

1. S. Africa: Report of Select Committee on Cost of Living Commission's Reports, 1919. [SC 13-1919]
2. S. Africa: Report of Economic and Wage Commission, 1925.. [U.G.14-1926]
3. Canada: Select Standing Committee on Industrial and International Relations, 1926 (on Legal Minimum Wage)

UNION OF SOUTH AFRICA.

. REPORT

OF THE

SELECT COMMITTEE

ON

**COST OF LIVING COMMISSION'S
REPORTS.**

Printed by Order of the House of Assembly.

MAY, 1919.

CAPE TOWN :

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1919.

LIST OF WITNESSES.

NAMES OF WITNESSES.	PAGE.
Herold, T. B. 	28-33, 50-51
McLoughlin, A. P. 	45-50
Pim, H. 	1-28, 33-44

ORDERS OF THE HOUSE

3rd April, 1919.

ORDERED: That the reports of the Cost of Living Commission, viz.: the General Report and Report on Rents and Housing [U.G. 55-'18] and the Profits Report [U.G. 1-'19], and the recommendations made therein be referred to a Select Committee for consideration and report as to how far and in what direction it may be possible to expedite action and give effect to the desire of the Commission endorsed by the Government to lessen the pressure arising from the increase of prices upon the consumer and in that way to diminish the prevailing complaints as to the increased prices of the necessaries of life within the Union.

7th April, 1919.

ORDERED: That the Minister of Railways and Harbours, Sir Willem van Hulsteyn, Messrs. Close, Macintosh, Garcia, Baxter, Boydell, J. W. G. Steyn, Louw and de Beer be members of the Committee.

9th April, 1919.

ORDERED: That the Committee have power to call for papers.

10th April, 1919.

ORDERED: That the Interim Reports of the Cost of Living Commission [U.G. 13-'1918] and [U.G. 16-1918] be referred to the Committee.

ORDERED: That Mr. Boydell be discharged from service on the Committee and that Mr. Sampson be appointed in his stead.

15th April, 1919.

ORDERED: That the Committee have leave to take evidence.

REPORT

OF THE

SELECT COMMITTEE, appointed by Orders of the House of Assembly, dated the 3rd and 7th April, 1919, to consider and report upon the Reports and recommendations of the Cost of Living Commission, and to consist of the MINISTER OF RAILWAYS AND HARBOURS, Sir WILLEM VAN HULSTEYN, Messrs. CLOSE, MACINTOSH, GARCIA, BAXTER, SAMPSON, J. W. G. STEYN, LOUW and DE BEER.

Your Committee having considered the reports and recommendations of the Cost of Living Commission, and having taken evidence (which it submits herewith) begs to report as follows :—

GENERAL.

1. Your Committee has, of course, not seen the evidence taken by the Commission, and it considered it impracticable and contrary to the intention of the House that it should undertake an exhaustive re-investigation, by the examination of witnesses, on the matters reported upon by the Cost of Living Commission and referred to your Committee. It has accordingly confined itself in this respect to giving an opportunity to the Chairman of the Commission of explaining and elucidating its views and to obtaining further information, not supplied by the Commission itself, on some of the more important questions dealt with in the Commission's Reports.

2. Your Committee regrets that owing to his resignation as a member of your Committee, it has not had the advantage of any assistance in its deliberations from Mr. Boydell, who was a member of the Commission.

3. Your Committee has been furnished by the Association of Chambers of Commerce of South Africa

with a memorandum upon the Commission's findings and, as those findings mainly affect the mercantile community, your Committee, while not prepared to express an opinion upon this memorandum, except in so far as the present report conveys its opinion, considers it fair that the views of the Association should be placed before Parliament, and it therefore attaches the memorandum to this Report as an Appendix [Appendix A]. Since the framing of this Report, the Chairman of the Commission has sent your Committee, by telegraph, certain comments and criticisms upon the Association's memorandum. This telegram is also attached to your Committee's Report as an Appendix [Appendix D].

4. In dealing with the matters referred to it, your Committee has considered the recommendations made by the Commission and not those made by any individual Commissioner.

5. In your Committee's Report the expression "paragraph" refers, unless otherwise defined, to paragraphs in the Profits Report of the Commission; "Chairman," means the Chairman of the Commission, and "Commission" means the Commission on the Cost of Living.

GENERAL REPORT OF COMMISSION.

6. It will be convenient to deal first with the recommendations contained in the General Report.

(a) Your Committee approves generally of the recommendations contained in clauses (3), (4) and (5) of the Summary (page 11, General Report). As to clause (3), it wishes to refer to the discussion of this matter in a later stage of its Report.

(b) With regard to (1) and (2), your Committee refers to the statement of Government action already taken, as set forth under heading (2) of Appendix C. Your Committee understands that substantial provision in the same direction is being made by the Railway Administration for the housing of its employees. Your Committee approves of the action hitherto taken and commends to Parliament the desirability of taking practical steps in the way of improving housing conditions generally in the Union. In this connection your

Committee regards it as desirable that legislation should be introduced to enable the Government to consider applications for loans by municipal bodies and others for this purpose.

(c) The whole question of preferential railway rates (clause 6) is essentially a matter of railway policy which does not fall within the practical scope of the present inquiry, and your Committee is not prepared to make any recommendation on the subject, especially in view of the opinion expressed in paragraph 38 of the General Report.

RENTS AND HOUSING.

7. Save as stated in paragraph 6 (b) of this Report, your Committee does not consider it necessary to make any recommendation in regard to the matter of Rents and Housing (page 42, Report on Rents and Housing).

PROFITS REPORT.

8. The matters dealt with in this report may be suitably discussed under the respective clauses of the Summary of Recommendations, paragraph 172.

(a) *Meat Trade*.—As to clause (1), your Committee approves of the recommendation that a meat trade investigation commission should be appointed as proposed. In view, however, of the evidence given by the Chairman as to the impracticability of fixing prices generally, and of your Committee's view on that subject expressed under the heading "Control of Prices and Profits," your Committee does not recommend the proposal in clause (2).

As to clause (3), your Committee is of opinion that this recommendation is economically unsound, impracticable and not in the best interests of the country, and should therefore not be adopted.

(b) *Appointment of Sugar Expert*.—(Clause 4.) Your Committee understands that, as a matter of fact, some of the large producers and millers of sugar have their own experts in connection with the sugar industry, but it recommends that, in view of the position of a large number of sugar planters who are engaged in growing cane upon land leased to them by the Government on certain conditions and the desirability of

guiding and assisting their operations as far as possible along scientific lines, the Government should consider the matter of obtaining an expert adviser for the sugar industry. Your Committee, however, does not recommend that further schemes of development or leasing of land for sugar growing should be stopped pending a report from the expert.

(c) *Mine Reef Trading* (Clauses 5 and 6). Your Committee understands that the Government has already appointed a departmental committee to enquire into the system of native trading on the mines, and the present method of disposal of trading sites. Your Committee is of opinion that further action in connection with this matter should be postponed until the report of the departmental committee, which is at present engaged upon its enquiry, is received.

UNDUE PROFITS.

9. The Commission reports generally that "undue profits" had been made by merchants (paragraph 106), and the Chairman in his evidence defined "undue profits" as meaning gross profits in excess of pre-war rates (*Qs.* 24, 82, etc.) He stated that these undue profits had been made because the pre-war percentage of gross profits had been generally maintained in spite of increased selling prices, and in some cases had even been raised. As a test of pre-war profits the Commission had taken the year 1914, but the Chairman agreed that the results of 1914 were below those of an average year for mercantile business, and that an average of the years 1912, 1913 and 1914 would have been a fairer basis of comparison. He added that this factor, though it would reduce the extent to which increase of profits had taken place, as shown in the Commission's tables and conclusions, would not alter the fact that unduly high profits had been made during the war period.

10. Your Committee, however, cannot help feeling that the selection of the year 1914 as a test of fair profits was, under the circumstances, unfortunate, and that it must necessarily affect the value of the Chairman's definition of "undue profits" as stated by him to have been understood by the Commission.

Your Committee does not consider it practicable to enter into a detailed examination of the various tables contained in the Commission's report, but desires to point out that the Chairman stated that no arguments as to undue profits were based on Table R.

11. The Commission finds that adherence to the principle of charging replacement cost was to some extent responsible for increased profits, and no doubt this was the case. But it is stated in the report that in normal times this principle does not materially affect the consumer, and your Committee feels that, assuming the principle of replacement as accepted, it was probably difficult for merchants to arrange their business upon some other basis, and that the average of profits automatically rose as a result of the application of this principle under war conditions.

12. It is fair to point out also that there were admittedly other important contributory causes to the increase of profits (such as *e.g.*, those mentioned in Chapter 2, Profits Report); that the Commission confined its examination to nine areas only and to certain firms in those areas, such firms being naturally the best known and most successful firms, so that the results can hardly be regarded as a complete reflection of the whole trade position in this respect; that no account appears to have been taken of the increase in the capital employed; that interest charges paid by merchants are treated by the Commission as part of their profits, so that in all the years taken for comparison the merchants have been loaded with the profits of bankers, etc., as well as their own; that there is no indication in the Report of any possible increase in such interest charges during the war period; and that increased profits were in fact comparatively only a small factor in the increase of the cost of living.

13. On the other hand your Committee was impressed by the Chairman's definite statement that the various qualifying factors referred to, while accounting for a portion of the percentage increases of profits during the war, do not account for the whole of them, and that the portion not so accounted for must, in certain cases, be due to the raising of the percentage of profit above that followed in pre-war trade.

14. Your Committee thinks it right to draw attention to the fact (disclosed by a statement furnished to them by the Port Elizabeth Chamber of Commerce and annexed to this Report as Appendix B) that the advance on pre-war prices on certain articles controlled by the Government through the Commission itself has been much greater than the average increase in the cost of living generally. The average increase on all articles mentioned in the statement is 104 per cent., while according to the monthly table for February, 1919, published by the Director of Census and Statistics, the average increase in the retail prices of necessaries has been 46.8 per cent. It may also be remarked that, in the case of the sugar industry (paragraph 79), the control exercised by the Commission did not prevent a generally increased net profit from being made.

15. On the whole, therefore, the impression created on the mind of your Committee, after careful consideration, is that, while it regards the conclusions of the Commission as a result of its painstaking investigation as justified to the extent that in certain cases the rates of profit have been unduly high, in the main the profits seem to have been largely fortuitous profits consequential upon the rising prices in the world's markets.

CONTROL OF PRICES AND PROFITS.

16. In paragraph 173 the Commission asserts that the necessity for an effective control of prices and profits remains even though the war has ended and the Chairman explained that clauses (7), (8) and (9) of paragraph 172 were intended to provide methods of such control. He said, as indeed the Commission's report states (Par. 13 and elsewhere), that in normal times the necessity for such control hardly exists but re-affirmed the Commission's view (Par. 14) that the abnormal conditions obtaining during the war are likely to continue for some time. Your Committee agrees that a speedy return to ordinary conditions is unlikely and that certain articles (such, *inter alia*, as leather and woollen goods) will probably remain at a high price for some time to come. But it cannot over-

look the fact that generally the whole tendency of prices is now downwards, especially in the case of foodstuffs, and it considers that this tendency is bound to continue until normal conditions—not necessarily pre-war conditions—are reached. Your Committee's view of the probable movement of prices necessarily affects their judgment of the proposals indicated in clauses (7) and (8), as explained by the Chairman. Indeed, an inherent and most important consideration in dealing with the whole report of the Commission is that it was framed in war-time and was inevitably adjusted to war conditions and their probable continuance, whereas the report falls to be considered and applied, so far as it may be applied, to circumstances of an entirely different complexion. In spite of the Commission's view above referred to, therefore, your Committee cannot help being influenced by this very material factor in the general situation.

17. As to the specific remedies suggested for the prevention of excessive prices, your Committee does not recommend the proposal in clause (7), inasmuch as, while the statements referred to would involve considerable trouble to prepare, they would, in any case, reflect only one portion of the business activities of the community, whereas, admittedly, many other pursuits and industries, *e.g.* that of farming, should by parity of reasoning be similarly treated, though the Commission does not recommend this. Your Committee does not see that any practical advantage would be gained by the publication of such statements.

18. The Chairman's exposition of paragraph 8 was that it aimed at legislative action against combinations in restraint of trade and in favour of compelling wholesale dealers to sell to *bona fide* traders and Co-operative Societies. In this connection, the Chairman dealt with paragraph 164, which he said set forth the "defined principles" referred to in clause (8) of the Summary of Recommendations, and advocated the control of profits by the Government fixing certain percentages of profit as reasonable and prosecuting dealers who exceeded these limits. Pre-war rates

should form a basis for the calculation of gross profits and percentages exceeding these figures should be considered as producing undue profits. He also developed the proposal for licensing traders (under certain conditions) contained in the same clause, and your Committee refers the House to the details of his evidence on these points.

19. Your Committee, while it does not regard the Commission's finding satisfactorily established that retail traders had to an increasing extent fallen under the control of wholesale houses during the war, is satisfied that there have been combinations of wholesale dealers which have refused to supply Co-operative traders and others with goods on the same favourable basis as to their own customers, and, as already stated with regard to clause 3, par. 42, of the General Report, your Committee endorses the recommendation of the Commission in favour of legislation against such combinations in restraint of trade and also to compel manufacturers and dealers to sell their goods on the most favourable terms to any *bona fide* trader, association or traders or co-operative society in a position to make satisfactory arrangements as to payment.

20. With this exception, your Committee does not recommend the proposals in clause 8 of the Summary as explained and elaborated by the Chairman of the Commission. He declared himself against any attempt to fix prices as impracticable, but admitted that the proposal to fix percentages of profit did really involve the fixing of prices to a considerable extent. The fixing of pre-war percentages of profit as the standard is admittedly arbitrary and does not commend itself to your Committee as sound. Moreover, such a scheme as the Chairman described would involve the preparation and publication beforehand of a schedule of gross profit percentages and also the establishment of a large and expensive costing organisation to watch and control prices charged by traders throughout the country, which your Committee regards as an impracticable suggestion, especially as the Chairman admitted that he did not think it would effect a material reduction of prices. There was no precedent shown for any such method of State control of prices

and the Commission has failed to define any practical method of carrying out the recommendations on this point in clause 8 of the Summary. Your Committee desires to refer to the evidence on this subject given by Mr. A. P. McLoughlin.

CO-OPERATIVE ENTERPRISES.

(Clause 9, paragraph 172, Profits Report.)

21. Your Committee has given careful attention to this important matter, and recommends that the Government should encourage co-operation amongst consumers:

- (1) By the introduction of suitable legislation for the formation and working of co-operative societies. Such legislation should provide, *inter alia*:
 - (a) Some simple form of registering the increase of capital, which is necessary from time to time as shares are taken up.
 - (b) The limitation of spheres of territorial activity.
 - (c) That business be confined to members.
 - (d) That borrowing powers be limited to 80 per cent. on unpaid capital.
 - (e) That voting power be based on the "one man one vote" principle.
 - (f) That dividends be paid in proportion to purchases, not to shareholding.
 - (g) That there shall be a maximum limit of shares which may be held by any one shareholder.
- (2) By providing suitable machinery for advising in connection with the formation and the working of such societies.

22. The Chairman, in explaining the proposals of the Commission on this subject, divided them into (a) proposals for organised propaganda of an educational character in regard to the principle of co-operation, and (b) financial assistance. Generally speaking, the Commission's views with regard to (a) are endorsed by your Committee's above recommendation, but your Committee is unable, after thorough and sympathetic consideration, to recommend financial aid by the State

to co-operative societies. It is true that such assistance is given under specified conditions to agricultural co-operative societies in this and other countries, though even to such societies the principle of State aid in money has not been widely applied. There are substantial differences between the position of agricultural societies and societies for the promotion of co-operative storekeeping, and your Committee desires to refer to the important and interesting statement on this whole question given by Mr. T. B. Herold, the General Manager of the Land Bank, who was not examined by the Commission, but to whose evidence your Committee thinks great value should be attached and with whose conclusions generally it is in agreement. From Mr. Herold's statement, as well as the statement of the Chairman, it is clear that no precedent can be found for the State granting financial aid to co-operative consumers.

23. On the whole, your Committee is inclined to adopt the view expressed by the Commission itself in its memorandum on co-operative societies of December 3rd, 1917 [U.G. 13—1918], page 3, that "in ordinary times no notice need be taken by the Government of the development of these societies, which might be allowed to follow its natural course." This opinion being obviously at variance with the Commission's recommendation now under discussion, the Chairman states that he has changed his mind on the subject since 1917.

HEAVIER EXCESS PROFITS TAX (Clause 10).

24. Your Committee examined Mr. A. P. McLoughlin, the Commissioner for Inland Revenue, upon this subject, and desires to refer to his statement.

In view of your Committee's decision with regard to clause (8) of the Commission's recommendations, your Committee did not approve of the proposal that the rate of the Excess Tax should be increased so as to "absorb all profits above some agreed percentage." Your Committee, while feeling that the levying of a heavier Excess Profits Tax is not likely directly to affect the cost of living, yet is of opinion that it will

indirectly benefit the consumer as a taxpayer, and that an increase in the rate to be levied during the current year under the existing Act is, therefore, justifiable in relief of other taxation in case of further revenue being required.

25. In conclusion, your Committee is of opinion that, in view of the importance of the matter dealt with by the Commission and the nature of its recommendations, the Government was amply justified in hesitating to adopt all the conclusions and recommendations of the Commission, and in demanding further consideration and investigation of this very difficult and complicated subject.

26. Your Committee annexes, for the information of Parliament, a memorandum of Government action taken from time to time on reports of the Cost of Living Commission [Appendix C].

HENRY BURTON,

Chairman.

Committee Rooms,
House of Assembly,
19th May, 1919.

PROCEEDINGS OF COMMITTEE.

PROCEEDINGS OF THE SELECT COMMITTEE, appointed by Orders of the House of Assembly, dated the 3rd and 7th April, 1919, to consider and report upon the Reports and recommendations of the Cost of Living Commission, and to consist of the MINISTER OF RAILWAYS AND HARBOURS, SIR WILLEM VAN HULSTEYN, Messrs. CLOSE, MACINTOSH, GARCIA, BAXTER, SAMPSON, J. W. G. STEYN, LOUW and DE BEER.

Tuesday, 8th April, 1919.

PRESENT :

The Minister of Railways and Harbours.	Mr. Baxter.
Sir Willem van Hulsteyn.	Mr. J. W. G. Steyn.
Mr. Close.	Mr. Louw.
Mr. Garcia.	Mr. de Beer.

Clerk read Orders of the House, dated the 3rd and 7th April, 1919, appointing the Committee.

Clerk laid upon the Table copies of the following Reports of the Cost of Living Commission, referred to the Committee :

- (1) General Report and Report on Rents and Housing [U.G. 55—'18].
- (2) Profits Report [U.G. 1—'19].

On the motion of Sir Willem van Hulsteyn,

Resolved: That the Minister of Railways and Harbours be Chairman.

The Committee proceeded to the consideration of the summary of recommendations contained in paragraph 172, page 43, of the Profits Report.

On recommendation No. (1) as follows :

That a Meat Trade Investigation Commission be appointed as soon as possible to investigate the meat trade and prepare a scheme for its re-organisation on sounder lines.

Mr. Close moved : That the Committee recommends the adoption of this recommendation, and that the Commission proposed to be appointed should be asked, *inter alia*, to consider recommendations Nos. (2) and (3).

Mr. Louw moved, as an amendment : To omit all the words after " recommendation " in line 2, to the end.

Upon which the Committee divided :

Ayes—4.	Noes—4.
The Chairman.	Sir Willem van Hulsteyn.
Mr. Garcia.	Mr. Close.
Mr. Louw.	Mr. Baxter.
Mr. de Beer.	Mr. J. W. G. Steyn.

The numbers being equal, the Chairman gave his casting vote with the "Ayes," and the amendment was accordingly agreed to. The motion, as amended, was then put and agreed to.

On recommendation No. (2) as follows :

That this Meat Trade Investigation Commission consider the advisability of fixing 5½d. per lb. (the Imperial Government contract price of 5¾d. less ¾d. cold storage charges) as a maximum wholesale price for beef throughout the Union.

On the motion of Mr. Close,

Resolved : That the Committee recommends that the proposed Meat Trade Investigation Commission should consider the advisability or otherwise of fixing maximum wholesale and retail prices for meat.

On recommendation No. (3) as follows :

That the export of meat for the open overseas market be prohibited until such time as it is clear that the wants of the Union consumer are being supplied at reasonable prices, the Meat Trade Investigation Commission to decide what are reasonable consumers' prices under existing conditions and this prohibition not to apply to Imperial Government contracts.

Mr. Louw moved : That the Committee is of opinion that this recommendation is economically unsound, not in the interests of the country, is impracticable, and should not, therefore, be adopted.

Mr. Baxter moved, as an amendment : That the Committee recommends, without expressing any opinion on the merits thereof, that this recommendation be referred to the proposed Meat Trade Investigation Commission for report.

Upon which the Committee divided :

Ayes—3.	Noes—5.
Sir Willem van Hulsteyn.	The Chairman.
Mr. Close.	Mr. Garcia.
Mr. Baxter.	Mr. J. W. G. Steyn.
	Mr. Louw.
	Mr. de Beer.

The amendment accordingly negatived.

The motion was then put and agreed to.

On the motion of Mr. Close,

Resolved : That there be laid before the Committee a report by the Secretary for Finance, showing what action has been taken by the Government on the various reports and recommendations of the Cost of Living Commission.

The Committee deliberated and adjourned until Monday, at 10.30 a.m.

Monday, 14th April, 1919.

PRESENT :

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.	Mr. Baxter.
Mr. Close.	Mr. J. W. G. Steyn.
Mr. Garcia.	Mr. Louw.

Clerk read Order of the House, dated the 9th instant, that the Committee have power to call for papers.

Clerk read Order of the House, dated the 10th instant, referring to the Committee the Interim Reports of the Cost of Living Commission [U.G. 13—1918] and [U.G. 16—1918].

The Chairman laid upon the Table a list of Interim Reports of the Cost of Living Commission and the action taken by the Government thereon, together with a memorandum on the subject of the control of imports during 1918.

The Chairman read and laid upon the Table a letter, dated the 10th instant, from Count Wilmot, on the subject of the high price of bread.

The Committee deliberated and adjourned until Thursday, at 10.30 a.m.

Thursday, 17th April, 1919.

PRESENT :

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.	Mr. Baxter.
Mr. Close.	Mr. J. W. G. Steyn.
Mr. Macintosh.	Mr. Louw.
Mr. Garcia.	Mr. de Beer.

Clerk read Order of the House, dated the 15th instant, that the Committee have leave to take evidence.

The Chairman read and laid upon the Table a letter, dated the 14th instant, from the Secretary for Finance, forwarding, in compliance with a resolution of the Committee, dated the 8th instant, a memorandum on the action taken by the Government on the reports and recommendations of the Cost of Living Commission. [Appendix C.]

The Committee resumed the consideration of the summary of recommendations contained in paragraph 172, page 43, of the Profits Report.

On recommendation No. (4) as follows :

That an expert adviser with knowledge of sugar growing in other countries be obtained for the sugar industry, and that the Government agree to no further scheme of development or to the leasing of additional lands for sugar growing until such expert advice has been obtained.

On the motion of the Chairman,

[S.C. 13—19.]

XX PROCEEDINGS OF THE SELECT COMMITTEE ON

Resolved: That, on the information before the Committee it does not consider it necessary to take any action in this connection at present.

The Committee deliberated and adjourned until Tuesday, at 10.30 a.m.

Tuesday, 22nd April, 1919.

PRESENT :

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.

Mr. Garcia.

Mr. Close.

Mr. Baxter.

Mr. Macintosh.

The Committee deliberated and adjourned until Thursday, at 10.30 a.m.

Thursday, 24th April, 1919.

PRESENT :

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Mr. Close.

Mr. Garcia.

Mr. Howard Pim, Chairman of the Cost of Living Commission; was in attendance.

The Committee deliberated and adjourned until to-morrow, at 10.30 a.m.

Friday, 25th April, 1919.

PRESENT :

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.

Mr. Garcia.

Mr. Close.

Mr. Baxter.

Mr. Macintosh.

On the motion of the Chairman,

Resolved: That, in terms of Standing Order No. 233 [1919 Edition], the evidence given before the Committee be recorded, and transcribed in the narrative form.

Mr. Howard Pim, Chairman of the Cost of Living Commission, was examined.

The Committee deliberated and adjourned until Monday, at 10.30 a.m.

Monday, 28th April, 1919.

PRESENT :

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.	|	Mr. Garcia.
Mr. Close.	|	Mr. de Beer.
Mr. Macintosh.	|	

Mr. Howard Pim, Chairman of the Cost of Living Commission, was further examined.

The Committee deliberated and adjourned until Tuesday, at 10.30 a.m.

Tuesday, 29th April, 1919.

PRESENT :

Mr. Garcia.	|	Mr. de Beer.
Mr. Louw.	|	

In the absence of a quorum, the Clerk of the House, in consultation with the Chairman, and in terms of Standing Order No. 229 [1919 Edition], fixed the next meeting for to-morrow at 10.30 a.m.

Wednesday, 30th April, 1919.

PRESENT :

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Mr. Close.	|	Mr. Baxter.
Mr. Macintosh.	|	Mr. Louw.
Mr. Garcia.	|	

Mr. Howard Pim, Chairman of the Cost of Living Commission, was further examined.

The Committee deliberated and adjourned until to-morrow at 10.30 a.m.

Thursday, 1st May, 1919.

PRESENT :

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.	|	Mr. Baxter.
Mr. Close.	|	Mr. J. W. G. Steyn.
Mr. Macintosh.	|	Mr. Louw.
Mr. Garcia.	|	Mr. de Beer.

Mr. Howard Pim, Chairman of the Cost of Living Commission, was further examined.

During the examination of this witness, the Chairman left the room.

On the motion of Mr. Close,

Resolved: That Mr. Macintosh take the Chair.

[S.C. 13-'19.]

Mr. Thomas Barry Herold, Chairman and General Manager of the Land and Agricultural Bank, was examined.

During the examination of this witness, the Chairman entered the room, and Mr. Macintosh vacated the Chair.

The Committee deliberated and adjourned until to-morrow, at 10.30 a.m.

Friday, 2nd May, 1919.

PRESENT :

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.	Mr. Baxter.
Mr. Close.	Mr. J. W. G. Steyn.
Mr. Macintosh.	Mr. Louw.
Mr. Garcia.	Mr. de Beer.

Mr. Howard Pim, Chairman of the Cost of Living Commission was further examined.

The Committee deliberated and adjourned until Tuesday, at 10.30 a.m.

Tuesday, 6th May, 1919.

PRESENT :

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.	Mr. Baxter.
Mr. Close.	Mr. J. W. G. Steyn.
Mr. Macintosh.	Mr. de Beer.
Mr. Garcia.	

The Chairman read and laid upon the Table :

- (1) Letter, dated 30th ultimo, from Mr. P. Rose, Clerica, Assistant in the Defence Department, on the subject of housing accommodation for Civil Servants.
- (2) Letter, dated 2nd instant, from the Joint Secretaries of the Association of Chambers of Commerce of South Africa, Capetown, forwarding copies of a report compiled by that Association on the Profits Report of the Cost of Living Commission. [Appendix A ; *Report only printed.*]
- (3) Letter, dated 2nd instant, from the Secretary of the Cost of Living Commission, Capetown, on the subject of retail prices of fresh fish, during December, 1918.

