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DEPARTMENT OF INDUSTRIES AND COMMERCE  
(BOARD OF TRADE)

(FOURTH ANNUAL REPORT OF THE).

*Presented to both Houses of the General Assembly by Command of His Excellency.*

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TABLE OF CONTENTS.

	PAGE		PAGE
Introductory .. .. .	1	Prevention of Profiteering .. .. .	12
Control of Building-materials .. .. .	3	Clothing Investigations .. .. .	15
The Wheat Trade .. .. .	8	Miscellaneous Investigations and Measures of Control	28
Sugar-supplies .. .. .	10	New Zealand Industries.. .. .	27

INTRODUCTORY.

THE subjoined report deals with the operations of the Department of Industries and Commerce since the last report was placed before Parliament in the session of 1919, and covers a period of two years—July, 1919, to 30th June, 1921.

The period under review has been a busy one, and the Department's staff has had to attend to a constantly increasing amount of business. The supervision for several months of building operations throughout the Dominion, and the control of essential supplies, entailed an enormous amount of work, notwithstanding the fact that the staff endeavoured to co-operate as far as possible with commercial men and work with a minimum of friction.

Any idea that the cessation of war would mean a decrease in the Department's activities has proved to be quite erroneous. Indeed, increasing demands continue to be made upon its services. The Department has been called upon to deal with many complex problems, involving subjects of trade, finance, and industry, and has had to effect difficult readjustments of the commercial situation to ensure fairness to all parties. For the investigation and understanding of these problems—not to mention their adequate solution—a great deal of concentrated effort has been necessary.

THE BOARD OF TRADE ACT, 1919.

The statutory functions of the Board are—(a) To obtain by means of investigations and judicial inquiries information as to the industries of New Zealand; (b) to publish, in such manner as the Board thinks fit, all such information as the Board deems of advantage to the public; (c) to procure, by means of regulations under the Act, the due control, maintenance, and development of such industries.

The Board of Trade has the powers and authorities of an inferior Court of justice. The Board may summon witnesses and hear evidence on oath; and wilful failure to comply with a summons or to give evidence is deemed contempt of an inferior Court of justice. The provisions of sections 3 to 22, dealing with Board of Trade inquiries, will undoubtedly prove of great value. Comprehensive investigations such as that made into the coal-mining industry properly come within the scope of these sections.

Under section 23 there are provisions for investigations on the lines of scientific economic research. Authority is given to demand and inspect balance-sheets, accounts, books, and documents, and to abstract particulars; and considerable use has been made of this provision. For example, the Board has published a report on the financial operations of the woollen-manufacturing companies in the Dominion, and a summary of the assets and profits of the firms has been tabulated. There is no doubt that much valuable information has been obtained under this section.

Sections 24 and 25 confer upon the Board the right of publication. The fact that publicity is a most effective deterrent to unfair business practices is too well known to be disputed. In America publicity has been liberally used by the Federal Trade Commission and similar organizations, and it is said to have been more effective than legal proceedings. The Department proposes to make more use of this section of the Act in the future. Such publications could be of use to business people as well as to the general public, because the need for business statistics is stressed by many authorities.

Section 26 is an important section—one of the most comprehensive in the Act—providing the Board with wide powers. During the war and post-war difficulties other provisions of the Act have received more attention, but section 26 lays the basis for a constructive and positive policy. Under this section provision can be made for the suppression of unfair methods of competition, for the control of monopolies, and for an anti-dumping campaign. It is noteworthy that a recent measure in New South Wales—the Profiteering Prevention Act, 1920—definitely provides for the suppression of certain specified unfair methods of competition.

The main function of the Department of Industries and Commerce is to assist in the development of industries and commerce along right lines, avoiding the evils that have attended industrial development in other countries. The Department in its administration of the powers conferred by this Act will endeavour to secure the co-operation of the business community, and will secure this co-operation by constant insistence upon the observance of appropriate standards of commercial morality. It will constantly keep before the minds of the business community the ideal that the reward the business community receives from the public should be appropriate to the services it renders the public. In the enforcement of these standards the Department will seek to understand and make allowance for the difficulties of particular problems; it will endeavour to see both sides in every case; it will endeavour to protect men in the furtherance of legitimate self-interest by reasonable and fair methods, and at the same time strive to keep the channels of competition free and open to all, so that the man with the small capital may engage in business in competition with powerful rivals, assured that he may operate his business in competition with those rivals free from harassment, and be given a fair opportunity to work out his business problems with such efficiency, industry, and intelligence as he may possess.

#### SUPPRESSION OF PROFITEERING.

Although section 32 of the Act made it an offence to take unreasonably high profits on the sale of goods, there was for some time doubt as to what constituted an "unreasonable" profit. The "Big Ben" clock cases were taken as tests, and the question of replacement value was fully dealt with. The Magistrate dismissed the cases, on the grounds that replacement value must be taken into consideration in fixing prices. On a rising market, however, replacement value negatives the application of section 32 in so far as it refers to most imported goods; and as such constitute a large element in New Zealand trade the Crown appealed against the Magistrate's decision. The appeal case was heard at Wellington, where the Magistrate's decision was upheld, the Judges declaring that in the fixing of prices allowance could reasonably be made for replacement values. At the same time another appeal, in which a Wellington grocer had been fined £100, was considered, and the decision of the Magistrate was upheld. It was laid down by the Judges that the customary or modal profit resulting from the prevailing market price was a good test of reasonableness. The next big cases were prosecutions in regard to New Zealand tweeds on which high profits had been taken; and the cases went in favour of the Crown—five maximum fines (three of £1,000 each and two of £200 each) were inflicted. Since then there have been other successful prosecutions taken in various parts of the Dominion. There is no doubt that these have had a restraining effect on the prices of locally made goods. In regard to imported goods, however, the replacement value introduces serious complications; but now the market is inclined to be dull, and the replacement-value practice is working directly in the public interest.

#### PROBLEMS OF PUBLIC REGULATION AND PUBLIC CONTROL.

The problems of monopoly practices and unfair competition are among the most intricate and far-reaching subject with which the Department has to deal. In order to be well armed with information on these subjects the Department has made a special study of developments in other parts of the world, and has instituted local inquiries with a view to ascertaining how far monopoly practices are in vogue in the Dominion.

In some quarters the Department is faced with an appeal for the relaxation of all State control, so that business competition may be unrestricted. Among the majority of business men there is a genuine conviction that the normal working of business competition is the best remedy for our post-war difficulties. What these people frequently overlook is the fact that competition seldom, if ever,

works freely, and Government interference is one of the minor conditions limiting it. In fact, business men themselves are showing a very prevalent tendency to combine and agree for the purpose of eliminating many of the important features of competition.

The Department has considered this matter from time to time, and it cannot agree that the total removal of Government restrictions will be either welcome or beneficial. The experiences of the war have shown many opportunities for co-operative effort, especially in relation to the organization and development of the secondary industries of the Dominion. Moreover, the Department cannot subscribe to the view that unrestricted competition always brings the best condition of well-being to a community. Theoretically, it should do so, but the teaching of economic history is that in practice the tendency is for competitive business either to develop into competitive fraud or to merge into monopoly.

The likelihood that unrestricted competition in New Zealand will merge into monopolies is increased by the fact that monopoly tendencies are already widespread, and that our isolation may facilitate the working of combines and price agreements.

The industrial system in vogue in Britain is often said to be an individualistic one; but even there monopoly practices are, in fact, quite common. Consider, for example, the following extract from "Reconstruction Problems," No. 31, by the British Ministry of Reconstruction:—

"A study of the actual world of business in 1919 shows that conditions have materially changed since the competitive theory was framed. In the business world of to-day there are, in every important branch of industry, arrangements of one kind or another between supposedly rival firms for restricting competition and controlling prices. There are also in many industries great amalgamations of formerly competitive concerns which dominate the market. In these circumstances the combine or associated firms can put obstacles in the way of any new firm obtaining a footing in the market, and can restrain those already in the trade from apportioning out more than is good for the rest. That is to say, they can prevent that competition between sellers which was an essential part of the competitive theory, and where that is so it is evident that competition can no longer be relied upon to ensure that prices and profits are 'just about right.' They can be fixed by the association or combine at a level which is thought 'reasonable,' and be held at that level in defiance of any 'law of demand and supply.'"

The foregoing is of special interest, as it refers to a great industrial country that is supposed to be particularly free from combines and agreements in restraint of competition.

#### COST OF LIVING.

This problem has given the Department a great deal of concern during the past two years. In the effort to deal with the difficulties which arose from time to time the Department was guided by the best available advice, and endeavoured to act fairly within the limits of its statutory powers.

It has been widely overlooked that profiteering was only one of the minor conditions producing the high price-level that has prevailed for the past few years. Many critics were obviously unaware of the complexity of the issues involved, and tended to overlook the fact that the activities of the Department had to be conducted strictly in accordance with the statutory provisions relating thereto. Moreover, in practice the detection and prevention of profiteering has proved to be a most difficult task. The particulars of a later chapter—dealing with the tribunals' investigations—will show that the majority of complaints did not disclose profiteering. In many instances the prices were high; but this state of affairs was frequently due to conditions beyond the vendors' control. Often it appeared that high prices were due partly to the inefficiency of the distributing-system rather than to the rapacity of individual traders, as in many instances it was clearly established that a good deal of unnecessary handling and dealing by middlemen did occur in connection with many important commodities, with the result that the final prices were considerably inflated, while none of the dealers was actually guilty of profiteering. The complaints submitted to the Department and its tribunals are, of course, only a sample, and may not be fully representative of prevailing conditions.

#### CONTROL OF BUILDING-MATERIALS.

ONE of the greatest difficulties of the Dominion during and subsequent to the war has been to cope with the demand for materials for building-construction. Not only was there an acute shortage of dwellings, but it was also necessary to provide for development works connected with industries and commerce. The shortage of materials was so serious that the prices tended to be considerably inflated, and if this inflation had been allowed to proceed uninterruptedly it would have been a serious hardship to those requiring essential buildings. Therefore some measure of official control of the supplies of building-materials was imperative, and even in 1921 the stage has not been reached when this control can be altogether relaxed. The following is a summary of the Board's work connected with the supplies of building-materials during the two years ended 31st March, 1921:—

#### TIMBER-SUPPLIES.

Although the Board had previously conducted inquiries into our timber resources and the measures necessary to meet the demand for timber of various classes in New Zealand, it was not until the 6th August, 1918, that any regulations were issued. These regulations provided for the control of the export trade, the fixation of a price for timber for local use, and the gradual diminution of export to prevent the depletion of our native forests. Particulars of the Board's inquiries,

especially in regard to white-pine, are contained in the second annual report, while the third annual report gives a further outline of the general policy that was developed by the Government in dealing with timber-supplies.

On the Government deciding upon a policy of restricting trade in timber to ensure that export should be limited to the quantity produced in excess of the Dominion's requirements, and to give some measure of protection to our native forests, the Board of Trade was entrusted with the carrying-out of the regulations gazetted on the 6th August, 1918, and has worked in this connection under the control of the Hon. Sir Francis Bell, Commissioner of State Forests.

All difficulties in securing supplies by users of white-pine were first attended to and adjusted, and later the absolute quantity of rimu that could be exported was fixed on a decreasing sliding scale aimed at terminating the export of this class of timber in ten years. In regard to kauri the absolute quantity that could be exported was fixed on a sliding scale aimed at reducing the export to nil in six years and a half. In respect to totara the absolute prohibition of export has been enforced; and in regard to matai at first only the classes not required in the Dominion were allowed to be exported, and now the export of matai is totally prohibited. With regard to white-pine, export is allowed of the quantity produced in excess of the requirements of the New Zealand market.

Amending regulations relating to the export of timber were published in the *New Zealand Gazette* of the 19th August, 1919, when it was laid down:—

“Notwithstanding anything to the contrary in the Timber Regulations of the 6th August, 1918, as amended on the 18th day of February, 1919, the Board of Trade shall not, without the consent of the Minister in charge of the said regulations, issue permits for the export of any rimu, kauri, or beech timber produced in New Zealand during the several periods mentioned in the schedule hereto in excess of the quantities severally specified in that schedule for the said periods.

“SCHEDULE.

“Part I.—Maximum Quantity of Rimu for which Permits to export may be granted.

“Periods—

1st July, 1919, to 31st March, 1920	..	..	..	..	22,000,000 ft.
1st April, 1920, to 31st March, 1921	..	..	..	..	27,000,000 ft.
1st April, 1921, to 31st March, 1922	..	..	..	..	24,000,000 ft.

“Part II.—Maximum Quantity of Kauri for which Permits to export may be granted.

“Periods—

1st October, 1919, to 31st March, 1920	..	..	..	..	5,000,000 ft.
1st April, 1920, to 31st March, 1921	..	..	..	..	8,500,000 ft.
1st April, 1921, to 31st March, 1922	..	..	..	..	7,000,000 ft.

“Part III.—Maximum Quantity of Beech for which Permits to export may be granted.

“Period—

1st July, 1919, to 31st March, 1920	..	..	..	..	2,200,000 ft.”
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The prices of timber were fixed considerably below the export value, and this intensified the demand for building-timber at the prices ruling in New Zealand. Consequently the Board had to determine the respective advantages and disadvantages of export and local trade, and had to collect and compile statistics dealing with the production of the Dominion in order that it might divert to the local market as much timber as it was reasonable to ask the millers to supply.

