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## Taxation of Corporations.

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I generally find that I have to speak before the Canadian Club on some subject which is more distinguished for its range than for its definiteness, and yet in taking the subject of "The Taxation of Corporations" I feel that while I have not escaped a subject of great range, there may be more definiteness in it than some of the other points that I have already discussed before you. Political science is called by Carlyle a dismal science, and I think it is generally admitted that there is no part so dismal as the part dealing with taxation, so that the first application with taxation which I have to make to-night is to put a tax upon your patience while I try to explain some of the principles which are connected with the taxation of corporations.

First of all, a word will be necessary with reference to corporations. These institutions, which have grown up within the nineteenth century particularly and which are entering upon the twentieth century with the apparent desire to conquer it absolutely, are coming to be regarded in many quarters by the public as most alarmingly terrible things. There is a tendency to look at corporations as of a piece with every other enormity or difficulty that comes to the surface. There is a growing tendency to think that the corporation is something to be kept down if possible, and one really wonders what these parties would do with it in the end. Now, I wish to steer a middle course. The attitude, or rather the point of view from which I approach such subjects is that of the historical development. I personally can never understand what a thing means until I have asked myself and others where it began, how it grew up, why it grew up, and what it means to-day, and on the basis of that where it is likely to go in the immediate future. From that point of view I have become thoroughly convinced of these points—that the corporations have come upon us in a normal and natural and inevitable manner, that we cannot get rid of the corporations without a virtual destruction of our modern form of society. We may, it is true, pass them into something better and higher, but we should do so only over and through these corporations, not by turning back from the road along which we have travelled so far, but by going on further in that direction. I have no special idea and am no special advocate of any succeeding system to that of the corporations. What I do feel, however, is that the day of the corporation is not over, that it is indeed only beginning, and that we have to face this phase of modern society in a frank, fair spirit, that above all we want to rid our minds of cant and hypocrisy in dealing with it. When I sometimes find people with a blind feeling that these things must be

turned down I say to myself: These people have a consciousness of the defects and the dangers, but they do not seem to have a consciousness of the value of these things.

What are the causes, in a few words, of the existence of corporations? The chief causes are that the conditions of our economic life, the conditions of providing us with the means of life, with the service of life—because these are the two great lines—have become so complex and have required such an immense outlay, such a great preparation, and such a wonderful combination of individuals to carry them out, that it is truly impossible to have our modern economical life carried any further or any longer upon the lines that used to determine it by free competition and the opportunity of any individual to go into any business and any trade he pleased. That is, it was simple enough for a man to take up his hand loom or his shoe bench and go to work to manufacture cloth or to make shoes and to leave them when times became hard, and turn to his plot of ground and eke out his living in that way. At that time there was no great danger of overdoing the business. Nowadays, in order to get into business you have to begin a great organization of capital and you have to make an abnormal demand for the goods that you have to produce, for when you start a two or three million dollar factory for the manufacture of shoes you have to increase the demand rather than supply the demand. If that demand is present dozens of factories may be started to supply that demand and you will not know for two or three or even ten years whether that demand is being more than supplied, and then it will be too late to back out, because it will mean the sacrifice of millions. It inevitably results in a life and death struggle. It is not the kind of competition that for instance Adam Smith suspected or that anybody else has dealt with from his time down. A principle of competition exists side by side with these corporations and it will always be so. It is not a fight between corporation versus competition, but a question of certain services and certain lines of production having to be looked at in advance and carefully regulated in advance, and it is therefore large combination plus regulation which is to give us the outlet for the future. I might go into that in much detail, but I feel that before a select audience of the Canadian Club not only will you be able to supplement what I may not bring out, but you will be able to correct any errors into which I fall, and therefore I talk more freely.

Another situation crops up. The possibility of great economy, of great power, the opportunity to make large dividends, to conduct great organizations, presents an outlet for the man in economic life which he was never able to secure in that line before. In other words, it is an immense attraction for the man with spiritual ambition. I use those words consciously and definitely. The man who goes in to develop a great business has really more to do often and a better and more spiritual line to work out than our statesmen have, because the statesman is more and more hampered in these days when compared with his predecessor. The

business man is more and more in command of the great forces that used to be at the command of generals and statesmen and men of that sort in the earlier days. That is why in the great economic countries like the United States, and Britain and Canada the big men are going into business rather than into politics. I say that in a general way, of course, because there are exceptions—personal peculiarities and personal interests may of course determine certain individuals one way or another.