Mr. Arthur Patrick McLoughlin, Commissioner for Inland Revenue, Capetown, was examined.

The Committee resumed the consideration of the summary of recommendations contained in paragraph 172, page 43, of the Profits Report.

The Committee reverted to Recommendation No. (4).

On the motion of the Chairman,

Resolved: That the resolution adopted by the Committee on the 17th ultimo be rescinded and that the following be substituted in lieu thereof :

Your Committee recommends that the Government should consider the matter of obtaining an expert adviser for the sugar industry, but it does not recommend that further schemes of development or leasing of lands for sugar growing should be stopped pending a report from an expert.

On Recommendations Nos. (5) and (6) as follows :

That the legal disabilities preventing the establishment of co-operative stores on mining ground be removed.

That the Reef trade with natives on the Witwatersrand be re-organised and a Government central buying agency with subsidiary stores established.

On the motion of the Chairman,

Resolved : That your Committee understands that the Government had already appointed a departmental committee to enquire into the system of Native trading on the mines, and the present method of disposal of trading sites.

The Committee deliberated and adjourned until to-morrow, at 10.15 a.m.

Wednesday, 7th May, 1919.

PRESENT :

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn. Mr. Close. Mr. Macintosh. Mr. Garcia.	 	Mr. Baxter. Mr. J. W. G. Steyn. Mr. Louw. Mr. de Beer.
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The Committee resumed the consideration of the recommendations contained in paragraph 172, page 43, of the Profits Report.

On the motion of the Chairman,

Resolved : That Recommendations Nos. (7) and (8) stand over for further consideration.

On Recommendation No. (9) as follows :

That definite encouragement and financial assistance be given under licence to approved co-operative enterprises, and that a co-operative bank be established to finance, control and regulate these societies.

Mr. Close moved :

That Government should encourage co-operation amongst consumers :

(1) By the introduction of suitable legislation for the formation and working of co-operative societies. Such legislation should provide *inter alia* :

(a) Some simple form of registering the increase of capital which is necessary from time to time as shares are taken up ;

(b) the limitation of spheres of territorial activity. Duplication of stores in any given area does not make for reduced cost of living—it might, on

the contrary, increase the cost to the consumer, because the costs of distribution, for instance, might be increased. The influence of competition is not so effective in reducing prices, as is sometimes supposed ;

- (c) that business be confined to members ;
 - (d) that borrowing powers be limited to 80 per cent. on unpaid capital ;
 - (e) that voting power be based on the one man one vote principle ;
 - (f) that dividends be paid in proportion to purchases, not to shareholding ;
 - (g) that there shall be a maximum limit of shares which may be held by any one shareholder.
- (2) By providing suitable machinery for advising in connection with the formation and the working of such societies.
- (3) By providing, on proper security, advances such as the Government may be advised are desirable to facilitate the formation of any such society.

Paragraphs (1) and (2) put and agreed to.

The Chairman put paragraph (3).

Upon which the Committee divided :

Ayes—4.	Noes—5.
Mr. Close.	The Chairman.
Mr. Steyn.	Sir Willem van Hulsteyn.
Mr. Louw.	Mr. Macintosh.
Mr. de Beer.	Mr. Baxter.
	Mr. Garcia.

The paragraph accordingly negatived.

Motion, as amended, was then put and agreed to.

The Committee deliberated and adjourned until to-morrow, at 10 a.m.

Thursday, 8th May, 1919.

PRESENT :

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.	Mr. Baxter.
Mr. Close.	Mr. J. W. G. Steyn.
Mr. Macintosh.	Mr. Louw.
Mr. Garcia.	Mr. de Beer.

The Committee resumed consideration of the recommendations contained in paragraph 172, page 43, of Profits Report.

On recommendation No. (10) as follows :

That a modified and heavier Excess Profits Tax be introduced with steeper grading, such tax to absorb all profits above some agreed percentage.

Sir Willem van Hulsteyn moved :

In view of your Committee's decision with regard to paragraph (8) of the Commission's recommendations, your Committee does not approve of the proposal that the rate of Excess Profits Tax should be increased so as to "absorb all profits above some agreed percentage."

Your Committee, while feeling that the levying of a heavier Excess Profits Tax is not likely directly to affect the cost of living, yet is of opinion that it will indirectly benefit the consumer as a taxpayer and that an increase in the rate to be levied during the current year under the existing Act is therefore justifiable in relief of other taxation, in case of further revenue being required.

Mr. Baxter moved as an amendment : In lines 13 and 14 to omit "in case of further revenue being required."

Mr. Louw moved, as a further amendment :

That as your Committee fails to see how the introduction of a heavier excess profits tax will reduce the cost of living, it is of opinion that the Cost of Living Commission went beyond the terms of reference and prefers not to express an opinion on the recommendations contained in paragraph ten of Summary of Recommendations.

The Chairman put Mr. Baxter's amendment,
Upon which the Committee divided.

Ayes—4.

Mr. Baxter.
Mr. J. W. G. Steyn.
Mr. Louw.
Mr. de Beer.

Noes—5.

The Chairman.
Sir Willem van Hulsteyn.
Mr. Close.
Mr. Macintosh.
Mr. Garcia.

The amendment accordingly negatived.

The Chairman put Mr. Louw's amendment,
Upon which the Committee divided.

Ayes—4.

Mr. Baxter.
Mr. J. W. G. Steyn.
Mr. Louw.
Mr. de Beer.

Noes—5.

The Chairman.
Sir Willem van Hulsteyn.
Mr. Close.
Mr. Macintosh.
Mr. Garcia.

The amendment accordingly negatived.

The Chairman then put the motion,
Upon which the Committee divided.

Ayes—6.

The Chairman.
Sir Willem van Hulsteyn.
Mr. Close.
Mr. Macintosh.
Mr. Garcia.
Mr. Baxter.

Noes—3.

Mr. J. W. G. Steyn.
Mr. Louw.
Mr. de Beer.

The motion accordingly agreed to.

[S.C. 13—'19.]

The Committee deliberated and adjourned until Tuesday, at 10.30 a.m.

Tuesday, 13th May, 1919.

PRESENT:

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.	|	Mr. J. W. G. Steyn.
Mr. Close.	|	Mr. Louw.
Mr. Baxter.	|	Mr. de Beer.

The Chairman submitted a Draft Report which was considered. The Committee reverted to recommendation No. (2) of the summary of recommendations contained in paragraph 172, of the Profits Report.

On the motion of the Chairman,

Resolved: That the resolution adopted by the Committee on the 8th ultimo be rescinded and that the following be substituted in lieu thereof:

In view of the evidence given by the Chairman of the Cost of Living Commission as to the impracticability of fixing prices generally, and your Committee's view on that subject expressed under heading "Control of Prices and Profits" in its Draft Report, it does not recommend the proposal contained in recommendation No. (2).

The Committee deliberated and adjourned until to-morrow, at 10.30 a.m.

Wednesday, 14th May, 1919.

PRESENT:

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.	|	Mr. J. W. G. Steyn.
Mr. Close.	|	Mr. Louw.
Mr. Baxter.	|	Mr. de Beer.

The Committee resumed the consideration of the Draft Report. The Committee deliberated and adjourned until Friday, at 10.15 a.m.

Friday, 16th May, 1919.

PRESENT:

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.	|	Mr. J. W. G. Steyn.
Mr. Close.	|	Mr. Louw.
Mr. Baxter.	|	Mr. de Beer.

The Chairman read and laid upon the Table:

- (1) A statement from the Port Elizabeth Chamber of Commerce in regard to the advance on pre-war prices on certain articles controlled by the Government. [Appendix B: *extract only printed.*]

- (2) Telegram, dated 14th instant, from the Chairman, Cost of Living Commission, Johannesburg, regarding certain points arising out of Report of the Association of Chambers of Commerce of South Africa, on Cost of Living Commission's Profits Report. [Appendix D.]

The Committee resumed the consideration of the Draft Report. On paragraph Six :

Mr. Close moved : To add at the end of sub-paragraph (b) :

Your Committee is impressed with the urgent necessity for dealing with the housing problem in urban areas. The scarcity of dwellings—especially of dwellings of the smaller type—has, in your Committee's opinion, undoubtedly had a great deal to do with the high rents demanded for dwellings during the war years and so has directly and materially affected the cost of living. This was true during the war, and will probably continue true for some time to come.

Your Committee recommends :

- (i) That legislation should be introduced providing for the creation of Rent Appeal Boards in urban centres for at least the ensuing twelve months to deal with complaints of excessive rents, such Boards to have power on complaints received to fix fair rents for dwelling houses in their respective areas.
- (ii) That Government should introduce legislation to enable it to consider applications for loans by municipal bodies and others for housing purposes, subject to adequate safeguards on a basis similar, *mutatis mutandis*, to those provided for advances under the Land Settlement Acts of 1912 and 1917.

The Chairman put the motion to the end of sub-paragraph (i). Upon which the Committee divided :

Ayes—3. Mr. Close. Mr. Baxter. Mr. Louw.		Noes—4. The Chairman. Sir Willem van Hulsteyn. Mr. Steyn. Mr. de Beer.
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The motion accordingly negatived.

The Chairman put sub-paragraph (ii) which was negatived.

The Chairman moved : To add at the end of sub-paragraph (b) :

In this connection, your Committee regards it as desirable that legislation should be introduced to enable the Government to consider applications for loans by municipal bodies and others for this purpose.

Upon which the Committee divided,

Ayes—4. The Chairman. Mr. Close. Mr. Baxter. Mr. Louw.		Noes—3. Sir Willem van Hulsteyn. Mr. Steyn. Mr. de Beer.
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The motion accordingly agreed to.

xxviii PROCEEDINGS OF THE SELECT COMMITTEE ON
COST OF LIVING COMMISSION'S REPORTS.

The Committee deliberated and adjourned until Monday, at
10 a.m.

Monday, 19th May, 1919.

PRESENT:

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.

Mr. Close.

Mr. Garcia.

Mr. Baxter.

Mr. Louw.

Mr. de Beer.

The Committee resumed the consideration of the Draft Report,
which was adopted.

On the motion of Mr. Baxter.

Resolved: That the Chairman report accordingly.

MINUTES OF EVIDENCE.

SELECT COMMITTEE ON COST OF LIVING COMMISSION'S REPORTS.

Friday, 25th April, 1919.

PRESENT:

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.	Mr. Garica.
Mr. Close.	Mr. Baxter.
Mr. Macintosh.	

Mr. Howard Pim, examined.

1. *By the Chairman.*] I am the Chairman of the Cost of Living Commission. The introduction of the name of the "Director of Census," in Recommendation 7 of the Profits Report, page 43, is a detail. The Department of the Director of Census is subject to oaths of secrecy in the same manner as the Income-tax Department. The essence of our proposal is that some one—the Commissioner of Inland Revenue, if preferred—should publish annually figures relating to different trades of the nature of those published in the Appendices to our report. If you will turn to the report of the Commissioner of Inland Revenue for the year 1917-1918 (Statement N, pp. 32-5), you will observe that the amounts of taxable income are published for every centre in the Union which has "10 or more individuals liable to tax." We propose that in addition to that information a further table should be published, analysing the figures which appear under the heading "Trades except the Liquor Trade," in Statement K, on page 29, and adding the further information contained in our tables A to Q inclusive (Profits Report, pp. 61-9). Similar figures to be also shown for the Liquor Trade. To show the Union totals divided under (say) 20 heads would be sufficient. The separate figures for each of the districts mentioned in Statement N, above-mentioned, are not required.

2. *By Mr. Macintosh.*] In addition to the balance sheet and profit and loss account, handed in for Income Tax purposes, the Commissioner would require the trading account showing the sales on one side and the purchases on the other; the balance carried from trading account to profit and loss account

25th April, 1919.]

[Mr H. Pim.]

is the gross profit. The object would be to lay these facts of sales, gross profits, expenses and nett profits before the country. The information contained in these tables, A to Q, attached to the report, would thus be obtained, and the knowledge that it would be published would serve as a check on undue profits being made. Undue profits are not necessarily confined to mercantile businesses. There is no reason why such information should not be published; publicity is always a good thing. I consider the statement made in paragraph 13, regarding the effect on the consumer of selling at replacement prices under normal pre-war conditions, is correct. It would probably be the case that before the war in the long run and under pre-war conditions there was less reason to suspect that undue profits had been made than during the war period; but we have not yet reached anything like these pre-war conditions nor are we likely to see them re-established for years to come. Quite apart from what the conditions of trade are, we propose to place this information before the country.

3. *By Mr. Baxter.*] It would have no direct effect on Cape Town prices, but as these statements would reflect the results of the business of the country, their value would be permanent apart from the particular purpose for which this publication is recommended in this report. This is an additional reason why they should be published.

4. *By the Chairman.*] With regard to paragraph 14 of the report where it is stated that "the amounts of all prices has been steadily upward since the war commenced a movement which is likely to continue." I have been going into this question since the armistice, and I am still of opinion that no great drop in prices can be expected in the near future, but that on the contrary the prices will increase still further of clothing, boots, hardware and imported foodstuffs.

5. *By Mr. Baxter.*] I am aware that the price of Cotton has dropped but prices of other commodities have not decreased.

6. *By Mr. Macintosh.*] I do not know that goods are being sold at a loss. My sources of information are the usual ones, the Customs Department, merchants and others. I regret that I have not my papers with me on this subject. I should like to leave this matter over.

7. *By the Chairman.*] On many classes of goods freight on the individual article does not represent a large proportion of the cost; (e.g., many classes of soft goods), so that a considerable drop in freights does not mean much change in their landed cost.

8. *By Mr. Close.*] Generally speaking our conclusions and recommendations were arrived at before the armistice was signed.

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[Mr. H. Pim.

9. *By Mr. Barter.*] Returning to the Inland Revenue Report, it would be for Parliament to decide if the additional statements we recommend showing the results of different classes of business should be asked for. This would also apply to the further suggestions not made by us that luxuries should be distinguished from necessities. This analysis would certainly entail a certain amount of extra labour, but once requirements were understood as the present Income-tax system is, and books rearranged accordingly, it would not mean any large amount of additional labour. Every little trader would not be able to distinguish between the few luxuries he dealt in and the rest of his business, but generally speaking it is quite feasible for traders to keep these analysed accounts. It is quite possible that our analysis is not absolutely accurate, but it is very nearly correct, as great care was taken. Our reference made this analysis necessary but there seems no reason for continuing it in the statements to be added to the Report of the Commissioner.

10. *By Mr. Macintosh.*] As regards the statement that "some firms have a great disrespect for book-keeping," it does not apply to the general body of traders whose accounts we examined. I should like to deal with the statement criticising our report, and stating that we selected firms, before I leave.

11. *By Mr. Close.*] With regard to the point as to the difficulties which the Commission had to overcome, before any general conclusions could be drawn from the masses of accounts supplied to them, and to the question as to whether the returns would be reliable unless the accounts had been brought to a common denominator, my answer is that while without this operation the required results could not be ascertained from accounts already prepared, it would be by no means a difficult matter to arrange for the necessary information to be shown in the books in future.

12. *By Mr. Macintosh.*] I do not mean that merchants should keep their accounts in a uniform manner. There are wide limits within which variation is possible and any set of books could be easily arranged so as to show the figures wanted.

13. *By the Chairman.*] With regard to paragraph 13 we have not yet reached anything like normal conditions, and I do not know when we shall be back under the conditions which prevailed before the war.

14. *By Mr. Macintosh.*] I do not refer only to normal prices: that is one element in the position, but it is not the only element. There is the question of the supplies manufactured overseas that are available, and other questions also.

15. *By the Chairman.*] My view, right or wrong, is that pre-war conditions are not likely to be in any way approached for a very long time to come.

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[Mr. H. Pim.]

16. *By Sir Willem van Hulsteyn.*] The real object of Recommendation 7 can be attained by the Commissioner of Inland Revenue adding certain information to his Report. I consider that publishing these figures showing profits made by different trades will tend to reduce the cost of living. The intention is that if this information is added its publication will be continued, and will not be merely for the transition period, although the primary object is that it should be for the transition period. The manner in which profit-making may be controlled will be dealt with under another heading.

17. *By Mr. Close.*] Our idea with regard to profits is to place the facts before the country.

18. *By Sir Willem van Hulsteyn.*] Recommendation seven does not go further than placing the facts before the country. It is not a remedy in itself.

19. *By the Chairman.*] With regard to Recommendation No. 8, may I suggest that an Act should be passed declaring any ring, combination or association of manufacturers or dealers to be illegal, that is, in the opinion of the Governor-General a restraint on trade, and ordering it to be dissolved forthwith under heavy penalties. This Act should give the Governor-General power to declare by notice in the *Gazette* the acts or actions that are considered restraints on trade. It would be unwise to declare in specific terms in an Act what would be a restraint on trade. In fact, it would be next to impossible to so word legislation as to embrace every conceivable act in restraint of trade, apart from the fact that new systems of trading are constantly being evolved. Therefore any legislation that is to be effective must provide the remedy as soon as the ill appears, and give the Governor-General powers to deal with questions as they arise by means of regulations.

This Act might also (a) compel manufacturers and dealers to sell the goods they manufacture or hold on the most favourable terms to any bona-fide trader, association of traders, or co-operative society in a position to make satisfactory arrangements as regards payment for the goods. (b) Forbid them giving any bonus or rebate (whether deferred or not), or other consideration for any purpose whatsoever in connection with the sale of any commodity. Every manufacturer and every dealer (as hereinafter defined), should be compelled to take out a licence and one of the conditions attached thereto should be that he does not directly or indirectly associate himself with any combination-declared by any regulations issued under this Act to be an illegal association, and that he otherwise conforms to the provisions of this Act, and of any regulations issued thereunder.

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[Mr. H. Pim.]

The term "manufacturer" should be defined so as to include the representative or agent of a manufacturer or supplier outside the Union who holds stocks in the Union for sale to dealers and not for direct sale to the general public. This should be done so as to include the representatives of overseas manufacturers of commodities who refuse to sell to bona-fide traders, co-operative societies, etc., except at a price that includes a merchant's profit.

"Dealer" should be defined as any person who sells goods either by wholesale or retail, or any one who employs both methods of sale. And to render the Act effective the officer administering it should have the power to inspect books and documents of manufacturer's and dealers.

20. *By Mr. Macintosh.*] These are not the whole of my recommendations. The conditions are to be endorsed on their licences.

21. *By Sir Willem van Hulsteyn.*] It is not my desire to restrict traders' operations.

22. *By the Chairman.*] With regard to your question as to the limitation of profits and the fixing of prices (see report paragraph 28), the paragraph in question expresses the view that the practice of calculating gross profits on the basis of the same percentage of the landed cost of the goods, no matter what their price, cannot be justified, and that to increase this percentage, as has been done almost universally, is certainly to make undue profits.

23. *By Sir Willem van Hulsteyn.*] Merchants and other traders have not been satisfied to charge the same gross profit percentages during the war period as in pre-war days, but have increased these percentages as prices have risen.

24. *By Mr. Close.*] Different articles carry different rates of gross profit and the usual rates used in connection with different classes of goods were decided in pre-war days. What is put forward by the Commission is that these pre-war rates should form a basis for the calculation of gross profits and that percentages exceeding these figures should be considered as producing undue profits. The commission's view is fully set out in paragraphs 19 to 28. With reference to the case of hardware merchants whose nett profits in 1914 were 6.4 per cent. and who in 1917 were making 13.5 per cent. (see report paragraph 72), their gross profits increased from 20.5 per cent. to 26.7 per cent. I propose to fix the rate of profit at 10 per cent. Any profit over that I should consider undue profit. By referring in this way to pre-war figures the recognised rates of gross profit can be arrived at and cases thus established where undue profits have been made. Such cases have occurred and may occur again. Evidence as to the percentages used in the general course of trade would determine these cases.

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[Mr. H. Pim.

25. *By the Chairman.*] There is no question of fixing prices. It is a question of determining rates of profit—not a question of fixing prices.

26. *By Mr. Baxter.*] Selling prices would be based on the cost of goods. The words “defined principles” in Recommendation 8 refer to the proposals mentioned in paragraph 164 of our Report. I think this is a workable basis. If a few cases where undue profits (profits in excess of the ordinary profits of business), have been made were successfully attacked and penalties improved, it would probably have a considerable effect.

27. *By Mr. Macintosh.*] No action could be taken until some *prima facie* case of infringement of the law or non-compliance therewith, had arisen.

28. *By Sir Willem van Hulsteyn.*] If a complaint reached the Department dealing with these matters it would be investigated, and the Department after collecting all necessary information would decide whether it would prosecute or not.

29. *By Mr. Baxter.*] A man who charged £1 10s. for an article for which he should only have charged £1, would be liable to prosecution on the ground of making an undue profit. The percentages of gross profit charged in the ordinary course of business would be ascertained.

30. *By Sir Willem van Hulsteyn.*] To prosecute successfully it might be necessary to prepare beforehand and publish a schedule of gross profit percentages. The figures in this schedule could be compared with the accused’s books to ascertain if articles have been sold at higher rates of profit.

31. *By Mr. Close.*] In cases where manufacturers have increased the rate of profit beyond what it was before the war, and where they have worked on the ordinary customs of trade, special provision would have to be made.

32. *By the Chairman.*] It would be necessary to have a costing department; that is quite clear.

33. *By Mr. Garcia.*] With reference to paragraph 103, you are referring to certain methods adopted in Denmark. If it were decided to fix prices throughout the Union this would come under the costing department. We have arranged prices in a number of cases; paraffin oil and petrol for instance. The price up-country in these cases is the cost and expenses plus a percentage of profit. I could not say whether it would cost more in taxation than it would save in price. Speaking generally, I do not advocate the fixing of prices.

34. *By the Chairman.*] In fixing the prices of oil and other articles the actual figures of cost were taken. Sugar was an exceptional case, the price being fixed after investigation. I do not think that there was any trouble in connection with

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[Mr. H. Pim.]

sugar. It has not come to our notice. The fixing of prices, if introduced, would largely apply to imported articles where the fixing of the landed cost would decide everything else.

35. *By Sir Willem van Hulsteyn.*] The Government appointed cost of living committees in the principal centres. Complaints were received in Durban, Maritzburg, Pretoria, and Cape Town, but they were mainly in connection with foodstuffs supplied by retail grocers; and these people, as you have seen, were not overcharging.

36. *By Mr. Close.*] I have no idea what the expenditure on the costing department would be. I could not estimate it. I feel that a very valuable purpose will be served by this department. I do not say that the prices of goods to the consumer will be greatly reduced thereby, but the fact of this department being in existence will have a considerable effect and will prevent prices being raised.

37. *By Mr. Baxter.*] I consider it will keep the prices down; all attempts to raise prices unduly will be dealt with. The effect of a prosecution taking place in one or two cases would certainly lead to further cases being brought forward, and the fact that such cases were being dealt with would tend to prevent traders overcharging.

38. *By Mr. Macintosh.*] The maximum rates of gross profit would be fixed at percentages that would cover the ordinary risks of trade: therefore the trader would not want any guarantee as to profit.

39. *By Sir Willem van Hulsteyn.*] As the report puts it, trading is a form of public service, and as such, the trader has a duty to the community. The restrictions on profits should be extended to licensed liquor dealers. I think it would be a good thing if they could also be applied to farmers. Insufficient attention is given to the consumer's position by the trader. The Government could, with good effect, call the trader's attention to this fact, and, if necessary, compel him to consider the consumer's interest more when fixing prices. The compulsory element in the matter is an unfortunate necessity. The idea and practice of co-operation should be extended; and the position of the merchants and other traders, as servants of the general community more fully recognised. As regards attempts to evade the law for the restriction of prices, I should say that such attempts would be brought to light by competitors. If people should combine in an attempt to evade the law, it would be regarded as a combination in restraint of trade, and they would be dealt with accordingly.

40. *By the Chairman.*] I would describe the practice of the law as a form of public service. Farming is certainly an "industry." Different scales of profits would be applied to different businesses and industries.

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[Mr. H. Pim.

41. *By Mr. Close.*] We would have to ascertain the cost by means of a costing department and fix a reasonable rate of profit. I do not think it would be necessary to revise the rate very often.—The cost would be ascertained at once by enquiry. A reasonable rate of profit would vary according to the general practice of trade. We would have to protect the consumer against illegitimate methods of fixing this rate. We would rely on competition for a disclosure of irregularities or evasions of the law. There is only one specific recommendation about licences, in the report, viz.: in regard to retail grocers. We cited that for information, and it was recommended. (Paragraph 126.)

Monday, 28th April, 1919.

PRESENT:

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.
Mr. Close.
Mr. Macintosh.

Mr. Garcia.
Mr. de Beer.

Mr. Howard Pim, further examined.

42. *By the Chairman.*] With reference to item 9 in the Summary of Recommendations on page 43 of the Profits Report, the history of co-operation shows most clearly that the successful co-operation movements have been immensely assisted by organised propaganda. In Ireland there is the Agricultural Organisation Society, in Hungary there is the Hangya Society, and in Finland there is the Pellervo Society. At some stage everywhere it has been found necessary to co-ordinate and definitely control co-operative undertakings as a whole.

The co-operative movement is very widely spread, and it is divided into three main classes of undertaking,—the Agricultural Society, the Credit Bank, and the Co-operative Store. These three classes have developed in different proportions in different countries, and the first two of them have received a large amount of outside assistance. In fact, in Denmark (which, of course is a country where agricultural co-operation has, perhaps gone further than any other), I understand that none of the capital is found by members. The societies there are formed on the principles of unlimited liability. The names of the members are given to some Bank, and the requisite

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[Mr. H. Pigg.]

funds are supplied by the Bank. Not, as far as I can trace, by any State Bank. Denmark is a country where co-operation has been most successful. The State has practically not intervened in co-operation at all, not even in legislative matters, and co-operation has been most successful. Of course it is a thickly populated country where the people are all practically engaged in the same class of labour. The great need of some source of guidance and advice is strongly recognised and wherever the movement has been successful there has been some guiding influence.

In the case of credit banks in France a large measure of Government financial assistance has been given. I have not very recent figures, but in 1903 there were 41 co-operative district banks in France, with a capital of £123,000 and Government advances amounting to £360,000. In addition there are 616 local co-operative banks with a capital of £60,000 and Government advances amounting to £644,000. These credit banks were formed for the purpose of promoting general business.

43. *By Mr. Barter.*] The Banks referred to are little local banks established all over the country and which have been giving assistance to societies and individuals. I do not know what form of security they received against their advances.

44. *By Mr. Macintosh.*] If there are so many of these banks they must fulfil some want. The figures which I have quoted were obtained from certain evidence taken before the Canadian House of Commons in 1907. The country in which the credit bank is most important appears to be France.*

45. *By the Chairman.*] There are few co-operative stores in Ireland, but agricultural co-operation has reached considerable dimensions. The Plunket enterprise has recently had a small amount of assistance from Government, but what has made that a success has been the active propaganda work which I have mentioned as being necessary for the success of co-operative societies. This movement was taken up by certain enthusiastic people, and the result has been very successful.