The statistics of timber-production for the year ended 31st March, 1918, were published in the third annual report of the Board of Trade. They were the first reliable statistics of our timber-supplies, and therefore any comparison with pre-war production is out of the question. Following is a return of the various classes of timber produced in New Zealand during the years ended 31st March, 1920 and 1921:—

Class of Timber.	1920. Sup. ft.	1921. Sup. ft.	Class of Timber.	1920. Sup. ft.	1921. Sup. ft.
Rimu .. ..	145,584,203	150,708,970	Tanekaha .. ..	54,338	..
White-pine ..	82,419,821	78,056,047	Pukeatea .. ..	20,000	664
Kauri .. ..	22,598,391	19,663,955	Kawhaka .. ..	50,000	..
Totara .. ..	14,414,298	17,901,178	Silver-pine .. ..	50,000	53,941
Matai .. ..	17,820,597	22,776,424	<i>Pinus insignis</i> ..	3,064,201	6,240,428
Beech .. ..	7,169,146	7,545,651	Blue-gum .. ..	80,000	207,706
Taraire .. ..	174,650	4,608			
Hinau .. ..	4,247	597	Totals .. ..	293,683,892	303,160,169

For the year ended 31st March, 1921, in addition to the output (303,160,169 sup. ft.) recorded above, there was a production of—Rata, 2,000 ft.; tawa, 1,401,505 ft.; rewarewa, 60,000 ft.; cedar, 43,101 ft.; puriri, 100,000 ft.; poplar, 153,819 ft.; and various and mixed timbers, 1,252,322 ft. These additional quantities bring the total output for 1920–21 up to 306,172,916 ft.

It should be noted that there has been a remarkable increase in the output of *Pinus insignis*, which in the latest year exceeded 6,000,000 ft. Of this output a total of 2,278,670 ft. was exported. This timber is being put to a variety of uses, including box-making and the construction of houses.

On the 31st March, 1918, there were 277 sawmills operating in New Zealand, whereas at the present time there are 365 mills.

The following is a comparative return of the output, export, and quantity placed on the New Zealand market of rimu, kauri, matai, and totara for the years ended 31st March, 1918, 1920, and 1921. This statement indicates the effect of the system of timber-control introduced in 1918.

COMPARATIVE STATEMENT SHOWING THE OUTPUT, EXPORT, AND QUANTITY PLACED ON NEW ZEALAND MARKET OF RIMU, KAURI, MATAI, AND TOTARA FOR THE YEARS 1917-18, 1919-20, AND 1920-21.

Timber.	Year ended 31st March.	Output.	Export.	Placed on New Zealand Market.	Percentage of Output exported.
		Feet.	Feet.	Feet.	
Rimu .. ..	1918	111,318,579	27,583,235	88,875,298	23·7
	1920	145,584,203	10,101,000	135,483,203	7·0
	1921	150,708,970	12,997,588	137,556,856	8·6
Kauri .. ..	1918	21,835,023	10,454,494	19,552,692	34·8
	1920	22,598,391	362,000	22,236,391	1·6
	1921	19,663,955	1,218,298	17,698,613	6·2
Matai .. ..	1918	11,930,040	493,964	12,374,501	3·8
	1920	17,820,597	Nil	17,820,597	Nil.
	1921	22,776,424	Nil	22,180,475	Nil.
Totara .. ..	1918	13,387,038	57,337	13,518,126	0·4
	1920	14,414,298	Nil	14,414,298	Nil.
	1921	17,901,178	Nil	17,691,470	Nil.

NOTE.—Any discrepancy between the total output and the total of the quantities exported and placed on the New Zealand market is accounted for by stocks held at the beginning of the period.

In connection with the foregoing figures the principal features to note are that there has been a considerable increase in the output of most classes of timber, and that the Board's measures of control have obviously assisted in meeting the heavy demands for timber in New Zealand. During the period under review the demand for timber at the reasonable prices fixed by the Board has been well-nigh insatiable. In connection with rimu it is particularly noteworthy that while the increase in production between 1918 and 1920 amounted to 34,265,625 sup. ft., the official restrictions on export enabled an increase of 46,607,905 sup. ft. to be placed on the New Zealand market.

While the general production of New Zealand timber has increased appreciably by comparison with the figures of 1917-18 (which exceeded those of 1918-19, the last year of the war's call on man-power), the output of building-material—rimu, kauri, matai, and totara—for the year ended 31st March, 1920, was 200,417,489 sup. ft., as against 158,470,680 ft. for 1917-18. A satisfactory feature was that the proportion of building-material exported for 1919-20 was only 5½ per cent., compared with 23 per cent. in 1917-18. During these two years the proportion placed on the local market rose from 77 per cent. to 94¾ per cent. The increased rate of production, with the low proportion of export, was maintained during the year 1920-21.

The reduction in exports of building-timber has been effected in accordance with the regulations which came into force in August, 1918, but the figures show that the reduction has been greater than that which the regulations rendered obligatory. If export had gone to the permissible limit the figures for 1921 would have been 27,000,000 ft. of rimu and 8,500,000 ft. of kauri. Thus it appears that the policy inaugurated by the Government in relation to New Zealand building-timber for use in the Dominion has been entirely successful.

While there has been a slight increase in the actual amount of timber exported in 1921 as compared with 1920, the exports in neither year have approached the limits fixed by regulations. Attention has been concentrated on the requirements of the local market—the Department requiring that export permits might be exercised only for timber for which transport facilities to the New Zealand market were not available, or for timber exceeding the Dominion's requirements.

One of the first administrative precautions was to issue permits only to those mills which were in the export trade prior to 1918. All new mills commenced operations with the knowledge of the restrictions on export, and with the assurance that these restrictions would become year by year more severe. It would have been obviously unfair to allow the new mills to take a share of the export trade, in which the operations of the older mills were being gradually curtailed.

Another administrative precaution was that during the shortage, export permits for rimu and kauri were granted only to the west coast (South Island) and the north of Auckland mills, and then only for quantities for which shipping from coastal port to port was not available. The idea of this arrangement was that those mills so situated geographically as to be unable to place the whole of their timber on the New Zealand market were granted the privilege of export within the limits already specified. Thus the New Zealand market received the whole of the output of the Southland and Main Trunk (North Island) mills, supplemented by that portion of the output of west coast (South Island) and north Auckland for which coastal shipping was available. This arrangement has proved to be economically sound, and has worked well. The following published statement made by the Board's Chairman is of special interest:—

“ Even if the very limited export of building-timber were stopped the quantity available for use in New Zealand would not be increased. Not sufficient coasting shipping would be available to lift all the timber at some mills for use in the Dominion. If a certain measure of export to Australia did not help to clear the skids they would become congested, and milling operations would be checked, with the result that a number of men would be thrown out of employment. While they lost their wages, New Zealand would not have any additional supplies of building-timber for use here.”

Like most other branches of trade, the timber business is now very unsettled. The Australian market—which is our principal market for export—is failing, while at the same time, owing to

financial stringency in New Zealand, our local demand has fallen off considerably. A disquieting shortage of necessary buildings still prevails in this country, but the abnormal conditions of trade, commerce, and finance have interrupted the progress of building-construction. At one time it was hoped that, in view of the increased production of timber and the progressive diminution of export, relief would come to the community very speedily; but the present unsettled state of business has brought a postponement of many building operations, and some of our sawmills have already overtaken all their orders and are either closing down or working at low pressure. For a while the effective demand for timber promises to be low, and this will necessitate a relaxation of the restrictions on export—that is to say, the Southland and Main Trunk (North Island) mills will be allowed to export. This may result in a larger export than during the previous year, but in any case the gazetted export maximum may not be exceeded; this maximum is a fixed quantity for each year, and those mills which have not exercised the export privileges during previous periods will not thereby be entitled to extra consideration now. If the Australian market, as well as our own, continues to be dull, output will require to be seriously restricted.

#### PRICE-CONTROL OF TIMBER.

Price-control has been exercised by the Board by means of agreements with the sawmillers and timber-merchants, and the result has undoubtedly been a great saving to the people, the fixed price being lower than the export value. If the price had been regulated by supply and demand during the stages of the acute shortage an inflated price—prohibitive to many users—would have resulted. Just at the close of the financial year an Order in Council was issued making the price agreement binding on all parties. For a long time during the term of the agreement between the Board and the millers and merchants a few mills charged prices in excess of those arranged; but now, with gazetted prices, the whole timber-supply of the Dominion is brought under price-control. It may be added that the prices fixed by agreement, and later by *Gazette*, provided for only a reasonable rate of profit.

In this connection the Department is glad to have the opportunity of placing on record its great appreciation of the assistance rendered by the Timber-control Advisory Committee. This committee consisted of representatives of sawmillers, timber-merchants, builders, and white-pine users; and the practical experience and sound judgment of its members were invaluable.

#### CONTROL OF CEMENT.

Early in 1920 a serious shortage of cement became apparent. The Board made inquiries into the position, and as a result entered into an agreement with the cement companies that they would observe a certain order of preference in connection with the distribution of their supplies. This order of preference was drawn up by the Board, and the various users of cement were arranged in order of essentiality as follows:—

- (1.) Waterworks, sanitary works, hospitals, urgent Government requirements for public works and railways.
- (2.) Workers' dwellings and dwellings in progress and to be started, not exceeding £2,000 in cost. Under this head may be included reasonable supplies to tile, block, and pipe factories.
- (3.) Freezing-works, and stores for produce, dairy factories, bridges and culverts when for purpose of opening up settlements.
- (4.) Public works, railways, municipal and other local bodies, for works absolutely necessary for community in general.
- (5.) Completion of jobs at present under way, contingent upon preceding four paragraphs having preference.
- (6.) Work in general, including houses over £2,000.

This arrangement was made necessary by the fact that the price of cement was controlled to such a point as would allow the companies reasonable rates of profit only on the cost of production, without taking into account what it would have cost to bring cement from other countries. This policy resulted in intensifying the demand for cement, and forced the Board of Trade to allocate supplies. In order to do this with any degree of justice it was necessary for the Board to decide between the claims of respective industries for cement, and, further, to decide in the industries themselves what buildings or classes of work should have preference over other classes of work. The demand for cement in 1920 at the price arranged by the Board totalled thousands of tons in excess of supplies available and in sight.

Distribution committees were set up in Invercargill, Timaru, Christchurch, Wellington, Palmerston North, Wanganui, New Plymouth, Napier, and Gisborne. So far as the Auckland District was concerned, the Wilson Portland Cement Company undertook to carry out the distribution on the basis required by the Board's regulations; while in Dunedin the Milburn Lime and Cement Company agreed to a similar undertaking.

The distribution committees consisted of representatives of the builders, cement companies, and, in certain centres, representatives (Inspectors of Factories) appointed by the Government. It is but fair to say that the allocation of supplies in order of essentiality of the work was made possible only by the assistance given by these committees and the cement companies. Without their co-operation the system of rationing would have been almost unworkable.

In districts outside Wellington the Board's control of the distribution of cement ceased on the 19th March, 1921, but in Wellington the end did not come till the 2nd April. From the 1st July, 1920, to the 2nd April, 1921, the quantity of cement distributed under the Board's control was nearly 63,000 tons.

In order to encourage the importation of cement the Government for some time remitted the duty on this material. This remission of duty applied from the 28th August, 1920, and included all cement actually shipped on or before the 1st April, 1921. The amount imported during this period was 11,947 tons, of a dutiable value of £7,621 1s. 1d. Duty was refunded on 10,315 tons, the amount refunded being £6,648 19s.

#### BUILDING-RESTRICTIONS.

Towards the middle of 1920 the position with respect to all classes of building-supplies became so acute that on the Board's recommendation the Government decided to issue regulations the object of which was to ensure that supplies of cement, bricks, and timber should be available only for works that were at that time considered essential. The order of essentiality adopted by the Board in this connection was the same as that used in the distribution of cement (see p. 13).

As the primary object of these regulations was to stimulate the erection of dwellings, the Board delegated to local authorities its powers with respect to all applications for permits to build dwelling-houses. The co-operation of these local bodies was of enormous assistance to the Department, and by means of their operations 4,151 applications for permits for dwellings and farm-buildings were dealt with.

For the purpose of assisting the Board in dealing with applications for permits for works other than dwellings, advisory committees were set up—at the request of the architects, builders, and building employees—in Invercargill, Dunedin, Christchurch, Wellington, and Auckland. These committees acted merely in an advisory capacity, and all applications were dealt with by the Board itself. The work of these committees was of material assistance, and the thanks of the Government are due to the members for the services gratuitously given in this connection.

The work of regulating the use of building-materials by compelling the sellers to deal only with holders of permits was conducted in the most economical way possible. No attempt was made to carry out the scheme in every detail; to do so would have necessitated the establishment of a large central office and the employment of a small army of inspectors, entailing enormous cost to the State. The controlling organizations in England, for example, were particularly elaborate.

The Board considered, however, that quite a satisfactory effect could be obtained by the temporary organization of a few advisory committees and by utilizing the services of the various Inspectors of Factories. The arrangements made by the Board involved the total cost of about £700. Many letters received by the Department from various interests concerned, including the public, expressed appreciation of the Board's impartial work in connection with the building regulations and the control of essential materials. From the date of gazetting (24th June, 1920) to the suspension of the regulations (19th March) the Board dealt with more than three thousand applications for permits for buildings other than dwellinghouses or farm-buildings. This does not represent the total cases considered, as the Board received many inquiries from persons who wished to ascertain whether an application was likely to be granted; when the reply indicated that a permit would not be available till the supply of essential materials warranted it the application was not lodged. In some instances permits were granted on condition that imported materials were used.

