

3, Sub-section 3, of the Loan Account, 1933, which reads as follows: 'A sinking fund equivalent to 1% per annum of the total nominal amount of stock shall be established under the control of trustees to be appointed by or with the approval of the UK Treasury. The first payment to the fund shall be made at a date to be approved by the Treasury, not being later than the first day of July 1938, and the Sinking Fund monies and the income arising therefrom shall, subject to payment thereabout of the expenses of management of the fund, be applied for purchases of stock, or be invested in such of the securities as may from time to time be approved by the Treasury.' Under these provisions, trustees, the holders for the time being of the post of Permanent Secretary to the Treasury, Permanent Under-Secretary of State for Commonwealth Relations, and Governor of the Bank of England, were appointed by His Majesty's Treasury in the United Kingdom. The annual payment to the Fund was established at £178,000 sterling, the first payment being made in June 1938.

*Nature of Fund:* The Sinking Fund is a cumulative fund which will provide for the redemption of a substantial proportion of the stocks at maturity.

*Operation of the Sinking Fund:* Payments of £178,000 sterling have been made in each year since 1938 for credit of the Trustees' Account. The total amount of these payments up to 30 September, 1947 is, in sterling, £1,780,000, which is being applied in purchase of the stock.

**Mr. Chairman** What did they mean there, "for redemption"?

**Mr. Smallwood** No sir, it does not mean that. I will explain in a moment. None of the stock has been redeemed. Under the covering statute, income arising from the income of the stock is held by the trustees. This has been applied in purchase of the stock. The total nominal amount of stock held by the trustees at 30 September, 1947, was, in sterling, £2,071,477. At \$4.04 to the dollar that is \$8,368,000. That last figure is not my own computation.

I would like to say a word or two about that sinking fund. To begin with I want to say this: that in all the many years that we had a govern-

ment in this country down to 1934, we borrowed many millions of dollars, but in all those years such a thing as a sinking fund, judging by their actions at least, never entered the minds of any of our governments. They just borrowed year after year, hoping that when each of the loans was gone through, either there would be a windfall or a stroke of luck, or else that they could go out on the market and borrow more to pay off the old loan as it came due; but there was no sinking fund. The first sinking fund was established in 1933 by law, and came into operation, as this reply tells us, in 1938. Now the idea, as I understand it, of a sinking fund is this: if a government goes out and borrows \$5 million or \$10 million, or any amount, for 20 years, or 25, or 30, or 50 years, they have to pay interest on that loan every year until it matures. But when it matures there should be some other money accumulated, saved up, in a pot or a sinking fund, to meet the loan when it comes due. If not all of it, then as much of it as is humanly possible. If you have 20 years to go, then in that 20 years pour into your sinking fund as much as you can scrape together, so that when the 20 years are up and the loan falls due, you will have something saved up to pay on your principal. And so in 1938 a debt of some £70 or £80 million sterling, held in England, was guaranteed by the government's own sinking fund. The loan comes due in 1963. Newfoundland has got to pay off that loan in 1963; she has to go out on the market and buy more money to pay off the old money, or she has to have a sinking fund.

Now Mr. Chairman, when you come to create a sinking fund there are two ways to do it. You can set aside so much a year, say 2%, or 5% of the principal, and every year you will pay it to the sinking fund.... What they did in this case was make it 1%. But 1% from 1948 to 1963 when the loan would fall due would be what?.... You pay 1% into the sinking fund every year for 20 years, from 1938 to 1963, and all you have saved up in our sinking fund to go against your debt when it falls due is 25%, and there is 75% left. So here is what they did. They appointed these trustees — one man from the Bank of England, one man from the British Treasury, one man from the Dominions Office. They are a board of trustees, representing whom? Representing the Government of Newfoundland and the bondholders,