the cardinal facts at least by a footnote so that the public will have some warning.

Hon. Mr. DANDURAND: In other words, when you try to analyze the psychology of your mind you will find an extraordinary feature, namely, that you go outside of the realities which will appear in the balance sheet, and say that as an owner or a shareholder furnishing the money you want to be reminded that you have advanced that money.

Right Hon. Mr. MEIGHEN: Sure.

Hon. Mr. DANDURAND: We are all shareholders. We want to be able to look at the amount we have invested.

Right Hon. Mr. MEIGHEN: Yes, but we want the people who will be asking for the expenditure of more money to see this.

Hon. Mr. DANDURAND: You are speaking of the future, and that has nothing to do with a proper balance sheet. You say, "We want to perpetuate that history for our own self-protection against our own inclination."

Right Hon. Mr. MEIGHEN: You cannot call the people of Canada one person. This is so that we will have something to enable us to resist the continual pressure.

Hon. Mr. DANDURAND: I draw attention to the fact that yearly you have the balance sheet of the railway. It goes before the Railway Committee of the Commons. From it we know what expenditure has taken place and what are the future needs of expenditure on capital account. Then we have the deficit. The whole of the picture is before Parliament and the discussion goes on, and every newspaper is absolutely au fait of the real situation. During the last twenty years we have seen extraordinary demands made on Parliament for extensions of capital expenditures, and if we had to make an examination of consciences and try to give a complete picture, I could point to the responsibility of the Senate of Canada for some expenditures that were not justifiable. That

is history, but my honourable friend should know that it rests with the House of Commons and with the Senate to say whether they will go one step further in the matter of expenditure. It seems strange that we should have to load the balance sheet with the history of our expenditures to protect ourselves against our own inclination.

Right Hon. Mr. MEIGHEN: It is not to protect ourselves, but to create a more wholesome public attitude.

Hon. Mr. BALLANTYNE: Why not wipe this out entirely, so far as the Securities Trust is concerned?

Hon. Mr. DANDURAND: Of course, we have our own debts that we must pay.

Hon. Mr. BALLANTYNE: If a debt is no good, wipe it off.

Hon. Mr. DANDURAND: It is the Dominion of Canada which has the responsibility to pay. And the Dominion is solvent.

Right Hon. Mr. MEIGHEN: I have met you 99 per cent of the way. Why is it you will not give one per cent?

Hon. Mr. CALDER: Mr. Chairman, we have threshed this question out from A to Z—

The CHAIRMAN: And back again.

Hon. Mr. CALDER: Yes. I think that every member of the Committee must understand the question by this time. The question is whether a footnote and schedule should appear in the Canadian National accounts or simply in the public accounts. It seems to me that so far as the Committee is concerned we are pretty nearly ready for a vote.

Hon. Mr. DANDURAND: Senator Meighen has put to me a question, within the hearing of the Minister responsible for the Bill. So I would ask is that we return to this Committee after the Senate rises this afternoon.

Right Hon. Mr. MEIGHEN: I hope I am not responsible for any delay. I would go to the extent of agreeing to have the Bill reported now, to keep our understanding, but if that were done I should have to move the amendment in the Senate. I would rather move it here.

Hon. Mr. DANDURAND: Of course, I have to give the Minister time to cogitate on the amendment.

Right Hon. Mr. MEIGHEN: I earnestly hope he will meet us and that a vote on the matter will not be necessary.

At 1.05 p.m. the Committee adjourned, to meet again after the Senate rises this afternoon.

AFTERNOON SITTING

The Standing Committee on Railways, Telegraphs and Harbours, to whom was referred the Bill 12, an Act to provide for revision of the accounting set-up of the Canadian National Railway System, resumed this day at 5.35 p.m.

Hon. Mr. DANDURAND: Senator Meighen has suggested an amendment to provide that a footnote be attached to the balance sheet of the Canadian National Railways.

Right Hon. Mr. MEIGHEN: My amendment is that the following words be added to the present section 11 of the Bill: "and as a footnote to the balance sheet the aggregate amount of Proprietor's Equity and of the Dominion Government's contribution to meet deficits, with a supporting schedule giving details of such amount."