The subjoined return shows the amounts of material and labour involved in building-construction under permits issued by the Board of Trade from the 1st July, 1920, to the 31st March, 1921:—

District.	Timber.	Cement.	Bricks.	Men.
	Feet.	Bags.	Number.	
Auckland City .. ..	10,040,559	203,832	7,154,635	3,890
Hamilton .. ..	2,456,622	33,767	995,764	1,497
Rotorua .. ..	136,437	613	17,200	57
Auckland Province .. ..	8,310,677	73,292	2,861,401	3,395
New Plymouth .. ..	215,800	25,272	80,500	274
Hawera .. ..	399,518	5,809	117,950	357
Taranaki Province .. ..	1,309,048	22,287	220,400	836
Wellington City .. ..	7,788,843	152,774	6,269,860	2,893
Palmerston North .. ..	145,623	2,570	432,500	120
Wanganui .. ..	2,181,566	14,771	1,474,050	1,306
Wellington Province .. ..	3,498,700	49,356	1,893,800	1,715
Napier .. ..	1,166,997	7,686	612,445	711
Gisborne .. ..	2,195,776	87,080	1,086,580	867
Hawke's Bay .. ..	2,892,405	41,378	1,525,225	1,456
Christchurch .. ..	2,399,949	141,513	4,962,100	1,785
Timaru .. ..	613,147	11,111	824,650	677
Canterbury Province .. ..	1,404,400	26,906	916,560	986
Dunedin .. ..	3,173,661	41,505	2,412,200	1,382
Oamaru .. ..	117,500	1,219	350	55
Otago Province .. ..	1,079,983	46,395	510,500	665
Invercargill .. ..	670,733	7,557	544,650	304
Southland .. ..	1,461,785	22,225	355,000	955
Nelson District .. ..	1,569,124	10,423	576,625	669
Westland .. ..	78,625	1,096	67,540	56
Marlborough .. ..	65,544	2,048	64,800	72
<b>Totals .. ..</b>	<b>55,373,058</b>	<b>1,032,485</b>	<b>35,977,285</b>	<b>26,980</b>

As no permits were required for public works, educational buildings, or works involving less than £20, the figures shown do not cover the whole of the material required or used during the period. Local bodies' works involving material up to £100 were excluded.

The following table gives the returns of material and labour involved in cases where the Board of Trade declined to grant building-permits, and in cases where permits were issued on condition that imported materials were used :—

District.	Permits declined.				Permits granted for Use of Imported Materials.		
	Number of Applications.	Timber.	Cement.	Bricks.	Number of Applications.	Timber.	Cement.
		Feet.	Bags.	Number.		Feet.	Bags.
Auckland City ..	41	178,503	15,179	190,500	26	40,800	57,716
Hamilton ..	7	93,190	6,704	176,000	3	..	1,529
Rotorua ..	3	23,905	201	..	..	..	..
Auckland Province ..	46	531,136	8,153	589,500	11	..	6,838
New Plymouth ..	4	10,600	722	..	2	..	1,800
Hawera ..	2	14,670	1,152	98,100	4	..	450
Taranaki ..	5	31,200	990	..	1	..	268
Palmerston North ..	6	40,950	3,434	161,500	3	..	1,170
Wanganui ..	14	113,725	332	141,700	5	..	5,148
Wellington City ..	19	127,567	6,652	355,000	41	4,305	19,866
Wellington Province	8	99,800	1,116	146,300	13	..	13,352
Napier ..	6	17,200	630	46,500	9	..	1,188
Gisborne ..	3	13,070	135	95,000	1	..	5
Hawke's Bay ..	11	25,425	2,085	170,000	9	1,200	3,213
Christchurch ..	24	145,026	3,886	559,500	14	..	16,433
Timaru ..	9	89,878	6,932	327,400	2	..	904
Canterbury ..	10	162,062	2,989	212,500	1	..	90
Dunedin ..	10	46,906	2,869	97,000	5	..	3,022
Oamaru ..	3	308	33	..	1	..	10
Otago ..	10	13,850	1,752	29,600	1	..	72
Invercargill ..	6	62,400	1,840	86,000	6	..	747
Southland ..	7	84,450	702	3,200	6	..	387
Nelson ..	5	61,864	1,858	6,000	1	..	18
Marlborough ..	1	400	180	..	1	..	2,016
Totals ..	260	1,988,085	70,526*	3,482,300	166	46,305	136,242†

\* Equal to 3,918½ tons.

† Equal to 7,569 tons.

### THE WHEAT TRADE.

#### PURCHASE OF NEW ZEALAND CROP, 1920-21.

SINCE the Board issued its last report the measures of control over the wheat trade have been in some respects made more elaborate. The purchase of the 1918-19 and the 1919-20 crops has been completed, while the 1920-21 crop is now being dealt with. The prices for the 1920-21 crop, f.o.b. southern ports, are as follow: Tuscan, 7s. 6d. per bushel; Hunters, 7s. 9d.; Pearl, 8s.

#### GUARANTEE FOR NEXT SEASON.

The Government followed the principle of guaranteeing to the farmer a minimum price for all wheat produced, such rate to be revised upwards if the world's markets warranted. The guarantee for the 1921-22 was officially announced by the Hon. Mr. Nosworthy in the following *Gazette* notice :—

#### “ WHEAT-PRICES : GUARANTEE FOR 1922.

“ The Government has undertaken to purchase from wheat-growers all good milling-wheat of the 1921-22 season at the following minimum prices :—

- “ (a.) For Tuscan and similar varieties, 5s. 6d. per bushel, f.o.b.  
 For Hunters and similar varieties, 5s. 9d. per bushel, f.o.b.  
 For Pearl and similar varieties, 6s. 3d. per bushel, f.o.b.

“ (b.) An increment of ¾d. per bushel per month will be added to above prices for wheat dealt with between 1st May, 1922, and 31st October, 1922.

“ (c.) Market rates will be paid if in excess of the above guaranteed minimum prices.

“ (d.) If it is necessary to determine market rates the Government will be guided by the following principle: In the event of any adjustment in prices being necessary the Government will be guided



by the world's market value of wheat in February, 1922, of similar quality to New Zealand wheat, having regard to the necessary adjustment between North Island and South Island; but in any case the purchase price will not be less than the minimum stated above for the respective varieties with the monthly increment."

#### CONTROL OF WHEAT AND ITS PRODUCTS.

The detailed supervision of the trade has been in the hands of the Chairman of the Board (Mr. W. G. McDonald) in his capacity as Wheat-controller, while the prices have been fixed by means of the powers conferred under the Board of Trade Act, 1919. The purchase and sale of wheat and the payments for flour subsidies have been the work of the Wheat-control Office, Christchurch, while the regulation of bread-prices has been attended to by the Board of Trade. The following table shows the prices of bread as fixed from time to time during the period 1st April, 1919, to 31st March, 1921:—

Period.	Maximum Cash Price per 2 lb. Loaf.	
	North Island.	South Island.
1st April, 1919, to 28th February, 1920 .. .. .	5½d.	5d.
1st March, 1920, to 14th March, 1921 .. .. .	6d.	5½d.
14th March, 1921, to 28th February, 1922 .. .. .	7d.	6½d.

#### PROFITS OF THE WHEAT-CONTROL OFFICE.

With regard to the operations of the Wheat-control Office in the purchase and sale of both New Zealand and Australian wheat, the revenue accounts show the undermentioned net profits:—

Year ended 31st December, 1918 .. .. .	£	s.	d.
Year ended 31st December, 1919 .. .. .	10,672	9	8
Year ended 31st December, 1920 .. .. .	15,567	12	5
Year ended 31st December, 1920 .. .. .	125,104	10	5

Although the absolute net profits are considerable, the percentage of net profit on sales was extremely low—far lower than the rate on which any private enterprise could safely work. The profits thus derived served to reimburse the Consolidated Fund for a portion of the payments made as subsidies to keep bread-prices low. These flour subsidies paid by the Government amounted to—

Year ended 31st March, 1920 .. .. .	£
Year ended 31st March, 1921 .. .. .	358,305
Year ended 31st March, 1921 .. .. .	489,571

The Government's decision to reduce the amount of the flour subsidy for the year ended 31st March, 1922, to approximately £150,000 necessitated a rise in the price of flour from £16 10s. to £21 per ton, f.o.b. southern ports, and an increase of 1d. on the price of the 2 lb. loaf.

As it is impossible to review adequately in this report the measures of control adopted by the Government in connection with wheat and flour, a special report (to be issued later) is being prepared.

#### GENERAL REVIEW OF OPERATIONS.

The following return shows the quantity of wheat handled under the scheme of Government control:—

	WHEAT PURCHASED.					Bushels.
1918—New Zealand .. .. .	..	..	..	..	..	4,926,857
Australian .. .. .	..	..	..	..	..	633,644
Australian (ex Imperial supplies) .. .. .	..	..	..	..	..	225,678
Total .. .. .	..	..	..	..	..	5,786,179
1919—New Zealand .. .. .	..	..	..	..	..	5,252,210
Australian .. .. .	..	..	..	..	..	1,339,235
Total .. .. .	..	..	..	..	..	6,591,445
1920—New Zealand .. .. .	..	..	..	..	..	3,897,123
Australian .. .. .	..	..	..	..	..	2,018,533
Total .. .. .	..	..	..	..	..	5,915,656
Grand total (three years) .. .. .	..	..	..	..	..	18,293,280

## SUGAR-SUPPLIES.

## MOVEMENTS OF WHOLESALE PRICES.

The Department's early arrangements in connection with sugar were outlined in previous annual reports; and the whole period of Government control, extending more or less over the past six years, has been recently reviewed in a special report which has been widely circulated. Although this section of the annual report will be confined mainly to a consideration of operations during the past two years, it is of interest to note the upward movement of the wholesale prices of 1A sugar prior to the contract for the 1920-21 season.

	Wholesale Price per Ton.		
	£	s.	d.
Year ended 30th June, 1917	21	0	0
Year ended 30th June, 1918	22	0	0
Year ended 30th June, 1919	22	10	0
Year ended 30th June, 1920	23	15	0

During these periods the Colonial Sugar-refining Company, Fiji and New Zealand (Limited), undertook to supply all the requirements of New Zealand home consumption of sugar, subject to the condition that nothing happened to prevent the manufacture of the sugar or its transport to the Auckland refinery.

## ARRANGEMENTS FOR 1920-21 SUPPLIES.

Early in 1920 negotiations began for a new agreement, but the sugar company represented that the heavy increases in the cost of production of the raw sugar made it impossible for the company to enter into anything like the old arrangements. The company, however, stated its willingness to sell the whole of the estimated output of the Fijian mills—subject to a small reservation—at £35 10s. per ton f.o.b. Fiji for 94 net titre sugar. At the time these negotiations were in train quotations for Javan raw ranged up to £80 per ton. The Colonial Sugar-refining Company had sold, and could sell freely, at £47 per ton c.i.f.—the equivalent of £42 f.o.b.

Careful inquiries were instituted as to the prices of available supplies of Javan, Mauritius, and Cuban sugars; but not only were the prices prohibitive, but regular freights at reasonable intervals could not be arranged, nor could adequate supplies for the Dominion be guaranteed. On the 5th May, 1920, Mozambique sugar (browns) for shipment August-September was quoted at £96 c.i.f., and Cuban sugars for shipment January-February, 1921, at £96, and Javan whites for shipment June-July, 1921, £66.

## PRICE FLUCTUATIONS.

Negotiations were continued by the Right Hon. the Prime Minister (then President of the Board of Trade) with the sugar company, the result being a definite contract drawn up by the Solicitor-General. Under this the Government contracted with the Colonial Sugar-refining Company for 65,000 tons of raw sugar at £35 10s. f.o.b. Fiji, that quantity being the estimated requirements of New Zealand for one year.

While the New Zealand Government was negotiating with the company the British Government bought 50,000 tons of Javan raw sugar at £53 12s. 6d. f.o.b. Java for delivery between July and September; and a month or two prior to this time an important manufacturer in New Zealand was obliged to obtain Javan sugar (whites) to fulfil his requirements, and for a parcel of 300 tons paid £62 f.o.b.; the landed cost was £67 per ton. For later deliveries in March and April £92 per ton was quoted. Forward quotations for Javan prior to this date ranged from £115 to £120 per ton.

## MAIN PROVISIONS OF EXISTING AGREEMENT.

It should be emphasized that this agreement for the year ended 30th June, 1921, was an entirely new departure as far as New Zealand was concerned. The former arrangements consisted of an undertaking on behalf of the company to supply New Zealand's normal requirements at a fixed price for refined sugar; but under the agreement just expired the New Zealand Government contracted to buy raw sugar f.o.b. Fiji, pay transport charges to Chelsea and the actual cost of refining, and to distribute the resulting refined sugar and by-products through the agency of the company to the consumer. The main provisions of the agreement are given in the following synopsis:—

“The company agrees to sell a maximum of 65,000 tons of raw sugar, the estimated requirements of New Zealand for a year; the price shall be at the rate of £35 per ton of 94 net titre sugar, f.o.b. Fiji, including the present export duty of 10s. [afterwards increased to £1] per ton; freight, at the rate of £1 7s. 6d. per ton, will be paid by the New Zealand Government. The raw sugar will be paid for in accordance with the landing weights and the analysis at the company's refinery at Auckland. If the analysis shows that the sugar is above or below the 94 titre standard the price will be adjusted accordingly. The cost of receiving and weighing the raw sugar, primage, wharfage, and other charges which may be imposed by the Government or any public authority will be borne by the Government. The company, on behalf of the Government, will refine the raw sugar at Auckland ‘in accordance with the now established practice of the company, and with all due care and skill.’ This means that the charge to the Government for this process will be the actual

cost 'from the taking of the raw sugar from the raw-sugar stack at the refinery, until delivery of such refined sugar, by-products, or raw sugar to the purchaser or to the Government.' This charge shall not include any charge whatever for depreciation or replacement of plant, machinery, or buildings, or for the expenses of the company's office staff. The Government will pay to the company a managing charge of £1 2s. 6d. per ton of raw sugar melted or sold, to cover interest on the capital employed by the company in financing the obligations incurred by the company on behalf of the Government under this agreement, and interest on and depreciation of machinery in the company's refinery, and the services of the company generally in connection with this agreement.' The company undertakes to act as sole agents of the Government in the sale and distribution of sugar and by-products at a charge of 7s. a ton, on a basis of prices to be fixed by the Government and in accordance with directions received from the Government. Full accounts of all transactions will be rendered by the company to the Government. The books and premises of the company will be open for inspection at any time by any officer authorized by the Government for this purpose. The company undertakes to give to such officer all the information which he may require in regard to matters covered in the agreement. In all matters to which the agreement relates the Minister of Industries and Commerce will act for the Government. The period of the agreement is from the 1st July, 1920, to the 21st July, 1921. The obligations undertaken by the company under the agreement are subject to inevitable delays or impossibility of performance due to strikes, industrial or social disturbances, fire, or other events beyond the company's control. The agreement will be governed by and construed in accordance with the laws of New Zealand. Disputes as to the interpretation or operation of the agreement will be referred to the arbitration of Mr. Justice Stringer, President of the Court of Arbitration. If he is not available disputes will be referred to an arbitrator to be agreed upon by the parties, or, in default of such agreement, to the arbitration of a person of mercantile experience to be nominated by the Chief Justice."

