

be prepared, showing for each year on the debit side the various amounts paid, giving date or average date and the various amounts chargeable to each Province, and on the credit side the amount of subsidy, of interest on school funds, on widows' pensions and uncomputed stipends, Upper Canada and Lower Canada, on the amount coming to each Province under the award for the library and on Common School lands and Crown lands, improvement funds and other services. They are further of opinion that a balance should be struck yearly, and that in arriving at such a balance interest should be allowed or charged half-yearly, and that the amounts determined by award to be taken as the basis so far as it applies to the statement in question.

The Treasurers therefore beg to request that such a statement be prepared and furnished to them at an early date, and that all special funds be carried to the credit of the Province to which they respectively appertain, as on 1st July, 1867.

"S. C. WOOD,
Treasurer of Ontario.

"J. WURTELE,
Treasurer of Quebec.

"Ottawa, 23rd November, 1882."

It is contended on behalf of the Provinces that this memorandum was approved of by both the Finance Minister at Ottawa and his deputy. The accounts, calculated on the basis of compound interest, prepared in exact accordance with the principle set forth in the memorandum, were sent to the Treasurers in 1883, thirteen months after the date of the memorandum, no word of objection or protest having been raised in the meantime. These same accounts were in the session of 1884 presented to the Dominion Parliament. In October, 1884, a second conference was held at Ottawa at which were present the Treasurers of the Provinces, the Finance Minister of the Dominion and his deputy, Mr. Courteney. These same accounts were placed before the members of the conference, and an examination into their details was continued for two long days. Items were discussed pro and con, inquiries made into this and that account, but not one word of protest uttered against the principle upon which the accounts were calculated. The Dominion Act of 1884 (47 Vic., ch. 4) now calls for some remark. It aimed at declaring the intentions of the act of 1873, to which allusion has been made. The one is the complement of the other. The act of 1873 relieved the Provinces from the excess of debt, that of 1884 cancelled the charges made against the Provinces from year to year as to the interest on this excess. In other words, by the operation of the act of 1884 the Dominion of Canada became liable for \$73,006,088 as the debt of the late Province of Canada on July 1st, 1867. It was claimed for the Provinces that, while they were charged compound interest on these accounts, this act of 1884, which aimed at reimbursing them to the extent of the interest charges on the excess of debt, did not allow compound interest. Inasmuch as the act of 1884 was passed after the accounts of which we have been speaking had been prepared, it became necessary that they should be re-cast. A re-cast was accordingly prepared by the Finance Minister, the basis of calculation being again that of compound interest, and sent to the Treasurers of the two Provinces in January, 1886. The Finance Minister, after so sending the accounts to the Treasurers, accepted corrections made on behalf of the Provinces and adopted said corrections without reservation or objection. It is important to remember also that Mr. McLelan, Finance Minister at that time, laid before the House without request of Parliament the accounts of the Dominion with the Provinces from 1st of July, 1867, to 30th of June, 1885, made up at compound interest. A third conference was held at Ottawa in Oct., 1883, and then for the first time during all these years the objection was taken by the Dominion Government that the interest had been calculated on a wrong basis, that the memorandum of 1882 was not binding and that the Provinces would not be allowed more than 5 per cent. simple interest on these accounts.

The Contentions of the Government.

We contend (1) that by the system adopted by the Dominion for the payment of the subsidies, the retention on account of the excess of debt until the same was wholly assumed by Canada, and the holding and beneficial use of the assets of Ontario and Quebec, including the trust funds, and by agreement, the accounts between the Dominion of Canada and Ontario and Quebec respectively, are to bear interest at the rate of 5 per cent. per annum, compounded half-yearly; (2) that the general rule that payments made by the debtor should be applied primarily in reduction of the interest accrued on the creditor's advance is to be observed; (3) that in respect of certain funds the rate of interest to be borne thereon is 6 per cent. per annum.