46. *By Mr. Macintosh.*] The object was to develop agriculture and encourage thrift.

47. *By the Chairman.*] The money given by the State was principally in connection with education, i.e., to promote the propaganda side of the movement. The system of making advances to agricultural co-operative societies has been followed by this country and is successfully in use, now that their organisation is controlled by the Land Bank. I had

* There is also a large number (6,500) of agricultural co-operative societies, with a membership of 1,000,000; and 4,700 farmers' credit societies, with 190,000 members and a capital of £400,000. These last received Government loans, free of interest, amounting to £2,200,000.

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[Mr. H. Pim.

the liquidating of one of these societies in the Transvaal. Before this system of control was introduced they received advances from the Banks which were quite willing to advance them moneys, as the liability of members of the society was unlimited. That at once led to trouble, because advances were obtained for purposes which should not have been entertained by any organisation of the kind. The result was that the advancing of moneys to these societies was taken over by the Land Bank. Mr. Herold can give you complete evidence as to the present position. Subject to Land Bank control the advances which have been made have greatly helped the movement. The position, therefore, with reference to co-operative stores is that we urge that similar arrangements should be applied to them, so that they should not be unduly handicapped; that up to some reasonable amount (provided that people showed a real desire for such a society by finding sufficient capital to act as security for Government advances), these advances should be made. You will remember that it was on these lines that the Food Advisory Committee made the recommendation contained in one of their early reports. If you read the history of co-operative societies you will see the importance of propaganda work and of central organisation. In some countries, especially England, the movement has been taken up by enthusiasts. As far as the agricultural section is concerned, the principal thing which I want to point out is the success of agricultural co-operation in this country with organised State support,—refusing them the right to borrow from anybody but the central organisation.

48. *By Mr. Baxter.*] In the case of agricultural societies they are formed with unlimited liability.

49. *By the Chairman.*] The idea of educating the people concerned occupied the attention of Robert Owen and other founders of the movement. A pure-blooded co-operator will not hear of Government supported societies. He looks upon Government assistance as something which injures the educational value of the movement. In England the British Co-operative Union embracing the whole industrial co-operative movement has grown in 100 years to a membership of three millions, eight hundred thousand, with a capital of £69,000,000, sales of £225,000,000, and a surplus of £18,000,000. These are 1917 figures. The surplus would probably be the difference between the assets and liabilities. I have not got the figures with regard to dividends.

50. *By Mr. Macintosh.*] I include the capital amongst the liabilities. The £18,000,000 appears to be accumulated profits, after payments of dividends.

51. *By the Chairman.*] In 1913 there were in England

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1,500 co-operative societies. This number has probably been increased during the war. One year's profit of these societies was £13,000,000 (1913).

52. *By Mr. Macintosh.*] These are retail societies. In 1913 these retail societies showed sales of £84,000,000, and the corresponding wholesale society a further £32,000,000. The wholesale society's profit amounted in 1913 to £640,000, and their capital and reserve funds totalled £28,400,000.

53. *By the Chairman.*] The profit of these societies is distributed to their members in proportion to their purchases. These societies are under the central advisory direction. I do not think these societies in England have received any State assistance. I think they have been built up purely on educational lines, having unlimited time before them. As to there being any British legislation on the subject, my answer is that there is the Industrial and Provident Society Act of 1893. A Co-operative Bank should be established to regulate and control any societies established in the Union, because, in the first place, it can be shown that the similar policy followed by the Lank Bank in regard to agricultural co-operative societies has worked well, and also because if you make advances to one class of the population under arrangements of that nature there is no reason why similar advances should not be made to other sections to enable them also to enjoy the benefits of co-operation. I think the organized encouragement of a better system of distribution should be taken in hand.

54. *By Mr. Macintosh.*] I think the distribution would be better under co-operative societies than under individual traders, for educational reasons, which I do not neglect, and also because it enables the consumer to get as closely into touch with the wholesale business of the country as possible. Unnecessary and useless competition will also be reduced.

55. *By the Chairman.*] I look upon this as one of the methods by which we shall reduce the number of intermediaries. With regard to agriculture being in a comparatively undeveloped state in South Africa, it will advance. It is of great importance in a country of this kind that there should be development. I consider that the establishment of Agricultural Co-operative Societies is a desirable and necessary thing to advance agriculture. There is an abundance of distributors in this country, but distribution is not at all well organised. As regards the manner in which Government advances should be secured, I would not under any circumstances recommend the establishment of any co-operative society until there were sufficient people who had definitely agreed to join such a society.

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and find the necessary funds to give it a reasonable prospect of success. First the actual desire for the society must exist. Spread your propaganda as widely as possible, but do not start a society unless there is a distinct demand for it; which demand should be clearly expressed by some minimum number of people desiring to take shares and subscribe the necessary funds. The security for any Government advances would be the share capital they find. The Government advance would be secured by that capital. As to how it could be done I might refer you to the recommendations in our Interim Report [U.G. 13—'18, p. 3].

56. *By Mr. Baxter.*] I suppose the Government would have a general bond over the assets of any societies to which they had made advances.

57. *By the Chairman.*] There would be unlimited liability and the Government would have priority over members' contributions. In addition to this priority it is contemplated that the Government should be secured by a general bond over the members' assets.

58. *By Sir Willem van Hulsteyn.*] The money to start with would be found by the members. No co-operative society would be formed until a sufficient number of members had been obtained who had agreed and were willing to put up the necessary funds. Once the clear desire to form a society had been shown in that way, they should have a certain power to borrow from the controlling Government Institution which would, of course, use its discretion in making loans, having regard to the security which would be provided by the moneys subscribed by members. With regard to the argument that the amount advanced by the Government being secured by general mortgage or debenture bond, the Society would have no credit for trading purposes, the answer is that members' contributions plus Government advances will provide the necessary funds for the purchase of goods. I admit that the Government would have priority over all the assets.

59. *By Mr. Closé.*] The word "contribution" in Clause Three, page 3 of U.G. 13—'18 is perhaps not suitable. "Payment" would be a better word.

60. *By Sir Willem van Hulsteyn.*] What is alluded to in Clause Three is the nominal sum which will be required as an entrance fee to the Society.

61. *By the Chairman.*] The intention is that apart from this nominal sum, members are to be encouraged to advance money to the society, and according as they advance money themselves the Government should also make advances.

62. *By Mr. Macintosh.*] These people will be asked to lend money and the Government will have priority over their loans. These loans would form the security for the Government. The

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benefit to the lenders would come from the lower prices at which they would get their goods, taking the dividends they should receive into account.

63. *By Mr. Baxter.*] I have laid stress on the fact that these Societies must be founded on sound lines. Agricultural Societies were started on the principle of getting advances from Banks, and the system was a failure. They obtained advances on the personal security of their members which their businesses did not justify their getting, and they got into difficulties. Co-operative stores opened on the lines above suggested, would be a different proposition and there would not be the security that would tempt lenders. With regard to these co-operative stores getting financial assistance from the Banks, I think if they were supervised by a central organisation the Government would be justified in advancing money under circumstances and at rates which the Banks would not contemplate. The Banks would not go so far as would be necessary or advisable. I think the advantage to be obtained by a co-operative organisation of this kind is that the Government could look at it from a somewhat different point of view to the banking point of view. I do not desire the Government to take undue risk in advancing any public money.

64. *By Mr. Macintosh.*] In referring to education I did not refer to education enabling one to get sugar at $\frac{1}{4}$ d. a lb. cheaper.

65. *By the Chairman.*] As a business proposition the advantages to be gained by the community lie in bringing them together in this way and giving them an interest in and direct control over their supplies. This will certainly help the educational side of the movement. One feature of the educational value of co-operative stores is this central idea of working together, of all being interested in the results and that it requires their loyal support to get good results. These stores often give credit to a limited extent, but it would be much better if they did not. I think that the proposed system by which the Government would make these advances is necessary for the success of the scheme. Similar societies have done remarkably well in England without State assistance, but it has taken them over 100 years to get to their present stage. The Rochdale Society began with a capital of £28 in 1844. In 1910 they had 19,600 members and their sales amounted to £405,000. It is true that this has been built up without State assistance. In Ireland the agricultural societies have been built up practically without State assistance, likewise in Denmark. I believe in this principle of co-operation and in encouraging it in every way—not to an extent that would destroy self-help among the people concerned, but as far as can be prudently done, and as the demand for these societies arises as the result of organized propaganda.

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66. *By Mr. Close.*] As far as financial assistance is concerned I do not recommend that they be given advances without providing some form of security. My point is that the security provided must be sufficient to secure the advance. There are various means by which the co-operative movement can be encouraged without financial assistance, such as by propaganda. I do not know anything about the Civil Service Co-operative Society. I know something of the working of the Salt River Society. One function of the central organisation would be the answering of all enquiries about co-operative matters and the giving of advice. The company law is not adapted to co-operative societies. Special legislation on the lines of the English law (see paragraph 53) would be advisable. With regard to the principle of co-operative societies dividing their profits among their members, the dividends are determined largely by the prices at which their goods are sold. The societies are not primarily there to make profits. I think there might be some income tax concession made to co-operative societies, on the ground of helping people who help themselves; to develop thrift, and so on. The educational side of the movement would include the fostering of the habit of helping one another as well as personal habits of thrift.

67. *By Mr. Baxter.*] I do not know what has been done recently or what the present position is with regard to the South African Industrial Federation Co-operative Society. I understand, however, that there has been a change in the management. There was a report in the Press yesterday that it had been giving credit to strikers, and this is, of course, entirely against the principles of co-operative societies. I do not know whether the £10,000 capital advanced by the Government has achieved the purpose for which it was given. I do not know what its financial position is to-day. Mr. Herold has up-to-date information on the subject. I could not say whether this co-operative society has been selling cheaper than ordinary stores. I think their prices have been much the same as retail stores. They are only commencing, and they have been dealing in articles which for a considerable time past have shown small profits. They have not been dealing in those articles on which large profits have been made. The Premier Mine Co-operative Store deals in provisions, soft goods and hardware, in fact, all household supplies are stocked.

68. *By Mr. Close.*] It is the only store in this mining area. It does not confine its sales to its own members only.

69. *By the Chairman.*] I agree that, as they neither sell goods cheaper than the retail stores nor make any profit, there

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is not much benefit from the financial side of the S.A. Industrial Federation Stores. There has recently been a change in the management. The late manager's name was Davidson.

70. *By Mr. Close.*] The success or failure of these societies depends largely on the management. I consider the help of a Government department would be of great assistance in this respect. That is one point on which great stress is laid. I thoroughly disapprove of strike pay, in the form of goods, being issued by the Society, assuming the information as to this published yesterday to be correct.

71. *By Mr. Macintosh.*] With regard to excess profits tax, what was in our minds was that taxation of this nature should be reconsidered from year to year, and should not necessarily end with the war. There are various forms which it might take. It might not be an excess profits tax; it might be a modified super-tax. The super-tax is a personal tax.

72. *By Mr. Baxter.*] What was in the Commission's mind in recommending this, was to get back a larger proportion of the profits made into the Government coffers to be used for the general benefit of the country, and thus serve as an alternative to indirect taxation. It would have no direct effect on the cost of living, but should have an indirect effect.

73. *By the Chairman.*] It is not intended to get at the trader any more than at any other class of the population (see paragraph 170). We were asked to ascertain if undue profits had been made, and we naturally had to investigate. That was our work. We do not eliminate the farmer. We have stated what we could about him. Further information was not obtainable.

74. *By Mr. Barter.*] With regard to recommendation No. 10, I have already stated that it would be a better arrangement if, instead of modifying the excess profits tax, the super-tax were revised. As to this excess profits being calculated as a percentage on capital, and the suggestion that we are therefore going away from our idea with regard to "service," I reply that this is only one of several recommendations.

75. *By the Chairman.*] What we mean is that there is an excess profits tax, and that it can be made stiffer. With regard to the suggestion that we were more moved by the desire of pacifying the disturbed state of feeling amongst people than by any hope of this tax reducing the cost of living, I do not think that the change recommended will have any direct effect upon this cost, but it may render other taxation unnecessary.

76. *By Mr. Barter.*] The questions as to whether the State would put to better use any extra profit a man makes rather

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than the man himself, or whether it is more to the interest of the State that the State should get it than that he should accumulate the capital, are really relative, and depend upon the individual facts of each individual case. I do not see how I can give any general answer to them. I think if a tax on these general lines were introduced there would be less inducement to the trader to add larger and larger percentages of gross profit as prices continued to rise. In war time, and with rising prices, I should say that there might be less inducement to the trader to develop his business if our proposals were adopted, but in times of peace I think this would not be the case. He could increase the volume of his business and this would mean larger profits. I do not propose that in ordinary times traders should be told by the State that they must not make more than so much profit. If I was thought to have said so in giving my previous evidence, there must have been some misunderstanding. I propose that the State should take steps to fix the percentages of profit that a trader may make. I think this is essential from the consumer's point of view.

77. *By Mr. de Beer.*] In the retail trade competition does not help the consumer to the extent that is generally thought. Competition has failed to do so in a number of cases. I think in the interest of the consumer the Government should have the right to step in and stop unlimited profits being made.

78. *By the Chairman.*] Chapters 9 and 10 of our report deal with the question of competition. They must be read together. I do not think they are contradictory. Recommendation No. 4 was pressed on us practically by everybody connected with the sugar industry, and we took evidence on the subject in Durban. I think all parties ought to be consulted—the planters as well as the millers. Some big planters are also millers. There are other aspects of the "export" question, such as the nature of the terms on which leases of sugar land should be granted. The present arrangement is strongly objected to by the planters because this rough and ready method of paying for cane works out most inequitably. Anything that will enable the industry to develop on sound lines and at a later date to compete in the open world's market, will tend to reduce the cost of living. It will not have an immediate effect on the cost of living. The present three-cornered agreement between the Government, Huletts and the planters is an awkward one, and has led to a great deal of trouble. This also applies to the other similar Zululand agreements. The terms of these agreements require investigation in the light of the experience of sugar growing in other countries. The agreements were entered into when the knowledge of sugar

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planting was very much less than it is to-day. The advice of the sugar expert is to be given with a view to the development of the industry. The further leasing of land by the Government to planters for the purpose of planting cane should be most carefully considered before any irrevocable steps are taken.

79. *By Mr. de Beer.*] The highest price of sugar as compared with pre-war prices was nearly double.

80. *By the Chairman.*] Recommendations 5 and 6 are being dealt with by a departmental commission.

81. *By Sir Willem van Hulsteyn.*] It is a Government Commission. Mr. Hamel is the Chairman.

Wednesday, 30th April, 1919.

PRESENT:

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Mr. Close.
Mr. Macintosh.
Mr. Garcia.

Mr. Baxter.
Mr. Louw.

Mr. Howard Pim, further examined.

82. *By the Chairman.*] In giving my evidence on Friday, I stated in reply to a question by Mr. Close that profits should be restricted to 10 per cent., and Sir Willem van Hulsteyn called my attention to this when I gave evidence on Monday. What I was calling attention to was the manner in which undue profits should be arrived at, and my statement should have been that gross profits in excess of pre-war rates were certainly looked upon by the Commission as undue profits.

83. *By Mr. Macintosh.*] The view of my Commission is fully set out in paragraphs 19 to 30.

It has been alleged that we selected from some limited list of firms, but this I think is disposed of by the list of firms attached to the report, Appendix "D." The instructions issued to officers in each centre were to obtain returns from the leading firms in each of the various lines of business. No number of firms was stipulated and no names were given. They had open instructions to obtain the best possible reflection of the trade in each of these centres. When these statements were received they were examined in order to ascertain if the information which we required could be ex-

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tracted from them. In the large majority of cases that could be done, in some cases it could be partially done, and in a few cases where no detailed accounts were kept, it was not possible to fit them into our tables. Wherever the information that we required was clearly shewn in the accounts the corresponding figures went into our tables. There was no attempt to select any particular firms from the list. In connection with the manner in which the accounts were dealt with I would call your attention to Chapter III of the Report, where the methods adopted by the Commission are set out.

I have some further points to mention in connection with Recommendation No. 8. There is the general question of licensing traders with the object of improving the class of man on whom the consumer has to depend for his goods. It would be out of the question to interfere with any one carrying on business to-day, but it does seem to me, that on the lines recommended in Canada and Australia, some test or some evidence of competence might be produced before new licences are issued. Trading licenses should also be classified and different businesses licensed separately. If that suggestion were adopted, it would follow that traders would form a more or less defined section of the community with definite qualifications.

The question of the fixing of prices is one to which the Commission has devoted a great deal of attention, and their conclusions are set out in their reports. To actually fix prices except under exceptional circumstances is, to our minds, impossible and useless, but there does appear to be one possible basis which cannot be disregarded, namely, that one condition of a trading licence should be that merchants should not exceed pre-war rates of gross profit. The Commission received evidence that gross profits in excess of pre-war rates should certainly be considered undue profits, and that is the position which we take up.

84. *By the Chairman.*] With regard to recommendation No. (9) "That definite encouragement and financial assistance be given under licence to approved co-operative enterprise, and that a co-operative bank be established to finance, control and regulate these societies," the Bank referred to would be a State Bank for the supervision and financing of these societies. The advisability of granting Government assistance to co-operative societies in times of peace had impressed itself on me as the result of examining conditions existing during the War period. In regard to the establishment of a State Bank, I have gone beyond the point mentioned at the time that our report *re* Government assistance to co-operative societies dated 3rd December, 1917, was prepared. When this Report was writ-

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ten I did not appreciate the importance of this co-operative movement, and the advisability in the general interest of the country of assisting its development.

85. *By Mr. Louw.*] The question of wholesale dealers selling to other wholesale dealers is dealt with in Chapter 7 of the report, paragraph 100. Our enquiries were confined to Johannesburg. Intertrading probably has occurred in other places also. I do not think the action taken by the Danish Ministry (see paragraph 103), would be practicable in this country, and would suggest in its place more supervision of the general body of traders, on the lines indicated. I would not be in favour of granting a retail licence to everybody who applies for the same. The licensing officers would decide who should be granted such licences. It might, of course, be necessary to get more responsible persons than those at present employed to do the work.

86. *By Mr. Baxter.*] Before a man is granted a licence he should produce evidence as to character and competence.

87. *By Mr. Garcia.*] Not necessarily as to his nationality.

88. *By Mr. Baxter.*] The licensing officer would ask for the applicant's credentials, and if they were satisfactory, he would grant a licence.

89. *By Mr. Garcia.*] If the applicant did not fulfill all the qualifications, he would not get a licence.

90. *By Mr. Close.*] With regard to his qualifications and knowledge of the various businesses for which licences were applied for, the licensing officer would require to be a more responsible official than a Clerk in the Post Office.

91. *By the Chairman.*] I do not consider this a counsel of perfection as applied to trade; it is well worth thinking about.

92. *By Mr. Baxter.*] If a standard is set up for the trader it will tend, in the first place, to limit the numbers of traders of whom there are far too many, especially in the smaller trades, and it will produce a more competent body of traders. The effect would be to limit the number of people in trade. To-day there is an excessive amount of unnecessary and useless competition. Acting under suitable conditions competition does tend to reduce prices. Retail grocers hardly make any profit at all, owing to their heavy expenses.

93. *By the Chairman.*] With regard to the statement that certain lines of goods can be bought in Johannesburg cheaper than in Cape Town, I do not think that keener competition is altogether the reason. It is a very difficult question to answer. A larger and more regular demand may be a factor. Possibly competition is keener in Johannesburg, but I cannot say one way or another.

94. *By Mr. Close.*] I am not in favour of the State stepping in and controlling all trading. I am emphatically against such a proposal. Advance is the result of the efforts of in-

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dividuals. I believe in true competition on proper lines. I think is a very excellent and healthy thing, but its limits should be defined.

95. *By Mr. Macintosh.*] The point has been raised that 1914 was a specially bad year. When information was collected by the Commission we got the figures for 1913 as well, and, although they are not included in the report, I have had them worked out since. They show that retailers' results for 1913 were similar to those for 1914. I can hardly separate them. In some cases they were a little more, and in other cases a little less. Wholesalers' results for 1913 are in excess of those for 1914 by between 1 per cent. and $1\frac{1}{2}$ per cent. on the turnover.

96. *By Mr. Close.*] When I speak about ascertaining undue profits in individual cases by taking the difference between war and pre-war figures, I do not necessarily mean the actual figures for the year 1914 as shown in the report. Undue profits are anything in excess of pre-war rates (see paragraphs 82 and 83). The figures shown in the Profits Report cover four years. The arguments used on pages 14 to 19, are based on the figures for the four years commencing 1914. My information does not enable me to say more than that 1913 was better than 1914 to the extent abovementioned. You would have to go back for a number of years to say that 1914 was an abnormally bad year. I admit that in the case of Income-tax one is allowed to take the average of 1912, 1913 and 1914 as pre-war average for excess profits, and that that option was taken advantage of by a good many firms. 1914 was a worse year than 1913, to the extent abovementioned.

97. *By Mr. Macintosh.*] In regard to item A in Table "R" attached to the profits report, you have in 1914 a turnover of £138,909, and nett profit, £2,647. This is one of the firms whose name appears in Appendix D, but whose figures could not be incorporated in our tables.

98. *By the Chairman.*] The standard pre-war rate of profits is not what the individual firm made in 1914, but the result of taking the pre-war figures of a number of firms. You might have, for instance, a firm which was re-organising its business and deliberately getting rid of its stocks at lower prices. You cannot take the individual firm as a criterion. In deciding any individual case, assuming that action would be taken against any trader for making undue profit, I would consider the Income-tax basis of the average rate for 1912, 1913 and 1914 as a reasonable one.

99. *By Mr. Macintosh.*] With regard to the statement that the figures given do not make a fair comparison because 1914 was an abnormally bad year, I agree that the results of 1914 are below those of an average year (see paragraph 95). Table "R" shows an approximate turn-over down to "U" of

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£6,500,000 and a profit of approximately £390,000, including interest. This gives a return of 6 per cent. on the turnover. I quite agree that the capital could have been put into Government Stock at 5 per cent. without any trouble. The firms A to U, from whom these figures in Table "R" were procured, were taken at random out of the whole body of traders. The ascertained percentages for 1914 as shewn in Table "O" are bakers butchers and grocers 4.6 per cent. boots and shoes, outfitters, drapers and hardware (retail) 8.5 per cent., chemists 6.7 per cent., wholesale grocers 1.6 per cent. I consider 1.6 per cent. a low figure, but it is equivalent to over 6 per cent. on the capital invested. The only pre-war year dealt with in the report is 1914.

100. *By the Chairman.*] As regards the years 1912, 1913 and 1914 taken together giving a fairer figure as to pre-war rates of profit, the only facts before me are those for 1913, which, for wholesalers, was better than 1914. I have no figures about 1912.

101. *By Mr. Baxter.*] The Commission did not take 1914 as the pre-war standard of profits by which charges of undue profits should be decided. It took the actual figures for four years and drew valid deductions from them.

102. *By Mr. Close.*] The object in comparing these four years was to ascertain what the increase in profits had been.

103. *By Mr. Baxter.*] In estimating the charges made by traders for services rendered we have taken safe figures throughout. The 50 per cent. increase in the retail prices of boots and shoes—and the same figure for outfitters, drapers, hardware and wholesale soft goods—is far below the actual rise that has taken place in the prices of these articles, and these understatements of 1917 figures are far greater than any possible understatement of pre-war profits arising from our having based these "service" estimates upon 1914 figures. Our reason for publishing Table "R" was that it seemed desirable to publish the actual figures supplied to the Commission by some of the representative firms.

104. *By the Chairman.*] With regard to Table "O" no adjustment of the results of 1914, taking it as an average year, could account for the difference between the total gross profit percentage of 22.5 per cent. in 1914 and 27.8 per cent. in 1917.

105. *By Mr. Baxter.*] I have obtained the totals of the interest figures shown in the accounts submitted to the Commission. For 1914 it amounts to £395,000 and for 1917 to £418,000.

106. *By Mr. Close.*] The method of calculating selling prices mentioned in paragraph 131 by adding the same percentage to cost whatever the price of the goods may be, ac-

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counts for a large part of the difference between 1914 and 1917 selling prices and also for the deficiency in profits shown in Table "R." Table "O" shows that the percentages of bakers, butchers, and grocers have dropped, while those of other retailers have increased: Chemists have slightly increased: wholesale grocers have increased: soft goods, boots and shoes and hardware have increased. The firms whose figures are given in Table "R" were taken at random. I, in the first place, made a list, as being fairly representative of all the returns received, and the list as published was settled by the Commission. The mere fact that there was an increase of profit shown for any firm in Table "R" does not necessarily mean that they made an undue profit in 1917, nor does the fact that 1914 was an exceptionally bad year mean that they did not make undue profits in later years. This would be determined by reference to standard figures. I consider £2,647 nett profit on a turnover of £139,000 a very low rate of profit as a business proposition. No argument as to undue profits are based on Table "R." The general results are shewn in the previous Tables "O," "P," "Q" and such results must be results of undue profits in particular instances. The reasons for not publishing the names of firms are given in paragraph 78. I think the footnote at the bottom of page 6: "Throughout this report the word 'service' is used from the consumers' standpoint, and by 'equal service' is meant the supply of goods in such quantities as will satisfy consumers' wants for equal periods. Boots, for instance, which last 6 months, constitute an equal service whatever the price paid for them," is a correct statement and that no fallacy is involved. The measure of the "Service" is the satisfaction of the consumers' wants. From the consumers' point of view, it is the same service whether an article costs the merchant £100 or £200 and irrespective of the time he may hold the goods before selling them. From the merchants standpoint he might find it easy to do a particular thing to-day and extremely difficult to-morrow, but the person he serves knows no difference at all. The amount of the labour and risk of the seller may vary but the service to the consumer is the same whatever happens. The word 'service' is used throughout from the consumers' standpoint.

107. *By Mr. Macintosh.*] I do not say that the service rendered includes the sellers' labour and risk, because they have nothing to do with the consumer.

108. *By Mr. Close.*] Labour, capital and risk are involved in the sellers' operations, and are employed before the seller can hand over the goods.

109. *By the Chairman.*] Referring to paragraph 155. As regards the example of a railway artisan who receives more now than during the pre-war period, it is difficult to compare

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a man's labour with trading, as it would be treating a man's labour as a commodity, but one is bound to recognise that under the conditions of life to-day his services have increased in cost. I admit that the merchant has to use his brains, labour and capital in carrying on his business, but his reward is on too high a scale. I treat the question of service entirely from the point of view of the consumer. The artisan's services under the conditions of life to-day have increased in cost. What was in my mind when this was drafted, was that the public servant goes through life receiving a definite rate of remuneration, which is fixed on an entirely different basis to the remuneration received by the merchant for his work. With reference to the remark that "Commerce and Industries forms of public service and the rules that apply to other public servants should also apply, *mutatis mutandis*, to traders and manufacturers," in normal times competition has resulted in merchants and other traders receiving a more or less reasonable remuneration for their services. On the outbreak of war they were instantly transported into completely different conditions, and the line of action they have followed has been to take full advantage of the opportunities provided by these war conditions, and not to consider the position of the consumer.