Although this contract necessitated an increase from 3½d. to 6½d. per pound in the retail price of refined sugar, the New Zealand consumer was still in a much better position than the people of other countries. Moreover, the Dominion had enjoyed sugar-supplies permitting a *per capita* consumption in excess of that prevailing in any other country during the five years of sugar-scarcity.

An important feature of the agreement is that the purchase of raw sugar has involved no capital outlay on behalf of the Government, and there has been no encroachment on the Consolidated Fund.

#### DISTRIBUTION OF SUPPLIES.

In December, 1919, the position regarding supplies became so acute that it was arranged with the sugar company to station one of the Department's officers at Auckland to work in conjunction with the company for the distribution of sugar. The following order of essentiality was set up as the basis for the distribution of supplies:—

- (1.) Householders.
- (2.) Jam-manufacturers and fruit-preservers.
- (3.) Manufacturers other than sugar-boilers and confectioners, including vinegar, sauce, and jelly crystals; bakers and manufacturers of essential foodstuffs, including biscuits.
- (4.) Sugar-boilers and confectioners, including ice-cream manufacturers.
- (5.) Cordial, syrup, and aerated-water manufactures.
- (6.) Brewers.

#### RESERVES FOR JAM SEASON.

When the New Zealand Government became the actual owner of the sugar the Department set to work to build up a reserve stock to meet the special requirements of the jam season. This desirable object had almost been achieved when the occurrence of the unfortunate strike at the refinery in August totally absorbed the reserve stocks just prior to the extra demand for jam sugar. In order to make up the deficiency the Department negotiated for supplementary supplies of 3,000 tons of refined sugar from Australia, but the landing of this sugar was interfered with by the shipping strike; in fact, some shipments were actually brought over to New Zealand twice before being unloaded. It will thus be seen that no efforts were spared by the Government to ensure a supply conforming to seasonal requirements.

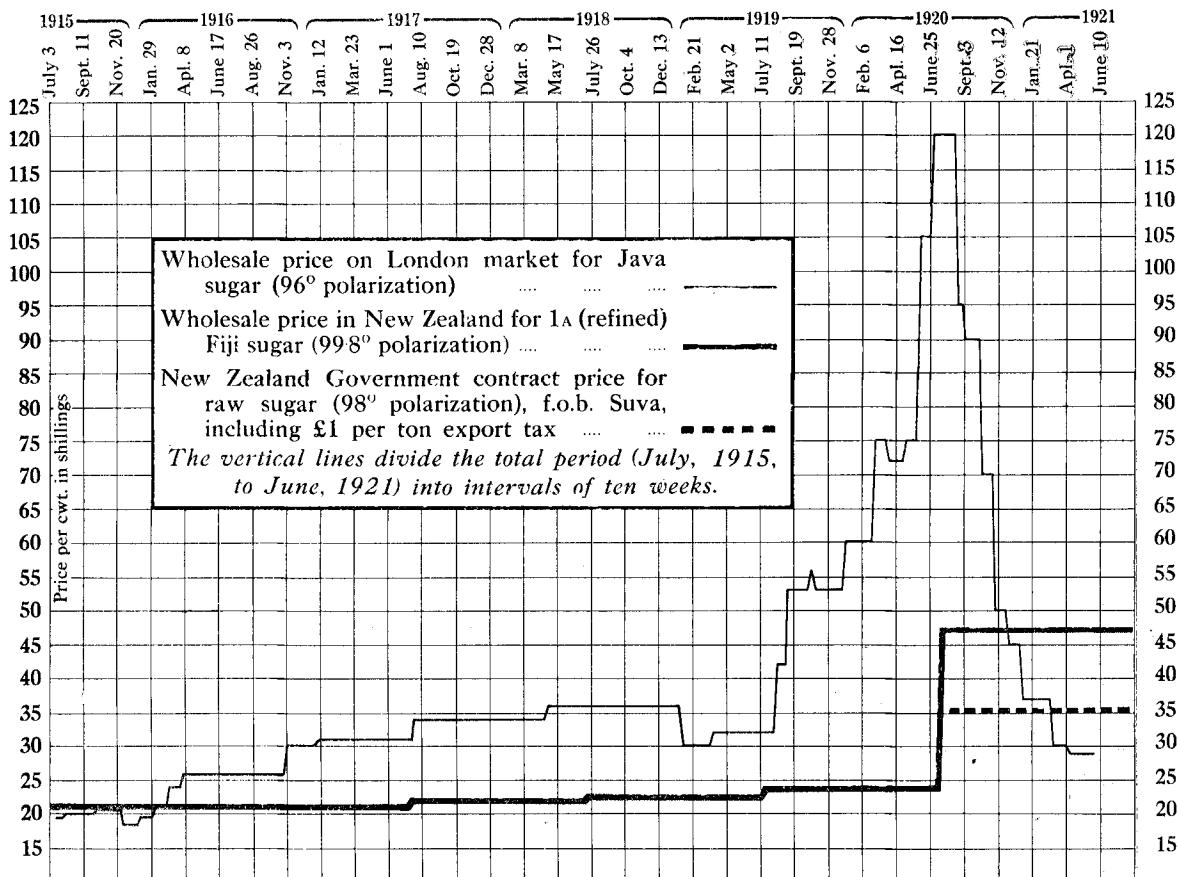
#### PUBLIC SAVINGS DURING THE GOVERNMENT CONTRACTS.

It can be claimed that the system of purchase and distribution by the Government has worked well, and that the contracts entered into with the Colonial Sugar-refining Company have meant enormous savings to the public. A comparison of the prices arranged for with the sugar company and those obtaining from time to time on the world's markets show the savings, as set out hereunder, to the New Zealand consumers:—

	£
For year ended 30th June, 1916 .. .. .	58,200
"          "          1917 .. .. .	524,400
"          "          1918 .. .. .	744,800
"          "          1919 .. .. .	658,800
"          "          1920 .. .. .	2,306,600
For period ended 31st March, 1921 (approximately) .. .. .	900,000
Making a total saving of (approximately) .. .. .	£5,192,800

The following diagram illustrates the difference between the London wholesale price for Java sugar and the New Zealand wholesale price for the Fijian product, No. 1A sugar. A study of this graph makes it clear that the New Zealand public were adequately safeguarded from the prices ruling at the peak of the market. In view of the superiority of the Fijian sugar for both domestic and manufacturing requirements, the disparity between the prices until December, 1920, was even greater than indicated by the diagram.

GRAPHIC DIAGRAM SHOWING THE DIFFERENCE BETWEEN (1) THE LONDON WHOLESALE PRICE FOR JAVA SUGAR (96° POLARIZATION) AND (2) THE WHOLESALE PRICE IN NEW ZEALAND FOR 1A (REFINED) FIJI SUGAR (99·8° POLARIZATION), FOR THE PERIOD JULY, 1915, TO JUNE, 1921.



PREVENTION OF PROFITEERING.

During the last two years much public attention has been centred on the provisions of the Board of Trade Act relating to the prevention of profiteering. While prices were rising from month to month the number of complaints received was very large, and constant vigilance had to be exercised and many investigations made. The Department controlled the prices of many essential lines, including wheat, flour, bran, pollard, bread, butter, meat, sugar, timber, cement, locally manufactured soaps and candles, and several other leading grocery lines. The control in a few instances was exercised by means of regulations by Order in Council, but in the majority of cases effective control was maintained through the agency of agreements with interested parties providing for no increases in price to be made without prior consultation with and consent of the Board of Trade.

Complete investigations were made into the ramifications of whole industries. For instance, a comprehensive inquiry was made into profits of the woollen-manufacturing companies, which was followed by an investigation of middlemen's profits leading to several prosecutions and convictions with heavy fines, and this in turn was followed by investigations of retailers' prices and tailors' profits. Thus the Department endeavoured to follow the commodity through all stages of manufacture and distribution. The same applied to the leather trade, in which the profits of tanners, boot-manufacturers, boot wholesalers and retailers, and boot-repairers were investigated in turn.

With regard to imported goods, many articles, such as dairy separators and agricultural implements, were very high-priced; but difficulty arose in any endeavour to prevent profiteering in these goods, because the prices were often fixed outside New Zealand and the profits of intermediaries regulated by central agencies.

SUMMARY OF PROSECUTIONS.

Of the twenty-four cases taken before the Courts, sixteen cases were successful, the fines ranging from £10 and costs, to £1,000 and costs, and aggregating £4,545. A good deal of criticism was levelled at the Department because of the relative unimportance of some of the commodities which

were the subject of Court proceedings. It should be emphasized that the Department's duty was to investigate all complaints, and, where an overcharge was proved, to authorize a prosecution. The instructions of the Government were that, no matter how small the article concerned, profiteering had to be checked. Although some of the items may have been comparatively unimportant in a consideration of the cost of living, nevertheless their sale throughout the Dominion at unreasonably high prices meant a considerable tax on the consumers.

Many overcharges were small, and refunds were considered sufficient readjustment. It was found that in order to secure a conviction it was necessary that the profit should be considered above the "reasonable" limit—that is, it had to be "unreasonably high."

#### LEADING CASES.

##### BOARD OF TRADE *v.* ALARM-CLOCK DEALERS.

In this case the defendants raised the principle of charging according to replacement values, and the Magistrate dismissed the charges on the grounds that the replacement-value practice was certain and universal in commerce and that it was reasonable. The Magistrate also held that the practice of fixing prices for a resale was reasonable.

As the admission of replacement value as the basis of the calculation of profits was likely to make it difficult to secure any convictions under the existing law, the Crown decided to appeal against the Magistrate's decision. The appeal case was heard in Wellington, and the decision of the Full Court confirmed the Magistrate's judgment that replacement value must be considered in fixing prices.

##### BOARD OF TRADE *v.* A WELLINGTON GROCER.

The prosecution of a Wellington grocer for an overcharge on Mellin's food resulted in the defendant being fined £100. An appeal was lodged in this case, as the trader's net profits over the whole business were comparatively low, and it was urged that it was unfair to take a single transaction as a basis for legal proceedings. The appeal was considered by the Full Court in Wellington, and the Magistrate's decision was upheld, the Full Court laying down the principle that the prevailing market price was a good test of reasonableness. Although it was admitted that the defendant sold many other commodities at exceptionally reasonable rates, the Court held that he was not entitled to take on other lines a price which considerably exceeded that current in the retail market.

As a result of the two cases referred to above considerable light was thrown on the interpretation of the Board of Trade Act, and, bearing in mind that replacement value had always to be considered and that the prevailing market price was a satisfactory test of reasonableness, the Board was in a better position to decide what prosecutions should be authorized.

#### NEW ZEALAND TWEEDS.

The Board instituted proceedings against two Wellington wholesalers in the soft-goods trade for alleged profiteering on the sale of New Zealand tweeds. In these cases the goods were locally manufactured and in keen demand, and the question of replacement value did not affect the position so seriously as in connection with imported tweeds. Moreover, while the profits on the transactions selected for prosecutions were exceptionally high, the profits over the whole of the defendants' businesses were also high; thus any contention that the big profits taken on the selected transactions were intended to cover low profits or losses on others did not carry weight. In these instances the maximum fines were inflicted, and similar prosecutions in Dunedin were also successful.

#### PRICE-INVESTIGATION TRIBUNALS.

In March, 1920, the Board set up in each of the four centres a price-investigation tribunal, consisting of three members, to inquire into alleged breaches of section 32 of the Board of Trade Act.

Up till the 31st March, 1921, they investigated 1,479 complaints, comprising—

Auckland City and country districts .. .. .	566
Wellington City and country districts .. .. .	421
Canterbury, Nelson, Marlborough, Westland .. .. .	260
Otago and Southland .. .. .	232

These figures include cases that were under consideration at the 31st March. The striking feature of the returns is the aggregate of 902 cases which were dismissed because investigations showed that the prices were not unreasonable. In 189 additional instances the complaints were written off because there was not sufficient evidence to prove that they were justified. Where inquiries showed that the profit was higher than normal and yet not sufficiently high to warrant a prosecution, the tribunal arranged refunds and adjustments; these totalled 222.

The following table summarizes the complaints dealt with in the various districts:—

—	Auckland.	Wellington.	Canterbury.	Otago.
Refunds and adjustments . . . . .	115	80	17	10
Dismissed (not unreasonable prices)	274	271	198	159
Written off (not sufficient evidence)	85	40	28	36
Partially dealt with, referred to other Departments, &c.	92	30	17	27
Totals .. .. .	566	421	260	232

The complaints were principally in regard to food, housing, clothing, drapery, boots, and shoes. Quoting these in three groups, the percentages of gross complaints in the totals for the four tribunals are :—

	Auckland.	Wellington.	Canterbury.	Otago.
Food .. .. .	26·50	38·48	28·07	35·34
Housing ' .. .. .	20·85	20·19	23·08	18·10
Apparel .. .. .	18·20	19·24	14·23	20·25

The foregoing figures are the result of an analysis of statistical records submitted by the tribunals.

The Wellington tribunal stressed the benefits to the public of the existence of the tribunals. Their influence should be classed as direct and indirect, the latter probably being the greater. It was admitted by prominent business men and others that the mere fact of section 32 existing in the Board of Trade Act was a tremendous deterrent on traders, who otherwise might have been inclined to take advantage of the rather exceptional circumstances surrounding business during the last two years. Many traders, the report states, were glad of the opportunity of having their *bona fides* proved by an impartial body, and complainants likewise had many wrong impressions removed.

