

In some of the above examples the inflation of land-values revealed may be capable of a reasonably satisfactory explanation; but the transactions taken together present overwhelming support to the view that assets tend to be unduly inflated.

The above examples, which must be regarded as representative rather than comprehensive, serve to show the extent to which an enterprise may be loaded, and its success imperilled, by excessive costs in respect of promotion and brokerage, and by the inflation of assets. They show that little reliance can be placed on the estimates of "independent" valuers, who may be too amenable to suggestion from interested parties. These evils are facilitated by the common association of landowners, holders of options over land, and brokers, in the capacity of promoters or directors, and may be effectively concealed by the device of the private company, by dealings through intermediary companies, or syndicates, or by affiliated or subsidiary companies.

(3) INTERLOCKING, AFFILIATED, AND SUBSIDIARY COMPANIES.

The examples quoted above reveal the existence, and establish the danger, of interlocking, affiliated, or subsidiary companies—whether formed before, contemporaneously with, or subsequent to the formation of the main company. In further elaboration of this point it will be sufficient to quote one additional example.

This example will be found fully set out in our Second Interim Report—it forms the subject-matter of that report, and involves the transactions of companies Nos. 20, 21, 22, 23, and 42. There is revealed a managing director holding a controlling interest in the shares of a vendor company and a purchasing (afforestation) company, between which companies a contract for purchase and sale of land has been entered into. A study of the facts shows that there was no effective check on the details of this transaction by either vendor or purchaser company. The managing director in question was in substantial control of both companies, and the purchasing company entered into possession of the land and commenced operations upon it without any of the usual steps which should be taken by a purchasing company to ensure the safety of such a proceeding. At a time when the titles to the land had not been examined, when these titles were in such a state that transfers and conveyances could not have been made, and when the land was heavily encumbered, the purchasing company made large payments on account of the purchase-money, firstly by an allotment of shares credited with a large payment as paid up, and, secondly, by substantial payments in cash. That cash was received from the forestry debenture-holders. At a later stage in the history of this purchasing company it entered into negotiation for purchase of large areas of land with other companies which were under the control of the same managing director and some of his associates. The principal company, the afforestation company referred to above, was one which issued debentures to the public, and it made an arrangement for a subsidiary company, under the control of its managing director, to enter into a bond-selling campaign. The terms of the arrangement between these two affiliated companies involved the allowance to the "subsidiary" of a large amount by way of discount on its purchase of the debentures of the afforestation company.

There is also evidence of many transactions between the two affiliated companies which were governed by the same managing director, these transactions being to the detriment of one company and at the same time entirely to the benefit of the other company or of the managing director personally. It is not thought necessary to recapitulate all the facts as set out in the Second Interim Report—the above summary will suffice to indicate the existence of dangers which we are now considering.

(4) PROSPECTUSES AND OTHER PUBLICATIONS.

(a) General.

We believe that investors in land-utilization companies are entitled to full publicity in regard to these matters, and to adequate safeguards against the inflation of assets. On this last question it has been suggested to us in evidence that the purchaser of a contract in respect of land is in the same position as the purchaser of goods, and that to force the disclosure of profits arising from transactions in land is not in accord with established practice. The principle of *caveat emptor* should apply (Witness No. 6). There is some force in this contention, but there are a number of relevant differences between the type of transaction we have in mind and transactions in goods.

Some commodities, such as vacuum-cleaners, are sold by door-to-door canvas, but the majority of commodities are purchased from stores. In either case the purchaser is able to inspect the goods, and, where he desires, have their use demonstrated or, possibly, take the goods on trial. By skilful salesmanship he may be persuaded to pay more for a commodity than it is worth, but it will normally satisfy with reasonable efficiency the need for which it was purchased.

Bonds are evidence of a contract in respect of land, which the buyer cannot inspect, and the quality of which he is not competent to judge in any case. He must form a judgment on reports of "experts" and "valuers," and on the price paid, which is presumed to be indicative of the fertility of the land. The type of salesman engaged in selling bonds is usually more expert than the type of salesman engaged in selling vacuum-cleaners or similar commodities, and is more able to misrepresent the true position because of the less-familiar nature of the proposition and the inability to inspect or have it demonstrated. He must rely, to a great extent, on the integrity and efficiency of the company which sells him the contract. The purchaser of goods is not vitally concerned with the financial scheme of the company marketing the goods, because, although he may pay more for them than they are worth, he does at least have them in his possession. The financial scheme of a bond-selling company, on the other hand, may prove vital to its success; for if the venture is unduly loaded with excessive promotion, land, or brokerage costs it is likely to fail. The bondholder has neither the