

during the period of depression. The action of the traders in withdrawing large amounts by way of dividends and personal drawings gives the impression that they did not anticipate a loss during the subsequent year or two equal in amount to the substantial profits made between 1914 and 1920.

The figures in respect of these "tweed" firms were such that in July last the attention of the Department was drawn by its advisory accountant to the high rates of profit being taken by these traders. Further investigations were made, and the representations of traders were reported to the Board of Trade. In view of all the facts the Board decided to take legal action under section 32 of the Board of Trade Act, and nine informations were laid in respect of sales of imported and locally manufactured woollen suiting-materials.

The hearing of the cases against these firms was delayed until the Full Court gave its decision as to whether or not traders were, under the provisions of section 32 of the Act, entitled to base their selling-prices upon replacement values. As is well known, the Court decided that the cost of replacement is a factor which must be considered in determining whether or not selling-prices are unreasonably high, and in view of this decision it became necessary that the Board should take into consideration the replacement cost rather than the invoice or actual landed cost of the materials which formed the basis of the charges against the four firms mentioned. Satisfactory information as to the replacement values of the materials sold by two of the firms was furnished to the Board and to the Crown Prosecutor, with the result that the charges against these two firms were withdrawn when the cases came before the Magistrate in November last.

In respect of the five charges relative to New-Zealand-made suitings (three charges against a limited company and two charges against a private partnership) the Magistrate's decision supported the Board's view that the profit taken, after allowing for the slight difference between invoice cost and replacement value at the date of sale, was excessive, and the maximum fines provided for under the Act were imposed in respect of each charge.

While these prosecutions no doubt had a beneficial effect towards deterring traders from charging excessively high prices, market conditions in the tweed trade are now such that there appears to be little need for any repressive action.

#### GENERAL SUMMARY AND CONCLUSIONS.

Sales made upon the basis of replacement values during a period when values were rising rapidly must of necessity have returned high rates of gross (and net) profits, while the inflation of values has been much greater than the increase in overhead expenses. It is therefore not surprising that the rate of gross profit on turnover advanced considerably, while the rate of overhead expenses showed a material decline.

It is clear, too, that while the "tweed" firms were in a position (through an undoubted shortage of supplies) to sell on the basis of replacement values, and so to take a much increased profit, the general soft-goods warehouses, over the average of their trading transactions, did not follow that course. The Board is unable to suggest whether the general warehouses were content to fix their selling-prices more upon the basis of actual costs because of their stronger financial position, or whether they made a virtue of necessity by reason of the force of competition. The fact remains that the general warehouses did not apparently exceed greatly their pre-war average rate of gross profit, though their absolute profits were, of course, increased considerably.

It is interesting to compare the figures obtained in this Department's investigations with those of the report on the wholesale soft-goods trade made in December last by the Victorian Fair-profits Commission, which found that the general wholesale soft-goods warehousemen of Victoria had increased their rate of gross profit on turnover from 19·7 per cent. in 1916 to 26·1 per cent. in 1920. The rate of net profit (after allowing the deduction of war-time-profit tax, but *not* the deduction of income-tax) on turnover increased from 6 per cent. in 1916 to 11 per cent. in 1920. In Victoria the overhead expenses increased both in absolute amount and relatively to turnover. The rate of overhead on turnover was 13·7 per cent. in 1916, and 15·1 per cent. in 1920. In New Zealand the rate *declined* from 15·54 per cent. in 1914 to 12·63 per cent. in 1920.

In New Zealand the increase in the rate of net profit was due primarily to the decline in the rate of overhead on turnover; in Victoria it was due entirely to the increase in the rate of gross profit.

The rate of gross profit on turnover in New Zealand in 1920 was 21·82 per cent.; in Victoria it was 26·1 per cent. It should be noted, however, that the Victorian figures are for the trading-year ended (generally) in August, 1920, while the New Zealand trading-year ended in January, 1920.

The Fair-profits Commission commented adversely upon the fact that the rate of net profit on capital in 1920 was 28 per cent., as against only 14 per cent. in 1916. The Commission, however, generally disallowed the deduction of income-tax from the profit, and this is doubtless an important factor in the matter. The New Zealand figures (which have been computed on the basis of *allowing* the deduction of income-tax from the net profit) show an increase in the percentage rate of net profit to gross capital from 6·11 per cent. in 1914 to 11·72 per cent. in 1920.

From the foregoing it will be recognized that while the Fair-profits Commission of Victoria came to the conclusion that some form of restrictive control of prices and profits was necessary, there was no similar ground for such action in New Zealand. Moreover, the Commission in arriving at its decision took no cognisance of the working of the principle of selling on replacement values, and even when the report was published (8th December, 1920) apparently ridiculed the suggestion that the "still-deferred evil day" would finally arrive.

So far as the tweed trade is concerned, although it is difficult to estimate the probable profit-position of these firms during the next few years, the Department believes that the profits taken during the period 1914-20 will prove to be more than sufficient to cover losses which may be made on a