The Dunedin annual report emphasized the need for checking the expenses of distribution. In many instances, owing to the system of distribution in vogue, the public is undoubtedly paying higher prices than are warranted. The goods are sold by manufacturers to distributing agents, then resold to wholesale merchants, then resold to retailers (and oftentimes, during periods of shortage, between retailers themselves); and at each handling a profit is added. The Dunedin tribunal further pointed out that the public did not get the full benefit of trading competition in many cases, as traders were able amongst themselves to fix prices, and such prices would probably leave the traders more than a fair rate of profit. These two matters will receive the close attention of the Department. In regard to the fixing of prices by associations of traders there is a tendency for the price agreed upon to afford a reasonable profit to the least efficient, instead of a reasonable profit to a representative firm.

While the fines imposed under the anti-profiteering sections of the Act amounted to £4,545, the total expenses (for fees, travelling, &c.) of the price-investigation tribunals in the four centres totalled £2,955 14s.

The tribunals were appointed in March, 1920, and were in office until the 31st May, 1921, when they were disbanded. Their work is now being undertaken by the Department's permanent officers, who will conduct any necessary investigations in conjunction with their principal duties of assisting industry and trade.

Summaries of the tribunals' reports for the period ended 31st March, 1921, are as follows :—

#### AUCKLAND PRICE-INVESTIGATION TRIBUNAL.

The Auckland Price-investigation Tribunal originally consisted of Messrs. M. M. McCallum (chairman), Wesley Spragg, and E. Phelan (members). Later Mr. McCallum resigned on account of ill health, and the work was carried on by the other two members, with Mr. Spragg as chairman.

The total number of complaints dealt with up to the 31st March, 1921, was 566, of which 150, or 26 per cent., comprised foodstuffs, the next highest being drapery and footwear, 103, or 18 per cent. An analysis of how the tribunal disposed of these cases shows that over 48 per cent. of the decisions given were "prices charged not unreasonable." Refunds ordered and adjustments arranged accounted for over 20 per cent. of the decisions arrived at, and this percentage demonstrates the value of the tribunal's work in affording relief to complainants.

The decisions given (48 per cent.) in favour of traders show that the buying public did not always appreciate the changed economic conditions which followed immediately on the war. Realizing this, the tribunal adopted the practice from the beginning of qualifying its decisions with appropriate remarks, and with few exceptions complainants accepted the verdicts in favour of defendants as impartial and just. Thus the tribunal assisted in no small degree in quelling the bitterness shown towards traders by many people who were suffering hardships from the high cost of living.

#### WELLINGTON PRICE-INVESTIGATION TRIBUNAL.

This tribunal consisted of Mr. C. M. Luke (chairman) and Messrs. A. J. Maxwell and M. J. Reardon (members), and held 158 sittings and conferences in Wellington and twenty-three in country districts. The tribunal prepared over twenty special reports for the Board of Trade, the more important subjects dealt with being the fishing industry, rents and housing, meat, wholemeal bread, laundry businesses, coal (retail prices), explosives. Up to the 31st March the tribunal dealt with 421 cases. An instance shows how the action of this price-investigation tribunal protected the public: it was found that by effecting a prompt reduction of 1½d. per pound on meat for a period of only one week £28,000 was saved to the consumers. It was the policy of this tribunal not to interfere with the legitimate course of trade or harass the business section of the community, but at the same time breaches or attempted breaches of the Act were dealt with promptly.

#### CANTERBURY PRICE-INVESTIGATION TRIBUNAL.

This tribunal dealt with the Canterbury, Nelson, Marlborough, and Westland Districts. It consisted originally of Mr. C. P. Agar (chairman) and Messrs. W. H. Norton and F. C. Ellis (members).

Messrs. Norton and Ellis resigned, and their places were taken by Messrs. A. Manhire and E. H. Andrews. The tribunal revised coal-prices, and it is estimated that by this revision the saving to the consumers of Christchurch amounted to £6,750. Reductions in meat-prices, boot-repair charges, and many other lines were also effected. Another branch of the tribunal's activities, where the results are more measurable and apparent, were those savings effected by agreements made between organized sections of traders and the tribunal as to the regulation of prices of particular commodities. In this connection milk-prices, meat-prices, boot-repairers' charges, chemists' supplies, coal-supplies, and other prices were dealt with. This tribunal dealt with 260 cases.

#### DUNEDIN PRICE-INVESTIGATION TRIBUNAL.

This tribunal consisted of Mr. J. M. Galloway (chairman) and Messrs. J. J. Clarke and S. C. Brown (members). Its work included general investigations of the prices and marketing of important commodities such as coal, milk, leather, bread, meat, fish, furniture, and iron. The Retail Coal-merchants' Association desired to increase the price of coal by 6s. per ton. The tribunal, on a recommendation of the Board's investigating accountant, agreed to an increase of only 2s. per ton, and this meant a saving to consumers in Dunedin and suburbs of £13,000 per year. The work of the tribunal brought prominently before the business community the question of costing commodities, and the importance of fixing the selling-prices so that an intelligent reason could be given for the percentage of profit obtained. The tribunal dealt with 232 cases.

#### CLOTHING INVESTIGATIONS.

The Department's inquiries into the manufacture and sale of clothing have covered a wide field, and an endeavour has been made to follow the goods through all stages of manufacture and distribution, in order to make a thorough analysis of the big margin between the costs of raw materials and the retail prices of the finished articles. With this end in view the financial records of the woollen-manufacturing companies were subject to careful investigation, and a separate report on the results has been issued. This report dealt with the operations of nine companies, and the main statistical data relating to these firms are summarized in the following table:—

	1914.	1918.	1919.
	£	£	£
Share capital paid in .. .. .	1,171,500	1,307,722	1,373,460
Reserves .. .. .	158,795	303,083	407,167
Gross capital .. .. .	1,535,807	1,927,088	2,234,522
Sales .. .. .	1,569,490	3,027,278	3,028,747
Gross profits .. .. .	305,630	742,727	729,061
Overhead expenses .. .. .	219,776	487,090	486,340
Net profits .. .. .	85,854	255,637	242,721

It will be noted that there have been increases in capital investment, sales, and profits. The Department was particularly interested in the reasons for the increased profits, which had advanced since 1914 (a) in absolute amount, (b) relatively to capital employed, and (c) relatively to sales made. The question for decision was whether or not the profits taken, and inferentially the prices charged, had been unreasonably high.

The investigations showed that the net profits on sales for the industry as a whole were—in 1914, 5.5 per cent.; 1918, 6.7 per cent.; and 1919, 7.9 per cent. In other words, if the price at which the woollen companies sold their goods had been reduced in 1919 by 7.9 per cent. no profit whatever would have been earned by the "average" company. The average profits in relation to gross capital during the three years under review were—1914, 6 per cent.; 1918, 14.4 per cent.; 1919, 11.9 per cent.

Following is an extract from the report (Parliamentary Paper H.—44, 1920, page 8) discussing points in support of the reasonableness of the profits taken as between 1919 and 1914:—

"(1.) Increased output (in quantity): The fact that the mills have increased their output of goods has already been referred to, and it is only reasonable that the increase—to some extent due to increased efficiency of organization—should receive recognition in the matter of profits.

"(2.) Pre-war profits were too low, and several milling companies were at that time in financial difficulties. In 1914 the average rate of net profit on sales was 5.5 per cent., and the percentage of net profit on capital was 6 per cent. These averages in themselves must be regarded as insufficient in a manufacturing industry, and it is only the inclusion of the figures of one or two relatively successful companies which brings the averages to the figures mentioned.

"(3.) Installation of new and improved plant and machinery: The companies generally have during recent years endeavoured to increase the efficiency of their plant and machinery. In spite of war conditions this endeavour has met with some success, and a refusal to recognize this fact and to allow the companies an increased profit therefor would certainly not encourage progress in the industry.

"There are other matters which must be taken into account in regard to the movement of the rate of net profits. It must be allowed that, in sympathy with general inflation of values, the decline in the exchange value of money, and the general increase in interest-rates, investors in woollen-manufacturing companies are entitled to some increase in the net profits earned by the capital so invested. In a report which has recently been made by the Fair-profits Commission of Victoria the following appears: 'Where in an industry the more successful undertakings are making profits above the average by reason of their turnover being larger in proportion to capital, and for their overhead

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.



Consequently the Department's investigation has, in the main, been divided into two sections—one relating to the general wholesale soft-goods trade, and the other dealing with what may be called the "tweed trade."

#### GENERAL SOFT-GOODS TRADE.

It is noteworthy that the wholesale warehousemen are not in that favoured position of being the sole channel through which retailers may secure their supplies. The fact is often overlooked that retailers may, and sometimes do, secure very large supplies per medium of indent and manufacturers' agents having touch with the actual producers of the goods in foreign countries. During the war period, however, circumstances tended—temporarily at least—to increase the hold which the wholesale warehousemen had upon the market, in so far as agents were unable to secure supplies during a period when production fell very much short of the demand. The large wholesalers, having their own branches in England, were in a much better position to buy and ship the orders remitted by their New Zealand houses.

The Department has previously stressed the fact that the only satisfactory method of determining whether or not any particular class of trader has dealt justly and fairly—from a profit point of view—with the subsequent handlers of goods and with the public is by an inspection of the financial and trading records, which present from year to year the total cumulative results of the trading operations for each period. To endeavour to analyse intensively the profit taken in respect of any individual line of goods, and to exclude consideration of other articles handled by the trader, is to follow a course which in many cases would lead to quite unfair and unjustifiable conclusions.

In order, therefore, to present a general view of the profit taken by the soft-goods warehouses, the annual accounts of a number of the wholesale firms have been analysed for the years ended, generally, in January, 1914, 1919, and 1920.

#### PROFITS IN RELATION TO TURNOVER.

The following table shows for each of the three years under review the turnover, gross profit, and percentage of gross profit on turnover:—

	Sales.	Gross Profit.	Percentage.
	£	£	
Trading-year 1914 .. ..	2,381,402	452,088	18.98
"   1919 .. ..	3,866,860	892,571	23.08
"   1920 .. ..	4,936,807	1,077,367	21.82

A very substantial increase in turnover took place between 1914 and 1920—an increase of approximately 107 per cent. In the same period the gross profit increased by 138 per cent. The average percentage of gross profit on turnover was higher in 1920 than in 1914, and higher in 1919 than in 1920. This position is common to each of the firms covered by the above figures. None of the firms has exceeded in any of the three years a percentage of 24.33 on turnover. The highest percentage in 1920 was 22.67. The net profits *before deduction of income-tax* were as follows:—

	Sales.	Net Profits before Deduction of Income-tax.	Percentage on Turnover.
	£	£	
Trading-year 1914 .. ..	2,381,402	82,072	3.44
"   1919 .. ..	3,866,860	360,210	9.31
"   1920 .. ..	4,936,807	453,565	9.19

It will be seen, therefore, that the net profits showed an increase as between 1914 and 1920 of approximately 450 per cent. The turnover, however, had increased by over 100 per cent., and the *rate* of net profit on sales in 1920 was approximately 170 per cent. higher than in 1914. This higher rate of net profit on turnover has been secured by reason of (1) the higher rate of gross profit, and (2) the reduced rate of overhead expenses (excluding income-tax) to sales. Figures already given show the increase in the rates of gross profit. The following figures indicate the decrease which took place in the percentage of overhead expenses to turnover:—

	Sales.	Overhead Expenses (excluding Income-tax).	Percentage.
	£	£	
Trading-year 1914 .. ..	2,381,402	370,016	15.54
"   1919 .. ..	3,866,860	532,361	13.77
"   1920 .. ..	4,936,807	623,801	12.63

These figures show that while the overhead expenses increased considerably, they showed an appreciable fall relatively to turnover, and consequently the rate of net profit tended to increase.

The foregoing figures relating to net profits and overhead expenses were arrived at by disregarding income-tax paid or payable by the firms in each of the three years in question. The amount of this tax was as follows:—

	Income-tax.
	£
Trading-year 1914 .. ..	5,863
"   1919 .. ..	143,346
"   1920 .. ..	176,089

It will readily be seen that when the tax was deducted from the net profits shown above the profit figures were materially reduced. The net profits from trading (after allowing deduction of income-tax) and the rates of such profits on turnover were as follows:—

	Net Profit from Trading after Deduc- tion of Income-tax. £	Percentage on Turnover.
Trading-year 1914 .. .. .	76,209	3·20
„ 1919 .. .. .	216,864	5·61
„ 1920 .. .. .	277,476	5·62

In addition to the above-mentioned profits from trading, the firms also made a relatively small amount of incidental profit arising out of operations other than the usual trading business. These amounts increased the absolute net profits to the following figures:—

	£
Trading-year 1914 .. .. .	85,775
„ 1919 .. .. .	230,033
„ 1920 .. .. .	293,609

Up to this point profits have been considered in relation to turnover; at a later stage the profits will be discussed as they appear relatively to the capital invested in the trade, but before doing so it is advisable that the true significance of the foregoing figures should be realized. The gross profits relatively to turnover increased slightly—from 18·98 per cent. to 21·82 per cent. It is a widely known fact that the wholesale soft-goods trade in general aims at a gross profit of 22 per cent. on turnover, though this aim was not in many cases realized in pre-war years, when under the stress of competition firms were often forced to “cut” prices, with the result that the various departments seldom secured the average percentage of profit which they were instructed to obtain. The businesses generally, however, showed results ranging about 18 per cent. to 20 per cent. on turnover.

During the war period supplies of practically all lines were short of the demand, and competition among sellers less keen than prior to 1914. In consequence of this wholesalers were able to secure a higher rate of gross profit than in pre-war years. Moreover, the operation of the principle of selling on replacement values during a period when values were rising tended to result in traders taking an increased rate of gross profit. The increase in the rate as shown in the foregoing figures is accordingly explained and substantially justified, though the basis of justification is the replacement theory rather than the contention that pre-war profits were forced by competition to an unduly low level.