The next point that I want to make is that these opportunities are such and the complexity of the business is such that it gets beyond the understanding of the ordinary man. Nobody can follow these workings unless he be more or less of an expert in the line—that is, special knowledge, and very detailed special knowledge, is required to understand any of the great industries or services of modern times. That being so, men who are busy with their own affairs have not the opportunity to look into these things. So it comes about that when applications are made for capital, with promises given for great schemes and so on, we have to take them at their words, or at any rate, as is usually discovered, on the basis of the names connected with them. Hence the dishonest promoter desires first of all to get a few prominent names connected with his scheme, and then to present the matter in such a way that it will catch the superficial attention, the eye of the public, and promise great interest, and so on. Thus you have in the experience of the world, growing up side by side, real genuine services and corporations and also more or less bogus concerns, because the great corporation, as I have said, cannot tell for some years whether it is a success or not. The rival corporation will have the same opportunity, therefore, but by the time it comes to be decided the parties who floated it, who sold the shares and the bonds and so on, may be miles away, so far as economically their interest is concerned. Hence, to-day great combines are formed, great corporations are formed for no other object than to sell the securities, for in that way there is an immediate and great profit instead of waiting for years for returns.

When you come to deal with this question from the point of view of taxation or Government regulation and so on, what are we to do? It is quite obvious that the man who is going to tax them or regulate them has got to be an expert also, and hence it is that we are entering on the day of commissions. The commission has justified itself up to the hilt in the United States; it has proved itself the only possible way of dealing with these great corporations. Governments and Legislatures made up of men who have their own business to attend to may be able to formulate in a general way what they wish the community to realize, but they cannot determine the details. A Parliament has, it seems to me, as its main function the determining of what organizations should be limited, regulated and so on, but should hand over the details of the regulation and limitation to special commissions. Moreover, the hands of these commissions must not be tied too completely or their work will be frustrated.

If the heads of the corporations, the experts who are running them, are men of experience in the lines, they require a free hand and get a free hand and keep a free hand in the administration of them, the parties who are regulating them, to fix rates on railroads, to determine what is a decent investment in insurance, have got to have a free hand more or less also. They have got to be able to work their system flexibly and not too rigidly, otherwise they cannot follow the conditions. They have got to be appointed as experts or as men who can be taken in on the same footing as a corporation will take in a man who has got the stuff in him to teach him the business, for it is not always possible to get men into your commissions that have all the knowledge at the outset, but you can get men who have the capacity and ability to learn it.

As Governments come and go, commissions must be permanent, and the experience of Britain and the United States and concurrently the experience of other countries goes to prove that the future is with the corporations, and that the future requires that these corporations shall be controlled. We should have in this country a body of experts to pass upon the plans and promises that are brought forward by corporations, not necessarily to say that they are bound to succeed, because that cannot be told, but to see that the plans and proposals set forth are reasonable and that the public are being told the facts and are not being presented with a mere bogus, or one-sided, or distorted view of the situation. In that way the public should be guarded in the investment of its money, and after that to see that they live up to the lines of the prospectus. We are apt to say that corporations do not want to obey the laws, they do not want good government, and so on. That is not true; I am quite convinced that it is not true, after talking with a great many people connected with corporations. But they do say that if the members of the Legislatures, who are the court of last appeal, are ignorant, the man with a bogus concern is apt to get the best of them, the unscrupulous man is apt to get the best of it, and the better corporations have got to come down to something like their level to live—they are systematically blackmailed and they have to decide between paying blackmail and finding themselves out of business. It is in the interest of the public on the one hand and of the honest men among the corporations that these regulations are required, and I am quite convinced that if we had adequate regulation both in taxation and otherwise we should find the better corporations fall into line quite reasonably.

That brings me to the point of the taxing of corporations. What I have said I consider necessary because if the corporations are permanent then our way of looking at them must be permanent. If they are serving a real purpose and enacting a real development, then our system of taxing them must be real and permanent, not merely from the point of view of to-morrow, but from the point of view of decades and even half centuries or centuries ahead. In travelling about in the United States last summer

working up the question of their method of dealing with railroad and other corporations, I discovered that only two States have anything like the same system. Some of them look alike, but in detail they vary. Some were in a State where a new system had just recently been introduced, and some of these are less sanguine now than when I saw them. When we explained to them our position in Canada, that we had not the necessity of working up our corporations along with our municipal questions, that we had a free hand, indeed, provincially, because the Province does not require to tax directly the municipalities—the individuals, that is, in the municipalities to raise revenue, they one and all said as soon as they grasped the situation, “Why, that is a perfectly ideal condition; if we were only back at that stage how easy it would be for us to develop our system along right lines.” As they put it, and it never struck me in that way before, “We cannot change once we have built up our system of taxation; we have a certain amount of revenue to obtain and you can see how it would revolutionize things and make it practically impossible to frame a budget for the next few years if we were to change radically our system of taxation.”

