

Mr. FISHER: I have read the report of the Turgeon commission, I have gone back to the committee's reports at that time. This was not an issue in 1952, as I recall.

Mr. GORDON: That is quite right. The method of depreciation, when was it changed?

Mr. TOOLE: In 1956.

Mr. GORDON: You will find this, and of course you have to know about it before you realize what the report meant. The Turgeon commission did require an examination of the accounting procedures of the railway so as to get on to a uniform accounting basis. They pointed out that no comparisons could properly be made because the accounting procedures were so different. It took years to get this down because it is a very complex and difficult subject. By 1956 the board of transport commissioners brought in a ruling in respect of what was known as uniform accounting, and at that time we started to accrue depreciation on the basis of uniform accounting. That is when it became obvious how underdepreciated we were.

Mr. FISHER: No one knew of this before?

Mr. GORDON: It was never brought to the surface in that way.

Mr. SMITH (*Simcoe North*): To use a term other than depreciation, in effect the stock and equipment of the railway when it was considered in 1952 must have been substantially overvalued.

Mr. GORDON: That is another way of putting it.

Mr. FISHER: But to put it also from the point of view of the C.P.R., they gave up the alternative of what might have been bigger dividends in order to have a sound depreciation structure.

Mr. GORDON: Absolutely right.

Mr. FISHER: In other words, if we are transferring criticism, we have to go back to C.N.R. management in the 1920's, 1930's and 1940's when they missed out on this situation.

Mr. GORDON: I do not like to criticize my predecessors. What they did in those years was accepted and recognized as being all right. That was the accounting practice of the day. Moreover, Mr. Toole reminds me that the same procedure is still followed by railways in the United States. It is not necessarily wrong. It is merely a point of view. In the case of the C.N.R. I assume that the thinking of the day was, in effect, "it does not matter because we have no shareholders in the usual sense that are being affected by payment of dividends or otherwise". The financial results in the years between 1923 and 1950 should have been much worse, we estimate to the tune of \$900 million, spread over that period.

Mr. FISHER: What?

Mr. GORDON: Yes, that is what we are saying.

Mr. SMITH (*Simcoe North*): I would like to ask another supplementary question to Mr. Fisher's point on depreciation.

Mr. GORDON: I will jump in quickly and underscore this. I have sweated so much on this, I may get a little incoherent about it. We are struggling with the debt structure now in which we are paying \$61 million of interest. That is damned nearly my deficit, and that did not apply to my management. I am not responsible for it. The reason that that is so is that depreciation was not set up on anything like an adequate scale to provide for the rehabilitation of equipment when it came due, plus another factor that inflation has come in and the purchase of new equipment to replace old equipment which is being written off has been at a much higher price.