of the money invested by the Government in the Company itself was written off by the 1937 Act, nor was there any reduction of the interest-bearing debt in the hands of the public.

It was on the basis of this average debt that the Canadian National Railways sought relief from fixed interest charges in its submission to the Royal Commission on Transportation in 1950. The Commission had been appointed in 1948, by Order in Council P.C. 6033, to review the capital structure of the Canadian National Railways and report on the advisability of establishing and maintaining the fixed charges of that Company on a basis comparable to other major railways in North America.

The Canadian National Railways, in its initial brief to the Commission, proposed that the portion of its bonded indebtedness held by the Government should be converted to equity capital and to provide relief in respect to the lines operated in the public interest, the publicly held bonded indebtedness of the Canadian National Railways should be assumed in whole or in part by the Government or, alternatively, relief should be provided by such other action as could best be adapted to the needs of the situation. Later, Mr. Donald Gordon, Chairman and President of the Company, submitted that the $760,000,000 interest-bearing obligations held by the Government should be exchanged for equity capital and reflected in the balance sheet as such. He also asked that the Government acknowledge an indebtedness to the Canadian National Railways in the amount of $300,000,000 to bear interest at 3 p.c. until discharged. This would be set up in the accounts of the CNR as a capital fund to be drawn on from time to time to retire interest-bearing obligations in the hands of the public or for capital additions to the property. As a consideration for the acknowledgment of the indebtedness, the CNR would issue a commensurate amount of equity stock to the Government. It was also submitted that development lines be financed by not more than 60 p.c. in the form of interest-bearing securities, the balance to be supplied by the Government against the issue by the CNR of a commensurate amount of equity stock to the Government. The Board of Directors of the Canadian National Railways considered that nothing short of these measures could be deemed adequate treatment of the capital structure of the Railway. The reasons for this stand were that the Railway, burdened with excessive fixed charges, was obliged to operate without due compensation as a matter of national policy and as an instrument of national development; further, that it possessed considerable milage of marginal and non-paying lines, and that railway tariffs of rates and tolls had not kept pace with increased costs of labour and materials.

The Royal Commission concluded that the Canadian National Railways had established a case for reduction of fixed charges and for the desirability of the Company being able to accumulate a reserve out of earnings. The Commission recommended relief from the present heavy fixed charges so that deficits would not be experienced under efficient management when normal revenues are obtained; the accumulation out of earnings, when available, of some reserve, or what has come to be known as "something to come and go on" to provide additions and betterments; the payment to the Government of the balance, after interest charges on debts to the public and provision for a reasonable reserve had been made.