110. *By Mr. Close.*] Reverting to paragraph 131, I consider that the practice above alluded to has caused a great deal of the excess profit in 1917, as compared with 1914, and it is a thing that ought to be dealt with as far as possible. What makes the position more difficult is that the people who could do most to control the movement of prices and so assist the consumer are the merchants themselves and they have taken no steps whatever in the matter. Any fixing of the percentages of gross profit to be allowed must be of an arbitrary nature. For instance, the ordinary pre-war rates of profit might be allowed on pre-war prices, and a sliding scale reducing the percentage allowed as prices rose higher might be made, but it would be difficult if not impossible for the Government to try to control anything of that nature. What could be done would be to prohibit percentages of gross profit in excess of pre-war rates. I am strongly against the Government taking over trading.

111. *By Mr. Macintosh.*] With regard to paragraph 108, there has been very great prosperity throughout the country and during the last four years a good many people have freed themselves from their indebtedness to merchants; but there are quite a number of cases where these individuals have disposed of their businesses. There is a certain class of trader who is willing to pay an extravagant price for the good-will of an established business. What then happens is that the purchase price of the goodwill has to be advanced by some-

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body (the purchaser seldom has available means of his own) and another large advance is obtained from some wholesaler who thus secures the outlet for his merchandise. The process therefore repeats itself, and whereas the seller was perhaps only to a limited extent in the hands of the wholesaler, the purchaser is absolutely in their hands. Some of my information regarding this matter was gained outside the area of this investigation, one area to which the above statement applies is the Witwatersrand, especially in connection with Reef stores. The successful results of the last four years have made many retailers more independent.

Thursday, 1st May, 1919.

PRESENT:

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.

Mr. Close.

Mr. Macintosh.

Mr. Garcia.

Mr. Baxter.

Mr. J. W. G. Steyn.

Mr. Louw.

Mr. de Beer.

Mr. Howard Pim, further examined.

112. *By Mr. Garcia.*] With reference to your question as to whether I agree with the suggestion made by Mr. Boydell in paragraph 152 of the Profits Report that farmers' produce should be sold at prices based on the cost of production, I think it will be an extremely difficult matter for the farmer to arrive at the cost of production, and I do not think it is a practical suggestion. The necessary accounts are not kept. In many cases they could not be kept.

113. *By the Chairman.*] As to whether a farmer can profiteer as a seller of produce, I think a point might be reached (looking at the matter from the point of view of the consumer) when the price charged would not be justified, but it is a difficult matter to decide where to draw the line. Where there is a considerable advance some control might be exercised. The Australian prices for wheat are based on world prices, and, therefore, must influence wheat prices in this country, and to a large extent control them.

114. *By Mr. Baxter.*] I do not see that any general definition of "profiteering" can be given. It depends on the

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particular class of business referred to, and the nature of the case. I should like if the Committee would allow me later to give an instance of "profiteering," and to demonstrate in figures what is meant by "undue profits."

115. *By the Chairman.*] The great difficulty about farm produce is that you cannot definitely say what the pre-war rates of profit were. If the necessary figures were available they might be used, but they are not available. In dealing with the service rendered to the public, you must take the conditions of the country into consideration. For instance, this is not a manufacturing country to any great extent, and industries, therefore, have not yet developed to the point where these particulars of pre-war results are available, or, if obtainable, to render them reliable.

116. *By Mr. Baxter.*] The producer is certainly in a different position to the middleman. He is essential to the country in a sense that the middleman is not. You could not apply exactly the same considerations to manufacturers as you would to traders, because of the difference of their undertakings. The manufacturer's risks are greater than the trader's risks.

(At this stage the Chairman left the room and Mr. Macintosh took the Chair.)

117. *By Mr. Garcia.*] I consider Mr. Boydell's other recommendation in paragraph 152, that goods manufactured in South Africa are not to be sold at the price at which similar goods could be imported, but at prices based on the cost of production, is an ideal proposal, and comprises more than can be carried out.

If goods were sold on the basis of some percentage of profit added to the cost of production the selling price might be either above or below the imported price, so that while it might cut down profits in one case it might increase them in another, and if the price based on cost were higher than the imported price the result would be that additional protection would have to be given to enable the goods to be sold at all. As to whether Mr. Boydell believes in competition or not, I really cannot speak for him. I would rather not give an opinion as to that. I have nothing to do with recommendations which are outside of the report itself. I think it would have been better if we had inserted a side note to paragraph 152 that the rest of the members of the Commission did not agree with Mr. Boydell's view on this matter. With regard to the further remark in paragraph 152 "There is also the question of merchants pooling their supplies and of prices being fixed which only allow a fair margin of profit on par-

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particular classes of goods," my view is stated in paragraphs 150 and 151 and also in Chapter I. It is possible that my colleagues did not agree with my personal views, but I do not think so. The matter of pooling supplies is to a considerable extent in the hands of the merchants themselves. If they had thought fit to put their heads together, to decide what were fair terms at which the goods could reach the consumer, and to act on this decision, I think a good deal could have been done. They might have come together and tried to arrive at some understanding. As to whether it is a practical suggestion that merchants should come together and agree to pool their goods, the history of the last four years has shown that they have not tried to do so. I see no prospect of them coming together in the future. In the United States, as already mentioned, where merchants deal with certain classes of food over which the Government think it desirable to exercise control, food administration licence is issued, which states that the Government expects them to ask only what was their legitimate profit before the War, regardless of what it would cost to replace the goods. This profit to be based on the delivered cost of the goods.

118. *By Mr. Baxter.*] A number of articles of food were licensed, but what the articles were I cannot say.

119. *By Mr. Garcia.*] With regard to paragraph 160, and to the question as to the basis on which such services should be assessed, that is dealt with in what I have said about profits. Salaries paid are according to the services rendered, and merchants' profits would similarly be governed by what were found to be, in the open market, reasonable rates.

120. *By the Acting Chairman.*] With reference to "reasonable," that the rates paid before the war were unreasonable, under the conditions prevailing in the country, would require proof.

121. *By Mr. Garcia.*] With reference to paragraph 128, the nature of the relations between wholesale and retail businesses in the country has changed, and the change started before the War. On the other hand during the War period owing to the practical impossibility of the small man importing goods, they were more and more compelled to buy from the wholesale houses, and the Commission has evidence that certain prices at which the smaller traders were able to buy from the wholesale houses were higher than those at which they were able to sell to the public in the rare cases where they were able to import direct. The Commission also came across cases—fairly numerous on the Witwatersrand—where business had changed hands and large sums had been advanced by wholesale merchants to the purchasers of such businesses to enable them to carry on. Whatever the financial position of the out-

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going firm may have been the incoming firm was entirely dependent on the wholesale merchants who gave them financial support. They were supported accounts. This state of things was accentuated in war time. The statement made by merchants that the retailers were importing much more largely on their own account must relate to pre-war days. We had almost universal complaints from the smaller traders that they were unable to import during the War period.

122. *By the Acting Chairman.*] Our enquiries were confined to nine centres only.

123. *By Mr. Garcia.*] There is nothing in this Australian Report (see paragraph 123), to show that they have realised that it is essential for the success of co-operation to have guidance. Financial assistance and guidance have to go together more or less, but the guidance of a central organisation is of the greatest importance. There is nothing in the Australian evidence to show that there was any central control or any assistance of that kind given to the movement. The success of the farmers' co-operative societies in this country is a case in point, viz.: the existence of a group of persons possessing common interests, and under the central guidance of the Land Bank. The fish trade is very largely in the hands of one firm, who are in direct contact with the actual distributors all over the country. The Commission obtained a large amount of evidence, and ascertained not merely the general result of this business for years past, but even the results of each individual boat. The expenditure was also closely examined, and the trade arrangements discussed. The result was that we found that the prices obtained for fish to-day do not give a profit in excess of what the company was making in pre-war days.

(At this stage the Chairman entered the room, and Mr. Macintosh vacated the Chair.)

I shall send you a note of the prices of fish in Johannesburg, Kimberley, and the coast towns.

124. *By the Chairman.*] There is great wastage in selling fish, and the prices obtained by the fishermen are only a fraction of what the public has to pay. All the evidence we have goes to show that undue profits have not been made in the fish trade even by intermediaries.

125. *By Mr. Garcia.*] The firm in question is not established at Mossel Bay, and there you might have to depend on local fishermen for fish, who perhaps could not then get out to fish. From time to time the Commission has discussed fish prices, and agreed to the prices charged. No doubt retail dealers have some arrangement amongst themselves as to the price at which they will sell.

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[Messrs. H. Pim and T. B. Herold.]

126. *By the Chairman.*] There are two main causes for the increase of the price of fish—firstly, smaller catches, the principal cause; and, secondly, increased wages and the very largely increased cost of upkeep of the boats. The cost of boats and of everything to do with them has increased enormously.

Mr. Thomas Barry-Herold, examined.

127. *By the Chairman.*] I am the Chairman and General Manager of the Land and Agricultural Bank. The history of the advance of £10,000 by the Government to the South African Industrial Federation Company is shortly that this sum was specially voted by Parliament last session as a War measure to keep down the cost of living. The payment of this amount and the recovery thereof was entrusted to me as General Manager of the Land Bank. The amount was paid over on August 6th, 1918, under certain conditions. These conditions have been complied with as far as possible for the Company to do so. The rate of interest is 5 per cent. per annum, payable half-yearly in arrear. The interest has been paid. It was at first intended that the Company's assets would be pledged to the Government under a general bond, but that form of security was abandoned, because of the Company's representations that its credit would be damaged, and that such a bond would prejudice the position of other creditors. That particular form of security not being available the advance was paid over at the request of the Secretary for Finance, upon the following conditions:—

- (a) That the amount shall not be more than 80 per cent. of the unpaid portion of those shares upon which at least one tenth of the nominal value has been paid;
- (b) That the company cede to the Government all its right to and in all moneys due and payable by members for share subscriptions as collateral security for the repayment of any amount owing to the Government in respect of the £10,000;
- (c) that the rate of interest be 5 per cent. per annum payable half yearly in arrear;
- (d) that the period of the loan be for the duration of the War and a year from the official declaration of peace between Great Britain and Germany, and that any amount which may then be owing shall be payable in one yearly and four equal half-yearly instalments;

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- (e) That if at any time during the currency of the loan the Government advance and the share subscriptions exceed the company's nominal capital such surplus shall be employed by the company to reduce the debt to the Government;
- (f) That the Government through Thomas Barry Herold in his capacity as General Manager of the Land and Agricultural Bank of South Africa shall have the right at any time to examine the company's books and documents;
- (g) That if the company be in default in payment of any amount whether capital or interest due under the loan, or if the company fail to observe the conditions of the loan, the full amount shall immediately become due and payable by the company to the Government.

No general bond was taken. It was felt that it would damage the company's credit and prejudice the decision of other creditors who would, as a matter of fact, guarantee the overdrafts of the Standard Bank. I consider the advance, under the special circumstances, justifiable and sound, in view of the prevailing conditions of the country. There was a feeling abroad rightly or wrongly that there was undue profiteering, and there was tremendous feeling on the Rand amongst the working classes, and it was felt, as a War measure, that this advance should be made. The extent of the company's trading is roughly about £12,000 a month. They have 23 branches in different parts of the country, particularly in the Witwatersrand area. I think the prospects for recovery quite reasonable.

128. *By Mr. Macintosh.*] They are working at a profit now.

129. *By Mr. Barter.*] The last statement which I have got shows an estimated profit. The returns had not been completed, but this report is audited by Mr. Hall, the accountant nominated by the principal creditor. Originally it was the intention of the Government that they should be consulted as to the appointment of auditors, but as it was found that the principal creditor had approved, we did not concern ourselves about the matter. The report is signed by Mr. Hall, and shows an estimated profit for a period ending March, 1919, of £1,841. It does not show the length of the period, but I think it is for four months. They supply me with a duly audited financial statement, and I audit their accounts as soon as their statements are complete. They have written stating that the auditors hope to complete the balance sheet very shortly. They have completed the audit, and bal-

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ance sheet and report will be sent to me in due course. The date of the letter was 2nd April. I telegraphed to Pretoria, but the estimated statement is the only statement I could get at present.

130. *By the Chairman.*] I have seen the Report of the Commission as regards co-operative trading. I have not given evidence before the Commission. It is obviously in the interests of the whole community that this rural producer and the urban consumer should come together without the assistance of unnecessary intermediaries, and this question arises, viz.: to what extent should the State assist in attaining that object. The State has already adopted the policy of granting financial assistance to co-operative groups of rural producers, and that fact is sometimes regarded to be in itself sufficient justification for the adoption of a similar policy towards co-operative groups of urban consumers. That seems to me to be the superficial view expressed without giving much thought to the subject. It is recognised throughout the world to be necessary for the State to grant financial assistance to rural producers, and that necessity is explained by the simple fact that any financial assistance they receive must necessarily be long dated to tide them over from harvest to harvest. The wage-earner who is paid weekly or monthly does not require long date assistance. It is just that difference which explains the fact that whilst State assistance to co-operative groups of rural consumers is almost world-wide, there is not, as far as I know, a single State which grants direct financial assistance to co-operative groups of consumers. Another factor which explains this distinction in policy is that the general body of rural producers, if unaided, would find that for practical purposes their market was limited to the nearest storekeeper, whereas the wage-earner, buying groceries, usually has a number of competitive shops seeking his custom. There are other factors which explain the differentiation in treatment by most States between rural producer and urban consumer, such as the desire to keep people on the land, the perishable nature of the goods produced, and the farmers' lack of business ability and commercial training. It is possible that in some countries State aid has been given to trading societies composed of urban consumers during the war period just as the Union loaned £10,000 to the South African Industrial Federation Company, any such assistance would, however, be purely a war measure due entirely to abnormal conditions. I agree with the opinion expressed by the Cost of Living Commission in its memorandum dated 3rd December, 1917, on the subject of State Aid to Co-operative Societies, that "in ordinary times no notice need be taken by the Government of the development of these societies, which might be allowed to follow

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its natural course." State aid to rural producers has been a recognised policy in normal times, but State aid to urban consumers has been purely a war measure. It has not been necessary for the State to grant financial assistance to co-operative groups of urban consumers in other countries. On the contrary, the desire on the part of the State in Germany to do so has been opposed by co-operators themselves. The grounds of objection probably are (1) that State aid implies some measure of State control, and (2) that the wage-earning class is usually in a position to help itself. The wage-earning community in South Africa is probably better off than in any other country, and if there has been no real need for the State to assist financially in other countries, it seems reasonable to say that there is no real need here. If it can be shown that the wage-earning community is, in fact, unable to help itself, then I should say a good case would be made out for State assistance. If the evidence given by Mr. Crawford, the Chairman of the South African Industrial Federation Company, to the Trading on Mines Commission has been correctly reported, then a strong case for sympathetic encouragement has been made out. The State should encourage co-operation amongst consumers by providing suitable machinery for registering co-operative companies of that kind and generally to facilitate their peculiar form of business. Such legislation shall provide, *inter alia*:—

- (1) Some simple form of registering the increase of capital which is necessary from time to time as shares are taken up.
- (2) exemption from stamp duty and fees for trading licences;
- (3) the limitation of spheres of territorial activity. Duplication of stores in any given area does not make for reduced cost of living—it might, on the contrary, increase the cost to the consumer, because the costs of distribution, for instance, might be increased. The influence of competition is not so effective in reducing prices, as is sometimes supposed;
- (4) that buying and selling be for cash only;
- (5) that business be confined to members;
- (6) that borrowing powers be limited to 80 per cent. on unpaid capital;
- (7) that voting power be based on the one man one vote principle.

There is only one single country in which State aid is given to co-operation. In Germany the working men were against it. In France the State aid takes the form of out and out gifts to individual societies. 93,000 francs were

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given to individual societies in 1905. That is the latest information I could get. They give loans to banks established workers' by societies on condition that the bank does not charge more than 2½ per cent. They give preferential treatment to the State when they tender for Government contracts. They have a form of society in which the contractors all club together. I have not come across a case where an advance has been made out and out to co-operative shops. If Mr. Crawford's evidence is correct, he has made out a case for sympathetic treatment. His statement was published in the press a couple of days ago. If correct, it means the restraint of trade, and should not be encouraged. I have no means of testing the accuracy of that report. I could not say whether it will affect wholesale people giving credit to the society.

131. *By Mr. Close.*] If it were considered advisable to give financial assistance to co-operative societies there would be no difficulty in extending the machinery of the Land Bank. With regard to the legislation proposed by me, if such principle is adopted, I would suggest that in addition to the suggestion by the Cost of Living Commission, that the bank or Government gets a prior call on the unpaid subscriptions. With such a form of security, I think there would be very little risk of loss under proper control.

132. *By the Chairman.*] The company's operations relatively are so small, and the difficulties under which it worked so great, that its activities do not truly reflect the power of co-operative stores to reduce the cost of living. Yet, notwithstanding those difficulties, it is claimed for the company that it was a real factor in keeping down the cost of living on the Witwatersrand, and its officers quote the figures published by the Cost of Living Commission to support this claim. On the Witwatersrand the increase in the cost of living was proportionately less than at other centres. The S.A.I.F. Company claims that whilst it is true that its turnover may have been negligible, still its price list indicated to the householder the price at which groceries could reasonably be sold. They claim also that if their business included the sale of clothing, boots and the like which ordinarily carry a high rate of profit, they could have afforded to cut groceries even still finer—that is the loss made on groceries would have been more than counterbalanced by the profits on clothing. The company also claims that opening a store at Mafeking and Zeerust had the immediate effect of bringing down the level of groceries throughout the other shops in those two towns. The claims of the company are supported by newspaper reports, and it seems that notwithstanding the difficulties under which it has been continuously working, its restricted operations have benefitted the consumer.

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It must be borne in mind that the company, owing to shortage of capital, was obliged to buy, in most instances, from local wholesalers who have been profiteering according to the Cost of Living Commission's Profits Report). The company as mere distributors of stocks obtained from local wholesalers had, therefore, only restricted opportunities to influence the cost of living.

But given sufficient capital, and the proper organisation to buy in the world's markets, and to distribute the goods to consumers, there are good grounds for believing that the influence of co-operative stores would make itself felt to a much larger extent than the operations of the S.A.I.F. Company might lead one at the first glance at its balance sheet to suppose.

The results achieved by the co-operative stores in England prove that the co-operative store can realise economies in retail distribution which are impossible in a non co-operative establishment, and the position must, it is thought, be accepted that there will be a world wide change from the competitive to the co-operative system of distributing the necessities of life, and the high prices which are likely to rule for some time are an important fact in hastening a change.

133. *By Mr. Close.*] The society is not confined to selling to its members. It has been selling to non-members, but is discouraging this as the non-member does not subscribe any capital.

134. *By Mr. Baxter.*] From a commercial standpoint, the co-operative stores have not been successful, put from a consumer's point of view, the stores have been a success. The management, I think, sells too cheaply, in the first instance, to cover working expenses. As a result, a loss has been incurred which is now being overtaken.

Friday, 2nd May, 1919.

PRESENT :

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman.)

Sir Willem van Hulsteyn	Mr. Baxter.
Mr. Close.	Mr. J. W. G. Steyn.
Mr. Macintosh.	Mr. Louw.
Mr. Garcia.	Mr. de Beer.

Mr. Howard Pim, further examined.

135. *By the Chairman.*] I should like to deal further with the effect of the two additions to pre-war profits—one continuing the pre-war percentages on the higher prices, and

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two, the additional percentages charged. I wish to give an example which will make the matter clearer. Incidentally, it should clear up our use of the word "service." The word is used from the consumer's standpoint, and the question is how the profits which have been made by traders can be justified. I refer the Committee to paragraph 69, wholesale boots and shoes. In the first place 1914 was a year which was not quite so good as 1913. Not having further figures, I cannot speak for other years. I propose to take as a basis not the 1914 profits percentage of £8 2s., but the 1915 figure of £11 1s., and proceed to make up the £28 for an equal service rendered in 1917 (see last line of paragraph 69). I, therefore, take £11 1s. as the starting point, pointing out that it includes pre-war interest and, in addition, an adequate pre-war profit. Expenses have increased during the four years under this head, and, including the risk of bad debts, I allow an extra £3 6s. on outside figures. Then for interest I allow £3. Again, an excessive figure for the accounts shows about 3 per cent. on the turnover for additional interest, whereas this is £3 out of £28. These figures make up a total of £17 7s., so that there is a further figure of £10 3s. which is paid by the retailer to the trader (not even the consumer in this case), for which the trader has to find justification. Of that £10 3s., roughly one-fourth represents the increase due to increased rate of gross profit in this case of wholesale boots and shoes. The balance of three-fourths represents the profits that accrue as the result of charging the pre-war rate of profit on the higher prices.

136. *By Mr. Baxter.*] £11 1s. represents pre-war nett profits. I add figures to cover increased expenses and interest, making a total of £17 7s. The difference between the total arrived at in that way and the £28 is the £10 3s. which I have spoken about. One-fourth is roughly due, in this instance, to the small increase in the rate of gross profit (28.2 per cent., as against 26.6 per cent.), and three-fourths is due to retaining the pre-war percentage of gross profit and applying it to the much higher prices of the goods concerned. If traders or Parliament desire the Commission is willing to collect similar information for 1918 and publish the results in a supplementary report. I am not going on the assumption that the same number of boots were sold in 1917 as in 1914. Assuming that prices have doubled, you will see from the table that the actual quantity sold has been rather less. The first table in paragraph 69 shows that the turnover has gone up by about one-third, as against the price of the goods having doubled. If an individual buys at twice the price he gets the same service.

137. *By Mr. Macintosh.*] As regards placing one's self in the position of the boot and shoe merchant during the war,

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and stating what one would have done under such conditions, I must refer you to paragraph 150, etc., in Chapter XII of the report. I would also refer you to Chapter One. The underlying idea is that merchants should have got together and, recognising the difficulty of other sections of the community, should have come to some mutual arrangements which would have enabled goods to reach the consumer at lower prices. I am aware that in South African trade, quite apart from the competition inside any principal town, you have every port town competing against each other for the inland trade, and in order to make the suggestion effective it would be necessary for the representatives of traders in all the port towns to meet together and make arrangements. I think something of this kind should have been tried. I cannot say what proportion of the turnover figures shown represents stock of South African manufacture nor when the price began to increase substantially. The proportion of boots of South African manufacture increased year by year.

138. *By Mr. Close.*] Table "J" on page 65 shows that the actual amount of expenses has increased from £52,180 to £62,461, but the percentages on turnover represented by these expenses have gone down.

139. *By Mr. Barter.*] Tables "O," "P" and "Q" are fully explained in paragraphs 76 and 77. To calculate percentages on the basis of the group totals shown in Table "P" would be altogether misleading, because while these group totals correspond with the Commission's information, the items making up each group may not be relatively correct. We took all the representative firms we could get. It does not follow that boots and shoes for instance are over or under represented, but you cannot base your argument on percentages based on these group totals for that reason.

140. *By the Chairman.*] I did not say that I drew no deductions from these tables. I said I drew my deductions from Table "P."

141. *By Mr. Macintosh.*] In paragraph 29 a deduction is drawn from the first totals of Table "P." This deduction is legitimate. Table "A" reflects the same money totals rearranged. Paragraphs 76 and 77 make this quite clear. The average (arithmetical mean) figures in Table "O" and "Q" are approximate. The conclusions drawn were carefully considered and are justified. With regard to the following sentence in paragraph 76 of the report: "These final percentages in our opinion give a very close approximation to the results of the general course of mercantile business in South Africa from the outbreak of the war up to, say, September, 1917", the arithmetical mean percentages are here alluded to.

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142. *By Mr. Barter.*] Our conclusions are certainly justified. The percentages in Table "J," viz., gross profit in 1914, 24.8, and in 1917, 28.2, indicate that the people concerned during the war increased their pre-war percentages on cost prices, but I do not say that (in view of the difference between 1913 and 1914) the increase in question is the whole difference between 24.8 and 28.2. I have pointed out that the 24.8 per cent. may be somewhat increased. With reference to paragraph 131 and to my statement that traders have actually increased their percentage gross profit, I do not know of any other factor which would account for the results shown. Take Table "G," Hardware; the percentage of gross profits in 1914 was 33.5 and in 1917 36.9; in Table "H," Chemists, 25.6 in 1914 and 26.4 in 1917; Table "I," Groceries (wholesale), in 1914 10.3, and in 1917 12.8; and in Table "J," Boots and shoes (wholesale), in 1914 24.8, and in 1917 28.2, and so on. As to whether I know of no other factors which would explain the increase in the gross profit except the fact that that merchants have increased the percentage on selling price, I agree that there is a fluctuation in the ordinary course of business, and that the average gross receipts shown in any year will depend upon the relative proportions of the various classes of goods sold by a firm. If a firm sold a bigger proportion of luxuries that would be reflected in the gross profit, but luxuries have been clean cut out of this report. Expenses in connection with the handling of luxuries, especially in the retail trades, are greater than for bread and butter goods. We have overstated the expenses incurred for the bread and butter part of the business (see paragraph 34). If merchants got rid of a lot of their old stock which had been written down below cost prices at war prices, that would also increase the gross profit, i.e., if the goods were written down in the books. If the books show a ridiculous valuation, and suddenly circumstances altered and big prices were received for the goods in question, that would increase the profits. The fact that during the war firms had to allow very little for depreciation of stocks is stated in the report (see paragraph 15).

143. *By Mr. Close.*] With regard to the increase of gross profits such as from 24.8 per cent. to 28.2 per cent. in the case of boots and shoes, I think this added to the continuing of the pre-war percentages, the primary and main causes of the increase in selling prices, but I do not say that other subsidiary factors, such as those above-mentioned, may not have tended in the same direction.

144. *By the Chairman.*] These points which have been mentioned operate, of course, also, and may account for a portion of the increase, but not for the whole of it. With regard

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to the remedy for this state of affairs, I quoted one instance, and gave my authority, I think, yesterday, viz.: "In the United States, as already mentioned, where merchants deal with certain classes of food over which the Government think it desirable to exercise control a food administration licence is issued, which states that the Government expects them to ask only what was their legitimate profit before the war regardless of what it would cost to replace the goods. This profit to be based on the delivered cost of the goods." This is a notice issued by the United States Food Administrator. I cannot give you the date, but it was during the war.

145. *By Mr. Baxter.*] I cannot say whether it was since America came in.

146. *By Sir Willem van Hulsteyn.*] On the face of it, it was a request, but one which under the circumstances would have met, if broken, with considerable punishment.

147. *By the Chairman.*] My precedent does not go beyond a request. The whole question of the fixing of prices which has been adopted so widely, but which has not been adopted here, except in special cases, is an instance, and one method of the fixing of gross profits. It is true that these are all war-time arrangements, but the contention in the report is that a good deal of these arrangements which were introduced during the war will have to be made permanent, and that view is supported by strong evidence. I do not suggest that the fixing of prices should be made permanent. The system which I have quoted was put into operation by America in preference to fixing prices. The whole of the United States organised itself to assist Europe. We worked upon similar lines, and from the very beginning we laid stress on the point that it was for traders to take the lead in this matter (see Chapters I and XII). I should like to amend my evidence given yesterday with reference to the service of artisans. Taking the example of railway servants who receive more now than during the pre-war period, this additional payment corresponds to the additional expenses which are incurred by the merchants. It is a payment that keeps the artisan fit for his work. Efficient service could not be rendered if it were not made. The Commission's contention is that the merchants are entitled to recover from the consumer all their additional expenses plus a reasonable allowance for any increased risks, but not more than this: they should not appropriate everything that pre-war conditions allow them to obtain.