One of the chief difficulties in the States has arisen from the fact that the State has to collect taxes from the individual. You have so many municipalities in Ontario. If the Provincial Government is required to raise more revenue than it can get from the Dominion subsidy on the one hand and on the other from selling of timber limits, mining lands and so on, and has to be forced back on direct taxation of the individual, there would have to be built up a costly and enormous machinery of assessment, paralleling the whole machinery in force in the Province to-day. The Province would have to say to each municipality, “We will take your assessment and we will try to adjust it in such a way that we can levy on it.” Now, municipality A says—“If we can cut down the assessment in our municipality below that of the adjoining municipality they will have to pay more to the State than we have. That was the situation in the United States, and what did it result in? Take one illustration. In the State of Illinois in 1873 the total assessment of the State amounted to \$1,210,000,000, and every year after that it went down until in 1898 the total assessment of the State, with nearly thirty years of development, and including the city of Chicago and other great centres—the total assessment was only \$693,000,000. That can be paralleled all over the Western States—Dakota, Minnesota, Indiana and so on.

I have dwelt upon this because it is at the core of the very question in Ontario. Here we have not had occasion so far to levy one cent directly, and the question is how are we to keep out of that, because the difficulty of doing so is enormous. The States of the Union see a way out and they are moving towards getting a different basis of taxation for the State from the basis of taxation for the municipality, and thus simplify the situation and get themselves on to a new basis. One State has practically succeeded, New Jersey, and another has very nearly succeeded, the

State of New York. New Jersey, as you know, is the home of trusts, and New Jersey has been able to raise its whole State revenue by charging a less rate per million of capital for incorporating companies than any other State in the Union. The result has been that the corporations flocked into that State for incorporation. Just as you find in the lowering of the postage the number of letters soon rising, so that the ultimate revenue is double what it was before, so in New Jersey their revenue went forward by leaps and bounds until now they do not require to tax the individual property owners throughout the State. Out of the railroad and other corporation taxes they are able to run the State. New York State is just beginning to get in sight of where we are in the matter of freedom from local taxation.

It does not so much matter—though I have very strong views on the system and basis of taxation—it does not matter so much what system or basis you use so long as you can avoid confusing the provincial revenue with the municipal revenue. We find ourselves in Canada with an ideal system. Our national revenue does not conflict with our provincial revenue, because it is raised by the Customs and a few other things; the provincial from the subsidy from the Dominion Government and by the sale of timber limits and mining lands and some taxes. There is nothing against having the Province subsidized from a part of that taxation from the Dominion, and nothing against the municipalities being subsidized from the Province except as is found in the State of Massachusetts. There the State Government undertakes to raise most of the revenue for the municipalities. The members elected by the municipalities are sent to the State Legislature mainly with the idea, familiar enough to us in other ways, of getting something more for their own constituency. That is their chief recommendation in getting elected and re-elected, so that the people of Massachusetts are praying to be delivered from the State Legislature. The members are so much engaged in seeing that their own particular municipalities get enough they neglect to see that the State itself gets enough—what is everybody's business is nobody's business, and the municipality's business is each individual's business. Hence there is a difficulty there; but here in Ontario, where the Provincial Government subsidizes schools, hospitals and institutions of that sort, we have not got particularly into a dangerous position. I have placed most stress upon this point, because to my mind it is most important that in Ontario we should not adopt a line that would run us into the difficulties which the United States have had, and that they have spent no end of time and thousands and thousands of dollars in trying to get out of.