The overhead expenses (exclusive of income-tax) relatively to turnover decreased, between 1914 and 1920, from 15·54 per cent. to 12·63 per cent. This decrease was, of course, brought about by reason of the increase in the value of goods sold, and not by any reduction in the absolute amount of the overhead expenses. Even allowing for the fact that supplies were short, values rose to such an extent that the turnover, as already indicated, increased by over 100 per cent. Expenses increased also, but the percentage of increase was approximately only 70.

The rate of net profit (not allowing the deduction of income-tax) on turnover increased from 3·44 per cent. to 9·19 per cent.; but income-tax has been an increasingly heavy charge, and after paying this tax the net profits represented 3·20 per cent. in 1914 and 5·62 per cent. in 1920 on turnover. The absolute net profits were £85,775 in 1914, and £293,609 in 1920—an increase between three- and four-fold.

In an endeavour to estimate the total absolute amount of profit made by these firms since 1914 over and above what would have been made had the 1914 amount, and no more, been made in succeeding years, the net profits for 1915, 1916, 1917, and 1918 have been estimated as follows:—

	£
Trading-year 1915.. .. .	110,000
„ 1916.. .. .	140,000
„ 1917.. .. .	170,000
„ 1918.. .. .	200,000

On this basis the total “excess” profit (*i.e.*, the amount earned over and above £85,775 in each year) for the trading-years 1915–20 inclusive was approximately £600,000. This excess profit represents 46 per cent. on the “book” values of stock (£1,300,000) as at the end of the trading-year 1919–20; but in view of the great increase in prices which occurred between 1914 and 1920, and the implied probability of a substantial subsequent fall in prices, the “excess” profit made during the period 1914–20 will probably not prove to be an “excessive” profit or an unreasonable margin to cover future losses. It should not be forgotten that while this £600,000 tended to raise the prices paid by the consumer, the income-tax paid by the firms must have been an almost equally important factor in raising prices. The tax paid or payable by the firms in question in respect of the trading-years 1914–20 totalled £532,776, which is nearly £500,000 more than would have been paid had the amount paid for 1914 been payable for succeeding years.

#### PROFITS IN RELATION TO CAPITAL.

The relation of profits to capital investment will now be dealt with. The following table shows in total for the companies (1) the share capital, (2) the gross capital investment, and (3) the reserves (both special and general) as at the end of the trading-years 1914, 1919, and 1920:—

	Share Capital. £	Gross Capital. £	Reserves. £
End of trading-year 1914 .. .. .	1,294,239	1,816,596	133,034
„ 1919 .. .. .	1,445,575	2,639,769	241,228
„ 1920 .. .. .	1,554,807	2,796,372	309,346

It should be explained that the share capital should not be taken as an indication of the total value of the shareholders' interest in the businesses.

The gross capital investment was arrived at along usual lines upon the basis of the value of assets as shown in the traders' books. The figures exclude any portion of the capital which may be invested outside the normal operations of a wholesale clothing-warehouse having subsidiary factories.

The figures relative to reserves include both special and general reserves, and indicate the amounts which were specifically transferred to reserve accounts. It is virtually impossible to ascertain the true reserve position of the companies. The unappropriated balances of profits would require to be taken into consideration, and it would further be necessary to endeavour to ascertain to what extent the values of assets as shown in the books represented the true values.

It will be noticed that the share capital increased between 1914 and 1920 by £260,568, or 20 per cent., while the gross capital increased by £979,776, or 54 per cent. The absolute net profits after payment of income-tax showed the following percentage relation to gross capital investment:—

Trading-year 1914	..	..	..	..	..	..	6·11
„ 1919	..	..	..	..	..	..	9·96
„ 1920	..	..	..	..	..	..	11·72

The net-profit figures used to ascertain the above percentages have been adjusted by adding to the profits the amount of interest paid by the firms in respect of borrowed capital—such borrowed capital being included in the gross capital investment, as shown above. The rate of net profit on gross capital is therefore shown to have almost doubled as between 1914 and 1920; but again it is pointed out that the profits upon which the figures are based are largely “paper” profits which, in view of the present decline in prices, may never be realized.

On the subject of whether or not profits should be considered in relation to sales or in relation to capital, attention is drawn to certain portions of a British report upon an investigation into prices, costs, and profits of the manufacture of Yorkshire tweed cloths. This report was made in July, 1920, by a sub-committee appointed by the Standing Committee on the Investigation of Profits.

“It was laid down by Sir Robert Horne during the Profiteering Amendment Act debate, 1920, that the rate of profit is to be reckoned as the percentage rate on sales, and the reasonableness of the profit to be decided by comparison with the pre-war percentage on sales, due consideration being given to the relative expenses of carrying on the business. . . . The relation of profits to capital employed is often regarded as a test of the reasonableness or otherwise of the profits realized. This depends, however, upon ability to ascertain the capital employed. . . . The capital of some firms in the trade stands in their books at the figure at which it stood half a century ago, whilst the book values of machinery of others have been written down to nothing. . . . In practice the profit made by a firm depends less upon the sum of its capital than upon the initiative, enterprise, and good sense of those responsible for its policy. In all the circumstances a statement of return on the nominal capital employed would be wholly misleading, and we have therefore not attempted it.”

#### WHOLESALE TWEED TRADE.

In New Zealand, and probably in other countries, there exists a special class of wholesale traders who are engaged in the business of buying from manufacturers, and selling, mainly to “order” tailors, woollen and cotton piece-goods, buttons, threads, &c., suitable for use in the making of men's suits and women's costumes. While these firms undoubtedly do a very substantial portion of the wholesale business in such goods, the general wholesale soft-goods warehouses also have departments which handle this class of commodity. The two classes of traders buy their supplies from similar sources in Great Britain and New Zealand, and generally there is no material difference in the conditions under which the “tweed” firms and the tweed departments of general warehouses do business.

The figures given below relate to several “tweed” firms carrying on business in the chief centres of the Dominion. The records of a number of other firms have been under investigation, but, for reasons which need not be detailed here, it has been difficult to include such firms in comparative tables covering the trading-years 1914, 1919, and 1920. The firms dealt with in this summary are a fully representative sample of those engaged in this particular class of business. Turnover, gross profit, and percentage of gross profit on turnover for the three years in question were as follows:—

			Sales.	Gross Profit.	Percentage.
			£	£	
Trading-year 1914	..	..	172,301	39,653	23·01
„ 1919	..	..	204,316	68,443	33·50
„ 1920	..	..	345,625	114,203	33·07

The turnover increased between 1914 and 1920 by £173,324, or just over 100 per cent. The gross profit increased by £74,550, or 188 per cent.

The similar figures already given in respect of the general wholesale warehouses were 107 per cent. increase in turnover and 138 per cent. increase in gross profit. The difference in the rate of increase of gross profit as between the two classes of traders will be readily noticed.

The average percentage of gross profit on turnover taken by the tweed-warehouses in 1914 was a little higher than that taken by general warehouses over the whole of their sales. The rate of profit in 1920, however, was very much higher. There was no great disparity between the rates of profit of the several tweed-houses in 1914—the figures ranged from 21·44 to 24·60—but in 1920 the rates differed considerably, the highest being 36·32 and the lowest 28·0 per cent. The net profits and percentages on turnover were as follows:—

			Sales.	Net Profit before	Percentage.
			£	Deduction of	
			£	Income-tax.	
Trading-year 1914	..	..	172,301	11,050	6·41
„ 1919	..	..	204,315	42,148	20·62
„ 1920	..	..	345,625	81,305	23·52

The net profits—before deduction of income-tax—increased between 1914 and 1920 by an amount of £70,255, or 636 per cent. The rate of net profit on turnover was in 1920 nearly four times as great as in 1914.

As in the case of the general warehouses, this increased rate of net profit was secured as a result of (1) the higher rate of gross profit taken in 1920, and (2) the decrease in overhead expenses (excluding income-tax) relatively to turnover.

The substantial increase in the rate of gross profit has already been noticed. The decline in the percentage rate of overhead expenses is shown by the following figures :—

	Sales.	Overhead Expenses (excluding Income-tax).	Percentage.
	£	£	
Trading-year 1914 .. ..	172,301	28,603	16.60
„ 1919 .. ..	204,315	26,295	12.87
„ 1920 .. ..	345,625	32,898	9.32

The overhead expenses, in absolute amount, were in 1920 only slightly in excess of the amount for 1914, while the 1919 figures were actually less than the 1914 expenses. This was doubtless brought about by the reduction in the quantity of goods handled in 1919 as compared with 1914. Relatively to sales, the rate of overhead expenses in 1920 was little more than half the rate in 1914. Income-taxes paid or payable by the firms in question for the three years under review were :—

	£
Trading-year 1914 .. ..	587
„ 1919 .. ..	13,515
„ 1920 .. ..	30,463

While the deduction of this tax from the profits shown above materially reduced the profit figures, a substantial margin remained. The net profits, after allowing for the payment of income-tax and the rates of such net profits on turnover, were as follows :—

	Net Profit from Trading after Deduction of Income-tax.	Percentage on Turnover.
	£	
Trading-year 1914 .. ..	10,463	6.07
„ 1919 .. ..	28,633	14.01
„ 1920 .. ..	50,842	14.71

These figures indicate that in 1920, on the average, an absolute clear net profit of nearly 3s. was taken in respect of each £1 of sales, and that in total nearly five times as much net profit was taken in 1920 as in 1914. In addition to the net profits from trading shown above, the firms also secured incidental profits of a relatively small amount, which increased the absolute net profits to the following figures :—

	£
Trading-year 1914 .. ..	10,688
„ 1919 .. ..	29,071
„ 1920 .. ..	52,116

The foregoing summarized results disclose a somewhat startling position ; but before making a more intensive analysis of the figures the profits in their relation to capital investment will be dealt with.

The following table shows (1) the gross capital investment, and (2) the reserves as at the end of the trading-years 1914, 1919, and 1920 :—

	Gross Capital.	Reserves.
	£	£
Trading-year 1914 .. ..	119,238	5,600
„ 1919 .. ..	120,169	18,354
„ 1920 .. ..	161,653	25,603

The totals of gross capital as shown above indicate, on the basis of values of assets as shown in traders' books, the total capital (including borrowed capital) actually employed in carrying on the trading operations. Any amounts invested outside the normal operations of the firms have been omitted from the totals.

The remarks in regard to the reserves of general warehouses apply equally in respect to the above-stated reserves of "tweed" firms.

The gross capital increased between 1914 and 1920 by an amount of £42,415, or 35 per cent. During the same period the sales increased, as previously mentioned, by just over 100 per cent. In 1914 the turnover was £172,301, or £144 per £100 of gross capital, whereas in 1920 the turnover was £345,625, or £214 per £100 of gross capital. This increase in turnover relative to capital was, of course, due to the rise in values of goods handled, and cannot be taken as an indication that a much greater quantity of goods was sold by businesses using only a slightly increased capital. In other words, the increase in turnover relative to capital is *not* in this case an indication of increased business efficiency and enterprise.

The total absolute net profits, after payment of income-tax, showed the following percentage relation to gross capital investment :—

	Percentage Net Profit to Gross Capital.
Trading-year 1914 .. ..	9.71
„ 1919 .. ..	23.60
„ 1920 .. ..	31.52

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
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
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

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

falling market. But, inasmuch as the tweed trade, in respect of practically all sales, was able to show that the prices charged were not unreasonable having regard to replacement values, it was not possible to take any restrictive action which would have been other than an official negation of the principles laid down by the Court of Appeal.

In Victoria the Fair-profits Commission refused to endorse the replacement principle, and upon the Commission's recommendation control was instituted in May, 1920. The main reason for this action is probably indicated by the following paragraph taken from Report No. 5, signed by the Commission on the 27th April, 1920 :—

“The wholesale market in these commodities is in an abnormal condition. In the first place, under the arrangements made between the central wool committee and Australian woollen-mills, wool has been and is at present supplied to the manufacturer at a price far below world prices for wool. As a result the Australian manufacturer will, till 30th June next, be in a position to sell his products at a price much below that at which a corresponding British tweed could be landed in Victoria. This condition of affairs makes and has made it possible for manufacturers and wholesalers to make undue profits, by bringing prices for Australian tweeds up to the parity of world prices. But such a course of action would mean to the consumer not only an actual unnecessary increase of manufacturing and wholesale prices, but also an increase on that increase, by reason of the retailer's customary percentage addition to cost in fixing retail prices. To control Australian tweeds and not imported tweeds would be a direct encouragement not to deal in the former. In the second place, supplies of tweeds, both Australian and imported, are much less than the local demand. Consequently the manufacturer of or trader in this article has an assured market for all he can supply, and wholesalers, at any rate, are almost universally ‘rationing’ their customers. In this condition of affairs it appears to the Commission to be necessary to exercise control over the price of tweeds.”

The Commission recommended a margin of profit considerably below that which has been taken in New Zealand during recent years. As previously indicated, this could only be done upon the basis of denying the validity of the arguments supporting the principle of selling at replacement values.

Since compiling the figures used in this chapter the Department has had to take into consideration a complete change in the condition of the clothing-markets. The figures cover a period of rising prices, and it is true that up till the middle of the year 1920 very good profits were made. This period of trading prosperity was, however, followed by a sudden and severe fall in prices and uncertainty in the producing markets, accompanied by a serious financial stringency. Consequently, this class of trader—not unlike others—has been involved in substantial losses.

Wholesale warehouses have to meet the heavy requirements of retailers, and consequently it is never possible for the wholesale houses to reduce stocks beyond a certain degree. The position of these houses was therefore rendered very difficult by the sudden turn in the market, and the quitting of their considerable stocks has resulted in heavy losses, offsetting the reserves accumulated on the rising market. Moreover, the stocks not sold must be discounted to replacement costs, and if the market continues to decline further losses will result.