148. *By Mr. Macintosh.*] The value of the sovereign thus comes into the question; although the artisan receives increased wages, they are practically absorbed by the increased cost of living. I would apply that principle all round. We are all consumers; everybody is a consumer, the merchant,

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the farmer and the artisan. We take the consumer *qua* consumers to start with, and then we ask if the person who supplies the consumer can justify the charge he makes for the service rendered. The artisan, as I have explained, justifies it. The merchant also justifies it to a certain extent, but over and above what he can justify, there is a considerable margin which he has not justified.

149. *By the Chairman.*] With regard to rents and housing, I should like to call attention to the further recommendations on page 44 of the General Report, on the subject of holding a conference to consider the housing question in all its bearings. We thought that all the municipalities could probably throw some light on the position and assist in formulating some scheme that would be satisfactory to all concerned.

150. *By Mr. Close.*] The effect of our recommendation was that it should be treated as a National matter. The crux of our recommendation is that the Government shall make it easy for municipalities to borrow from it, but not in opposition to the Provincial Administrations. What we want is that funds may be available for housing purposes throughout the Union. I agree that (to provide for the case of any of the Cape Provincial Administration not introducing legislation), the Central Government should deal with it as a National matter.

151. *By the Chairman.*] With reference to the probable movement of prices, I start with America. We have two distinct sources of information, one from a private firm, the other, official. The view of the private individual is that there may be a fall in prices in about six months of £10 to £20 per cent. The official information does not agree, except in so far as cotton goods are concerned, where they consider such a fall is possible. They point out that the strain on the American manufacturer owing to the return of troops after the war is not likely to be so great as in European countries owing to the short time that these men were at the front, so that a great deal of what they had before the war is still available for them. The whole position both for America and for Europe, is affected by the extent to which the Central Empires will be opened up for receiving goods. One has heard of £10 and £12 being paid for a pair of boots in Central Europe and as much as £80 for a suit of clothes, which figures illustrate the enormous demand which exists and which, if these countries opened up, must have a very large effect on prices of merchandise. With regard to cotton, I understand that following a very heavy rise and a much smaller fall, the price is now hardening again.

With regard to woollens and foot-wear "the general opinion is that there will not be any material change in the prices of woollens and footwear for some time to come, especially if

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order comes out of the present chaos in Germany at an early date. The Central Empires must want equipment of all kinds, not only raw materials, but manufactured goods." The date of that document is 20th March, 1919. That is a general summary of the following information.

The following is a letter from London, dated 1st January, 1919:—

"Since the signing of the Armistice there has been a tendency on the part of the retail trade to return goods, cancel orders and cease buying, and as we are frequently asked our opinion as to supplies in the coming months, we think an interchange of views should be of value. After careful investigation we feel that whilst reasonable caution is advisable, there is no indication of a drop in prices of woollen goods during 1919, on the following grounds: The production of woollen fabrics and garments requires some months. For instance, the goods for this spring and summer are now in hand and nearly finished. All yarns for winter goods will have been bought within a month or two or the goods would not be ready in time. All raw wools are in the hands of the Government and for many months will be at rationed and controlled prices. Even if they were freed from control in 1919, the opinion of the best experts is that public competition would keep prices on a high level. The prices of wool yarns to-day are considerably higher than those quoted for last autumn, and wages have increased. A corresponding position *qua* manufactured goods must therefore be reckoned with. There is a serious shortage of woollen fabrics and made goods of all kinds in the belligerent and neutral countries, so that when peace is declared and trade routes are open, the demand will probably be so great as to force prices up to a still higher level than we have yet known. The 'Yorkshire Post' estimates that the stocks of raw wool in the world will, at the end of 1920, be at a lower level than they have been for many years. We recommend our customers to cover their requirements at an early date, if they wish to hold their trade together. So far as we are concerned, our policy is to follow the market and place contracts at current prices, to cover our probable requirements for 1919, where and when opportunity arises."

In a further letter from England, dated 18th December, 1918, it is stated:—

"It is of course very natural that houses who have seen with alarm the very heavy increases which have occurred in wool and cotton goods should conclude that,
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with the signing of the Armistice and the prospect of peace, there will be a rapid fall in prices. In order that the position may be fully recognised, it is necessary to explain the situation rather fully. It is of course well known that the Government have bought Colonial wool crops, but owing to the submarine menace it has been impossible to get the wool across, with the result that, for the whole of this year, Government demands have had to be fully satisfied before any wool was liberated for civilian purposes. Every period of the civilian ration tended to grow less, and for the next rationing period, commencing in December, had not the Armistice come, there would have been absolutely no wool available for civilian purposes at all. The result of this rationing has been a greater scarcity of wool for civilian purposes. If, therefore, there was plenty of wool available, the demand to make up the shortage would have a tendency to steady prices, but for the next period we have learned that the amount allowed for civilian purposes will be somewhat similar, if possible somewhat in excess of the last period. However, as the last period was the smallest allocation on record, it is quite manifest there is not going to be a huge supply of wool thrown upon the market; that, in short, the shortage will continue. And again, it must be borne in mind that neutral and allied countries such as Belgium, France and Italy are in most urgent need of wool for all purposes." . . . Now as far as hosiery is concerned Army requirements will still go forward at high pressure. Hosiery is still most urgently needed; not only are demands not cancelled but orders are likely to go forward for some considerable time. That prices must eventually come down to a lower level is of course apparent, but for the moment we see no prospect of any ease, and most certainly not the slightest prospect of any slump."

In a letter dated 27th January, it is stated:—

"Sole leather is available in rather better quantities, but at no reduction in price. For glace kid, however, and many other sorts of upper material, there is no quantity worth speaking of to be bought in this country, and it seems very uncertain as to when any can come from Australia. We think this condition will last for some time yet. The prices we are asking now for our goods are based upon stocks which we actually hold. If we were suddenly deprived of a large portion of these stocks, as, for instance, by a fire, many of them would be irre-

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placeable, and we do not see how we can go on offering what we are able to offer now. With regard to labour, you are probably aware that there was an all-round 15 per cent. advance a few months ago, and that at present negotiations are proceeding between the Manufacturers' Federation and the men's Union as to demands made by the latter for further very large advances. What the exact lines of settlement will be we cannot say, but the general opinion is that although the full demands of the men may possibly not be obtained, the result will be some further substantial increase on to-day's labour costs. We hope that these prospects will not necessitate any further advance on the quotations we are making to-day for footwear, though it is impossible to guarantee that such will not be the case. Ultimately we think that there must be some reduction on present prices, though we do not expect to see them go back in our time to the pre-war figure. We think any reduction will probably be gradual, but that it cannot begin to take place at present. We do not see how any footwear can be shipped from this country, for the next six months at least, at prices below to-day's quotations. It appears to us, therefore, that if we were buyers in South Africa, we should lose no time in purchasing all that we expected to require to sell in that country up till the latter part of this year, but that we should not care to commit ourselves beyond that. On reading over this it appears to us rather unduly sanguine to suggest the possibility of any boots and shoes being delivered at a reduction on to-day's prices as soon as six months from now."

I should like to quote from a further letter dated 25th January from England:—

"Our opinion is that there can be no reduction on the present prices for some considerable time for the following reasons:—

The raw material for the leather trade is excessively short and can only be replenished from the other side of the world, which must take time; coupled with which the more urgent matter is the importation to Europe (including British Isles) of foodstuffs. Consequently we cannot expect to receive abundant supplies of raw materials for some considerable time. These raw materials have to be made into leather which also takes time. Added to this there will be enormous demands by those countries of Europe which have been at war and have been blockaded.

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We therefore see no reason to suppose that there will be a downward move in prices for at least six months and after that, in our opinion, the movement will be gradual. A further reason is that we shall have to pay higher labour costs in the near future, but to what extent we cannot say. It is absolutely impossible to quote firm prices for future deliveries. Our feeling is that for pretty well two years it will only be possible to quote prices when able to put the goods into work, because we cannot tell from one day to another what leather we are able to buy. We cannot buy anything ahead. Our advice to our South African friends is that they shall continue buying the goods they require, as they require them, at the prices ruling whenever they are able to buy, as if they hold off, hoping for lower prices, they will find themselves without goods. We know from letters from the other side that the South African has an entirely wrong idea of the position here. We believe that it is possible to buy in a retail shop in South Africa, goods at a considerably lower price than the same goods could be obtained on this side, so that, if they expect, as they do, prices to fall, our answer would be that they have not, as far as the consumer is concerned, paid the top price."

One firm in South Africa " confirms the reduction in the price of Horrockses' calico, otherwise they report prices of all goods remain firm. They think, however, at the end of six to nine months there will be an all round drop of 20 per cent. Another firm states " They are further advised it will possibly be 12 months before there is any downward move in prices and though this must eventually come about it is not anticipated that prices will ever fall below 50 per cent. higher than pre-war times. A further firm in South Africa states: " There are no reductions to report in ladies' clothing or millinery, in fact many lines show a distinct tendency to advance. . . . There is no shortage of heavy boots but there is not a great demand for that class out here. The prices of boots however have advanced 20 per cent. since Armistice and altogether 100 per cent. since pre-war." I have a letter from another South African firm dated 16th March, 1919, stating, *inter alia*: " The advance in hats, shirts and clothing has been 20 to 25 per cent. since armistice. . . . In the near future the cheapest ready-made suits will not be procurable locally under £10 10s. I am advised that prices of many articles are so high that no orders can be placed until there is an appreciable reduction and this they do not anticipate until June at earliest and possibly not until January next

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year. They attribute this to the fact that owing to Government control there is no open market for raw materials at present, and in view of the above and that orders take approximately nine months to execute they cannot see how there can be any hope of a reduction in local prices before 18 months to two years hence. Children's clothing has advanced to such an extent that representatives complain it is useless exhibiting the samples and they are at once shelved. There has also been a big advance in children's footwear."

Mr. Commaile of the Customs Department states:—" I would add that my own experience of the prices of many lines of goods under review which are being imported through the port is that they have considerably advanced. Travellers' ranges are carefully scrutinised by me and the latest prices noted and recorded. A further letter from a South African firm states: " At present there are two factors to be taken into account, one tends to send manufactured textile goods down, and the other to send them up. To send them down we have reduced freights and war insurance on the raw article. To send them up we have the very unsettled state of the labour market at home, and possibly the expectation of huge orders from the Continent as soon as things settle down at Home. There has been no decided reduction in prices, but the tendency is downwards. A few leading lines in soft goods have been reduced. Horrockses' new list dated September 18th showed a reduction of 15 per cent. but these goods advanced tremendously during the war. We may even now, with cotton down, have to pay advances on the manufactured article, as it usually takes, say, six months to get the goods made. *Prints*: Pre-war price 2 $\frac{3}{4}$ d. per yard, cost us in November last 11 $\frac{1}{8}$ d. Possibly if we were prepared to place a large order now, we could get a firm quotation at from 10 per cent. to 15 per cent. less. *Rugs*: Little, if any change since armistice. *Woollen Goods*: Prices are stationery with a tendency to advance. In my opinion we shall not have any great change in values for the next six months and possibly it will take 12 months or even more before there is a noticeable reduction in the price of soft goods."

152. *By Mr. Baxter.*] I am not anticipating a general rise in the price of foodstuffs. It is quite possible and I hope that there may be some reduction in the price, as we produce so much locally. Our food conditions are fortunately much more favourable than anything which has existed for years overseas. I know that the price of cotton has dropped, but it will take six months before articles can be produced from such cotton by the manufacturers.

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153. *By Mr. Macintosh.*] Regarding the case put of a public servant who before the war was getting £1,000 a year, which sum owing to increments was increased to £1,200 but owing to the depreciation in the valuation of the sovereign, he is not a penny better off in spite of such increase; and to the case of the merchant who before the war was earning £1,000 a year, but in, say 1917, was earning £1,200, and is therefore in the same position as the public servant as to being no better off through the increase in his income, and whether such merchant is not entitled to increase his rate of profit to meet his increased living expenses—my answer is that he is entitled to increase his profits to this extent. This loss, if it is a loss, applies to the whole of the community. It affects everybody. It seems to me that the merchant is not entitled to claim that he has not made profits as expressed in gold. He is not entitled to claim that he is to be freed from a loss which affects everybody. This value of gold being found on commodities. To apply this gold argument to the general results of a mercantile business is not right because such a business includes in addition to commodities, fixed capital, bank balances, securities and other assets which are not affected by the actual prices of commodities. Further if the merchant claims the benefit of a fall in the value of gold, he must equally admit that when gold rises in value, as commodity prices fall, that his profits are correspondingly increased. The profits are arrived at by a valuation of the assets in terms of gold.

154. *By the Chairman.*] The merchant is certainly entitled to make increased profits to the extent of the increase in his cost of living. My point is that he has made far more profit than that.

155. *By Mr. Macintosh.*] I do not agree that my comparison is unfair.

156. *By the Chairman.*] With reference to the remark that additional expenses incurred by the merchant in getting his profit are allowed but his additional expenses of living as a consumer are not mentioned in the report, the figures of the increase in the merchant's personal expenditure are not separately shown, but he is a consumer, and the merchant *qua* consumer therefore comes under every remark about consumers in the report.

157. *By Mr. Baxter.*] In the circumstances I certainly think the merchant is justified in increasing his income by charging more profit so as to cover any difference in his living expenses caused by the war.

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[Mr. A. P. McLoughlin.]

Tuesday, 6th May, 1919.

PRESENT:

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn	Mr. Baxter.
Mr. Close.	Mr. Steyn.
Mr. Macintosh.	Mr. de Beer.
Mr. Garcia.	

Mr. Arthur Patrick McLoughlin, examined.

158. *By the Chairman.*] I am Commissioner for Inland Revenue. I have read Recommendation No. 10 of the Summary of Recommendations: "that a modified and heavier excess profits tax be introduced with steeper grading, such tax to absorb all profits above some agreed percentage (paragraph 166)." I assume that I was asked to come here in connection with this recommendation, so that I could express my views to the Committee on the question as to whether the retention of an excess profits duty as a permanent tax is practicable, and secondly, if such a tax was continued as a permanent tax, whether it would benefit the consumer by preventing or discouraging the making of excess profits. Any permanent system of excess profits duty which may be designed to prevent or discourage the making of excess profits would have to be on an entirely different basis to the excess profit duties levied under Chapter IV of Act 41 of 1917. That basis merely compares the profits of an abnormal period with the profits of a normal period. It does not take into account whether profits were justifiable or unjustifiable, but simply compares the income of one year with the income of another year. It allows the profiteer of the normal period to continue to profiteer. The trader who was content with a small percentage on an enlarged turnover pays *pari passu* with the profiteer who demanded a higher percentage on a smaller turnover. It is a comparison of the income of a man during a year in which we were at peace, and the income of the same man during a year when we were at war. It simply taxes the additional income of the man in 1917 as compared with 1914. As a basis of permanent taxation you could not select any arbitrarily selected period for comparison with another period. It does not give you an adequate basis for taxation. You would have to devise some other means. To

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attain equality, you would have to fix an absolute standard that would be applicable to all, not variations of standard such as you find under the existing Act, where a man who made, say, 75 per cent. in 1914, was allowed to make 75 per cent. in 1917, before he could be taxed for excess profit duty, while, on the other hand, the man who made a smaller percentage is taxed higher (although he might not have been profiteering at all), because he made increased profits in 1917.

159. *By Mr. Barter.*] A man who profiteers is a man who makes an unjustifiable profit.

160. *By the Chairman.*] He is a man who makes high profits. To find whether a man is a profiteer you would have to examine every transaction of his, and so ascertain what was a reasonable profit in each case: if more than a certain percentage was made you would say that that man was profiteering. You could not continue the present basis, which is merely a comparison of total profits. You would require to have some percentage basis, and you would then be faced with the problem as to how you were going to fix the percentage. You might apply the percentage to turnover, but in that event you must have a percentage for each class of business and percentages for sub-classes of the same class of business, those special sub-classes being special divisions of the classes on the basis of locality. You could not apply the same percentage to a firm in, say, Cape Town as to a firm in, say, Benoni, where you have a shifting population. Whenever you have a shifting population you must have a higher percentage. Moreover, you would have to consider stable businesses with profits made regularly; to whom you would apply a smaller rate of percentage. You would have to fix a higher percentage for a business that might have a limited life, as for instance mines, and apply a smaller percentage to a business with an unlimited life, such as a manufacturing business. There would be an alternative. Supposing that you were to fix a percentage on turn-over, Parliament might fix a minimum and maximum percentage, but if Parliament did that you would probably require a Board of Reference to determine whether any particular business or individual should get a percentage between the minimum and the maximum. If you included individuals (and I think they should be included as it is not only traders who have been ready to profiteer but also professional men and wage-earners), and were to have a minimum and maximum percentage with the provision that that percentage could be varied by a Board of Reference, your Commissioner of Inland Revenue would have practically the whole of the time of his Department taken up in dealing with applications for a variation of percentage alone. We have sixty thousand taxpayers on

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our list, and the work of merely keeping a record of the applications, considering and rejecting them, would practically take up the whole of our time. This method would not result in any benefit to the consumer, because if you fix a percentage, and you are going to prevent profiteering, you would have to take the 100 per cent. profits exceeding the fixed percentage. If you fix any lower figure than the 100 per cent. the consumer would not benefit at all, because the trader, or any other person, who may be inclined to profiteer, can put up his prices so as to ensure that his portion of the percentage will be larger. The consumer would not benefit. You can reduce your Customs dues. That might lighten the burden of the consumer, but it is questionable whether he would appreciate paying higher prices through the imposition of an excess profits duty to get an indirect benefit through Customs in which the profiteer would also share. You cannot fix percentages on capital, because the amount of the capital employed frequently bears no relation to the profits earned. Some businesses do not require any capital—such as commission agencies, dealers on consignments, etc., and still they make large profits. Others work on borrowed capital, and have no capital of their own. You could not apply percentages to capital, but you might apply percentages to turn-over or out-put. Unless you take 100 per cent. of the profits exceeding a fixed percentage you are not going to benefit the consumer. When fixing a percentage you would have to fix a minimum and maximum, and cast the onus on the applicant to make a good case for a percentage above the minimum. You would require to have a Board of Reference to consider such applications, and the work would be so heavy and complicated that it would take up the whole of the time of our department. Our existing excess profits duty exempts professional men from the payment of excess profits duty. I do not think that is right. If you are going to apply excess profits duty to traders, it should also apply to other persons, such as professional men and wage-earners, because, as I have stated, although the general allegations are that the traders are the profiteers, profiteering has not been restricted to traders alone; other classes have been just as ready to profiteer at the expense of the general community. What I had in my mind when referring to professional men was that over and over again we have heard that doctors have profiteered during the influenza epidemic. I think the Commission, when it made this recommendation No. 10, had in view a specific benefit to the consumer, but it is quite clear that the increase in excess profits duty cannot make any difference to the consumer in the cost of living, unless the duty is fixed at 100

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per cent. of profits above a fixed percentage. The Commission has admitted that. It did not contend that this recommendation would have the effect of reducing the cost of living. It said this was not sufficient in itself. As the consumer cannot by means of an excess profits duty get direct benefit, the State may as well get all it can out of it, so as to benefit the community at large. From whichever point of view you look at the matter—whether with the object of getting additional revenue or relieving the consumer—it is not practical to do so equitably under the excess profits duty chapter of the Act. My criticism has been based on the assumption that the excess profits tax is to be permanent, but with the modification that it is to be for only a temporary period after the war, my objections to its continuance largely fall away, although I consider Chapter IV of Act 41 of 1917 a most unsatisfactory basis for a tax, because it does not work equitably. When in the ordinary course the Minister of Finance introduced his Budget, that Budget only referred to the tax for six months after the war. I do not see any objection to tightening the tax up when the House goes into Ways and Means, and getting more out of the large profits for the State, except that by continuing the existing basis you would still have the complications and inequalities, and to attempt to modify them would land you in all kinds of difficulties. You could continue it, but you would have to bear in mind that you are continuing these inequalities. There is no objection to raising the amount of percentage of that tax from 25 per cent. to any higher percentage; we have the necessary machinery to carry on the provisions for an extended period.

161. *By Mr. Macintosh.*] Personally, I do not think it is fair to make these taxes retrospective.

162. *By the Chairman.*] All we have to do is to get authority from Parliament for the imposition of a normal tax and a super-tax, not for the imposition of an excess profits tax, because the latter stands until the expiration of six months after the end of the war.

163. *By Mr. Macintosh.*] A normal tax and super-tax is imposed by Parliament each year, but in the case of the Excess Profits Tax it is there until six months after the termination of the war.

164. *By the Chairman.*] It is felt that it is desirable that the State should have the advantage of a higher rate of excess profits duty—all that would be necessary would be to alter the percentage, and extend the period of Chapter IV of Act No. 41 of 1917.

165. *By Mr. Baxter.*] I have expressed my personal opinion that I am not in favour of retrospective taxation. If you

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want more money the better and fairer way would be to get it through the super-tax. That would be quite satisfactory. It is quite true that a man might have the same income he had before the war, and did not get big profits under war conditions, but, on the other hand, through the excess profits duty chapter of the Act, you get at some incomes which are not the result of the war but the result of energy. I admit you will get more under the excess profits tax than you get under the super-tax, unless you make the latter tax very steep. Screwing up the profits tax would operate more fairly with regard to men who have made big profits than under a super-tax. With regard to the inequalities I had in mind, the existing basis is a percentage on capital. Capital very frequently does not bear any relation to profit earned. The existing chapter of the Act also taxes energy in many cases. The excess profits tax is not always an unfair tax on small businesses, because the man who has made, say, £50,000 is not alone in profiteering: the man who has made £3,000 is profiteering relatively, quite as much as the man who has made £50,000. Generally speaking, by the imposition of the excess profits tax, the prices to the consumer are higher than they would otherwise be, because the supplier will recover the excess profits tax in his charges. I think the higher you raise the excess profits tax, the less you will benefit the consumer, unless, as I stated before, you impose a 100 per cent. tax. I understand that the excess profits tax in England has been one of the causes of the great increase in prices. Unless you are going to impose a 100 per cent. tax, the consumer is going to pay, because the supplier will fix his prices so that they will return to him the excess profits duty: if you impose the 100 per cent. tax enterprise would be stopped. The percentage left to the trader after payment of the excess profits tax is sufficient to compensate him, provided you do not take 100 per cent.: anything less gives him an incentive to raise prices to cover himself.

166. *By the Chairman.*] The English Government is reducing the rate of excess profits tax now. It was 80 per cent.

167. *By Mr. Macintosh.*] I think the report of the Select Committee in the House of Commons is correct in saying that they would have got more out of a 60 per cent. tax in the aggregate than out of an 80 per cent. tax, because under the 60 per cent. tax there would have been more income left to capitalise and develop the business.

168. *By Mr. Baxter.*] With regard to the question as to whether any taxation which prevents people from accumulating reasonable profits should be discouraged, I think such taxation has a restricting effect on business.

169. *By the Chairman.*] My own opinion as to the continuation of high prices is that prices are going to drop, and

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that we are not going to get the same amount of excess profits duty as in the past year. What is generally forgotten is this, you fix the standard over the whole period of time during which the excess profits duty is in existence. When you come to the end of that time, if the same profits have not been made for the whole period, you may have to make adjustments and refunds: the longer the tax lasts, the greater is the risk respecting what the amount to be refunded will be. Supposing we get £600,000 from excess profits duty during the year, and assuming that the tax ceases as provided in Chapter IV of the Act, we will have to make adjustments, and it is possible we may have to refund £200,000 of the £600,000 collected. These are hypothetical figures, but that is what might happen.

170. *By Sir Willem van Hulsteyn.*] Of course it would be better to have to refund £200,000 and get the balance of £400,000, than to get nothing at all.

Thursday, 8th May, 1919.

PRESENT:

THE MINISTER OF RAILWAYS AND HARBOURS (Chairman).

Sir Willem van Hulsteyn.	Mr. Baxter.
Mr. Close.	Mr. J. W. G. Steyn.
Mr. Macintosh.	Mr. Louw.
Mr. Garcia.	Mr. de Beer.

Mr. Thomas Barry Herold, further examined.

171. *By the Chairman.*] I have no objection to the remarks which I made, when being examined by the Committee on the 1st May, with reference to the loss of £7,314 by the South African Industrial Federation Company, Ltd., being included in my evidence, as the figures mentioned by me have already been published. The tenour of my remarks was that there are some of the Company's operations from a commercial standpoint which have not been quite as satisfactory as I had hoped. Its accumulated losses at the 30th November, 1918, covering a period of three years, were £7,314, although certain individual branches show fairly substantial profits. The un-audited figures as at 26th March, 1919, shew an estimated profit for a period of four months of £1,841. This improved result is due, it is understood, to prices having been slightly increased, although it is claimed

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that customers are still able to buy more cheaply from the Company than elsewhere, and secondly to improved organization. The Company claims that the attitude of the wholesale merchants has aggravated their initial difficulties.

172. *By Mr. Macintosh.*] When referring to profits I mean estimated profits.

173. *By Sir Willem van Hulsteyn.*] That would practically amount to £5,000 per year profit, and they would take one and a half years to wipe out their losses if they continue to improve their control and refuse credit.

174. *By Mr. Baxter.*] The statement I referred to is un-audited, but it is certified as approximately correct. Working profit is the nett profit, after deduction of all outlays, etc. I must explain that credit sales are included—75 per cent. of business transactions are on credit which is limited strictly to 30 days. No allowance has been made for losses. All assets in the books are at face value, and no allowance has been made for bad debts. I do not consider that this is sound business.

175. *By the Chairman.*] In the event of State aid being granted to Co-operative Trading Societies, I consider that there would be very little risk incurred if my idea is adopted that we should have a first claim on the unpaid portion of the subscribed capital, and other safeguards.

176. *By Sir Willem van Hulsteyn.*] We would make it a condition that the Company could not call up its uncalled capital without our consent. We would have a lien on that. We could get a general bond too. The Land Bank would be in the position of an ordinary Commercial Bank.

177. *By the Chairman.*] At present the Bank is only advancing money against unlimited security. The General Bond would not operate in insolvency now.

178. *By Mr. Close.*] The security in such a case would not be as good as the security which we have in connection with Agricultural Co-operative Societies. The Committee may be assured that the Land Bank would not make any advances unless it was satisfied that the scheme was a sound one and the security good.

179. *By Sir Willem van Hulsteyn.*] It should be provided that the shares of a trading co-operative society should not be transferable and the principle of one man one vote would have to be observed.

180. *By Mr. Baxter.*] In making an advance due regard would be had as to the nature of the security.

APPENDIX.

[A.]

MEMORANDUM BY THE ASSOCIATION OF CHAMBERS OF COMMERCE OF SOUTH AFRICA, ON THE PROFITS REPORT OF THE COST OF LIVING COMMISSION.

The Executive Committee of the Association of Chambers of Commerce of South Africa has considered the "Profits Report" of the Cost of Living Commission [U. G. 1-'19], dated the 26th November, 1918, and submits the following Report and criticisms thereupon:—

CHAPTER I.