Hon. Mr. DANDURAND: I should like to know how the father of the Bill reacts to that suggestion.

Hon. Mr. LAIRD: What is your idea about this amendment, Senator?

Hon. Mr. DANDURAND: The question has been put to me, and I have passed it over to the Hon. Mr. Howe.

Hon. Mr. HOWE: Mr. Chairman, I should like very much to meet the wishes of Senator Meighen on this point. In the recess I have discussed it in great detail with the officers who have had most to do with the Bill, the Deputy Minister of Finance and my own Deputy Minister and the Auditor General, and we are very definitely of the opinion that the Bill which would carry with its balance sheet statements of this kind would be no improvement on the present balance sheet. In fact I think it would be somewhat worse, because we purport to give a statement of the present condition of the company, and we would still have it crowded by items that have no place in this balance sheet, or will have none, on the passage of the Bill.

I may say that this Bill has taken months to work out. We promised to undertake this work before a sitting of the Railway Committee of the House of Commons a year ago. We have been working on it ever since. I have given a tremendous lot of my own time and my officers have given a great deal of their time to the matter. It is a most difficult Bill to understand. I might suggest that this committee has given rather a snap opinion to-day, based on evidence you have just heard.

Let us examine that evidence a little. This same gentleman appeared before the committee of the House of Commons with a brief, to which no one could take exception. But that brief was circulated—I have the serial letter before me—to the Board of Directors, No. 56, to the Member Boards and Chambers, No. 35, and to the Sustaining Members, No. 15. In other words, the brief was sent to every member of every Chamber of Commerce in Canada. It was sent with this covering letter, every statement in which I think is absolutely incorrect:—

An Exhibit was filed with the attached Brief showing the latest published returns of the following government-owned railways:—South Australian Railways, New South Wales, Department of Railways, Victorian Railways Commissioners, Queensland Railways, all in Australia, and the South African Railway and Harbours in South Africa. Examination of the financial statements of these railways, which are conducted as monopolies directly by the Governments concerned shows:—

1. That in all cases interest is assessed on the capital invested by the government in the railways in computing the annual deficits. Rates assessed vary from 3·8 per cent to 4·5 per cent; and

2. That in all cases except one the accumulated surplus or deficit from operation is clearly shown on the balance sheet. The Victorian Railways, which is the exception, shows the complete deficit (this includes interest on government capital) for the year only on the balance sheet.

I repeat, that propoganda has gone to every member of every Chamber of Commerce in Canada. What are the facts?

Hon. Mr. LAIRD: Who sent that out?

Hon. Mr. HOWE: It was sent out by the Canadian Chamber of Commerce, Board of Trade Building, Montreal, and is signed by the secretary, Mr. Clarke.

Right Hon. Mr. MEIGHEN: We shall be here a long while if we are to go into that.

Hon. Mr. HOWE: I think this is worth saying because after all these are the gentlemen whose evidence you are depending on to kill this Bill; for that is the effect of the amendment.

Right Hon. Mr. MEIGHEN: Kill the Bill!

Hon. Mr. HOWE: Yes.

Right Hon. Mr. MEIGHEN: How can you say that, Mr. Howe? We do not affect the balance sheet one bit.

Hon. Mr. HOWE: That is the view we take. The Department of Finance is just as much involved as the Department of Transport, more so. They gave us the Bill to prepare because we have the experts to deal with it. Nevertheless they say, and we agree with them, that if we adopt the suggestion it simply means putting out another balance sheet clogged up with old dead-wood, which is all those accumulated deficits of money, lost years ago, amounts to. I think the Journal described the situation in a sentence, when it said that to put those things in the balance sheet is like charging ourselves with interest on the money we lost in 1930.

Right Hon. Mr. MEIGHEN: There is only a foot-note on that balance sheet of about twenty words. There will be a schedule on another page. It is only for information. How you can say it defeats the Bill passes my imagination. Why, Mr. Howe, surely you would not say that?

Hon. Mr. HOWE: That is what my own officers say, and that is my own opinion. Why single out this balance sheet for different treatment from that accorded any balance sheet ever published in the history of the world?

