

I want profits to be as moderate as possible, but I say that the Government ought to be guided by experience in this matter. I well recall that in the last war, towards the close of the upward march, when profits were above normal—a good proportion of them being taken back under the Business Profits War Tax Act—public concern about profiteering became so strong that some investigations were undertaken. Two companies in particular were pilloried throughout this country, and their heads were looked upon as enemies of the State—greedy, utterly despicable citizens. What happened? When the drop in replacement cost had its full effect upon these companies, both were “broke.” Neither of them was able to keep from going into bankruptcy except by merging with another company. All the tirades which we heard throughout the Dominion were nonsense. It may be that the heads of those companies sold out and the purchasers had to stand the crash, but that does not affect the argument at all.

The Government should not get the idea that sale prices on a rising market are determined by the cost of raw materials. Business cannot be carried on that way. Replacement cost is the factor which determines whether the sale price shall go up or down. This fact ought to be kept in mind whenever there is any attempt by the Government to interfere with the process of business. You can hardly make a profits tax too high, so long as you do not stifle enterprise. If you do that, it is the poorer people of the country who suffer. It is because enterprise has been stifled so much that there are so many poor people suffering to-day.

Hon. Mr. DANDURAND: I would suggest that I be allowed to quote the Minister's statement, which I think will be a satisfactory explanation of the Bill. I wonder if we could not then pass this money Bill, which we cannot amend and which, I am sure, the Senate would not reject. If that proposal is not acceptable I will send word to His Excellency and the Prime Minister that we had better set 3 o'clock as the hour for prorogation.

Right Hon. Mr. MEIGHEN: I do not know whether we shall be satisfied with the Minister's explanation, and so I cannot say how long it will take to dispose of the Bill. Let us go into Committee and have a departmental representative present, so that we may compare this Bill with the previous Act. I am concerned about the definitions of capital and so on.

Hon. Mr. DANDURAND: Then I will not read the Minister's statement. It has gone out to the public, in explanation of this Bill. If second reading is given now I will move that we go into Committee.

The motion was agreed to, and the Bill was read the second time.

CONSIDERED IN COMMITTEE

On motion of Hon. Mr. Dandurand, the Senate went into Committee on the Bill.

Hon. Mr. Copp in the Chair.

On section 2—definitions:

Right Hon. Mr. MEIGHEN: This is the important section. I am not a good enough accountant to know whether it is safe or not, and therefore I am curious as to how far its accounting basis differs from that of the previous Act.

Hon. Mr. DANDURAND: I am told that the first clause of the definitions is essentially the same and contains the same principles as in the previous Act.

Right Hon. Mr. MEIGHEN: In the previous Act the profits tax did not begin where this one does. Just consider where this one begins. A profit of 5 per cent is permissible, but in calculating that 5 per cent you are not allowed to include as assets certain things which are as truly assets as anything can be. Over a period of years you may have built up a good-will which has a tremendous value, but you may take into account only such good-will as you purchased from someone else for cash. So in most instances the 5 per cent profit can be calculated upon only a small capital base, and the profit on the real capital may be as low as 3 per cent. From this profit, whether it be 3, 4 or 5 per cent, there is a deduction of 18 per cent, or nearly one-fifth, for corporation tax. Even in cases where the good-will has been paid for—which will be fewer than one in fifty—and the profit on the real capital is 5 per cent, the net profit after deduction of corporation tax will be only 4 per cent. I should think that in the average case the profit on real capital before deduction of corporation tax would be 3 per cent.

I know there has to be an excess profits tax, but I wonder whether the Government appreciate the points I am making. There is a danger of going so far that you will get less money than you would under a scheme allowing more opportunity for business enterprise.