On the 13th November, 1917, the Government appointed the Cost of Living Commission to inquire into and report upon the following matters:—

1. The insufficiency or otherwise of the stocks, present and prospective, of essential foodstuffs in the Union or obtainable from outside the Union; and, if such stocks be found to be insufficient, to make recommendations as to the best means of supplementing them either by importation, by stimulation of local production, by the restriction of export, or otherwise, as may be deemed most effective.

2. The increase in the cost to the Union consumer of the necessaries of life, and to make recommendations as to the measures which should be adopted for reducing such cost or preventing further increase, with particular reference to the following expedients:—

(a) The regulation of prices.

(b) The expropriation of stocks.

(c) The abolition of control of combines established for the purpose of destroying competition or maintaining prices.

(d) The suspension of import duties.

(e) The modification of railway rates.

(f) The acceptance by the Government of liability or partial liability for insurance against marine war-risks on imported commodities.

3. Whether undue profits are being made upon necessary commodities.

The "Profits Report," dated the 26th November, 1918, recently issued, deals with the investigations of the Commission into the 3rd Section of its reference, namely: "Whether under profits are being made upon necessary commodities."

Your Committee proposes to traverse the Report in detail, and to direct attention to the more important views expressed therein. The recommendations of the Commission (p. 43) are:—

1. That a Meat Trade Investigation Commission be appointed as soon as possible to investigate the meat trade and prepare a scheme for its reorganization on sounder lines.

2. That this Meat Trade Investigation Commission consider the advisability of fixing $5\frac{1}{2}$ d. per lb. (the Imperial Government contract price of $5\frac{1}{8}$ d., less $\frac{3}{8}$ d. cold storage charges) as a maximum wholesale price for beef throughout the Union.

3. That the export of meat for the open overseas market be prohibited until such time as it is clear that the wants of the Union consumer are being supplied at reasonable prices. The Meat Trade Investigation Commission to decide what are reasonable consumers' prices under existing conditions and this prohibition not to apply to Imperial Government contracts.

4. That an expert adviser, with knowledge of sugar-growing in other countries be obtained for the sugar industry, and that the Government agree to no further scheme of development, or to the leasing of additional lands for sugar-growing, until such expert advice has been obtained.

5. That the legal disabilities preventing the establishment of co-operative stores on mining ground be removed.

6. That the Reef trade with natives on the Witwatersrand be reorganized, and a Government central buying agency, with subsidiary stores, established.

7. That as Commerce and Industries are forms of public service, statements of the nature of the tables attached to this Report should be published annually by the Director of Census and Statistics, and that he may be given access by legislation to the Income Tax returns for the purpose of obtaining the necessary information.

8. In order that goods may pass from the producer or importer to the consumer in as direct a line, and with as few intermediaries as possible, and in order that goods shall reach the consumer at reasonable prices, traders shall be licensed under conditions which compel them under penalty to conduct their business upon defined principles.

9. That definite encouragement and financial assistance be given under licence to approved co-operative enterprises, and that a co-operative bank be established to finance, control, and regulate these societies.

10. That a modified and heavier Excess Profits Tax be introduced, with steeper grading, such tax to absorb all profits above some agreed percentage.

It will be remembered that at the time of the Congress of Chambers of Commerce was sitting in Johannesburg in October, 1917, before the Commission was statutorily appointed, the present Chairman (Mr. Howard Pim) made a request to address the assembly, and this was granted on the 23rd October. On the 25th October, 1917, an interview took place between the Executive Committee of the Association and Messrs. Howard Pim, T. Boydell, and H. R. R. Eaton, when the whole of the question of the Commission, its functions, and the machinery for its investigations were fully discussed. Subsequent to that, on the 2nd November, the following letter was received from the "Food Advisory Committee":—

With reference to a recent meeting of my Committee with a Committee of your Association, in respect to any assistance which your members may decide to afford in the investigation of the prices of foodstuffs and other necessities of life, I have the honour to append the following suggestions for the favourable consideration of the Chambers of Commerce affiliated to your Association:—

1. That members of the Chambers allow the Food Advisory Committee, through the Inspector of Customs, to have access to their books and documents in order to ascertain the landed cost of various necessities of life, including fooding and footwear.

2. That the Chambers of Commerce send the Food Advisory Committee the earliest information as to any probable shortages and consequent probable rises in prices of the following articles:—

Wheat, flour, maize, mealie meal, bacon, butter, milk (condensed), cheese, oatmeal, and other oaten foods, coffee, tea, jam, rice, candles, paraffin, and soap.

A reply to the foregoing communication was sent to the "Food Advisory Committee" by the Association on the 30th November, 1917. This will be found on page 46 of the Profits Report.

In that communication it will be noticed that the Association reiterated its anxiety "to do everything possible to assist the 'Food Advisory Committee' in its difficult task, and with this end in view . . . certain considerations which appear to the Committee of the Association of Chambers of Commerce

to have an important bearing on the subject under discussion" were submitted to the "Food Advisory Committee" because they seemed to warrant a "request for the most careful attention." Again, at the end of the communication, the following sentence appears:—

In conclusion, my Committee would like to be allowed to reiterate its willingness to assist the "Food Advisory Committee" in every way possible; but I am desired to point out that in order that the objects of the "Food Advisory Committee" should be attained with the least possible danger of injustice being done, it is essential that the precise manner in which their assistance should be rendered should be mutually agreed upon beforehand.

To this letter no reply, other than a formal acknowledgment, has been received from either the "Food Advisory Committee" or the Cost of Living Commission.

The Commission was vested with statutory powers which enabled it to take evidence on oath or otherwise, to compel witnesses to appear before it and supply any cognate information that might be requested. These powers do not appear to have been exercised, because the Commission in its Report (paragraph 6) states, with reference to the circular setting forth the requests of the Commission, "in every case the information required was supplied, and the Commission has not in any instance had to make use of its statutory powers." Notwithstanding this declaration, and the offers made by this Association to render every possible help, the Commission states in paragraph 153: "The Commission therefore has spared no pains to make its desires known to the commercial community throughout the Union, and regret to state that their efforts to obtain the co-operation of Chambers of Commerce or individual merchants in the manner indicated have been fruitless, for, so far, they have not been approached by anyone, nor are they aware of any step having been taken by the commercial community to assist consumers faced by steadily rising prices."

This statement of the Commission is inaccurate and unfair to the commercial community. It does not reflect the assistance actually rendered by it, apart from the efforts to help made by this Association. As a fact, Chambers of Commerce throughout the country have rendered valuable assistance by recommending their members to supply information the Commission has asked for, and this has been done willingly, as the Commission itself indicates in paragraph 6. Furthermore, some of the principal Chambers of Commerce, as well as this Association, have been approached direct on a number of occasions by the Commission for advice and assistance, and these have been given spontaneously and expeditiously. The reflection of the Commission is therefore unwarranted.

CHAPTER II.

TRADE CONDITIONS IN SOUTH AFRICA.

The Commission can scarcely be congratulated upon the endeavour contained in Chapter II. to describe the trade conditions of South Africa. The position set out in this chapter, and referred to in various parts of the report, to the effect that wholesale houses have such an enormous hold upon the trade of South Africa that—to use the Commission's own words—"the result is that there are many obstacles in the way of open competition"—is so totally contrary to the condition of affairs existing in South Africa to-day as to be grossly misleading. If the object of the Commission had been to describe the condition of affairs that existed approximately fifty years ago its description would, at any rate, have borne some relation to fact. As is generally known, about 50 or 75 years ago, the commerce of South Africa was in its initial stages. The white population was a very small one, chiefly contained in the fringe of country relatively near the coast-line, with few and small isolated settlements up-country. The whole business of the country at that time was done exclusively by coast firms, and one of the earlier methods was by means of supported accounts. The wholesale merchants in those days provided the capital necessary for the development of the country. They then supported men without capital, who in turn supported the farmers; and thus the beginnings of something in the way of commercial and agricultural developments were made. As was natural, the system of supported accounts, suited as it was to the needs and conditions of those times, existed for many years; and it is no exaggeration to say that a very material proportion of the present commercial community in South Africa had its origin in supported accounts. Gradually, however, conditions changed. Profits were made by the firms receiving support, and the result was that capital was created, with the consequence that there was a distribution of trade amongst a larger number of the population. Contingent upon this, competition became keener both in the wholesale and retail trades. As the country developed the old system was superseded by more up-to-date methods, which were better adapted to the changed conditions. It may be stated fairly that at about the end of the Anglo-Boer War the era of supported accounts was well-nigh finished. The continually growing number of wholesale houses became less and less anxious to encourage supported accounts, and more anxious to increase the proportion of their business done in the open market on a competitive basis with people who were free to buy from whatever source they pleased. As years went on this tendency steadily grew and increased, and to-day the number of supported accounts on any ordinary wholesale merchant's books

is in the great majority of cases limited to a few, and these are relics of old times: so much so that in many instances the wholesale merchants would willingly be without them.

The Committee has made the most careful enquiries in regard to this important aspect of the Commission's Report. It has enquired from all the principal sources from which such information can be obtained, and it has found that for years past the policy of the wholesale merchants in South Africa has been to cultivate the open trade and to eliminate, as being unprofitable and unsuited to modern conditions, the whole system of supported accounts. The consequence is that whereas in the past the merchant found himself with tens or perhaps hundreds of supported or semi-supported accounts, he now finds himself with hundreds or thousands, as the case may be, of unsupported accounts; and he does an even larger business than ever he has done before by means of this increased number of small accounts on a strictly competitive basis. This is the position to-day, and inasmuch as the Commission has failed entirely to appreciate this and realize its bearing upon the commerce of South Africa, so the basis of many of its deductions in regard to the wholesale trade completely falls away. For instance, in Clause 108 the Commission states:

That wholesale merchants during the war have certainly increased their control over retail trade, and that this is not in the interests of the country. If retailers can look to becoming independent the calling will attract capable people, but if (as is widely the case in South Africa) retail trade holds out nothing but the prospect of life-long dependence upon some supporting house, unless a gambling venture should remove the incubus of debt, the Union of South Africa will obtain an unsatisfactory class of retail trader and the community will suffer. The whole position can be summarized by saying that a point has been reached where the interests of the wholesale merchants have commenced to diverge from those of the general community, which is inadequately protected by competition, and that some form of Government control has therefore become necessary.

An assertion so wide and sweeping as the one mentioned, giving a definite opinion in regard to an important aspect of the Commission's enquiry, could only have been properly arrived at by taking evidence of the most complete and exhaustive kind from people principally concerned, viz., retail storekeepers in the smaller towns and villages of the country, who represented in the former days the supported accounts previously mentioned. Not only is there not the slightest evidence of anything of the kind having been done, but in Clause 71 the Commission actually states in the most explicit manner that no evidence whatever has been taken in

the country areas, and that their investigations have been strictly limited to the large towns they mention. Thus the assertion that "a point has been reached where the interests of the wholesale merchants have commenced to diverge from those of the general community" is merely a piece of superficial generalization, wholly unsupported by evidence or argument of any kind whatever; and, further, it is directly contrary to the facts of the case. It is common knowledge to everyone except the Commissioners that the retail trade of South Africa is more independent to-day than it ever was; and the prosperity that has resulted to the commercial community as well as other sections of the community, during the war period, has done much to obliterate the few vestiges that remained of financial dependence upon wholesale firms.

It is stated that control by wholesale merchants of the retail trade places obstacles in the way of open competition, and in direct contradiction of this the Commission contends that in the grocery business, which supplies most of the necessaries of life, there is too much competition. It states in paragraph 120 that there are far too many competitors, the majority of whom make a bare living. If, therefore, wholesale merchants controlled to the extent indicated the retail trade of this country, the competition between the retail grocers could not exist. It is manifestly impossible to reconcile these two statements, and there can be no doubt at all as to which of the two is the correct one. In its haste to apply a series of new and untried theories, the Commission has completely overlooked the necessity for proving the failure of the principles that have existed for centuries, and that have been world-wide in their application. It has not established any of its claims in support of the condemnation of the competitive system which, acting as it does in South Africa in a free market, has been proved by long usage to be the best suited to trading conditions. This competition is the consumer's best and most effective protection. It automatically regulates itself according to the demands of the public.

In regard to paragraph 12 on the cost of replacement, this acts both ways, because on a rising market prices are gradually advanced. On a falling market reductions as a general rule are brought about almost immediately and automatically to the lowest point of replacement value as a result of the keen competition that exists. The extent of the fluctuations in the upward direction is subject to what is known as the economic limit. This obviously rests with the consumer, and when a certain point is reached it frequently happens that the consumer decides either to use a substitute or in some cases even do without the article altogether. This economic limit is always an important element of risk to the merchant, and under war conditions it can be readily under-

stood that that risk was vastly increased, because it is obvious that the choice always rests with the consumer, whereas the risk is wholly the merchant's. This matter of replacement values is apt to be over emphasized by the Commission. In consequence, the public who are not able to follow the evidence upon which the conclusions are based are misled, with the result that the ordinary citizen has received the impression that the principle of replacement values has led to large profits. This conclusion is not borne out by the Commission's own tables. The Commission shows (in Table "P") that the average gross profits of merchants increased from 20 per cent. to 23 per cent. as between the years 1914 and 1917. If the merchants had fixed their prices upon the principle of replacement values the extra profit would obviously have been very much higher, but the statistics furnished by the Commission show that this was not done.

CHAPTER III.

FINANCIAL STATEMENTS RETURNED BY TRADERS.

Before proceeding to deal in detail with the deductions from the financial statements as set out by the Commission, it should be clearly pointed out that a serious initial error has been committed, in that the year 1913-14 was taken by the Commission as a basis for its comparison, and this was compared with the year 1917. In the first place the year 1913-14 was the most unfortunate period which could have been selected. It covered one of the most serious years of bad trade in South Africa, and in that period the first of the large industrial strikes that has ever occurred in South Africa took place. There were the industrial disturbances on the Rand in July, 1913, the effects of which permeated the whole country and affected trade and commerce very seriously. These were followed by the Railway Strike in January, 1914, the effects of which were much more widespread and even with more serious results to the country at large. The General Manager of Railways draws attention to the results of these strikes in his report. In the year 1913 he mentions the "fact that the country experienced a period of severe drought and industrial upheaval, and this accounts for the diminished passenger expansion" (p. 13).

In August, 1913, there was a sharp fall in the railway earnings. In his Annual Report for 1914 the General Manager writes as follows:

The unprecedented features of the year 1914 will stand out in the history of South Africa. In January a Railway Strike was declared at Pretoria by the Amalgamated Society of Railway and Harbour Servants, and a general strike on the Rand was declared six days later. In my

Report for 1913 I dealt fully with these strikes. The country had no sooner commenced to recover from the setback occasioned than war was declared in Europe, followed later by Rebellion in South Africa. There was every indication that but for these occurrences the estimates of revenue and expenditure would have been realized.

Acute dislocation in business was experienced during the months of September, October, November and December, 1914. Imports, exports and manufactures were curtailed, and in many instances entirely ceased. For a period of some six weeks after the declaration of hostilities, commercial operations were paralyzed on account of the restrictions and difficulties brought about by the war, and the effect upon the Railway and Harbour revenues was such as to occasion anxiety. The August returns were considerably in excess of the average monthly revenue for the previous months of the year. This was due to the fact that consignments from oversea, for which orders had been placed, continued to arrive after the outbreak of hostilities, and immediately thereafter abnormal demands were made by the inland merchants for foodstuffs, paraffin oil, etc., no doubt due to the anticipation that, as a result of war, greatly increased prices would prevail. During the remaining months of the calendar year, however, the full effect of the war was felt, the drop in revenue averaging nearly £170,000 per month.

The effect of the general reduction and cancellation of indents will be appreciated when it is stated that during September, October and November, 1914, as compared with the same months of the previous year, the commercial sea-borne traffic to the competitive area fell by 39 per cent., and that the shortfall represents in railway revenue a sum of approximately £900,000.

He adds that the entire suspension of the Diamond and Ostrich Feather Industries had an immediate effect on the railway earnings, and that a severe drought prevailed early in the year. This was particularly felt in the Orange Free State, where the farmers suffered heavily in stock. The maize and other cereal crops also suffered. South African wools depreciated in price and quality during the year. This was due to two causes. First, the drought had a bad effect on the wool. Secondly, the great demand for khaki material in Great Britain resulted in the market being more favourable for long cross-bred wools, a product which is not extensively cultivated in South Africa. In addition the ordinary demand for South African wools decreased on account of the war, so that South African wool suffered principally in con-

sequence of the drought; and secondly, because the demand in Great Britain favoured countries other than South Africa.

The tonnage of goods traffic forwarded from Kazerne (Johannesburg) fell from 198,362 in 1912 to 180,375 in 1914. During the 12 months of 1912 the average was 16,530 tons per month; for the 18 months ended December, 1914, it was 15,476.

It is an actual and indisputable fact that the years 1913 and 1914 were unsatisfactory to most of the merchants in the Union. The whole country was disturbed by the effect of the strikes at Johannesburg and elsewhere, and the results were reflected in all businesses. This was recognized by the Government in its legislation relating to the Tax on Excess Profits, and provision was made therein for an alternative period covering three pre-war years instead of 1914, which was originally intended. As a further illustration of the deplorable condition of commerce, it might be mentioned that insolvencies in the Union (including voluntary surrenders, compulsory sequestrations, assignments and compositions), which in 1910, numbered 799, rose in 1914 to 1,502.

As a fair illustration of the unsatisfactory character of the year 1914 as far as the merchants' profits were concerned, the figures given on page 69 (Table R) of 22 representative firms contain 7, which together had a total turnover of £2,030,739. This list containing, as it does, some of the larger firms in the Union, is the most convincing evidence that can be used to show that 1914, from a business point of view, was a bad year. Detailed figures of these 7 firms are as follows:—

	Turnover.	Nett Profits.	Nett Profits per cent.
A	£138,909	£2,647	1.9
C	365,385	2,323	.64
M	234,868	3,687	1.5
N	169,795	4,674	2.7
P	434,210	1,095	.25
R	296,413	10,319	3.5
U	391,159	9,506	2.4
Totals ...	£2,030,739	£34,251	1.7

The Commission also shows in Table I (p. 65) that the Durban wholesale grocers in the year 1914 made a nett profit of £1,903 on a turnover of £962,458, which was equal to .2 per cent.

After having exhaustively examined the above figures, the Commission still decided to base all its calculations and conclusions upon the year 1914, thereby showing that it ignored the only obvious result of its investigations, namely, that the year selected was the worst that could have been chosen.

The Commission has, therefore, selected the most unfortunate year for trade and commerce in South Africa, and compared it with one of the highest in point of prosperity for all classes of the community. In 1913 and 1914, as a result of the untoward circumstances related, there was diminished spending power on the part of the public. All classes of public income fell as a result, and with it the commercial community suffered probably more than any section. Their turnover rapidly diminished, their profits fell, but their standing and overhead charges remained. When, therefore, the Commission assumes that the profits accruing in these years were normal, and fair and reasonable, then it falls into a grievous error, and the subsequent results of its investigations are therefore unreliable and misleading.

It would appear to be a matter of regret that the Commission gives so little attention to the question as to the suitability of the year 1913-14 as a basis. It is clear that the Commission adopted it merely because it happened to be the year preceding the war, without any further regard as to whether or not it was an average year. The figures already given show clearly that it was not an average year, and therefore it was not a sound basis for comparison.

CHAPTER IV.

FINANCIAL STATEMENTS AND UNDUE PROFITS.

In Clause 106 the Commission places on record its reply to the enquiry whether undue profits have been made upon necessary commodities, and it states under sub-section (1): "That undue profits have been made by wholesale merchants in foodstuffs, boots and shoes, soft goods, and hardware, and that these profits will tend to increase still further both in percentage and amount as prices continue to rise." It will be useful to examine some of the grounds upon which this assertion is made, and for that purpose it will be necessary to review the details of the financial statements which the Commission obtained. On page 8 of the Report the manner in which these financial statements have been treated is described.

To commence with, the item of interest, which is one of the most important in the accounts of any wholesale firm in South Africa has been wholly eliminated. It may be mentioned that the almost universal practice of wholesale firms in this country is that they have a certain amount of money as capital, and the additional finances they may require to deal with the fluctuations of trade are provided either by debenture issues or still more frequently in the case of private firms by means of advances. These are often of an extensive character of a more or less temporary or permanent nature from banks

or other similar financial institutions. With these facts in mind it will be apparent at once that during the time such as the period dealt with by the Commission, of upheavals of trade of every sort and kind, of rapid expansion, and in some cases of sudden contraction, this feature of financing the trade of the country has been an all-important one. As a consequence, in the books of most firms who do an active trade the item of interest in one form or another has been a constantly increasing amount. To ignore this interest is to abandon the basis of wholesale business as it is conducted to-day in South Africa, and to adopt a wholly false basis—a basis that does not exist, and does not, therefore, constitute a sound one upon which to work. It is essential that the position should be dealt with as it exists, and not as it ought to be in the eyes of the Commission. The method adopted by the Commission in eliminating interest has been to deduct the interest from the expenses side of the accounts and add it to the profits, with the result that the expenses are naturally so much the less and the profits so much the more than are actually the case. A more grossly misleading method could scarcely have been adopted, and as an actual fact, the consequence of this process is that firms who made a loss in the year 1914 are shown as making a very fair profit, which they would have been only too pleased to have realized. There could not be a better illustration of the pervading unsoundness of the basis which the Commission has seen fit to adopt. To classify the payments made by merchants on account of interest as profits, when they are in reality expenses, is a method of finance which could only be adopted by those wholly unacquainted with the ordinary methods of finance and business. The resulting basis is so unsound that no allowance in the direction of rectification could pretend to be accurate; and this must be borne in mind when dealing with the conclusions arrived at by the Commission. It may be argued that as the method adopted for 1914 is continued through the succeeding years to 1917 no hardship is created, but if the position is carefully examined it is at once clear that such an argument would be based upon a fallacy. If the ratio of the interest to the sales made remained the same throughout these years this argument might be admitted, but the variations are considerable, and in many cases one of the heaviest increases in the expenses accounts of the trader has been for interest. Not only has there been an actual increase in the amount, but there has also been an increase in the ratio of the interest paid to the amount of business done (and of a most considerable character); and this has been largely due, and is easily explained, by the heavy increase in the cost of goods of every kind that has taken place in the period under review. Each year, therefore, required extra capitalization on the part of the merchant. It is clear, therefore, that the method adopted

by the Commission which eliminated entirely the question of interest on the assumption that a comparable basis is thereby created is entirely false, and the figures of the tables must therefore be rectified before any deductions can be drawn. The result upon the figures for 1914 is to make the profits appear much larger than they really were, and the expenses much smaller. The effect is the same during all the succeeding years, with the difference that the increase in the profits becomes greater as the proportion of the interest paid increases in relation to the sales.

As an illustration of this the following actual figures cannot fail to be instructive. The interest charges paid by a certain firm in 1915 amounted to a fraction over 2 per cent. on the sales made. The interest charges paid by the same firm in the year 1917 amounted to no less than 3.8 per cent. on the sales for that year. Therefore, in arriving at the actual statement of profit for the year 1914, 2 per cent. would have to be deducted from the profits as given by the Commission, and 3.8 would have to be deducted from the figures given for 1917, thus losing 1.8 per cent. in the difference between the two years, and disclosing a very substantial and real discrepancy in the figures that form the very foundation of the Commission's arguments. It may be objected that the instance given is not an average one, and that therefore it cannot be regarded as a basis for the argument adduced therefrom. It may be mentioned at once that variations of a somewhat wide character are quite likely to occur in the amount of interest paid by merchants, depending, of course, upon the proportion of capital of their business to the actual amount of money employed therein. There need be, however, no hesitation in assuming that during the period mentioned the monetary requirements of merchants were enormously increased by the enhanced value of the goods, and it is fair to assume that the instance given is a distinctly conservative one. As further evidence of this fact, it should be pointed out that the advances made by the Banks in South Africa for the year 1914 were £41,654,007, and this amount rose to the remarkable figure of £48,122,049 in 1917—by far the highest point that this total has ever reached—and showing more conclusively than any other figures possibly could the added amount of interest that had be paid by the commercial community.

CHAPTER V.

It is worthy of note that the Commission has adopted a different method of dealing with the retail trade from that used in respect of the wholesale trade. In referring to the retail trade, it excluded all such departments as show-

room, millinery, fancy goods, etc. They are excluded on the grounds that they are considered as luxuries. It would admittedly have been difficult to exclude these departments in dealing with the wholesale trade, although it is perfectly well known that the terms "soft goods" embraces many departments, some of which consist almost wholly of luxuries, and others very largely of them. Therefore, it must be remembered that when comparing the results of the retailer with the wholesaler, and also the results of one year with another in the figures of profit made by the wholesale trade, all articles of luxury have been included.

In further correction of the totals, it is necessary to point out the singular blunders that have been made on pages 68 and 69. A summary is given of the various trades, and at the end of each small summary an "arithmetical mean" is shown. The description of this term is hardly fortunate. The word "arithmetical" is always associated with accuracy in regard to figures. Unfortunately, in this instance, the "means" given are inaccurate. If the turnover in each case were of the same amount, it is clear that the average of the percentage would be accurate; but as the totals vary widely, the average of the percentage is merely misleading. For instance, in Table "O," on page 68, the average of the profits of bakers, butchers, and retail grocers for 1914 is given as 20.9 per cent. It should be 19.9 per cent., etc., etc.

An important point to be borne in mind is the list of wholesalers and retailers from whom financial statements were obtained, as shown in Appendix "D" (p. 57). The list includes, almost without exception, the most successful business people. In the letter addressed by the Commissioner of Customs to the Chief Inspector of Customs, as contained in Appendix "C" (p. 56), it is stated that the "Cost of Living Commission require the following information at Johannesburg, Pretoria, Bloemfontein, Kimberley, and East London:—

1. The firms to be investigated should include *leading* firms of general merchants, wholesale grocers and chemists, and dealers in cloth, clothing and boots, and ironmongery."

On the admission of the Cost of Living Commission itself it is therefore obvious that the most prosperous firms were taken as a basis in order to show the great increase in the cost of living on the part of the Commission. There were thousands of other firms, both doing business of a lesser volume and very small businesses indeed, which practically show little or no profit. These have been entirely ignored by the Commission, and therefore the figures it has given cannot be regarded excepting as an illustration, with the

qualifications already indicated in this report, of the prosperity of the best firms in South Africa.

In order to arrive at conclusions of any value the figures of the trade of all firms must be included, and not those only of a selected few. If the returns of all other businesses had been included in the tables the results would have been widely different. To arrive at figures of any value the returns of all businesses must be taken, and not only a few of the most successful ones.

The futility of the methods adopted by the Commission in this respect is amply demonstrated by a report of the Federal Trade Commission of the United States Government, published in 1916. In that report it is stated that there were 250,000 business firms in that country. Over 100,000 of these "have no nett income whatever; 90,000 of them made less than £1,000 per annum. There were only 60,000, one-fourth of the total, that made more than £1,000 per annum. The results of an investigation of the profits of some of the 60,000 firms above referred to, especially if those selected included only a few of the very successful ones, would never be claimed to be representative of the whole 250,000. Yet this is precisely what the Cost of Living Commission has done. It has selected a limited number of firms, including the largest and most successful in each centre, and it has arrived at certain conclusions from an examination of their profits.