Right Hon. Mr. MEIGHEN: You know, Mr. Howe, we have a company of our own, and we have to put a foot-note on every balance sheet. It is something that does not go in the balance sheet itself because it does not affect the accounts, but it is information for the reader.

Hon. Mr. HOWE: There is no information to the reader in this statement.

Right Hon. Mr. MEIGHEN: That is all it is for.

Hon. Mr. HOWE: All this money has been cleaned out of the balance sheet.

Right Hon. Mr. MEIGHEN: But we think the information is of value. You may differ from us as to whether it is necessary to give it or not, but I do not see how you can say to the committee that it defeats the purpose of the Bill. You have achieved every purpose of the Bill.

Hon. Mr. HOWE: We take the view that if you put that foot-note on any man reading it knows it is put there for a purpose.

Right Hon. Mr. MEIGHEN: Your debits and credits are there. Then there is a foot-note by way of explanation and information. That is all. You may differ from us as to the wisdom of putting it on, but surely you cannot say to the committee that it is going to defeat the purpose of the Bill.

Hon. Mr. HOWE: That is what our officers say.

Right Hon. Mr. MEIGHEN: They should credit us with ability to think a little too. The foot-note does not affect the balance sheet one bit.

Hon. Mr. HOWE: Are you sure?

Right Hon. Mr. MEIGHEN: I am absolutely sure. The balance sheet is exactly the same as it was before. The foot-note, in effect, says: There is a history behind this, these are the facts. That is all it says. We do not touch your balance sheet.

Hon. Mr. HOWE: You scar it up badly.

Right Hon. Mr. MEIGHEN: No. All that will be put on the balance sheet will be just twenty words. Then the public is asked to look at the next page just to see what we have to do to arrive at that balance sheet. That is all.

Hon. Mr. HOWE: My officers and the Department of Finance take the view, and I agree with them, that we would rather publish to the world the balance sheet we have to-day, which is absolutely meaningless, than the balance sheet you suggest. We have given this very careful study for months.

Right Hon. Mr. MEIGHEN: We do not change it a particle.

Hon. Mr. HOWE: You add an appendix.

Right Hon. Mr. MEIGHEN: It is a foot-note. It is not even an appendix.

Hon. Mr. HOWE: The great point is made that we must keep those accounts alive. We might as well kill them; they are not live accounts at all.

Right Hon. Mr. MEIGHEN: I have had business men say to me—many of them have no interest in the matter whatever except the public interest—that it will be a mistake if we do not always hold out the fact there have been great losses on that road, and that we had to do all this pruning in order to get this result; that it will have later a bad effect throughout the country. I think there is a great deal in that view. That is about the only reason for the foot-note. No one can tell me or any other member of the committee without being offensive that this foot-note affects your balance sheet one iota. Your balance sheet is exactly the same as before.

Hon. Mr. HOWE: With a foot-note that this is only part of the story.

Right Hon. Mr. MEIGHEN: There is, I would say, a foot-note on a third of the balance sheets issued. It is for a corresponding purpose—by way of information; that is all. It does not affect the balance sheet.

Hon. Mr. DANDURAND: Information, but not to those who are interested.

Right Hon. Mr. MEIGHEN: No, not particularly for them, but just for the country.

Hon. Mr. DANDURAND: I am under the impression that it would be detrimental to our future financing.

Right Hon. Mr. MEIGHEN: I am very sorry you take that view, Mr. Howe.

Hon. Mr. HOWE: The Deputy Minister of Finance told me positively that as far as he is concerned the present balance sheet is better than the one proposed. Our auditor of Parliament takes the same view.

Right Hon. Mr. MEIGHEN: It is terribly disappointing to me.

Hon. Mr. HOWE: We are trying to clean out the dead-wood.

Right Hon. Mr. MEIGHEN: It is taken out.

Hon. Mr. HOWE: There is not a single dollar of investment in the road taken out. We are taking out what is absolutely dead-wood. When we amend the balance sheet and say these are the contributions to the railroad—

Right Hon. Mr. MEIGHEN: Those were obligations which we have written off. That is all we say.