As to the possibility of that, here comes in the point of the inevitable development of corporations. We find a greater and greater proportion every year of the total wealth of every State and Canadian province represented in the shape of corporations. The great increase of wealth and in many cases the transfer of wealth is from private owner-

ship to corporate ownership. The importance of regulating and taxing these corporations will therefore be readily seen, because as we have to get our revenue out of the wealth of the country it is quite obvious that more and more of that revenue must come from corporations and less and less from private ownership. If the Province can adjust its system of taxation to take its revenue out of the corporations and apart from any municipal machinery, they will have quite enough to carry them in the future, and, indeed, often possibly have more than enough. At the same time, it may be necessary to allow, if you can adopt an adequate system, the municipalities to take their revenue out of the same corporations to a certain extent. Here in Toronto you have to take care of your streets, provide water, light and police and fire protection and all that sort of thing for the benefit of the corporations as well as for the benefit of private individuals. Obviously, then, the corporations are as much interested in these matters as any of the private individuals and should pay for them on the same basis as private individuals. But while the whole business of a private individual, say a storekeeper on Yonge street, may be centered in Toronto, that of the Simpson and Eaton Companies have come to be of Provincial interest. Their revenue is not derived entirely from Toronto as the income of the ordinary retail shop-keeper is; it is derived from the whole of Canada. So with the railway companies, so with the banks, the trust companies, the insurance companies, though their head offices may be here, they are not city institutions; they are provincial institutions, indeed some of them are world institutions. These companies should be made to pay taxes for the services they obtain in Toronto and that would be on the basis of their buildings but not on the basis of their income, which might be enormously beyond the valuation of their buildings. And so you can draw the line on what you can tax them locally and the line on which the Province can tax the same interests. If, for instance, an insurance company is able to conduct a very large business in a very small building, then its interest is chiefly over the Province, but Toronto has to contribute to the Province as well as any place outside of it. That line of distinction will apply to practically all corporations.

You ask on what basis then can the Province come in. I have not time to go into all the rival systems, but I can say this—and I recommend you to look up the authorities for it—if there is one thing on which practically all experts are agreed it is that the old miscellaneous general property tax is not applicable to corporations. Michigan has made a great effort to re-establish that system for its railroads, and it is most interesting to show how they have illustrated the absolute futility of the system. They spent \$60,000 in getting an assessment of the railroad property of the State and when they got it it was not worth a row of beans. In some cases the corporations in the State are earning a great deal, and in others not very much. Prof. Adams, in order to try and get over this, prepared what he called a franchise valuation, what they are able to pay above what

their physical assessment would seem to indicate that they can pay. When you ask how the actual basis of taxation is made up, they say, "We will take all things into consideration," which means it is a general guess on their part, because the railroads themselves cannot tell what they are worth. There is no market for railways, no basis by which you can bring them to the ordinary test of a bag of oats. You have to look at their revenue, their earnings; and so they try to recapitalize the earning capacity and try to get at it that way, but it results in their frankly saying when the company objects and asks how the assessment is made up: "We are not going to tell you how we make it up; that is your assessment." When that involves one hundred million dollars a guess of eight or ten millions on one side or the other would be easy, and the opportunity to influence a man's guess is very great. (Laughter.)

You see, therefore, you have no security. It is not fair to the assessors, it is not fair to the railways, that such a system should go on. Other States make the assessment on the quotations of stock and bonds of the railroad companies. But the stock and bonds are for the whole system and the system may have only a small fraction in this State or that State. To say in regard to some of the Chicago roads that run in the northern peninsula for two or three months in the year to carry out timber and minerals, "Your system is bonded for so much, we will tax that portion of the mileage in Michigan in proportion to the mileage in the other States," is ridiculous absolutely, because a mile on the line between say Chicago and St. Paul is worth one hundred times more than a mile in the northern peninsula of Michigan, and merely to do it on the mileage business is absolutely absurd and crude. And even if you have the railroad entirely in your State you cannot figure out on the basis of what the stock is selling for, what it is worth, as you all know. (Laughter.) The greater part of the stock in many of these railroads is not used for revenue at all but simply for the purpose of getting control, and it will be worth a thousand dollars a share one day and fifty cents the next, according as you are getting or have just got control. These points knock any stock quotations out of line altogether. Then as regards bonds, they are more definite, but they come and go with the manipulation of the road, and it may be convenient if you are working on that basis to freeze out a bondholder or get receiverships appointed for any purpose, whether from within and without, or between within or without, or by a conspiracy on any road to sell a particular road or branch of a road. All these extraneous conditions can destroy the quotation of stock and bonds as a basis of the valuation of a railroad.

There are other schemes, but what they are all struggling for under whatever name is to ascertain what the road can earn, what the company can earn, what the bank or the telephone company is making. You find as you pass from one organization to another that some companies, like railroads, require an immense amount of physical property, and other

companies, like telephone and telegraph companies, require less, and that other companies, like the express companies, require practically nothing, because they use the property of the railroads. So it comes down to in almost every case that what the road is worth is what its revenue will produce, and a capitalization of that will in the long run give the real value of the stock and bonds, and the system and everything else, and if it is not worth anything it is sold for old iron or to the next combination using it.