There are, therefore, three points to bear in mind in considering the figures the Commission has arrived at, namely:—

- (a) Their inaccuracy in regard to the item of interest, details of which have already been given.
- (b) Their inaccuracy on the grounds that the year 1914 should not be regarded as an adequate year.
- (c) Their inaccuracy in so far as they include, in regard to the wholesale trade, luxuries of every sort.

In order to correct the inaccuracy in the matter of interest, it would be necessary to deduct at least 2 per cent. from the figures of profit for the year 1914. On the other hand, it may be argued that the allowance that would have to be made in order to make 1914 an approximate average year would be about the same amount, and therefore the basis of 1914 may be left as it is. In the case of the 1917 figures of profit, however, whilst it may be admitted that the amount to be deducted therefrom in respect of interest is very difficult to arrive at, it is clear, beyond all question, that a substantial reduction should be made, and that that reduction would be conservatively estimated at 3 per cent., having regard to the enormous expansion which took place between the two years in question, and the fact that the money required for that

expansion would be of necessity new money on which interest would have to be paid, with the exception, of course, of the profits actually made during the period.

Further, there is the question of what allowance is to be made in respect of luxuries. It may be argued that whatever luxuries are included in 1917 are also included in the figures for 1914, which is undoubtedly true. Inasmuch, however, as the Commission is admittedly not concerned with luxuries, it should not have included that item in the figures. Some allowance should surely be made for the increased profit on luxuries which it is perfectly well known has been made during the period under review. It is again a very difficult matter to ascertain the exact allowance that ought to be made, although it is clear an allowance of some sort must be calculated. It would not seem unreasonable, therefore, to fix an amount of 1 per cent. as being a fair allowance in this regard.

The Commission states that undue profits have been made by wholesale merchants in foodstuffs, in boots and shoes, in soft goods and hardware. Let us examine what these undue profits are:

The wholesale profit on groceries, after interest had been added to the profit, was 1.6 per cent. in 1914. In 1917 it had risen to 4 per cent. If interest at the rate of 2 per cent., which should have been deducted in respect of the interest that has been added, is allowed for, then this leaves a profit of 2 per cent. as compared with 1.6 per cent. for 1914. The increase in the interest already alluded to has not been deducted in this instance, because the turnover does not show an increase that would warrant such a deduction being made. South Africa can, therefore, have the satisfaction at any rate of knowing that the profit made by the wholesale merchants on groceries for the year 1917 was an amount of 2 per cent., and not 4 per cent. as stated by the Commission. Whether that can be regarded as an "undue profit" requires no comment. Such an assertion is so absurd that it carries its own condemnation.

The profit on boots and shoes was 8.2 per cent. in 1914. It rose to 14 per cent. in 1917. It is not proposed to deduct anything from this item on the ground of luxuries, but the deduction in respect of interest decidedly holds good, particularly in view of the fact that the turnover showed a substantial increase. It is reasonable, at any rate, to deduct in this regard the sum of $2\frac{1}{2}$ per cent., which brings the nett profit made by the wholesalers on boots and shoes, after three years of war, to $11\frac{1}{2}$ per cent., as against 8.2 per cent. in 1914.

In regard to soft goods, the profit made in 1914 was 6.4 per cent. That given by the Commission for 1917 is 14.2 per cent. In this instance, in view of the enormous increase in the value of the turnover, it is a perfectly fair thing to deduct in respect of interest the sum of 3 per cent. Further, on the grounds that

luxuries are included in this section, at least 1 per cent. should be allowed for that, making a total deduction of 4 per cent., bringing it down to 10.2 per cent., against 6.4 for 1914.

Hardware showed a profit in 1914 of 6.4 per cent. In 1917, according to the Commission it was 13.5 per cent. From the latter figure interest has to be deducted, which in view of the relatively small increase need not be reckoned at more than 2 per cent. The luxury element need not be considered here. The total, therefore, should be 11.5 per cent.

These are the profits which, in accordance with the Commission's own figures, have actually been made by the merchants selected, due regard being given to the qualifying conditions which have already been illustrated. To argue that these profits are excessive is impossible. That profits should go up during a period of war in a country like this, which is largely supplied from outside, is inevitable. The wholesale merchant, in his own defence, was compelled to put up prices in order to maintain an even distribution of his goods. Had he endeavoured to keep his prices down, and at the same time refused to make the sales that would have been inevitably demanded of him, then he would have been at once accused of holding up stocks, and rightly so too. If he had kept his prices down to a low level, without restriction of sales, the result would then have been that in a few weeks or a few months, as the case may be, he would have sold his stocks to others, and they in turn would have been selling the goods at a further enhanced profit. Therefore, it is impracticable, in view of the utter impossibility of attempting to control prices of a huge variety of goods that are not standardized in any way, for any other course to be taken; and no one can say, looking at the profits as disclosed in the Report and in these comments thereon, that South Africa has been badly served by the mercantile community.

CHAPTER VI.

It would have been of interest had the Commission endeavoured to state the reasons for the increases in prices that have taken place throughout the country. It may serve a useful purpose if this Committee adds a remark or two thereon. The main and principal reason for the increases in the prices of imported goods that have been charged during the war has been the enormous rise that has taken place in the prime cost at factory, in freights, in duties, and in general landing charges. These have been the principal and outstanding causes for the increases that have been made. A secondary and minor cause has been the resulting increase in profit made by the commercial community; and it is clear from the figures given in this Report that the second cause bears no comparison whatever

with the first, although it may be stated to have been directly dependent upon it. The element of speculation in holding up goods, which is said to be one of the causes for the increased prices, may be dismissed as a negligible quantity. The few successful attempts that have been made in this direction have been more than counter-balanced by the unsuccessful ones, the result of which, in cotton piece goods particularly, the public are reaping the benefit of to-day.

In regard to Colonial manufactures, the increase in the price is due, first to a substantial increase in the price of all raw material; secondly, to the capital charges inseparable from the necessity for installing new machinery, etc., to meet increased requirements; and, thirdly, to an increase in labour charges of one kind and another.

Had the Commission investigated this question of the causes of the increases that have taken place, which is much more relevant to the issue, instead of chasing after will-o'-the-wisps, over ground so uncertain that it wandered far from the terms of their reference, it would inevitably have arrived at the foregoing conclusion. That such a state of affairs was in a sense undesirable is only saying that a state of war is undesirable—a point on which even the Commission might be agreed. The remedy for that position of affairs was not the quack nostrums that the Commission appeared to be so anxious to experiment with, but a very simple one indeed. It was merely the cessation of the war and the consequent elimination of war conditions. To the relief of the whole world, that has happened in the interval between the writing and the publication of the Commission's Report; and the commerce of South Africa is rapidly returning to the position in which the ordinary conditions of trade, which were to some extent temporarily suspended in time of war, have once more resumed their usual influence.

In Clause Twenty-three, the Commission states that it is unable to see the relevancy of the argument that after previous wars prices in South Africa have always fallen, its reasons being that the previous wars alluded to occurred in South Africa, and the supplies from countries oversea were practically unaffected. The Commission admits that there were ample reasons after previous wars for the fall in South African prices, but in Clause Twenty-four it states definitely that none of these conditions will apply after this world-wide war, by which, economically, South Africa has benefitted; while in Clause Twenty-five it accepts the position that the country will be faced with a temporary stagnation of trade, and that some of those who have been engaged in inter-trading will be compelled to realize their stocks, and therefore that prices will generally be temporarily affected. These statements are difficult to reconcile, as they are diametrically opposed to each other.

In regard to the competition referred to in Clause One hundred and eight, it has been entirely overlooked by the Commission that wholesale merchants in South Africa have not only to compete with one another, but they also have to compete with manufacturers and wholesale merchants oversea, who sell direct to retailers in South Africa, through their local agents in this country. These local agents carry no stocks. This is another illustration of the inadequacy of the enquiries of the Commission, because the retailer has the opportunity of buying his supplies direct through the medium of the agents of oversea firms.

In Clause Twenty-four it is stated definitely that shipping will be limited, and the demands upon it for years to come will be enormous. Inferentially, therefore, the rates of freight will remain at the war standard. The Commission has entirely failed to gauge the position in this respect, because freights from the United Kingdom to South Africa fell on the 1st December by 25 per cent., and on the 1st February by a further 10s. per ton. Prices of many commodities imported from oversea have already fallen to a considerable degree, particularly building materials and hardware, with the result that merchants who purchased their stocks at high prices, ordered twelve months before, have now to compete with other stocks coming into this country purchased at the depreciated values, with the added reduction of the fall that has taken place in the cost of transportation.

CHAPTER VII.

In regard to Chapter V. of the Commissioner's Report; dealing with the contents of financial statements, the Committee takes exception to the manner in which the Commission has presented the analysis of these statements; and it is therefore proposed to deal with the different remarks *seriatim*.

In regard to the remarks in Clause Thirty-eight relating to the transactions of bakers, nothing need be said, as the Commission is not only satisfied that no undue profits have been made, but that some smaller firms engaged in this trade have actually had a struggle to exist—a position of affairs that appears to meet with the Commission's complete approval.

In regard to butchers, the remarks of the Commission are so conflicting and so contradictory, that it is difficult to determine what its opinions are. The Commissioners make it perfectly clear in the beginning that the profits of butchers for the year 1917 had diminished very seriously indeed. The profits of the Cold Storage Companies have risen from 2.4 per cent. to 7.2 per cent., but as this is said to be the result of export contracts, this increase does not apparently interest

the Commission. The Commission then goes on to state that the butchery business throughout the Union is in a deplorable state, and this certainly appears to be a fair deduction from the figures which they have previously given. The Commission proceeds to complain of the number of middlemen, for all of whom the producer and the consumer have to provide a living. Further on the Commission admits that the farmer is apparently receiving the full benefit of the increase that has taken place in the retail price of butcher's meat, inasmuch as he is receiving 50 per cent. more for his cattle than in 1914.

The Commission complains that auctioneers and other middlemen control not only the distribution, but the supply of this necessary of life. This position is difficult to reconcile when it is remembered that the farmer in South Africa is the only producer that most people have any knowledge of. In Clause Fifty-five and Fifty-six the Commission indicates that it was enquiring as to the cause of the maintenance of high prices for meat. It arrived at the opinion that the prevalent idea that shipping would be available for the overseas market—to-day's Home open market price being considerably higher than the Imperial Government's contract price of $5\frac{7}{8}$ d. per lb.—was the reason for the high prices of meat; and under this "impression," as it is described, the Commission conveyed to the Government the request that an official statement should be published to the effect that no outlet of this nature should be anticipated. Further, the Commission, with a simplicity wholly admirable, adds that "the Government, however, did not see its way to publish any notice of this nature." To the ordinary mind this does not appear to have been an unlikely course for the Government to pursue. The Commission goes on to describe other causes for the high prices of meat in South Africa; among others, it ascribes it to the want of organization in the meat trade itself. Surely, if the meat trade were further organized the *raison d'etre* of that organization would be the maintenance of prices; and as an antidote to the want of organization the Commission proceeds to recommend that the farmers adopt some form of co-operative marketing. Again, it is difficult to see what purpose the farmers would have in taking such a step as this, unless it were to obtain the highest possible price. So, on the whole, between the desire on the part of the Commission that the trade should be better organized and the desire that the farmers in turn should be better organized, it is difficult to see how the consumer is going to obtain his meat any cheaper, when the obvious purpose of both these organizations would be to arrange matters in such a manner so as to secure each for themselves as much profit as possible.

Among the recommendations in reference to the meat trade, which the Commission has ultimately arrived at, is one that

a price should be fixed as the maximum wholesale price throughout the Union, and, further, that the export of meat for the open overseas market should be prohibited; and it must be remembered that the recommendation, even with its qualification, either means that the export of meat overseas should be restricted, or it means nothing. In regard to the latter proposal, it must be borne in mind that the supply of meat is still short in European countries, which have borne the burden of the war, and particularly is it short in Great Britain. It would be interesting to know how the Commission squares this recommendation, essentially narrow and selfish in its character, with the doctrine of service and sacrifice, which is enunciated with maudlin repetition in various parts of the Commission's report. South Africa has suffered so little and benefited so much in comparison with many other countries of the Empire, that surely what little she can do in this respect is well worth doing.

In regard to Clause Sixty—retail grocers—it is admitted by the Commission that no undue profits have been made, and that the smaller firms in this case also are having a severe struggle to maintain their businesses.

Clause Sixty-two, dealing with the retail business of boots and shoes, reads as follows: "If in this case the volume of goods sold and consequently the service rendered to the community are assumed to be equal in 1914 and 1917, these boot and shoe firms have increased their profits £61,547, or 91 per cent. for the same service. The increase in their rates of gross profits from 33.7 per cent. to 34.6 per cent. will also be noted." It is desired to take the strongest exception both to the assumption contained in the first part of that clause, namely, that the service rendered to the community is equal; and also to the method adopted in regard to the presentation of the figures. This method is objected to because to the ordinary reader it is grossly misleading. The position should have been stated as it is in the table, namely, that whereas the nett profit of the retail boot and shoe dealer was 9.2 per cent. in 1914, it was 11.7 per cent. in 1917, an increase of 2.5 per cent. The increase in the aggregate profit arose from the increased total of business done, which in consequence of the increase in the cost price of the goods was remarkable. The position would then have been clear to the ordinary reader, but under the manner of presentation by the Commission it is stated that the increase in the profits amounted to 91 per cent. Although the increases in the cost prices of boots have been very heavy, the quantity of boots sold has been less.

Furthermore, a very large trade is done in satin brocaded and other fancy shoes for evening wear; fancy suede shoes, high-legged boots, and patent shoes for day wear. These are

obviously not necessities, but they are included in the necessities of life in the Commission's report. On these various boots and shoes good profits are made, as they are stock which is held at considerable risk on the part of the merchant. On the other hand, every-day boots for wear of the ordinary individual, which constitute the necessary element of footwear, are sold at rates which are much below those shown in the Commission's report, on account of the great competition amongst the dealers themselves.

In regard to Clauses Sixty-three (outfitters), Sixty-four (retail drapers), Sixty-five (retail hardware), Sixty-six (chemists), Sixty-seven (wholesale groceries), Sixty-nine (wholesale boots and shoes), Seventy (wholesale soft goods), and Seventy-two (wholesale hardware), the same objections apply, as the same fallacy of service rendered is alluded to in most of them, and the same methods of presenting the results are also continued.

In the outfitting trade, the sale of fancy neckties, vests, silk shirts, socks, and fancy underwear, all of which are luxuries, helps the retailers to average up their lower profits on the articles of everyday wear.

In regard to the theory of equal service, it is argued by the Commission that if before the war a dealer bought a pair of boots for £1, and sold them at 25s., and in the year 1917 the same pair of boots cost him £2, then, as he is only rendering the same service to the community in selling a pair of boots, he has no right to charge more than the same profit that he charged on the £1; that is to say, he must sell them at £2 5s. This is the extraordinary fallacy that underlies the whole of the method of presentation adopted by the Commission in regard to the results of the trade of the retail dealers. To assume for one moment that a man is rendering the same service to the community when he invests £1 in his business as he does when he invests £2 is so obviously a fallacy that it needs no further comment. It would be as reasonable to expect a banker to advance £200 for the same amount of interest that he did before the war for £100, because the £200 was to be devoted to the purchase of articles which are double in price. What bank in the world would listen to so preposterous a proposal? To put it in other words, this method assumes that the banker would charge 3 per cent. rate of interest on the proposal so made to him instead of 6 per cent. which he used to charge before the war. The trader has to invest twice the amount of capital, and thereby incurs at least twice the risk in doing so. It may be of information to the Commission to know that directly an article has doubled itself in price, under any conditions whatever the commercial risk in indenting for that article is proportionately increased. Not only is this the case, but by the time the year 1917 was reached, every trader knew that when he signed an indent he was signing a risk which increased day by day as the war was

prolonged. To argue, therefore, that the trader performs no greater service to the community and runs no greater risk when he is dealing with goods at double their normal price than when he is dealing on a normal basis, is merely for the Commission to convey a serious reflection upon the commonsense of the limited number of people who are compelled to read its report.

CHAPTER VIII.

In the case of the retail drapers, the Commission seems to have understood the fact that it was necessary to distinguish between necessaries and luxuries, but the method employed in applying this principle is absurd. In Clause Thirty-four, the Commission states that it has omitted from retail drapers' accounts departments such as showroom, millinery, fancy goods, etc. The Commission therefore strikes out certain departments which, for the purpose of its calculations, it considers to consist of luxuries, whereas the fact is that in all departments there are certain articles of both necessity and luxury. For instance, the Commission eliminates millinery and costumes, yet a hat and a dress are usually considered a necessity for a woman. On the other hand, the Commission includes as necessaries the contents of departments which sell expensive silk stockings and underwear, crepe-de-chine underclothing, and tea-gowns, piece goods of all kinds, irrespective of whether they are composed of calico or silk. Costly trimmings are also ranked as necessaries, whilst women's skirts and hats, which are obviously necessary, are termed "luxuries" by the Commission. It is not to be wondered that the Commission has gone astray in deciding what in feminine apparel is a luxury, and what is a necessity. The French Government imposed a luxury tax, but it was abandoned very quickly, because it could not be applied successfully. A proposal for a similar tax in England also came to nothing, as the Commission appointed to enquire into it could not agree as to what constituted a luxury. The broad facts are that in matters of dress the cost and style are determined by the position and purse of the individual; therefore, a necessity for one is a luxury for another. As a rule, the lower-priced goods are necessities, and as the sale of higher-priced articles increases, the profits made on the cheaper goods are lower proportionately. The years of the war, particularly the last two under review, namely, 1916 and 1917, were years of prosperity in South Africa. It is common knowledge that dress has been of a more luxurious and extravagant style than ever before the war. All better-class goods have sold readily, and prices were no deterrent. The fact that during that period the gross

profits of retail drapers have only risen 3 per cent. over the admittedly lean year of 1914 has amply proved that no undue profit has taken place. It is also well to notice in this connection that the figures quoted by the Commission are those of successful and old-established firms, who may clearly be held to have a superiority over their competitors in trade facilities, knowledge of the market, and business capacity (paragraph 11).

So far from making undue profits or adding to the cost of living, the merchants by their enterprise, foresight and control of capital, have been able to purchase well in advance of their requirements, and have thereby saved the community thousands of pounds. In this connection it might be mentioned that the statement appearing in paragraph 70, that soft goods stocks are turned over two and a half times a year might have been correct before the war, but owing to the fact that retail drapers have been compelled to purchase their requirements from 12 to 18 months in advance, instead of say three months as before the war, the turnover is only now made to the extent of one and a quarter times a year.

It will be useful to give particulars of the rise in the cost of raw materials as furnished by the *Economist*. These show the following heavy rises in the prices of staple articles as between the years 1914 and 1917:—

			1914.	1917.
Cotton	...	...	4.47 pence.	23.02 pence.
Hemp	...	...	£26	£100
Flax	...	...	£32½	£147
Wheat	...	...	43/3	71/1
Tea	...	...	6½ pence.	1/3 pence.
Rice	...	...	12/6	26/3

Cereals and meat rose from a basis of 579 in 1914 to 1,236½ in 1917; other foods from 352 to 686. Textiles from 616½ to 1,684½; minerals from 464½ to 839½; and other manufactures from 553 to 1,384½—thus making a total increase in the first cost of goods from 2,565 to 5,845. Taking another basis calculated over the years 1901-5 at the fixed figure of 100: in 1914 this had risen to 115.9 and in 1917 the corresponding figure was 263.2.

Some other illustrations are given below of the present Home cost of goods, their landed cost, and the present retail prices:—

		Present Home Cost.	To-day's Landed Cost.	Present Retail Prices.
		s. d.	s. d.	s. d.
Tobralco, white	...	1 6	1 11½	2 3
" dyed	...	1 7½	2 1½	2 3
Pique, white and dyed	...	3 7	4 8	4 9
Shirting	...	1 11½	2 7	2 9

	Present Home		To-day's Landed		Present Retail	
	Cost.		Cost.		Prices.	
	s.	d.	s.	d.	s.	d.
Meter Satin—						
For Linings ...	1	6½	2	0	2	6
Black ...	1	7¼	2	1	2	6
Velveteen ...	5	6	7	2	7	11
Sandown Cloth ...	1	9	2	3½	2	3
A 1 Calico...	0	12¾	1	4¼	1	9
B 1 Calico...	0	15¼	1	8	2	3
Printed Pongees, 27 inches (Wholesale)	0	9¼	1	0	0	9

This list can be extended indefinitely, and embraces all classes of necessary articles. Merchants are making their usual profits by selling at these prices, because they are selling stocks bought at old prices, and their policy in looking ahead and taking risks saves the consumer a considerable sum.

Another point which should be borne prominently in mind is that merchants have been scouring the whole world to obtain stocks. Hundreds of commodities which were freely imported from the United Kingdom and Europe have been unobtainable from those sources during the past four years. The consequence is that merchants were compelled to have recourse to other sources of supply. This has resulted in heavy expenses being incurred in ascertaining the possibilities of other places, such as the United States of America, Japan, and other countries, for articles which were never imported from those countries before, but which were practically a necessity for the population of this country. The consumers have benefited considerably by this enterprise on the part of the merchants, and but for their action the cost of living would have increased still further.

The Commission has entirely failed to appreciate the fact that the people of South Africa have been particularly well supplied during the war, and have had to deny themselves practically nothing. Persons returning from the United Kingdom have expressed surprise at the quantity and reasonable prices of goods in South Africa, and they have repeatedly stated that goods are much cheaper here than in the United Kingdom, notwithstanding and because in the latter country the necessaries of life were controlled by the Government.

It is a fact that the Government of this country might have done something to relieve the situation by a reduction of import duties, and this is one of the references to the Commission upon which it has failed to report. Contrariwise, the Government increased the *ad valorem* duties by 5 per cent. in 1915. This extra duty has not only been levied on the increased value of goods as invoiced to the merchants, but also upon the difference between the invoice value and

the current value at the time of importation, which in very many instances was much higher. As an illustration of the effect of this it should be mentioned that the duties collected under the general *ad valorem* rate in 1914 amounted to £1,456,102. In 1917, the corresponding figure was £2,389,666. It is safe to assume that the quality of goods under this item of tariff coming to South Africa in 1917 was no more than in the year 1914, and probably less. Bearing this fact in mind and taking individual items, the following are clear instances where the Government itself has, by legislation and regulation, deliberately increased the cost of living in this country. The figures represent Customs Duties actually collected by the Government:—

		1917.	1914.
		£	£
Apparel and Slops	... ..	356,577	270,788
Cotton Piece Goods	... ..	517,328	183,422
Hosiery	... ..	173,424	81,488
Other Cotton Manufacturers	... ..	82,776	31,248
Haberdashery	... ..	164,208	138,446
Woollen Piece Goods	... ..	73,384	35,000
		<hr/>	<hr/>
Total	... ..	1,367,697	740,392

The Commission appears to have ignored the real cause of the increased cost of commodities. It might be as well, however, to point out that practically the whole of the increased cost is due to the producers or manufacturers raising their prices, augmented in the case of imported articles by the enormously high rates of freight and insurance, and by the extra duties mentioned above, levied since the war commenced, together with an increase in all general charges connected with importation. One would have thought that the Commission would have investigated these elementary reasons for the causes of the raising of prices on the part of producers and manufacturers, instead of which they devote practically the whole of their report in trying to impose the blame on merchants or distributors. The Commission's own figures show that the merchants were not responsible for more than a very small proportion of the total increases in the cost of living.

The Commission does admit, however, in paragraph 14, that the movement of all prices has been steadily upward since the war commenced, and that the amount, the nature, and the cost of all goods manufactured have been affected by unforeseen and unforeseeable events—by shortage of raw material, increase of wages, Government control of factories, transport difficulties, etc.

The Commission has taken no account whatever of the extra stocks which have been held or the extra capital which has had to be employed for this purpose. A typical case is that of a firm who, in 1914, had stocks of a value of £130,000, but in 1918 the value of the stock held was £286,000, and this was mainly due to the enormous rise in the prices of goods, and the necessity for purchasing them months ahead, instead of weeks, as was the practice prior to the war.

It should be borne in mind that the enquiry was to be made into the increased cost of necessaries. In this connection it is worth noting that the trades dealing exclusively in the necessaries of life, namely, butchers, bakers, and grocers, have made less profit than in the pre-war period. Other trades show in an extreme case an increase in gross profit of 3 per cent., and a nett profit of 5 per cent. The increase in the amount of profits appears to be considerable on paper, and this is reflected entirely by stocks which are still unrealized, and they are further reduced when taken in conjunction with the actual capital required to finance business on present-day prices. The profits shown, therefore, on any merchant's balance-sheet do not represent sterling value, but they are purely relative to such figures as can be realized in the future, when assets in the form of merchandise are disposed of.

CHAPTER IX.

THE SUGAR INDUSTRY.

In regard to local industries apparently the Commission did not consider it necessary to make any close enquiries. It investigated the position of the flour-milling firms, and a few jam and sweet manufacturers, but otherwise, except for a passing reference of a general character, nothing whatever has been included in this Report so far as manufacturing industries in this country are concerned.

In reference to profits of the sugar industry, it is extremely interesting to note the manner in which the figures are submitted. Percentages of nett profits are abandoned. The method of presentation in regard to this trade of taking the service rendered into consideration, is also abandoned, and the nett profit is stated in quite a different manner from all the other returns in the report. The sugar industry has, therefore, been treated in a singular manner by the Commission. Further, beyond being baldly stated in the table on page 22, no comment whatever is made upon the profits of the sugar industry, except that in Clause One hundred and seventeen it is described as being adequate. The percentage of nett profit on sales admittedly made by the industry in accordance with this report

amounts to no less than 25.1 per cent. It should be reiterated that this is the nett profit and not the gross profit, and even includes figures for depreciation which, on the Commission's own admission, are liberal. In view of this interesting position it might be as well to mention that from the very inception of its task the Commission paid special attention to the sugar industry, and from time to time regulated the price of sugar. Under the control of the Commission it was rendered illegal for wholesale merchants and retailers to sell sugar beyond a given margin of profit, and they were actually prosecuted and fined for doing this: The profit in the case of the merchants was $7\frac{1}{2}$ per cent. gross, and, taking the Commission's own figures of the expenses of wholesale merchants, it is clear that the rate of profit fixed by the Commission for handling sugar was such as to result in a material loss to the merchants concerned.