## MISCELLANEOUS INVESTIGATIONS AND MEASURES OF CONTROL.

### HIDES.

By Order in Council dated the 12th March, 1917, the New Zealand Government, on behalf of the Imperial Government, commandeered all hides and calf-skins suitable for the requirements of the Government at a valuation to be made by a Government valuer. At the same time provision was made that tanners already carrying on business in New Zealand would be granted permits to obtain hides that were offered for sale to the Government. The exportation of those goods was prohibited.

The arrangements made resulted in the better class of hides being selected by the local tanners, and second-quality hides being left for the Imperial Government, and gradually conditions became worse from that Government's point of view. On account of the shortage of ships and delay in shipping, the hides purchased were becoming slippy and weevilly—with prospects of considerable loss. The Department of Imperial Supplies arranged to have them reconditioned and crust-tanned in order to preserve them.

Shortly afterwards the Imperial Government terminated its scheme of purchase, but the schedule prices still remained in force, and there continued to be an embargo on the export of hides from New Zealand. Farmers and freezing companies, however, appealed for a free market, and on the 6th December, 1918, a notice was published removing the embargo on export and making it permissible to export hides and calf-skins to British possessions.

After a brief relaxation of control it was considered necessary to institute some measures to retain a supply of hides for New Zealand's requirements. Early in March, 1919, regulations were issued to provide that before any export could be made the hides must be offered to representatives of New Zealand tanners and refused by them, at prices specified in the schedule to the regulations.

From time to time, however, there was a serious conflict of various interests concerned: The farmers and freezing companies declared that they were being exploited for the benefit of the tanners, and they appealed for a free market and world's parity prices; the tanners wished to have local supplies for leather; and the general public desired cheap footwear. To reconcile these divergent interests was a difficult problem.

Further regulations were gazetted in October, 1919, giving tanners a pre-emptive right to purchase 50 per cent. of each grade of hides and calf-skins offered for sale, and this purchase was to be at the official schedule of prices. The *Gazette* notice also provided for the prohibition of export of leather by tanners. In general, export was permitted only on permit from the Board of Trade, and these permits were granted only for leather unsuitable for the Dominion's requirements.

At length, in February, 1920, the embargo was removed. At the first New Zealand hide-sale following the raising of the embargo phenomenal offerings were made, and the prices realized were approximately 50 per cent. in advance of the schedule of prices previously in force. These high prices were maintained and increased at subsequent sales, until peak prices were reached towards the end of April, and these were over 100 per cent. in advance of the schedule rates. The market then began to fail, and prices declined, until early in July they were again on a level with the embargo schedules. From July onwards declining prices continued, and by November the market had practically collapsed.

The purchase of hides by tanners is a seasonal operation, which usually commences shortly after the beginning of the killing season in November and runs on till March. By acquiring stocks at this period the tanners obtain a better article from the point of view of "substance," as the hide is not loaded with long hair and dirt. When the embargo was raised the tanners' buying season was already late, and it was not contemplated that the market would collapse with the degree of suddenness that actually occurred. Consequently most of the tanners' stocks were replenished at peak prices.

There was no doubt that the sudden collapse of the market complicated business for all concerned with the manufacture of leather goods, and even at the time of writing (1st June, 1921) comparatively few of the cheaper hides have been through the manufacturing process in this country.

#### FOOTWEAR.

The Department has investigated the profits of boot-manufacturers, wholesalers and retailers, and is in possession of reliable financial records relating to the numerous firms operating in the boot business in New Zealand.

Up till the end of 1919 local boot-manufacturers were fairly prosperous, but at no time has the manufacturer of boots enjoyed the profits which have fallen to the lot of the man engaged merely in trading operations in footwear. In the period of rising prices the trader, working on the basis of replacement values, was able to amass considerable profits; but the manufacturer's business was more complicated, and contracts for future orders were sometimes rendered unprofitable by unforeseen rises in the costs of raw materials and labour. Furthermore, the competition of imported footwear became increasingly keen in 1920, and added to the difficulties of the local manufacturer.

Between 1914 and 1919 several boot-factories were extended and some new establishments opened. In the results of the investigation into the manufacturing business there is no evidence that unreasonable profits have been taken at any time during recent years.

A few prosecutions under section 32 of the Board of Trade Act were instituted against retailers, but only one was successful.

#### STANDARDIZED FOOTWEAR.

Preliminary inquiries in regard to the standardized footwear were referred to in the third annual report of the Board of Trade. Shortly after that report was issued the Department arranged for the drafting of regulations embodying a scheme for the manufacture of standardized footwear and the control of the prices of thirty varieties of boots made in New Zealand from New Zealand leather. Briefly, the scheme is as follows:—

The Board will issue to any boot-manufacturer in New Zealand who is willing to comply with the conditions set out in the regulations a license to place on the New Zealand market boots branded "New Zealand Board of Trade." The maximum retail price must be marked in plain figures on the sole of each boot, but it is not a breach of the terms of the license if a retailer sells at a lower price. The figures to be stamped on the boots will provide for the cost of manufacture, plus a reasonable profit to the manufacturer and a sufficient sum to cover the costs and profits in distribution. Should a retailer or manufacturer employ a middleman, or warehouse, to finance him the retailer or manufacturer must pay the middleman for his services without increasing the retail prices of the boots, the idea being to reduce handling-expenses to the lowest possible figure and to bring the retailer into direct touch with the manufacturer. The license contains a clause that all boots manufactured shall conform with specifications according to type or class issued by the Department, and must correspond in quality with the sample, which will remain in the possession of the Department. By the courtesy of the Labour Department the services of the Inspectors of Footwear are available to see that the boots are manufactured according to samples and specifications. The Board of Trade reserves the right to alter the retail prices from time to time according to fluctuations of the market for material and labour.

Since the regulations were approved on the 6th October, 1919, a large number of the boots have been manufactured and sold to the public. Most of this activity has been concentrated in Wellington, but the Department has made demonstrations in the other centres with a view to giving the people information concerning the scheme. It must be confessed that the system has not met with the anticipated success, but the Department feels convinced that the principles underlying the movement are so sound as to ensure their ultimate adoption by the New Zealand manufacturers. The scheme merely puts into effect the benefits of specialization. A great source of wasted energy in the industrial world at the present time is that many manufacturers are engaged in miscellaneous operations with no economic standards, and quite unnecessary variations in the products have been allowed to intrude themselves merely because it has been nobody's business to see that they are reduced to a minimum.

The Department's scheme provides the public with two guarantees—(1) that the quality of the boots is quite satisfactory, and (2) that the profits of the manufacturer and dealers are reasonable.



But it appears that the very fact that profits are under control makes the arrangement more or less obnoxious to traders. There is reason to believe that the manufacturers do not object to this price-control—in fact, many of them welcome it as a change from the uncertainty that now pervades their whole business—but the shopkeeper naturally pushes the sale of the goods on which he gets the best margin of profit. If, however, there were a widespread public demand for the standardized footwear the trader would be obliged to stock the boots.

#### MEAT.

Through the medium of the price-investigation tribunals and the Department's investigating officers a considerable amount of attention has been given to the supervision of meat-prices. The New Zealand *per capita* consumption of meat is comparatively high, and therefore the slightest reduction in the retail prices of this commodity means an enormous saving to the public. The Department recognizes, however, that the established butchers have maintained a high standard of sanitation, and that they are entitled to a reasonable profit for the services rendered. This is one of the reasons why the fall in the retail prices of meat is not so great as the fall in stock-values. As the market conditions change the Department will endeavour to ensure that no unjustifiable increase is made in the retail prices of meat.

#### FISH.

It is a matter of considerable difficulty to calculate fair prices for supplies of fish. It will be remembered that the fishing industry in the Auckland District was investigated in 1918–19, and a separate report issued under section 6 of the Cost of Living Act. Since that report was published the position of affairs in Dunedin has been subject to detailed inquiry by the price-investigation tribunal, and a full report of the evidence has been submitted to the Press. The Wellington Price-investigation Tribunal also submitted a report on the fishing industry in the Wellington District.

#### PETROL-SUPPLIES.

The regulations introduced in July, 1918, for the fixation of prices and the distribution of petrol were suspended, in so far as quantity was concerned, during a portion of the period of 1919, but in December of that year it was feared that the position would again become acute, and arrangements were immediately made to again enforce the regulations. Early in March, 1920, the position, owing to the reduced supplies coming forward from the United States, became very acute, and a central petrol committee was set up in Wellington, with sub-committees at each of the main ports, to co-operate with the Board of Trade. It was found necessary to ration supplies and in some cases to suspend supplies altogether, except in the cases of essential industries. It was estimated that the Dominion's annual requirements were fourteen million gallons; and notwithstanding the fact that between the months of January and May, 1920, the petrol imports into the Dominion showed an approximate increase of one and a half million gallons, the shortage continued. At this time the price for petrol in the United Kingdom was 3s. 8½d. per gallon, against an average price of 4s. 2d. per gallon in New Zealand.

With the assistance of the central and local petrol committees the control by the Board continued until September, 1920, when it was found that supplies were coming forward freely and justified the Board's decision to permit wholesale and retail suppliers, who had been allowed to stock up to four weeks' requirements only, to hold petrol in any quantity provided the selling-price did not exceed that gazetted.

For an unaccountable reason shipments in November and December, 1920, came forward in exceedingly large quantities, and the subsequent returns from importers showed that over one and a half million cases of petrol actually arrived in the Dominion by the end of the following February, and all anxiety as to supplies was removed. Since early this year there have been ample supplies available to meet all demands, and the prices of all oils, illuminating and power, have shown a declining tendency. In view of the keen competition to effect sales the Board removed the restrictions on price in June of this year.

Judging by the correspondence received by the Department, the work of the various petrol committees gave general satisfaction to the importer, distributor, and consumer. The Department takes this opportunity of publicly thanking the members of the various committees, and the oil-importing firms generally, for valuable honorary services rendered during a most critical period.

#### COAL.

On many occasions during the past two years the supply of coal has been seriously jeopardized by production and transport difficulties, but recently there has undoubtedly been an improvement in the supplies, especially in the South Island. Much of the coal for industrial purposes has been imported at heavy cost, and this has hampered local manufacturers. A close watch has been kept on coal-prices by the Department to ensure the consumer getting it at a reasonable price. The Department has nothing to add to the information and recommendations contained in the Board of Trade report on the coal-mining industry.

#### WOOL.

The difficulties arising in connection with the wool-market have been closely followed by the Department, although the administrative measures connected with this trade come within the province of another Department. The development of our woollen-manufactures was attended with great

success during the war, and the locally manufactured goods have been of splendid quality. The acute shortages of woollen goods experienced up to the commencement of this year have now been met, largely by importations from overseas.

#### BUTTER.

The control over the butter trade has been exercised from time to time under the provisions of the Board of Trade Act, 1919. The administration of such regulations has, however, been the work of the Department of Agriculture. The cash price is fixed at 2s. 3d. per pound, and is operative up to the end of August, 1921.

#### EGGS.

Although the prices of eggs have been fairly high throughout the past two years, there is no doubt that some of the poultry-farmers have found difficulty in making ends meet. Many returned soldiers have taken up this branch of farming, and in the early and difficult stages of their enterprise they have found the competition of Asiatic egg-pulp a serious handicap. This matter has been before the Government on several occasions; and previously, as the producers were not prepared to guarantee full supplies for New Zealand requirements, it was considered inadvisable to prohibit the importation of Asiatic egg-pulp. Early this year, however, the whole subject was thoroughly discussed at a conference of representatives of the poultry-farmers, pastrycooks, and the several Government Departments concerned, and as a result an arrangement satisfactory to the parties was arrived at by restricting the importation of this product, save on the recommendation of the Board of Trade.

#### TOBACCO AND CIGARETTES.

The Department has kept a close watch on the prices of these goods, and has found after investigation that the traders have acted fairly towards the public. The prices of certain popular lines have been reviewed from time to time by the Department in order to see that any increases were warranted.

#### SALT.

For a while—as far back as 1918—there was a serious shortage of salt in New Zealand, but this shortage soon led to an oversupply, and by November, 1920, salt was available in abundance, occasionally being quitted below cost.

Dairy salt was particularly in short supply a few years ago, and dairy companies and other traders imported big supplies. Consequently this commodity became a drug on the market, and the dairy companies then went to the other extreme and let their stocks run right out, and towards the end of 1920 were again appealing for supplies. There was, however, no difficulty in meeting their demands.

At New Brighton, Christchurch, the production of marine salt is being experimented with by a new company.

#### METHYLATED SPIRITS.

During the period under review there has been from time to time a serious shortage of methylated spirits in the Dominion. Australia could not supply nearly the whole of our requirements, and it was necessary to send to America and Canada to make up the deficiency. The American spirit was more expensive than the Australian because the original price was higher and freight expenses heavier, and the exchange difficulties accentuated both disadvantages. The New Zealand wholesale firms appear to have gone to a good deal of trouble to ascertain a new source of supply, but are still obliged to rely largely upon America.

Attention is being given by the Department to the question of improving the supply, as many local industries are affected by the shortage.

#### SOAP AND CANDLES.

The prices of New-Zealand-made soap and candles have been fixed from time to time by traders after agreement with the Board of Trade, and after full inquiry as to production-costs.

The locally produced candles are now meeting with keen competition from imported supplies, and prices have fallen considerably during the last six months. There is, however, a more promising future for the manufacture of soap, as good supplies of raw materials in New Zealand are available; but a large section of the public has still to be educated as to the satisfactory quality of the New Zealand soap, much of the imported supplies being inferior in quality, price for price.

#### GAS.

Complaints regarding the prices and quality of gas in the main centres have been made frequently within recent years, and the Department has from time to time investigated the accounts of the gas companies to ensure that increases in the prices were warranted by higher productive costs. In addition to inquiring into the reasons for specific changes in the prices of gas, the Department has commenced a thorough analysis of the accounts and cost records over a period of several years of all the gas undertakings in the Dominion, and by this means valuable comparative data should be secured.

