

charges being less in proportion to turnover, the Commission's view is that such greater profits are a proper reward for greater business efficiency. It is where the greater profits are the result of an appreciably higher than average percentage of gross profit to turnover, or where a whole trade is making too high net profits by virtue of too high gross profit on turnover, that the question of undue profits arises substantially. There can be no doubt that this view is fundamentally sound."

#### THE WHOLESALE TRADE IN CLOTHING.

The clothing investigations were continued by exhaustive inquiries into the wholesale trading, and a comprehensive report was submitted to the Hon. Minister of Industries and Commerce in April last. It has been decided that the main features of this report—which has not received publication in any other form—should appear in the Department's annual report. The information is to some extent out of date inasmuch as the figures relate to periods ended early in 1920, and further in that they reveal increasing profits which have been seriously offset by losses in subsequent trading. In publishing figures showing the profits of these firms the Department does not wish to convey the impression that a general verdict of profiteering is justifiable. It is true that the profits are shown to have increased materially between 1914 and 1919, but, having regard to the principle of replacement value and the subsequent disorganization and depression of the market, the Department does not consider that the profits were as a whole unreasonable. The principal features of the report on the financial affairs of firms engaged in the wholesale trade in soft-goods are given below, and it should be noted that the compilation of the report was completed on the 22nd February, 1921.

#### THE SYSTEM OF DISTRIBUTION.

It is sometimes said that the cost of manufacture is not so great as the cost of distribution. Much, depends, however, upon the efficiency of the distributors; but in the wholesale trade, as in retail dealing, there is a constant tendency towards unnecessary multiplication of the number of traders and agents seeking to do business in these commodities.

During the war period it was abundantly evident that, while supplies were decreasing, the number of "middlemen" was increasing. This in itself must tend to increase the cost of distribution. Moreover, the constant increase in values and the shortage of supplies caused a regrettable amount of buying and selling between middlemen before the goods finally passed into the hands of the retailers and consumers. Instances might be quoted where goods have passed through a number of hands, with the result that the final retail prices were inflated beyond reason. Nevertheless, none of the traders handling these goods could be accused of profiteering.

There is considerable justification for the following statement by Professor Gide, a well-known authority on the economics of production and distribution: "The multiplication of middlemen reduces the amount of business done by each, and ends in burdening every article with an enormous proportion of general cost, preventing the natural fall in prices ever being felt in retail commerce. The middlemen, therefore, tend to become veritable parasites. We are bound to ask whether the services rendered by these intermediaries are not nowadays too dearly paid for."

It is, of course, but fair to admit that the merchant performs a service for which he is entitled to a reward. But the right is reserved to inquire, "What service does he render, and what should be the reward?" The advantages which the public derive from the existence of merchants have been well summarized by Gide under the following four headings:—

- "(1.) They act as intermediaries between producer and consumer, saving each the time he would otherwise lose in looking for the other.
- "(2.) They buy goods wholesale from the producer and sell them retail, saving the trouble which would inevitably result if the quantity offered by the producer and the quantity demanded by the consumer did not coincide.
- "(3.) They keep goods in stock, and thus obviate the difficulties which would arise if the moment when the producer wished to sell and the moment when the consumer wished to buy did not coincide.
- "(4.) They prepare goods for consumption by sorting them (corn), cleaning them (coffee), mixing them (wine), cutting them (cloth), &c."

Apparently, an increasing business is done in New Zealand in clothing made up in factories throughout the country, the material employed being either imported from abroad or manufactured by the local woollen-mills. As has been pointed out in the report on the operations of the woollen companies, several firms have combined the business of woollen-milling with that of clothing-manufacturing and dealing wholesale in soft-goods. Other firms, again, do business as wholesale soft-goods warehousemen and also carry on the manufacture of clothing in subsidiary factories. For these reasons the figures given hereafter do not relate wholly and strictly to the wholesale soft-goods trade. In a relatively small degree the figures must be considered as covering the clothing-manufacturing industry.

The statement just made may tend to convey the impression that the subjoined particulars are based on defective or qualified data. Such an impression would be incorrect, for the reason that by far the greater portion of the business done by firms whose operations are covered in this report is purely the importation and wholesale distribution of foreign-made clothing and clothing-materials.

Early in the investigation of the accounts of these wholesale firms it was apparent that comparisons could not justly be made between general soft-goods warehouses and those smaller firms whose operations are confined to dealing in woollen and cotton piece-goods suitable to the requirements of "order" tailors. This latter class of firm does a special trade subject to special conditions and risks.