It is interesting to note, further, the improvement that has taken place in the profits of the sugar industry since the Cost of Living Commission took it in hand. The average selling price of sugar in 1914 was £14.98 per ton, and on that the nett profit of £2.92 was made, being a percentage of profit of 19.6. In 1914-1915 the price was advanced, and the selling price became £17.22, and the profit £3.79, a percentage of 22. In 1915-16, the price was further advanced and became £17.94, with a nett profit of £4 per ton, showing a percentage of 22.3. In 1916-17 the price was advanced to £19.18, and the nett profit was £4.34, showing a percentage of 22.6, and in 1917-18 the nett profit reached the amount already given, namely, 25.1 per cent. The Commission has omitted the figures of the aggregate sales and the aggregate profits in regard to this trade, and therefore its theatrical method of showing the aggregate figures in profits adopted in other tables cannot, unfortunately, be followed from the Report of the Commission. A comparison can, however, be made on the other basis it has adopted, namely, on the basis of the service rendered. The Committee has also obtained certain information to enable it to calculate the sales and profits made by the sugar industry. The sales in 1914, eliminating the quantity exported, represented a total of 95,000 tons. The corresponding figure in 1917 was 100,000. Calculating the 1914 sales on the basis of £14.98, the total sales were of the value of £1,423,000. Correspondingly, the value of the sales in 1917, on the basis of £21.9 per ton was £2,190,000. If in 1914 a nett profit was made of £2.92 on the selling price of £14.98 per ton, the actual nett profits made in that year were £277,400, but in the year 1917, taking the nett profit of £5.51, on a selling price of £21.9 per ton, the actual nett profits amounted to £551,000, an increase of £273,600, or 98.6 per cent. on the profits of 1914—to adopt for the moment the method of presentation of the Commission.

Dealing with the second point raised above, and the basis of service rendered by the sugar industry to the community, which is so often mentioned in the Commission's Report as a duty on the part of merchants, whereas for rendering this service in supplying a ton of sugar in 1913-14, which sugar, it must be remembered, was £14.98 per ton, the sugar industry then received £2.92 in nett profit. For selling the same ton of sugar in 1917-18 at £21.9, the producers received a profit of £5.51; and it must be borne in mind that the ratio of profit has advanced from 19.6 in 1913-14 to 25.1 in 1917-18. Had the basis of service rendered been adhered to, the sugar that was sold in 1917-18 at £21.9 per ton should have been sold at £19.3. In view of the fact that the price of sugar throughout the whole period was completely within the control of the Commission, it is worthy of comment and reiteration that the doctrine the Commission preaches to the merchants was not applied by itself, when it lay within its power, to the sugar industry.

Apart from this, there is another aspect which must be commented on. The worst "sinners" amongst the merchants, according to the Commission—that is, those dealing in soft goods—are accused of making an increase of 3.8 per cent. in their nett profits, that is to say, of increasing their profits from 6.4 per cent. to 10.2 per cent. The minimum profit of the sugar industry is far and away above the maximum profit of any merchant. The sugar industry commenced at 19.6 per cent., and went on increasing until for the year 1917-18 it made a nett profit on sales of no less than 25.1 per cent., and be it noted with the sanction and authority of the Cost of Living Commission. Yet the Commission has not a single syllable of comment of any kind to make upon this extraordinary condition of affairs, while everyone knows that sugar is a first essential of life. It is the principal of the preservatives, and one of the primary foods. Compare for a moment the profits that the sugar industry has made under the ægis of the Cost of Living Commission with the profits that have been made by wholesale and retail grocers; that is, compare 25.1 per cent. with 2 per cent. and 2.5 per cent.: then the fact that no comment has been made by the Commission is a matter for still greater surprise.

In face of this, in its ultimate recommendations, after having stated that both commerce and industries are forms of public service, the Commission has the hardihood to suggest that traders should be licensed under conditions to compel them to conduct their business upon defined principles, obviously in the direction of restricting the profits; whilst the recommendations in regard to the sugar industry are that the Government should agree to no further scheme of developments as to the leasing of additional lands for sugar-growing until

certain conditions are complied with. This recommendation obviously has the effect of restricting the production of sugar, and thus still further of protecting the industry in its possession of a nett profit of over 25 per cent. on a ton of sugar, for which a further protection of £3 10s. per ton by means of Customs Duty and £2 10s. per ton represented by preferential railway rates has already been given by the taxpayer of South Africa.

It must be borne in mind, further, that the profits of the sugar industry are realised in cash at once, and there is therefore no doubt as to their value; but the profits of merchants consist for the most part of stocks of goods of various kinds. Obviously therefore the value of the merchants' profits must depend upon the realisation of their stocks.

CHAPTER X.

REEF STOREKEEPERS AND CO-OPERATIVE STORES.

In Chapter VI, the Commission devotes considerable space to the transactions of Reef storekeepers and the profits of wholesale merchants who supply them with goods. The question of wholesale trading has already been dealt with in this Report, but it is necessary to draw attention particularly to the comments of the Commission on the transactions of Reef storekeepers. The return contained in paragraph 85 does not altogether coincide with that appearing on page 5 of a former Report of the Commission "On the investigation of accounts of Mine Storekeepers on the Witwatersrand, and as to the fixing of prices of the chief articles of native trade in the Witwatersrand area." In the Profits Report the Commission shows that the nett profits of Reef storekeepers have fallen from 15 per cent. to 11.8 per cent. These figures only include the businesses in existence in the year 1914. In the former Report referred to, it shows that in regard to businesses established since 1914, the profits fell from 13.3 per cent. to 8.8 per cent., and taken as a whole the summary of Reef storekeepers' trading accounts show that profits fell from 15 per cent. in 1914 to 10 per cent. in 1917. It should be carefully noted here that these are nett profits on sales, with no relation to capital employed. In the Profits Report the Commission has entirely ignored its earlier Report upon this question in considering whether changes are necessary in the control and organisation of the supply of goods to native labourers on the mines. A very instructive table appears on page 6 of the earlier Report, where retail prices are shown of standard articles purchased by the natives and those prices in

Johannesburg are compared with those at Umtata in the year 1918. These prices might profitably be repeated here:—

	<i>Johannesburg, 1918.</i>		<i>Umtata, 1918.</i>			
	s.	d.	s.	d.		
Boots, pair ...	15	0	17	0	22	6
Blankets, 2½ lbs. ...	7	6	8	0	11	6
Blankets, 4 lbs. ...			12	6	Unprocurable.	
Singlets, dozen ...			12	0	21	0
Shirts, dozen ...			30	0	42	0
Print, yard ...			1	2½	1	6
Lustre Rugs, each ...	25	0	32	6	27	6
Knives, gross ...			144	0	216	0
Mufflers, gross ...			72	0	180	0

The Commission reported that its investigation into the accounts of Reef storekeepers showed: (1) That the selling prices have increased less than the cost of the goods; (2) that the expenses (salaries, etc.), have increased; (3) that the amount of the nett profits has not appreciably changed, but the percentage of nett profits on sales has dropped from 15 per cent. to 10.6 per cent.

The Commission also stated that the reasons given by Mr. A. H. Stanford, taken together, form a strong case against any attempt to fix maximum selling prices for Reef storekeepers; and the Commission regretted that it was unable to concur in Mr. Stanford's recommendation to that effect.

Notwithstanding that Report, which is dated the 30th March, 1918, the Commission recommended in the Profits Report of the 26th November, 1918, that a Central Buying Department should be established by the Government, with subsidiary stores along the Reef selling goods at prices based upon actual cost, and also that the co-operative stores, established for and by white workers, should open native departments, subject to inspection by the Department of Native Affairs; who should approve of the accommodation provided and the rates of gross profits charged. In view of the Report of the 30th March it seems incomprehensible that the Commission during the period intervening between that date and the 26th November should have come to the conclusion, notwithstanding proofs furnished by itself, that the business of Reef storekeepers required any reorganisation at all. No evidence of any description is adduced that there was any necessity to interfere with the present ordinary course of trade, and particularly because the Commission found that prices on the Witwatersrand are lower than those charged in the Native Territories, and the prices in the Transkeian Territories are decidedly higher than those on the Witwatersrand. It should also be borne in mind that the Commission has proved that the nett profits on sales by the Reef storekeepers amounted to only 10.6 per cent.

At the instance of the Cost of Living Commission, the Union Government has advanced a loan of £10,000 to the S.A.I.F. Co-operative Stores, Ltd., under certain conditions, notwithstanding the protests of the commercial community. A copy of the balance sheet of this co-operative body should be obtained, in order to ascertain the results of their working, because the money was advanced by the Government in order to enable the co-operative societies to reduce the cost of living below the prices charged by the ordinary retail merchants supplying the same *clientele*. As a fact, the prices charged by the co-operative societies are not less than those charged by the retail grocers, and no dividend has been paid to the members of this society, notwithstanding the financial assistance received from the Government; and the nett profits of the retail grocer have been demonstrated by the Commission to be only 2½ per cent. on the turnover.

Bearing all these facts in mind, it is surprising to find that the Commission recommends organisation by means of a central buying agency and a control by the Government of purchases and sales.

On the Commission's own showing, the nett profits of the wholesale soft goods merchants, which include the native trade, amounted to 6.4 per cent. Does the Commission imagine for a moment that an organisation managed by the Government will be able to supply goods at a lower ratio of profit than this, when all the extra expenditure of Government management and control is provided for? This recommendation in itself if carried out could not but result in inefficient management and consequent raising of prices to the natives. The Commission has not instanced one case where the natives have been charged more than a fair price for the commodities which they purchase.

In regard to the principle of co-operation which the Commission recommends so strongly, but which has hitherto been regarded with such complete indifference on the part of the South African community at large, it should be remembered that as a principle co-operation is not in any way objected to; and it is perfectly clear that "co-operation" is no more nor less than a combination of consumers. It is difficult to see how a principle such as this is going to be put into successful practice in a community of so unsettled a character as the workers on the Reef. Not only do white men move about from mine to mine, but the natives also. Further, natives frequently leave the Reef for long periods of time, and then return. It is difficult to see, with this want of permanence that must necessarily exist under conditions such as they are, how a co-operative organisation, in the strict sense of the word, can hope to succeed.

The merchant only exists so long as the community finds in the ordinary nature of things that he is a useful inter-

mediary, and if he raises his prices unduly, or conducts his business in a manner which is to the detriment of the community, he, in the natural course of events, ceases to exist.

CHAPTER XI.

SUMMARY OF RECOMMENDATIONS.

On page 43, the Commission has made ten recommendations, which are repeated on page 2 of this Report.

Recommendations Nos. 1, 2 and 3, relating to the meat trade, have already been dealt with; No. 4, dealing with sugar, has also been commented on; the same remarks apply to Nos. 5 and 6, dealing with co-operative stores on mining ground.

There is no objection whatever to the establishment of co-operative stores on mining ground, provided that such stores are established in open competition with the ordinary trade, and have no special privileges or facilities which are not given to the citizen who furnishes the revenue of the country.

Recommendation No. 7, which recommends access by legislation to income tax returns, and the intervention of the Director of Census in this connection, has already been dealt with by the Minister of Finance and refused by the Government. Notwithstanding this it should be carefully borne in mind that power may be given by the Government through the Director of Census to require returns to be supplied by merchants and manufacturers periodically for the purpose of publication. In this way there is a possibility that although secret information relating to income tax may not be divulged, corresponding particulars may be collected by the Director of Census. It is obvious that such proceedings would be grossly unfair to the commercial community, and it would, moreover, serve no useful public purpose.

Recommendation No. 8 states that:—

- In order that goods may pass from the producer or importer to the consumer in as direct a line and with as few intermediaries as possible, and in order that goods shall reach the consumer at reasonable prices, traders shall be licensed under conditions which compel them under penalty to conduct their business upon defined principles.

This proposal is referred to in greater detail in paragraph 164. The object of the Commission is to limit the trading operations of merchants so that margins that the Commission consider reasonable, and no more, shall be allowed between the purchase or landed cost of the articles offered

for sale and the price demanded from the consumer. In support of this it is urged that the procedure so widely adopted during the war by other Governments of fixing the prices they pay for the goods they purchase upon cost should be extended to times of peace and to the individual consumer. Throughout the whole period of the war it has been proved time and again that whenever the Government has intervened to control the sale of goods or to fix their prices the efforts have ended in failure; and prices of the commodities affected have increased to the disadvantage of the consumer. As soon as healthy and free competition has been eliminated one of two results has happened: either the supply of the particular goods has ceased, or the prices have risen unduly. This applies to the action taken by the Imperial and other Governments, and even to enemy countries as well.

Commerce and industries are only forms of public service to the same extent as the professions and farming are, and there is nothing to show any cause for treating them differently. Traders are in a sense servants of the public, and if they provide inefficient service the public signify their disapproval by withholding their custom, and the incompetent trader then loses his capital. The establishment of the principle that the State is to determine the rate of profit or remuneration traders are entitled to, if logically sound, must be extended to embrace all trades, professions, farming, and also labour.

Recommendation No. 9 recommends and advocates encouragement and financial assistance to approved co-operative enterprises, and the establishment of a co-operative bank for this purpose. The Government has already refused this. The Government has stated that it has no objection to co-operative societies; and, as a matter of fact, this Association is glad to encourage them in every possible way, provided, and here the Government agrees, that the capital shall be furnished by the members themselves, and not from Government sources. There is no more reason to subsidize co-operative trading societies, no matter how they may be constituted, any more than a private merchant or a member of a profession, or any other individual or body who requires capital for the purpose of trading or obtaining a livelihood. It appears to be at least contradictory for the Commission to recommend financial assistance by the Government to co-operative enterprises, it being obvious that if traders are making such enormous profits as are not disclosed in the Commission's report, it should be unnecessary for any co-operative society to obtain financial assistance from any other source than their members.

Recommendation No. 10 recommends a "modified and a heavier Excess Profits Tax, with steeper grading," so as to absorb all profits above some agreed percentage.

How any tax can be at once "modified" and still "heavier" seems difficult to understand.

In regard to this recommendation, in paragraph 169 the Commission arrives at the conclusion that the consumer pays the Excess Profits Tax and something more besides. In paragraph 170 the Commission expresses quite the sanest opinion in its report, and this is done in the most lucid manner possible. The concluding sentence reads: "This being the case, there is no justification on the ground of profits made for singling out any particular class or section of the community for special taxation." After these two opinions have been clearly stated, the Commission proceeds to recommend, "That a modified and heavier Excess Profits Tax be introduced, with steeper grading, such tax to absorb all profits above some agreed percentage."

This recommendation can only apply to the trading sections of the community, because the report does not pretend to deal with any others. In connection with these recommendations, it is admitted by the Commission that the prices the farmers have obtained have been increased by at least 50 per cent. This is more an expression of opinion than a statement of fact, owing to the want of statistics on this subject. In the sugar industry the profits are 25 per cent., and this is not an expression of opinion, but a record of fact; and, further, this has been an industry controlled by the Government for some years. The Commission has stated that it considers that a profit of 25 per cent. on sales is an adequate one for the sugar industry. If 25 per cent. is an adequate profit for one of the primary articles of food, then it is clear that this rate of percentage or something more would be an adequate rate of profit for other goods, such as groceries and the ordinary requirements of life in other directions; and it is a severe commentary on the impartiality of the report that it accepts a basis of 25 per cent. in reference to sugar, and it condemns rates of profit much smaller than this amount as being excessive when applied to other articles. The ordinary consumer may require to know why he should pay a larger profit on sugar than he does on anything else dealt with in the Report, particularly when it has been the subject of Government control, and when, in the opinion of the Commission, Government control is the panacea for every evil.

From the point of view of the public interest it is further a matter for the greatest regret that subjects of such absorbing interest and importance not only to South Africa as it is today, but also in relation to its future development, could not have been entrusted to a Commission more capable of dealing with the subject. It may have been impossible to obtain a merchant as a member of the Commission. No matter how impartial he might have been, his opinions would have been

suspect from the beginning. But it is apparent that if a member could have been included who possessed a wide and unprejudiced vision, who could have looked at the whole matter from a judicial point of view, and if he had been accustomed to weigh the value of evidence and the facts as presented in relation to each other, it would have been a great improvement; and if another member could have been added, possessing an elementary knowledge of economics and a knowledge of figures that was not merely of a mechanical character, and who was able to appreciate the importance and bearing of the facts behind the figures, the country might have obtained a report that would have proved to be of some service for the future.

For the Association of Chambers of Commerce of South Africa:

ROBERT NIVEN,
President.

J. W. JAGGER,
Chairman of the Executive Committee.

E. CHAPPELL,
Vice-Chairman of the Executive Committee.

Cape Town,
30th April, 1919.

[B.]

EXTRACT FROM A MEMORANDUM BY THE PORT ELIZABETH CHAMBER OF COMMERCE ON THE PROFITS REPORT OF THE COST OF LIVING COMMISSION.

Articles.	Prices.	Prices.	Advance on pre-war prices.
	Feb., 1914.	Feb., 1919.	
	s. d.	s. d.	
Matches	3 1	4 8½	52 per cent.
Paraffin	8 3	19 0	130 "
Petrol	14 3	30 3	112 "
Sugar (refined) ...	18 0	26 6	47 "
Soap, 50 lbs. ...	11 5	24 9	117 "
		April 27/-	
Candles	8 4	22 9	173 "
Rice	21 6	42 6	97 "
			728 per cent.

[C.]

MEMORANDUM OF GOVERNMENT ACTION TAKEN
ON REPORTS OF THE COST OF LIVING COMMISSION.

(1) INTERIM REPORTS.

The principal interim reports and memoranda submitted by the Cost of Living Commission prior to the receipt of the General Report [U.G. 55—18], and the Profits Report [U.G. 1—19], are summarised under the head Interim Reports on pages 2 to 4 of the General Report of the Commission [U.G. 55—1918]. It will be convenient, therefore, to deal with these interim reports by reference to this summary.

(1) Co-operative Societies—of 3/12/17—recommending Government financial assistance to co-operative organisations of consumers on certain conditions.

In accordance with this recommendation £10,000 was voted in 1918 (Loan Vote "J" 1918-19) and this sum was advanced to the South African Industrial Co-operative Development Company, Limited, under terms and conditions which were settled by the Treasury in consultation with the General Manager of the Land Bank to whom the Administration of this advance was entrusted.

(2) Maximum price of wheat—of 14/12/17. This report, which recommended fixing the price at 16/- per 100 lbs. (Mr. Boydell recommending 13/- per 100 lbs.), can conveniently be associated with No. (3) Standard Flour and Bread—of 15/1/18. No. (6) cost of 1917-18 Wheat Crop—of 2/2/18 and No. (7) Wheat Flour and Bread—of 15/1/18:

Apart from the recommendation as to fixing prices, which was not adopted mainly on account of the probability that if prices were fixed at the levels stated the production of wheat would be restricted, the recommendations of these reports were adopted in the shape of the Wheat Conservation Act, 1918.

No. 13—Supply of pure flour to Biscuit and Macaroni Manufacturers of 8/7/18—which recommended the supply in limited quantities, was given effect to by regulation under the Wheat Conservation Act *vide* Government Notice No. 981 of 7/8/18.

(3) Supervision of Distribution—of 16/1/18—recommending the appointment of local committees to deal with cases of overcharges.

Local Committees were appointed in nine localities—Cape Town, Johannesburg, Durban, Bloemfontein, Port Elizabeth, Pietermaritzburg, East London, Kimberley and Pretoria.

Government Notices 650 of 21/5/18, 694 of 4/6/18, 781 of 19/6/18, 800 of 26/6/18, and 860 of 15/7/18,

See also No. 14—recommending the grant of powers conferred on the Governor-General by Section 2 (1) of the Public Welfare and Moratorium Act being delegated to the Chairman of local committees. This was done by Government Notice No. 995 of 13/8/18.

(4) Control of Imports—of 17/1/18—recommending the reservation of shipping space for necessaries, and that there should be given priority over luxuries and non-essentials.

The policy of the Controller of Imports was in accordance with the views of the Commission. That luxuries came into the country was due to causes beyond his control.

(5) See No. (2).

(6) Candles—of 2/2/18. The Commission made the arrangements referred to directly with the manufacturers so that no action on the part of Government was called for.

(7) See No. (2).

(8) Accounts of Mine Storekeepers of 30/3/18.

A Departmental Committee consisting of the Mining Commissioners, Boksburg and Krugersdorp, the Acting Director of Native Labour and the Under Secretary for Finance, has been appointed to enquire into and report upon the desirability of altering the existing system of native trading on the mines and of disposing of trading sites. *Vide* Government Notice 1632 of 11/12/18. This Committee has not yet completed its work.

(9) Rents—1/5/18. Recommending the amendment of the Public Welfare and Moratorium Act to enable the fixing of rentals.

A Bill dealing *inter alia* with this matter was introduced during the closing stages of the 1918 Session, but failed to pass both Houses before the close of the Session.

(10) Paraffin—of 4/5/18. No action on the part of the Government was required, as the Commission made the arrangements directly with the oil companies. See No. 16 as to fixing of wholesale and retail prices.

(11) Rice—of 10/5/18. Recommending fixing of prices. Prices were fixed from 17/6/18 under Government Notice 754 of 12/6/18.

A further Report from the Commission dated 10/8/18 pointed out that the prices fixed were higher than a large part of the Indian community could afford, and the large proportion of the cost of rice absorbed by freight and exchange, and recommended (a) that representations be made to the Imperial and Indian Governments in this regard asking for reductions of freight and exchange, (b) that the Government should make itself responsible to importers operating under permit for the excess of the landed cost plus $7\frac{1}{2}$ per cent. over the fixed maximum prices.

In accordance with (a) the Imperial and Indian Governments were approached but without success in the way of

obtaining a reduction of the exchange, but the freight was shortly after reduced by 15 per cent. in view of the cessation of hostilities. The Government were unable to accept (b) whereupon the Commission pointed out that either the maximum prices of rice must be substantially raised or the control of prices must be abandoned. The latter alternative was adopted and Government Notice 754 of 12/6/18 was withdrawn by Government Notice 1652 of 18/12/18. The position in regard to rice has become still more difficult by reason of scarcity in India, and the matter of the Union's supply is receiving constant and earnest attention.

(12) Sugar industry—of 11/5/18—recommending the obtaining of full information as to the flood damage.

The damage done at Umfolozi was investigated by the Department of Lands, which Department, together with the Department of Irrigation have been active in restoring the damage done and in securing the restarting of crushing operations. Relief has also been granted to certain of the sufferers.

(13) See No. (3).

(14) See No. (2).

(15) Matches—of 18/7/18. Recommending fixing of prices. This and subsequent recommendations as to prices were given effect to by Government Notices 973 of 6/8/18, 1123 of 20/8/18, and 1157 of 28/8/18.

(16) Paraffin and Petrol—of 12/8/18. Recommending fixing of prices. This and subsequent recommendations as to prices were given effect to by Government Notices 1004 of 14/8/18, 1271 of 17/9/18, and 1506 and 1507 of 19/11/18.

(17) Importation of Mauritius Sugar—of 30/8/18, stating that 10,000 tons could be absorbed without affecting Union prices.

As a very large quantity of Mauritius sugar was seeking a market in the Union and seeing that the export of Union sugar, and the price of Union sugar had been controlled in the interests of Union consumers steps were taken to control the importation of sugar by prohibiting it except under permit from the Controller of Imports, *vide* Government Notice, No. 126 of 13/9/18. As to the prices of sugar see Government Notices 693 of 23/5/17, 769 of 13/6/17, 505 of 19/4/18, 579 of 4/5/18, 1685 of 23/12/18, and 11 of 2/1/19.

(18) Export of Meat—4 and 23/9/18. Recommending advertisement of fact that freight for meat sold in the open market will not be available.

As the Government's information was that freight might be expected, it was deemed inadvisable to issue the Notice.

(2) GENERAL REPORT.

Summary of recommendations paragraph 42.

No action has been taken except in regard to (2). The sale [S.C. 13-'19.]

of Government houses has been suspended, and in accordance with the existing policy of the Government provision is being made on the Loan Estimates 1919-20 for purchase of houses for district officials such as Magistrates and Post-masters.

(3) PROFITS REPORT.

No action has yet been taken.

[D.]

Telegram dated 14th May, 1919, from Chairman, Cost of Living Commission, embodying comments and criticisms on Memorandum of Association of Chambers of Commerce of South Africa:—

313. In reply your telegram yesterday desire mention following points arising out of Chambers Commerce Report. Page 3, the Commission's reply to Chambers letter, 30th November, 1917, was series of meetings with local Chambers of Commerce held at Durban, Pietermaritzburg, Johannesburg, East London, Port Elizabeth, Cape Town, between 4th December, 1917, and 17th January, 1918. Commission do not see how a more complete reply could have been given or one that showed more real desire to bring Commission's requirements before commercial community. Commission's assertion is that no step has been taken by commercial community to assist consumers faced by steadily rising prices. See report paragraph 153, this cannot be refuted by saying that Chambers advised their members to give information to the Commission which by law they were compelled to give. Page 9, the bank figures here given presumably totals of all bank advances and therefore include mining and sharemarket figures in addition to mercantile figures. Chambers therefore not justified in drawing any conclusion from these figures as to amount of advances made to merchants. Note on page 8 of Commission's report is correct. Page 10, Commission's statements with regard to three points here mentioned are as follows:—(a) There is no inaccuracy with regard to the item of interest—see report paragraph 32 and note attached; (b) year 1914 may have fallen short of an average year but this shortfall does not exceed two per cent. on turnover and as against this Commission's profit figures in several respects are understated throughout; (c) luxuries are not included in the Commission's figures for wholesale trade; this is clearly

stated in paragraph 34. Page 14, paragraph 62, of Commission's report is correct and the service argument is not a fallacy. This will be dealt with fully in reply that Commission is preparing, see paragraphs 19, 20, 28 of report. Chapter 8, suggestion apparently is that while large profits may have been made in connection with luxuries such profits have not been made in connection low priced articles. This once and for all disposed of by paragraphs 85 to 91 of the Report and Table N. Page 16, paragraph 5, the Commission's tables include all expenses of every kind incurred by merchants. Page 17, paragraph 5, Chambers cannot possibly contend that merchants suffered losses on stocks held in 1917, undoubtedly their sale resulted in large profits. Chapter 9, when Commission examined sugar industry they found that as cane prices depend upon sugar prices latter could not be reduced below those fixed without making it impossible for many growers to meet their expenses. Lower prices would therefore have had serious effect on sugar production. This, and not any calculation of millers' profits was the fundamental reason that decided the prices fixed by the Commission. It should also be pointed out (1) that risks of sugar grower and miller are greater than those of any merchant. (2)—That when war commenced sugar industry deliberately fixed their own prices, and in consequence reduced their profits by probably £10 per ton. (3)—That since 1st February, 1919, the price of sugar has been reduced by over £4 per ton on Commission's recommendation. In first paragraph on page 19, Commission's figures for merchants less interest are compared with sugar industry figures from which no interest deduction has been made. Chapter 10.—Throughout Commission's profits report only businesses in existence 1914 have been included. Consequently when dealing with Reef storekeepers' accounts the corresponding figures were taken from Report 30th March, 1918. Connection two Reports explained paragraphs 95 to 98. Page 20, paragraph 4, incorrect, Commission mentions two possible solutions of Reef store difficulty, but only adopts one. This paragraph states they adopt both. Page 21, paragraph 2, throughout Chamber's Report, insufficient attention is called to fact that Commission's nett profit percentages are calculated on turnover and not on capital. This paragraph is a case in point, six point four per cent. (a 1914 figure) on turnover probably equivalent to over twelve per cent. on the capital employed. Commission's corresponding 1917 figure is fourteen point two per cent. on turnover; equivalent therefore to over 30 per cent. on the capital employed—surely an extravagant provision to cover alleged Government inefficiency. The Commission is preparing a detailed reply to the Chamber's Report, as there are many other errors and inaccuracies to be called attention to.