Can we find out what they earn? There comes the great difference between corporations and private property. It is the hardest thing, as you all know, for an assessor to tell what a man is earning unless he is a college professor or some Government official, and even they are exempt. If you have got a man whose salary must appear in some public account the assessor has an easy thing, although they may be making something above that, but a lawyer, a doctor, and a person who is in the marrying business or anything of that sort, these people can have an income which nobody can get at. Many a lawyer does not keep books—(laughter)—and many a doctor does not figure his income out minutely, and he can honestly go before the assessor and say he does not know what his income is, because he does not want to know—(laughter)—and he can escape, therefore. Now a great many people have to know what their income is. A corporation, from the very nature of it, has to keep books, otherwise it could not get on at all, and the accounts have got to be kept pretty strictly, and the great scientific development of bookkeeping is of course in connection with corporations. The bigger they are the more absolutely you can follow it. Consequently, as expert after expert in the United States tell us—"Put the tax on gross earnings and we will defy any corporation to doctor the thing." You can doctor anything else, but you cannot doctor their simple gross earnings. Net earnings you can doctor. I am free to admit that net revenue in many corporations is by long odds the best test. There is no doubt about that, but there is this other point to be kept in mind, we have got to be comparatively fair as between a private individual and a corporation. Now, no private individual escapes taxation by going to the City Council and proving that he has not made money during the last year. The Council says, "You have so much property, it might have sold for so much, whether you made money out of it or not." So it should be with the corporation. A corporation that may be able to prove that it did not make any money, that it did not have any net revenue, cannot be allowed to get off with that, for if you put your tax on net revenue a great many corporations will have no revenue, and some of those who now have revenue will soon have none at all. There are a great many ways of manipulating that.

I know of a company where a few individuals got command of the stock. They were the president, vice-president, secretary, treasurer, and so on. They voted themselves all into official positions and then they pro-

ceeded to raise their salaries from something like a thousand to eight and nine thousand, and the head from seven to fifteen thousand, and the result was that after raising revenue for themselves there was no net revenue for the company. Companies have various ways, too, of merely setting aside surpluses to build up their capital, of setting aside part of their earnings to extend their business and take their revenue in the shape of accruing value in their stock, and when that gets to a sufficient amount sell the stock. So that you see a tax on net revenue won't do unless you adopt a very elaborate system of inquisitorial investigation to determine when the net revenue is legitimate and when it is not. Hence we are driven back to gross revenue, and then the question comes as to whether that will be relatively fair as between corporations. We can determine upon fairly well a rate that will apply to specific corporations. You can strike a certain rate for railways, another for banks, another for telegraph and telephone companies, and so on, but you cannot strike a rate and proportion that will apply to both railways and banks. Here's where the work of a taxation commission comes in, for while you do not necessarily strike the same rate for these different companies, you do strike the same basis of taxation on gross revenue for the banks as such, for railway companies as such. I have done some figuring on our own lines which I have compared with some details in the United States. We got information with reference to the Grand Trunk and the C.P.R. and the Canadian Northern, and the Canada Southern and other Canadian roads whose lines run in the United States from the officers of the Interstate Railway Commission down in Washington, and from the commissions of several of these States through which the roads run, that you could not find anywhere in Canada, simply because they are required under the laws of those States to furnish not only the details for their own State, but details for the whole system. If we were to introduce the system of taxation of gross revenue we would not be introducing anything that was new for any of our big railroads, because they are used to all that, already they hand in these returns year after year to several States, such as Minnesota and Michigan, into and out of which they run. Thus, with reference to the possibility of applying it to our corporations, it is really simple with reference to railways.

The constitutional question, however, comes in here. It is a big one in the United States—how far taxation can be taken on certain lines without running foul of the interstate commerce law. To a certain extent we ought to be if we are not face to face with it in Canada, although our constitution is simpler in this respect. Direct taxation is admissible for both the Dominion and the Province—the Dominion can raise revenue by any system of taxation, the Province by direct taxation only. How far can a Province like Ontario tax a system like the C.P.R. without it being ruled out of court on the ground that it is interfering with the commerce of Canada as a whole and being declared to be *ultra vires*? The odd fact

