But are there not many industries that are so large that they are beyond the capacity of an individual to run ?—It is more a question of the development of industries, to commence with.

Is it not true that many industries are so large that they must be operated by companies ?—Now, yes.

You think it is true that a company pays the tax out of its own profits ?—Yes.

Therefore the payment of the tax reduces the dividend, and makes those industries not so desirable from an investment point of view as they would be if the profits were there by reason of the tax not being paid : would not that affect the flow of capital to those industries ?—I think you are assuming that a large company comes into being straight away——

I am not assuming that at all. Is not it the case that if an industry is pretty profitable more capital will flow to that industry ?—Yes.

If you reduce the profits by taxing it heavily, less capital will flow to it ?—Yes. The more profitable the return, the more people will invest in it, and the more competition will be created.

And the result of that greater competition will be to reduce the margin of profit, until the extreme profit is not made ?—Yes.

If a flow of capital reduces the margin of profit, then if you take away capital from it the margin of profit is widened, is it not ?—Nor necessarily.

Competition is lessened, is it not ?—Yes.

Does not that nearly always mean a widening of the margin of profit ?—Not necessarily.

But it generally follows ?—I am not prepared to admit that, because I am not sufficiently acquainted with that phase of the matter.

Well, do you not think it reasonable that if competition is reduced the margin of profit should be widened ?—I will admit that when competition is increased the margin of profit is lessened, but it does not necessarily follow that immediately competition is lessened the margin of profit is increased.

If the margin of profit is increased by reason of stopping the flow of capital to an industry, is not that " passing it on " to the customers ?—If it eventuates.

Do you not think it probable it will eventuate ?—No, I do not think so. It is not probable. It is possible. I do not think the reverse is so true as a general thing as that when you increase competition you decrease profits. I do not think the reverse is so true—that when you decrease competition you increase profits. Competition does not decrease if profits are going to increase.

If you have profits, we will say, of 10 per cent., that 10 per cent. is sufficiently good to attract capital to flow to the industry and increase the competition, is it not ?—Yes.

If by reason of taxes you take away, as you are doing now, nearly one-third, or say 3 per cent., you reduce the profit to 7 per cent. ?—Yes.

Well, that is not sufficiently good to attract that capital, is it ?—No.

Would not the effect be that competition would be reduced in that industry that is only earning the 7 per cent. ?—I do not think that that can be altogether argued, because no business, practically, confines itself to one particular line. When you get competition, the business that comes into being is in competition with businesses that have other avenues of profit. There are very few companies or individuals that are actually deriving their profit from exactly the same source and no other source.

Take coal companies, freezing companies, woollen companies : they are all doing the same line of business, are they not ?—Yes.

If a company in a particular line of industry is earning 10 per cent., you admit that that is a good earning and it would attract competition ?—Yes.

And that competition would result in reduced profits ?—Yes.

If the State suddenly steps in and says, " We are going to take 3 per cent. of those profits and reduce the earnings to 7 per cent.," will not that have the effect of reversing the flow of capital ? No more capital would go into it, and a certain amount might go out ?—In what way can the capital get out ?

By liquidating a certain portion invested in it ?—But the point is that the carrying-on of the companies or the individuals is regulated by the industry, by the amount of work and trading that is available in that particular line.

That is so ?—When you get your competition reducing profits, there are more people trying to get the business. The business is always there. The trading potentialities in it are always there in a particular line. They may be developed or reduced to some extent, but when you get a reduction in profits through competition it is due to the fact that more individuals are competing for the same business, and they offer more attractive terms to the person who has business to offer them.

That is to say, the margin of profit is reduced ?—Yes, when competition comes in.

And when competition slackens the margin of profit is not reduced ?—It depends on what produces the slackening of competition. Is the slackening of competition the direct result of the narrowing of the margin of profit ?

If the margin of profit is reduced, in the long-run that is regarded as an unprofitable line of business and capital ceases to flow towards it—in fact, gets away from it until it becomes profitable ?—To some extent, yes.

I think I have got to this point : that you admit there is no spread on 68 per cent. of the tax collected, and that on the other 32 per cent. it is quite possible for the people with larger incomes to reduce their taxation by selecting investments that pay less than maximum rate ; further, that we have got a certain section of industry that is taxed very heavily, and that must mean a flow of capital away from it. I do not think it is any use my going any further.

Mr. Weston.] Would you say that a really first-class freehold security was as good an investment as, say, 4½ per cent. tax-free bonds from the point of view of safety ? Would you say that it was equally safe ?—No.