There is a widespread conviction that the varying quality of the gas now available in the cities warrants the introduction of a system of payment according to thermal units—*i.e.*, an arrangement under which the gas is paid for according to its value for heating purposes—and such a reform was also viewed favourably in Great Britain. This Department has, however, confined its attention mainly to the question of cost of production, because there are certain charges and expenses which must be met before the gas can be sold, and these charges, with a reasonable return to investors, must be provided for in the prices, whether the users pay according to thermal units or by quantity of gas irrespective of calorific value.

Although the Board in its 1918 report advocated payment according to thermal units, closer investigation of the accounts and the actual manufacturing-conditions have disclosed that while coals of varying yield from the carbonization process are the only supplies available it is hardly possible to apply the principle equitably. Thus, payment according to calorific value must wait until sufficient supplies of coal are available to permit of a certain degree of standardization of the raw materials for gasmaking.

It is hoped that a report on the financial side of the gas companies' operations will be available for publication during the current year. The Department is already satisfied that none of the gas companies has been making excessive profits, and recognizes that all of them have had to contend with great difficulties in obtaining adequate, regular, and satisfactory supplies of coal.

### NEW ZEALAND INDUSTRIES.

ALREADY attention has been drawn in this report to the fact that one of the principal functions of the Department of Industries and Commerce is to foster the Dominion's industries; and it is necessary not only to recognize this duty by a general supervision of, and interest in, local manufacturing operations, but also to devise a progressive policy of assistance. The first question that arises is "What can the Department do to aid local industry?" The public are familiar with the expedients of assisting by tariff protection and also by a direct bonus on production, but there are other ways in which the industrial development of the Dominion can be facilitated in order that we may fully utilize our natural resources. A circular has already been addressed to the principal manufacturers inquiring for information as to their operations, and also pointing out the Department's readiness to assist. Although a definite programme has not been finally adopted, the Department expects to be able to assist the local manufacturers in the following ways:—

- (1.) By propaganda to overcome the prejudice amongst consumers against the use of New Zealand goods. It should not be necessary to use quasi-English markings to create a demand, but many manufacturers state that the words "Made in New Zealand" do not help the sale of the articles, however well they may be made. In Australia a large sum has been placed at the disposal of the Commonwealth Bureau of Science and Industry for propaganda work in connection with the Australian industries.
- (2.) By investigation into the many economic, accountancy, and organization problems in industry, and by special arrangements to give publicity to information of value to manufacturers.
- (3.) By securing reliable market information, both local and foreign, in regard to the purchase of raw materials as well as the sale of manufactured goods.
- (4.) By encouragement of new processes and industries by way of bounty.
- (5.) By keeping the channels of competition free and open to all, and preventing unfair business practices.
- (6.) By generally shedding a desirable light of publicity on the operations of local manufacturers and traders.

In order that buyers may have a reliable source of information regarding the many articles manufactured in New Zealand the Department has undertaken the preparation of a complete manufacturers' directory, which it is hoped to issue during the current year. This directory should go a long way towards fostering a demand for New Zealand manufactures. It is surprising how many purchasers of imported goods are not aware of the fact that similar articles are manufactured in New Zealand.

### SCOPE FOR DEVELOPMENT OF INDUSTRIES IN THIS COUNTRY.

The great sphere for the development of industries in New Zealand was well shown in the report of the Parliamentary Committee on Industries, 1919. This Committee's report shows that comparatively little has so far been accomplished in utilizing the great resources of this country. Useful industries could be established to provide for the utilization of larger quantities of wool, hides, and other materials within the country, and at the same time the expenses for freight and the risks of deterioration would be greatly lessened.

### PROGRESS ALREADY ACHIEVED IN NEW ZEALAND INDUSTRIES.

Considerable development has already taken place in industrial manufacture in this country—indeed, few people are aware of the comparatively large amount of capital invested in what are generally known as the secondary industries. Moreover, a large number of people are now dependent upon these industries. Although numerically the industries have not shown a great advance in recent years, the increase in machinery and plant—in capital investment generally—has been enormous. Owing to labour difficulties the manufacturers have been forced into the use of mechanical devices,

and their organization has been improved with commendable enterprise. The increase in the value of property and plant is clearly indicated in the following table compiled from the official statistics of industrial manufacture :—

Year.						Value of Property and Plant. £
1896 ..	..	..	..	..	..	5,796,017
1901 ..	..	..	..	..	..	8,408,564
1906 ..	..	..	..	..	..	12,509,286
1911 ..	..	..	..	..	..	16,731,359
1916 ..	..	..	..	..	..	21,951,576
1920 ..	..	..	..	..	..	33,436,130

It is true that much of the development has occurred in the manufacturing side of the dairy industry, which has made remarkable progress. Apart, however, from consideration of such branches of production as the dairy industry, a remarkable development has taken place in manufactures generally. It may be added that the official statistics are inclined to understate the progress of the industries, for the reason that the value of property and plant is based on the book values, which are in most instances far below the selling-values of the assets concerned.

#### WOOLLEN GOODS.

One of the most important industries is the manufacture of woollen goods. Adverting to Chapter VI, it will be seen that increasing amounts of capital have been invested in this branch of production; and yet only a very small percentage of the wool produced in New Zealand is made up locally, while at the same time New Zealand manufacturers supply only a small proportion of the people's requirements in woollen clothing. Nevertheless the locally made rugs, blankets, and woollen clothing are admittedly among the best articles of this kind produced in the world. It is noteworthy that a New Zealand woollen-manufacturer secured the world's Grand Prize for woollen goods at the Panama-Pacific International Exhibition, San Francisco, 1913.

The leading products of woollen-mills (with figures for the year 1919-20) are :—

Tweed and clothing	..	..	..	..	1,444,955 yards.
Flannel	..	..	..	..	845,968 yards.
Blankets	..	..	..	..	74,877 pairs.
Rugs	..	..	..	..	24,351 rugs.
Hosiery	..	..	..	..	110,170 dozen pairs.
Yarn	..	..	..	..	366,104 lb.

Although the woollen-manufacturing industry has had its greatest development in Canterbury and Otago, mills are now well distributed throughout the Dominion, and are in operation at Invercargill, Milton, Mosgiel, Dunedin, Timaru, Ashburton, Kaiapoi, Petone, Napier, and Onehunga, while new mills will be established at Wanganui and Balclutha. This is one of the oldest industries in the Dominion, and in view of its importance to the country it is satisfactory to know that its progress has been sure and steady. The following return shows the position of this industry :—

#### WOOLLEN-MILLS.

Census Year.	Number of Establishments.	Number of Employees.	Amount paid in Wages.	Cost of Materials used.	Value of Output.
			£	£	£
1895-96 ..	9	1,416	91,619	139,317	302,423
1900-01 ..	10	1,693	112,001	196,081	359,382
1905-06 ..	10	1,549	105,036	206,847	397,348
1910-11 ..	11	1,410	137,161	248,187	377,713
1915-16 ..	10	1,897	187,736	411,632	717,638
1918-19 ..	10	1,862	224,988	564,075	956,434
1919-20 ..	11	2,025	287,109	591,257	1,143,265

#### TANNING INDUSTRY.

In the official statistics of industrial manufacture the tanning, wool-scouring, and fellmongery industries are combined, and it is difficult to say whether any progress has been due mainly to tanning or mainly to one of the other branches of production. The following table will indicate the general development of these industries between 1896 and 1920. There is still a great scope for additional tanning operations in New Zealand, but the local industry has had a somewhat chequered career owing to the severity of Australian competition.

## TANNING, WOOL-SCOURING, AND FELLMONGERY.

Census Year.	Number of Establishments.	Number of Employees.	Amount paid in Wages.	Cost of Materials used.	Value of Output.
			£	£	£
1895-96 ..	117	1,629	116,983	134,176	1,237,252
1900-01 ..	119	1,963	159,342	1,391,323	1,888,107
1905-06 ..	99	1,336	102,506	1,201,318	1,836,310
1910-11 ..	79	1,372	136,875	1,788,772	2,036,770
1915-16 ..	59	1,187	146,532	2,215,417	2,755,283
1918-19 ..	65	1,328	213,582	3,119,665	3,662,659
1919-20 ..	70	1,536	316,377	3,984,846	4,941,998

## BOOT AND SHOE FACTORIES.

The manufacture of boots and shoes in New Zealand developed considerably during the war, although it had been an important industry since 1896. The number of establishments has varied considerably from year to year, and a few failures have occurred in this class of business in New Zealand. The value of the output has advanced from £357,806 in 1896 to £1,443,436 in 1920. Like many other branches of production this industry experienced exceptional prosperity during the war, but is now suffering from severe competition from overseas manufacturers, especially Australian. In fact, there have been serious over-importations—an accumulation of imported stocks far beyond the normal requirements of the Dominion. Many of the New Zealand factories are now working only part-time, and there is a general depression in the trade. The following table summarizes the statistical data of this industry:—

Census Year.	Number of Establishments.	Number of Employees.	Amount paid in Wages.	Cost of Materials used.	Value of Output.
			£	£	£
1895-96 ..	65	2,349	137,224	176,838	357,806
1900-01 ..	126	2,696	192,443	273,325	529,254
1905-06 ..	72	2,206	171,495	269,664	501,065
1910-11 ..	74	2,072	197,793	334,880	619,873
1915-16 ..	166	2,257	238,831	441,292	801,572
1918-19 ..	75	2,304	296,984	718,316	1,199,897
1919-20 ..	64	2,322	362,611	888,847	1,443,436

## MOTOR AND CYCLE WORKS.

This industry has shown a remarkable development since 1896. Its progress has probably been greater than that displayed in any other branch of production in New Zealand. The operations are mainly connected with engineering and repair work. The following table will indicate the advance that has taken place in this industry:—

Census Year.	Number of Establishments.	Number of Employees.	Amount paid in Wages.	Cost of Materials used.	Value of Output.
			£	£	£
1895-96 ..	19	125	5,952	7,696	18,817
1900-01 ..	71	395	21,443	26,824	65,047
1905-06 ..	97	452	30,831	37,092	75,991
1910-11 ..	71	315	30,366	38,904	92,141
1915-16 ..	172	649	56,164	65,742	189,482
1918-19 ..	255	1,278	175,706	220,606	571,074
1919-20 ..	334	1,783	263,567	345,567	821,810

Space will not permit of analysis of the statistical data relating to the many other industries established in the Dominion. It may be added that the Government Statistician has made arrangements for an annual census of industrial manufacture, and the figures are appearing regularly in the issues of Volume III, "Statistics of New Zealand."

## PRESENT CONDITIONS OF LOCAL INDUSTRIES.

The local manufacturing industries have suffered during the post-war depression, but it is hardly correct to say that the industries generally are having an adverse period. In some branches of production, notably the leather industries, the depression has been serious, and unemployment has been present on a considerable scale. Much of this difficulty has been caused by the severity of overseas competition, particularly competition from Australia.

The cement industry is also experiencing a trying time, and the various works are finding it difficult to carry on at a profit. The demand for cement and building-materials generally has slackened during the recent financial stringency, and as a result the people engaged in the production of these materials cannot find a ready market for their whole output.

## PROSPECTIVE INDUSTRIES.

There are several new and prospective industries engaging the attention of the Department. An industry recently established in Wellington is the manufacture of rubber products at Miramar. The promoters of this venture have, so far, utilized mainly second-hand rubber goods and worked them up, but they have the machinery to deal with the plantation rubber, and expect to be able to develop a big output in tires and other rubber goods.

Not long ago there was considerable interest in the proposal to establish the beet-sugar industry in New Zealand. At the time the proposal was first considered the prices of sugar were high and still moving upward, but within more recent months the sugar-market has shown an easing tendency, and there is not now the same need for supplementary supplies. Although the world's production has not yet returned to a level equal to the normal requirements of all countries, there is every prospect that more than sufficient supplies will be available in the near future.

Inquiries into the proposal to establish the beet-sugar industry in this Dominion revealed the fact that beet of good sugar-producing qualities could be grown in many parts of the country, but it appeared that the establishment of the works sufficient to supply about one-tenth of New Zealand's requirements would involve the capital outlay of nearly half a million.

A new product called "meat-flour" has also been investigated by the Department. It appears to be of high food value, and its manufacture should form an important supplement to the meat freezing and preserving industries; and there is a prospect of building up an export trade, especially with countries not exploited by the fresh- and frozen-meat trade.

Helpful information for the guidance of some New-Zealanders interested in the local manufacture of bricks and tiles (for roofing and flooring) has been obtained by the Department through the High Commissioner's Office, which has been in touch with English experts. A sufficient quantity of North Island clay was sent to an English firm to enable it to make reliable tests, and the result is a report, accompanied by samples of bricks and tiles, showing that the material is suitable for roofing and flooring tiles as well as for bricks. The report includes details of the cost of plant for the making of bricks and tiles. Altogether the information is comprehensive enough to enable the persons interested to estimate the approximate cost of manufacture on a commercial scale. Several inquiries have been received for information on this matter.

The tile-making industry has made good headway, and local producers are now turning out very satisfactory goods rivalling the famous Marseilles tiles.

## CONCLUSION.

In conclusion the Department of Industries and Commerce desires to stress the importance to the Dominion of the need for greater encouragement being given to the working and utilization of her raw materials. The changed conditions of trade and commerce which the war has brought have made it necessary for all countries in the Empire to look to the development of their own resources as an aid to the restoration of national prosperity. In New Zealand there is a wide field for effort in the bringing in and utilization of raw materials, and the enterprise in this direction of a number of local manufacturers is serving a double and commendable purpose; it is restoring industry and production and at the same time providing work for many workers who probably in this period of depression would otherwise be unemployed. The machinery of the Board of Trade Act, 1919, should help to facilitate the formation of a broader basis of support for the increasing population of this country and in no small measure tend to hasten the recovery of the farming and allied industries,

For the Department of Industries and Commerce.

W. G. McDONALD, Chairman, Board of Trade.

G. WILSON, } Members, Board of Trade.  
P. HALLY, }

9th August, 1921.

J. W. COLLINS, Secretary of Industries and Commerce.

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