Hon. Mr. HOWE: The first security is the immediate security. The Government guarantee is secondary.

Right Hon. Mr. MEIGHEN: I quite agree with that.

Hon. Mr. HOWE: The Government guarantee is secondary. A man takes the statement and looks into the thing, and says, "This is my balance sheet." He sees a loss of perhaps \$40,000,000 this year, and what obligations must be taken on this year; then he looks at the footnote, and sees that the Government has been pumping money into this thing for years. We took over the railroad and paid one hundred cents on the dollar, and every unsecured creditor got paid in full. A lot of money was pumped into that railroad, and to-day we want to make it face its debts and its creditors. That is the only purpose behind the Bill. I thought this important enough to take it up with Council, and it is the views of counsel that I have expressed.

I will withdraw while you take up the Bill. My presence might be embarrassing.

The CHAIRMAN: Your absence might be embarrassing. You told us the situation had been misrepresented by propaganda. I think it would be interesting if you read the statement, because we did not hear anything about this propaganda.

Hon. Mr. HOWE: In connection with the Victorian Railways, legislation passed in December last provides for a writing-down of the railway loan liability by 30,000,000 pounds Sterling. The interest on this capital write-down will no longer appear as a charge in the railway accounts. There is no accumulation of prior years' deficits on the 1936 balance sheet of the Victorian Railways.

In the annual report of the South Australian Railways for the year ended 30th June, 1935, the Commissioner suggests a capital write-down of 10,800,000 pounds Sterling and the elimination of the interest on that sum. Deficits accumulated up to 1927 were written off by parliamentary authority in that year.

The 1936 balance sheet of the Western Australian Railways shows no accumulation of prior years' deficits.

The Queensland Railways had a capital write-down of 28,000,000 pounds Sterling under parliamentary authority in 1931. The interest on this capital write-down no longer appears in the railway accounts. There is no accumulation of prior years' deficits on the 1936 balance sheet.

The New Zealand Railways had a capital write-down of 10,400,000 pounds Sterling under parliamentary authority in 1931. The interest of this capital write-down no longer appears in the railway accounts. There is no accumulation of prior years' deficits on the 1936 balance sheet.

The New South Wales Railway is the one railway in this Australasian group on whose balance sheet the accumulated deficits have been continued without adjustment.

However, I simply say I do not think the authority behind the evidence given to-day is sufficient to kill my Bill.

Right Hon. Mr. MEIGHEN: I protest against that language, Mr. Howe. We are not killing the Bill at all. The Senate has tried, and tried earnestly, to meet you. We cannot be a mere automaton.

Hon. Mr. HOWE: We do not ask you to be that.

Right Hon. Mr. MEIGHEN: We are trying our best to meet you in this matter. I was never so disappointed in my life at a presentation in the Senate. I tried to meet you.

Hon. Mr. HOWE: This is a highly technical Bill. It is hard to change a T or dot an I.

Right Hon. Mr. MEIGHEN: We are hardly doing that, and for any officer to come here and tell us that that defeats the Bill is an affront to our intelligence. I cannot understand the Deputy Minister of Finance taking such a stand.

The CHAIRMAN: What is the next step?

Right Hon. Mr. MEIGHEN: I have gone further than some have wanted me to go. We are simply asking that certain information which we think would be of value be shown by way of a schedule. Now we are told we are deciding to kill the Bill. If that is the decision of the administration, I do not want the Bill killed in committee; it should be reported, and I would refrain from moving any amendment at this time. I certainly think the Bill should be reported. It should not be killed in this Committee.

Hon. Mr. DANDURAND: I would suggest, then, that the amendment which was mooted as an explanation should be brought in. What clause is it?

Mr. SMART: 22.

Hon. Mr. BLACK: The Bill can be amended before the Senate.

Right Hon. Mr. MEIGHEN: Oh, yes. If we are going to amend it we should amend it in the House. We should not do anything here that the Government tells us is going to kill the Bill.

Hon. Mr. HORNER: Mr. Meighen, you have certainly gone further to meet the Government than I would wish you to go. I would wish the Bill killed.

