

of cases the big stores have such advantages in their situation, a clientele in the habit of shopping at particular places, large advertisement and window displays, &c., that they are, as a matter of fact, able to pass on a considerable proportion of the taxation in the shape of higher prices. Another important factor is the use of retail credit, which, in effect, ties customers to a firm. In the case of co-operative associations this has undoubtedly been one of the main factors that has enabled them to compete even as well as they have done against the difficult circumstances of the past few years. Clients are simply not able to transfer their custom. To sum up, the incidence of the present company-tax varies from industry to industry. A large part of it is borne by the farming community in the shape of higher charges for essential services. A large part of it has been passed on to consumers in the shape of higher prices which have increased the cost of living, and thereby stimulated demands for higher wages, thus starting a vicious circle. Some part of it has been borne by shareholders, and this has been capitalized by a fall in the value of their securities. Different classes of consumers are affected in varying degree, the worst effect being on farmers and receivers of fixed incomes. Wage-earners also suffer, because wages lag behind the cost of living.

5. The reasoning upon which the foregoing analysis is based could be supported by authoritative pronouncements concerning the operation of the corporation-tax in the United States, and by the fact that the corporation-tax in Great Britain has now been abolished. Since a joint-stock company has certain privileges such as the limitation of liability, it is, I think, reasonable to argue that as an entity it should pay some taxation to the State. The case would be met by a flat rate of taxation upon the profits, divided and undivided, of companies, or, if the financial situation warranted it, upon undivided profits. Individual shareholders could then be assessed upon their personal incomes as in Great Britain. This would sweep away the worst injustices of the present system; competition between large and small companies would be on even terms, since the effect of graduation would be removed. The present graduated tax is based upon a false analogy between the ability of an individual and the ability of a legal entity to pay taxation. It results, in so far as the tax rests upon shareholders, in degressive instead of progressive taxation and perpetrates many injustices, besides allowing wealthy men to distribute their investments in such a way as to escape a large part of the taxation they ought to bear. Under a flat rate much of the tax would continue to be passed on as it is now. Where companies compete with private firms the tax would tend to lie where it was placed, but the burden may be regarded as the price paid for the privileges of incorporation.

Mr. Weston.] You say that banks pass on the whole of the taxation, and I suppose you are speaking with reference to the banks of the Dominion?—Yes.

In England this system of company-taxation does not obtain?—No.

What would you say has been the average rise in the rate of interest in England? Take Government securities, for instance. That is a fair test?—Any answer I could give would be a sheer guess.

Have you considered that point, how far rates of interest have risen in England?—I do not see the connection—

Your argument is that practically the whole of the rise in the cost of living in this country is due to our system of company-taxation?—Oh, no. All I say is that the system of company-taxation has contributed to the rise in the cost of living.

One of the main causes of it would be, would it not, the rise in the rate of interest?—I do not think it would be a main cause. I think it would probably be a contributing cause.

You say it is a contributing cause only?—Yes.

To what extent would you say that the rise in the rate of interest in New Zealand is due to company-taxation?—To a very small extent, I should think, answering offhand.

Take, for instance, the rise in bank overdrafts from a minimum rate of $5\frac{1}{2}$ to $6\frac{1}{2}$ per cent. The cause of that rise could be attributed only slightly to company-taxation?—Yes. All that I would argue about company-taxation is that the bank does pass it on by increasing the charges for its various services, and it performs several.

The only banks' services are exchange and rates of interest. Those are all their charges that have been raised?—I think that a very large part of a bank's profits come out of exchange, as a matter of fact.

Would you say that increased exchange rates were due simply to company-taxation?—Not simply to company-taxation.

Would you say that company-taxation had anything to do with exchange rates?—To this extent: the banks have to make a profit over and above company-taxation, and those costs and charges that they have to meet are borne in mind and taken into account when the rates of exchange are fixed.

Take South Africa. In a matter like this I presume that you have gone carefully into your facts. Have you considered the working of the exchanges in connection with South Africa and London?—No, I have not considered them in detail.

You have not compared the New Zealand rates with the rates of exchange in other countries which are in a somewhat similar position?—No, not exactly.

Would you be astonished to know that the rates of exchange between South Africa and Great Britain are practically the same as those between New Zealand and Great Britain?—Not at all.

And in South Africa there is no company-tax?—That is so, but I do not see that that invalidates my argument at all.

You find the same rates of exchange ruling in South Africa as here?—Not exactly the same.

Practically the same?—Practically the same. All that I argued was that company-taxation had a tendency to increase bank charges.

Would you be prepared to express an opinion on the extent of that tendency?—I have said already that it is a slight extent.