

For purposes of comparison with gross capital (which includes loan capital) the profits were adjusted to cover interest paid on such borrowed capital. These adjustments were, of course, not made when it was desired to ascertain the relation of *net profit* to *sales*. The percentage of absolute net profit on gross capital was in 1920 more than three times greater than in 1914. It is abundantly evident from the foregoing figures that the "tweed" firms took, during the war period, profits on a far more liberal scale than were taken by general soft-goods warehouses.

While particulars for the trading-years 1914, 1919, and 1920 only have been tabulated in this report, information has been collected from the firms in respect of the years 1915, 1916, 1917, and 1918. An inspection of all such information shows that the total net profits, after payment of income-tax, for the whole period were as under :—

							Total Absolute Net Profits.
							£
Trading-year 1914	10,688
" 1915	13,257
" 1916	15,271
" 1917	19,131
" 1918	20,720
" 1919	29,071
" 1920	52,116
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Total, 1914–20 (inclusive)	<u>£160,254</u>

The total absolute net profits for the seven years in question were therefore approximately equal to the total gross capital (£161,653) employed in these businesses at the end of the trading-year 1920.

The total profit for the seven years is £85,438 in excess of the amount which would have been taken had no more than the 1914 amount been taken in each of the succeeding years. This "excess" profit is approximately two and a quarter times the "book" value of stock on hand at the end of the trading-year 1919–20 (£38,000). A considerable portion of this profit has during past years been accumulated in the respective businesses. On the other hand, however, the amounts drawn by proprietors or shareholders increased substantially as compared with 1914. The total amounts paid in dividends or drawn by proprietors for the years 1914–20 were as follows :—

							Drawings and Dividends.
							£
Trading-year 1914	8,686
" 1915	10,969
" 1916	13,185
" 1917	12,221
" 1918	15,958
" 1919	19,474
" 1920	28,116
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Total, 1914–20 (inclusive)	<u>£108,609</u>

The contention that the profit taken during the war period—a period of rising prices—has been necessary to ensure the stability of the firms if and when prices fall is to a large extent negated by the very substantial extent to which dividends and drawings were increased. If traders were in fact making no more than reasonable provision for a falling market, the profits taken should surely have been allowed to remain in the respective businesses. As indicated above, this has not been done. Unless values of stocks of goods held at the end of the trading-year 1920 were written down very substantially, and a reserve thus created, it seems likely that the fall in values of woollen goods will involve the firms in considerable loss. A superficial examination of stock-values as at the end of the trading-year 1920, however, does not indicate that any exceptionally heavy writing-down has in fact taken place; and it would certainly appear that firms are in the main relying on the reserves—after allowing for the heavy drawings and dividends—which have been accumulated in recent years to carry them through any period of unprofitable trading.

It should not be understood from the foregoing remarks that the Department considers that the net profits taken in 1914 should have been regarded as sufficient in succeeding years, or that the drawings in the earlier year should not have been exceeded in the years 1915–20. The question for decision is whether or not the increase which has taken place has been *more* than sufficient. The increase in net profits has, of course, been offset to some extent by the increased income-tax paid by the firms; but, even allowing for this, the increase in profits has been substantial.

The present state of the market—for goods such as are handled by these "tweed" firms—is such that traders are undoubtedly experiencing considerable difficulty in finding buyers at prices which will return anything approaching the pre-war rate of gross profit. In fact, many instances may be had to show that traders are being forced to sell at less than cost price. The total loss to traders which will result from this state of affairs cannot be even roughly estimated. The extent of the fall in values, the stocks held, and the quantities of goods on order, the supply and time of delivery of goods, the state of the financial market from time to time, and the effective demand of the consuming public will all have their effect in determining at what profit (or loss) traders will carry on operations