This question is of such serious importance to the Province that we would lose the large sum of \$857,000 if we are compelled to accept a settlement on the basis of 5 per cent. simple interest, that being the basis of the new accounts submitted in 1882. Aside from every other consideration the reasonableness of the demand of the Provinces that they should receive 5 per cent. interest compounded and computed with half yearly rests on the very large amounts held for them in trust by the Dominion since the date of Confederation, is very apparent when we remember that during a large part of

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that time the Dominion continued to pay 6 per cent. and even 7 per cent. in some instances on borrowed money, that in their accounts they credit us with 5 per cent. compounded yearly on our share of the Common School fund, and that they have allowed 6 per cent. continuously on other funds such as the Indian trust fund and the Seigniorial indemnity fund of Lower Canada. The utter unreasonableness of the new accounts submitted by the Dominion is just as apparent when we notice that from year to year the Dominion gives us credit in them for large accruals of interest and that the payments of interest paid to us are not charged against this accumulating interest credit, but are charged against the principal lying to our credit. In this way we lose interest altogether on these large accumulating credits of interest, so that the new accounts when analysed do not allow us even 4 per cent. interest on our trust funds.

I have given this brief explanation as to the disputed accounts, not by way of argument, inasmuch as the question is so large that it would, if fully discussed in itself, take up a whole afternoon, but with the hope that it would prove interesting especially to those who are sitting here for the first time, and especially because I am delighted to announce that I fully expect that the whole subject will soon be disposed of without further irritation and in the most friendly spirit possible. (Applause.)

A Comparison—Assets.

I will now briefly allude to our statement of assets and liabilities. It will be noticed that the sum invested in drainage debentures is considerably larger than it has been for some years past. We purchased last year municipal debentures for drainage purposes to the amount of \$85,654. We received last year as payments on debentures \$41,192, so that our investments for this purpose exceeded our receipts by \$44,464. As to the next branch of our assets, that which appears under the title of "Capital held and debts due by the Dominion to Ontario bearing interest," it will be remembered that the late Treasurer departed last year from the classification followed in 1889 and previous years in which appeared the item of \$2,848,289, which was our share of the capital sum given to us under the provisions of 47 Vic. ch. iv., to which I have already alluded. The reasons assigned by him for this departure commended themselves to the House. I follow, therefore, the arrangement of our assets as set forth in the financial statement of last session, and in place of this item of \$2,848,289 I substitute the item of \$1,590,519, being the balance due to us of unpaid subsidy and other credits. This last named item is arrived at as follows:—It was agreed at the conference of 1888 that the acts of 1873 and 1884 should be so interpreted that Canada was to be considered as having assumed the surplus debt of \$10,506,000 at the date of Confederation instead of in 1873. Therefore, on the one hand, we remove this sum of \$2,848,000 from the credits in the Ontario account as well as the items charged against us as interest on the surplus debt, and on the other hand we place to our credit the items which the Dominion retained from our subsidy from 1867 to 1873 to meet the interest on our excess of debt. In this way, starting with the accounts as submitted to us by the Dominion in 1886, we arrive at the balance of subsidy referred to. The three special trust funds, viz., Upper Canada Grammar School fund, Upper Canada building fund and the land improvement fund, aggregating nearly \$2,000,000, having been referred to so constantly in previous years, call now for no remark. These trust funds came to us under the award, the Dominion continues to hold them for us, we get interest on them regularly and we have not touched a dollar of them. These investments, bringing us in half-yearly payments of interest, are admittedly of the safest character possible, and it can no longer be contended in the face of the letter of the Finance Minister at Ottawa, suggesting such legislation as would result in placing the Common School fund completely under our control, that they are not available assets. We have to our credit bank balances to the amount of \$44,792, and this leaves us altogether a surplus of assets over and above all liabilities at present payable of \$5,809,995.

Liabilities.

As to our liabilities I need give only a word of explanation. There is a small balance due to a few municipalities—I think four only—on account of the land improvement fund. I am referring, of course, to the collections made on account of sales of Common School lands. Honorable gentlemen will remember that the collections up to July 1, 1867, belonging to this fund, amounted to \$124,685, that in 1882 we passed an act under which this sum was paid to the municipalities entitled, and that in 1886 we passed another act providing for the payment of the interest on this same fund to these municipalities. This small balance will be paid as soon as certain questions arising out of the incorporation of villages and the consequent alteration of the boundaries of townships are settled. Our liability to Quebec in the matter of the Common School fund is plainly set out in the statement in the hands of hon. gentlemen. The statement before us shows that our present liabilities amount to only \$3,220. We have never included as a present liability our railway aid certificates, nor do we now so include them. We need not this moment concern ourselves with the question of payments which were as a matter of deliberate policy postponed for future years, which were never intended to