Right Hon. Mr. MEIGHEN: We are notified that if we amend it here it will defeat the Bill and there will be no record. We are not going to take that stand.

Hon. Mr. BALLANTYNE: I move that we adjourn.

Right Hon. Mr. MEIGHEN: Oh, no. We will report the Bill.

The CHAIRMAN: Counsel has handed in this proposed amendment:—

In Bill 12, strike out clause 22 thereof and substitute therefor the following:—

The Securities Trust is hereby declared for the purposes of the Canadian National-Canadian Pacific Act, 1933, and the Canadian National-Canadian Pacific Act, 1936, to be a corporation comprised in the National Railways, provided, however, that subsection 3 of section 8 of the Canadian National-Canadian Pacific Act, 1933, as enacted by section 3 of the Canadian National-Canadian Pacific Act, 1936, shall not apply to the said Corporation.

Is that clear?

The LAW CLERK: It is not my drafting. I think it is expressive.

Mr. SMART: The section excepted there is the one which makes directors of the National Railway Company directors of all the subsidiaries.

The amendment was agreed to.

Right Hon. Mr. MEIGHEN: In section 15, what is the value of the last phrase, "being loans which have not been and are not to be funded by the National Railways"? I do not think these words have any value, nor do I think they are correct.

Mr. MATTHEWS: That deals with the loans by the Government to the railways that have not been and are not to be covered by bonds of the railways. They are distinguished from those that are to be funded, all those loans that are set out in the balance sheet to the credit of the Government under the heading of temporary loans.

Right Hon. Mr. MEIGHEN: But have not certain of them been already represented by bonds given by the railway to the Government?

Mr. MATTHEWS: No. None included in these loans are covered by any bond issues of the National Railways.

Right Hon. Mr. MEIGHEN: Well, I will not press the matter further after that assurance.

I would suggest that section 24 should be more specific as to what is to be stated in the public accounts. Mr. Matthews assures us that there is to be a more complete statement than before, but he is auditor for the National Railways and will not have the determination of just what statement will be given there. I should like to ask if the Government has any objection to a more specific definition as to what must be given in the public accounts? I have a draft here of an amendment, which would make the section provide:—

The Minister shall include annually as an appendix—

Hon. Mr. DANDURAND: That is to say, you are making a new draft?

Right Hon. Mr. MEIGHEN: Yes.

The Minister shall include annually as an appendix to the public accounts of Canada—

I should like Mr. Matthews to be certain that this will not destroy completely the public accounts of Canada.

—a detailed statement of the assistance, whether by way of grant or unpaid loan of money, undischarged guarantee, grant of land or otherwise, given by the Dominion of Canada to every railway, showing separ-

ately the assistance given (a) in aid of construction and (b) to meet losses in operation. Such statement shall show separately for each item of assistance the name of the company to which granted; the date upon which granted; the authority for the grant, whether by statute, contract or otherwise; the purpose for which granted, and the manner in which such assistance has been dealt with in the public accounts of Canada. The appendix shall also contain a similar statement in respect of loans which have been repaid and guarantees which have been discharged, showing the same details and also the dates of repayment or discharge. Grants to relieve unemployment shall not be considered as assistance to the railways.

I am not moving this.

Hon. Mr. DANDURAND: That is, the grants made to the Canadian Pacific Railway and the Canadian National lately?

Right Hon. Mr. MEIGHEN: To encourage men.

The CHAIRMAN: That is in place of section 24?

Right Hon. Mr. MEIGHEN: Yes. While that is being considered, I would rather have this title for the Bill—I never did like “set-up”:

An Act to provide for cancellation of certain indebtedness of the Canadian National Railway System to His Majesty and for adjustment of the accounts of the system.

I am not particularly pressing either. The one important thing which I did think was of some value, but as to which I have had a rude disappointment, is just the addition of a schedule to the balance sheet in section 11. These, I think, would be improvements if the Government would accept them.

The CHAIRMAN: What about that suggestion of Mr. Meighen for section 24?