in the United States is that the least interference with interstate commerce is ruled out and the most absurd interference justified. All the recent development of taxation in the United States, on railways in particular, because they are interstate affairs par excellence, has been on the basis of gross revenue, and while the ordinary tax for State purposes may be on the basis of a general property tax, or a stock and bond tax, or franchise tax, nearly all the recent ones are on the gross or earnings tax, so that they have managed to settle the constitutional question there. But the point is, to avoid difficulties, we should have to face that constitutional difficulty. It would not be fair for one Province to take the whole of the C.P.R. system and say, "We shall take that proportion as a basis of assessment which corresponds to our mileage of the system." If for instance in the case of the Grand Trunk Pacific or some other line that might be taxed running through the wilderness and carrying produce from the North-West to the seaboard and doing very little in the Province, it were to be taxed on that basis, it would mean that Ontario and Quebec would be taking a tax out of what was really North-West traffic and not its own, and that would be just as bad to a certain extent at any rate, as the system I mentioned of taxing the total assessment of the road simply on the mileage that it ran into the northern peninsula of Michigan. That would not be fair, and the main point must be—What is fair between the Provinces? It would not be wise either for Ontario, because Ontario would be liable to suffer more than most of the Provinces in that respect.

Now, obviously, the best system would be for the central Government at Ottawa to undertake the mechanical adjustment and determination of the basis of taxation and the revenue, gross, net, or any other basis, to the separate Provinces, but not itself do the taxing. That is it could pass a general law with reference to this and say, "This is the portion for one Province and that for the other." Because if left to the Provinces Quebec might adopt one system and Ontario another, which might result in either double taxation or insufficient taxation. I believe that Ontario has the privilege of setting an example to the others which will be followed, and the rational basis would be to take the legitimate proportion of the actual business done in Ontario. That system is already at work in Minnesota, and there works most admirably. It works in this way quite simply: Every railroad company must know in its books the earnings for every shipment. If a shipment of a carload or less starts from Toronto and goes to Winnipeg they put that down in their books. If it is to be classified afterwards for taxation purposes it is merely clerical work. If the greater part of the mileage is in Ontario, obviously the greater part of the tax should go to Ontario; if the greater part of it is in some other Province, the greater part of the tax should go to them. But it would not do to take the total earnings of the road and divide them on a mileage basis, because the greater part of them might have nothing to do with this Province. In the way I suggest you have a basis

that will satisfy the constitutional question—there would be no violation of the interprovincial rights, because in dividing it on that basis you could not possibly overlap into other provinces.

Notwithstanding, I think the best system, if it could be carried out, would be for the Dominion Government to regulate them all and even collect the revenue and distribute it as it does with the Customs tax, and then there would be no possible jockeying by one Province against another as there is unfortunately in the United States, one State working against another.

I have been using these illustrations in regard to railways because I am more familiar with the details of them, but *pari passu* adjusting your system to the other lines, banks and other corporations, the normal basis of taxation is revenue, and the simplest and easiest method of getting at it is gross revenue. You have to take simply an average between years and find out what is the normal proportion in well managed companies for a period of years between operating expenses and gross revenue, and if you get a normal basis there it does not matter whether you tax the net revenue or levy it on the gross revenue.

Now, there is just one final point, and that is, as to the coming and going of revenue. One of the chief arguments in Michigan and Wisconsin was this—the State requires practically the same amount of revenue each year, good year and bad year, and if the railroads are taxed on their earnings when the bad year comes their taxes come down, but the revenue required by the State is the same, and the difference has to be made up by the common people. There is, of course, something in that, but it is really a problem of adjustment when you come to look at it, because the valuation of city property and income of other sorts vary in the same way, therefore it is not so new. Expert financing, normal financing, provides for good years and bad years and if Governments do not do that it is bad financing. In Ontario, as I have said, we are in the position of receiving practically all our revenue from two sources, the Dominion subsidy and the Crown Lands, and that is an elastic revenue, and there is a basis to cover the difference without coming any more hardly on the individual. Moreover, as we have got that ideal position in which we do not tax anybody directly in Ontario, we are free from that objection as regards the individual in the municipalities. So that on all grounds we are in an ideal position in Ontario to adopt a good system, and unless we look forward to a considerable time we are in danger of finding ourselves tied up to something that is utterly inadequate, and finding that the only way to get out of it is to commit suicide. A man may tie up his hand and foot, but if he has got a jag in the heart and something torn in his lungs, he cannot exist—to stop breathing means to die—and a revenue that has to be received year in and year out cannot undertake to adjust itself to a totally new system all at once. What I want to impress upon you, there-

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*WHY THE JAPANESE FIGHT AS THEY DO.*

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fore, is the necessity for our getting started on right lines with reference to the future development of the country and the future development of capital. (Applause.)

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