Dr. CLARK: Our endeavour will be to give the whole story just as comprehensively as possible. I think there is no objection to this at all. It may be a bit difficult to get particular dates and authorities of some of the very old loans and grants.

Right Hon. Mr. MEIGHEN: Put in “as far as possible.”

Dr. CLARK: Yes. Our endeavour will be to go to the limit in trying to give completeness and accuracy. I think that perhaps with the addition of the words “as far as possible” the proposed section would be perfectly all right.

Right Hon. Mr. MEIGHEN: I move it if the Government accepts it.

The CHAIRMAN: Gentlemen, will you please look at section 24 of the Bill. Mr. Meighen has suggested, and his suggestion has been accepted by the Deputy Minister of Finance, that in lieu of this section there should be the following section:—

The Minister shall include annually as an appendix to the public accounts of Canada a detailed statement of the assistance, whether by way of grant or unpaid loan of money, undischarged guarantee, grant of land, or otherwise, given by the Dominion of Canada to every railway, showing separately the assistance given (a) in aid of construction and (b) to meet losses in operation. Such statement shall as far as possible show separately for each item of assistance the name of the company to which granted; the date upon which granted; authority for the grant, whether by statute, contract or otherwise; the purpose for which granted, and the manner in which such assistance has been dealt with in the public accounts of Canada. The appendix shall also contain a similar statement in respect of loans which have been repaid and guar-

antees which have been discharged, showing the same details and also the dates of repayment or discharge. Grants to relieve unemployment shall not be considered as assistance to the railways.

Shall that amendment be approved by the committee?

Some Hon. SENATORS: Carried.

The CHAIRMAN: That is an agreement.

Right Hon. Mr. MEIGHEN: What position does the leader of the Government take to the title?

Hon. Mr. DANDURAND: It is suggested that these words be added "capital stocks and." The title would then read:—

An Act to provide for cancellation of capital stocks and certain indebtedness—

Right Hon. Mr. MEIGHEN: That is right.

The CHAIRMAN: This seems to be agreed upon, that the title be stricken out and this new title substituted:—

An Act to provide for cancellation of capital stocks and certain indebtedness of the Canadian National Railway System to His Majesty and for adjustment of the accounts of the system.

Shall this be the title of the Bill?

Some Hon. SENATORS: Carried.

The preamble was agreed to.

The CHAIRMAN: Mr. O'Connor, you have some comments.

Right Hon. Mr. MEIGHEN: Does "set-up" occur anywhere else in the Bill?

The LAW CLERK: No. There is an "and" required on page 1, line 23, between the words "advances" and "claims".

The CHAIRMAN: That is in paragraph (c) of section 2, the interpretation. The proposed amendment was agreed to.

The LAW CLERK: Then I am asking whether the word "prior" ought not to be inserted before the word "approval" on page 3, section 6, line 24. The question is whether you wish this to be done without the authority of Parliament, to be subsequently approved by Parliament, or wish it not to be done until after it has been approved by Parliament. I am only asking what is thought desirable.

Right Hon. Mr. MEIGHEN: If there were a sale, what would be the good of Parliament acting afterwards?

The LAW CLERK: That is what suggested to me that "prior" ought to be inserted.

The CHAIRMAN: Mr. O'Connor wants to know if it is the opinion of the Committee that the approval of Parliament should precede any sale.

Hon. Mr. DANDURAND: I think we had better leave it as it is, although the Deputy Minister of Finance says it does not matter very much. Are you taking strong ground, Mr. O'Connor?

The LAW CLERK: I am taking no ground at all.

Right Hon. Mr. MEIGHEN: I suppose, Mr. O'Connor, that if you put in "prior" and there was a sale and it was afterwards approved, it would still be valid.

Hon. Mr. DANDURAND: All right. No amendment.

The proposed amendment was rejected.

The CHAIRMAN: Is there anything more, Mr. O'Connor?

Hon. Mr. DANDURAND: Page 5, section 16.

The LAW CLERK: There, in subsection 2, you have the provision for by-laws. The language is most repetitive. The same expression is used over and over again. I have written it more scientifically, and so that everything contained in the present language is expressed in twenty per cent less language.

Such by-laws shall provide for—

- (a) the custody of the corporate seal of the trust;
- (b) the execution of the instruments by two or more trustees;
- (c) meetings of the trustees to be held at least once in every year, the giving of notice of meetings, the appointment of a presiding officer at each meeting and the number of trustees necessary to constitute a quorum at meetings.

This states everything that is contained in the other wording, and is twenty per cent shorter.

The CHAIRMAN: What do you say?

Dr. CLARK: All right.

The CHAIRMAN: Shall section 16 be amended by substituting the words read by Mr. O'Connor?

Hon. Mr. HARDY: It will not change the meaning at all, Mr. O'Connor?

The LAW CLERK: Not in the slightest.

Hon. Mr. HARDY: Then let it stand as it is.

The CHAIRMAN: Shall the Bill be amended as indicated?

Hon. Mr. HARDY: No.

Right Hon. Mr. MEIGHEN: I do not care a particle.

Hon. Mr. DANDURAND: I think what Mr. O'Connor suggests is better in the interests of clarity.

The proposed amendment was agreed to.

The CHAIRMAN: Now, is there anything else?

The LAW CLERK: There is a typographical error on page 5, section 19, line 28. The word "secretary" is spelled with a capital. It should be lower case.

The CHAIRMAN: Shall we reduce the secretary to lower case?

The proposed amendment was agreed to.

The CHAIRMAN: Now, shall we report the Bill as amended?

Some Hon. SENATORS: Carried.

The Committee adjourned at 6.35 p.m.

EXHIBIT A

CANADIAN NATIONAL RAILWAY SYSTEM

REVISION OF CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1935—AS PER BILL 12

ASSETS	LIABILITIES	C.N.R. Consolidated Balance Sheet after Adjustment
INVESTMENTS:		
Investment on Road and Equipment..	\$1,831,407,108	
Improvement on Leased Railway Property..	3,879,078	
Miscellaneous Physical Property..	60,227,654	
	\$1,895,513,841	
Sinking Funds..	11,921,666	
Deposits in lieu of Mortgaged Prop- erty Sold..	5,224,995	
Investment in Affiliated Companies	31,584,107	
Other Investments..	778,157	
	\$1,945,022,769	
Current Assets..	74,787,953	
Deferred Assets..	18,837,219	
Unadjusted Debits..	22,064,024	
	\$2,060,711,966	
		\$ 688,906,502
		\$2,060,711,966
		\$2,060,711,966

STOCKS:		
Capital Stock of Subsidiary Companies owned by		
Public..	\$	4,584,225
Governmental Grants..		2,570,904
Long-Term Debt—Public..		1,154,779,000
Dominion of Canada—		
Temporary Loans:		
Outstanding March 31, 1936..		2,043,725
Repaid by March 31, 1936..		72,683,250
Capital Loans from 1932..		34,346,479
C.G.R. Working Capital..		16,771,980
Current Liabilities..		45,330,201
Deferred Liabilities..		3,423,088
Unadjusted Credits and Reserves..		35,272,608
		\$1,371,805,463

Total Liabilities..		
Dominion Government—Proprietor's Equity (represented by)—		
1,000,000 Shares of no par value stock of the Canadian National Railway Company issued in ex- change for the residual value of Canadian Northern Stock..		
\$	18,000,000	00
5,000,000 Shares of no par value capital stock issued by Securities Trust to the Government in con- sideration for the securities, ad- vances, claims for unpaid interest and collateral security now held by Government..		
	282,616,208	35
Dominion Government Capital Ex- penditures for Canadian Govern- ment Railways..		
	388,290,294	40
		\$ 688,906,502
		\$2,060,711,966

The Dominion Government Proprietor's Equity represents a portion of the outstanding Dominion Government Debt applicable to Canadian National Railways amounting to \$1,310,239,239.44. (Schedule to be included.)

DEFICITS IN CONSOLIDATED FUND:

Relief (Federal Portion)	\$ 240,102,587 00	
Canadian National Railway	621,332,736 69	
All other accounts including War Expenditure	712,374,941 52	1,573,810,265 21
		<hr/>
		\$3,005,077,458 09

