

UNDUE PROFIT IS MADE IN SHOES, SAYS U. S. REPORT

Federal Trade Commission Makes Investigation and Finds that Some Charges Unjustified.

CONSUMER PAYS FREIGHT

Tanners' Profits Are Included Among Those Listed; Retailers Clear Fifty Per Cent.

Washington, Oct. 9.—(WASHINGTON BUREAU OF THE JOURNAL)—The completed report of the federal trade commission on the leather and shoe industries, which has become available from the printing office, gives many pertinent facts on the present, cost of shoes, and tends to show how undue profits, starting with the tanner and carried down the line, are pyramided upon the consumer.

The conclusions formed are that there are increased costs of material and labor and that shoes should cost more now than in 1916 or 1917, but it is found that undue profits have been added in every process from the time the hide reached the tanner. This is illustrated by a concrete case given in the report:

"In a shoe that cost the manufacturer \$2.37 in 1917, the leather cost \$2.71. This shoe was sold by the manufacturer for \$5.25. The retail shoe merchants made an average profit of not less than 50 per cent. The consumer, therefore, paid not less than \$7.50 for a pair of these shoes and he more than likely paid \$8.

TANNERS' PROFIT LARGE

"More than 23 per cent of the tanning concerns whose costs were examined received more than 35 per cent profit on their leather in 1917. Applying this percentage of profit, the tanner received 77 cents profit on the leather in this shoe. If he had received only 12 1/2 per cent profit the leather in this shoe would have cost the manufacturer \$2.25 instead of \$2.71, or 48 cents less. This would have made the shoe cost him \$3.51 instead of \$3.97.

"The shoe manufacturer sold this product at \$5.25 per pair, or an advance of \$1.28 above cost, showing him a profit of approximately 22 per cent. If the manufacturer had received a profit of 12 1/2 per cent on the lower cost he would have sold it to the merchant for \$3.95 instead of \$5.25. As already stated, the retail merchant no doubt sold this shoe for not less than \$7.50 and made a profit of about 50 per cent. At the same rate of profit he could have sold the lower cost shoe for \$6.

RETAILER CLEARS 50 PER CENT

"Thus by reducing the profit of the tanner and shoe manufacturer to 12 1/2 per cent, the shoe merchant could have sold the shoe at the same rate of profit and the consumer would have saved \$1.50, or 20 per cent. There might have been a still further reduction if the merchant had been content with a lower rate of profit."

The commission declares that the best standard for judging profits is in the return upon invested capital. It finds that the tanning and manufacturing industries were highly profitable, but lacked the figures as to profits on in-

vestment made by retail dealers. Light on this end of the business, however, was produced in hearings before a senate committee investigating the cost of living in the District of Columbia, where the testimony of several local shoe merchants was taken.

Arthur Burt, a Washington merchant, testified his invested capital in 1917 was \$50,000 and in 1918 practically the same. The gross sales in 1917 were \$180,000, gross profits \$75,000, net profits \$18,000. The gross sales in 1918 were \$231,000, gross profits \$84,000 and net profits \$14,000. Net profits were figured after all taxes were deducted.

Herbert Rich, another Washington merchant, testified his invested capital in 1917 was \$50,000 and in 1918 it was \$111,000. Gross sales in 1917 were \$259,000, gross profits \$88,000 and net profits \$14,000. Gross sales in 1918 were \$422,000, gross profits \$175,000 and net profits \$64,000.

Burt therefore made a net profit on investment last year of over 25 per cent and Rich made over 37 per cent. They informed the committee that gov-

ernment agencies just before the armistice had reached a decision which would have allowed 40 per cent profit to the retail dealer and 10 per cent to the individual sale.

STYLES INCREASE COST

T. M. Robertson, expert of the federal trade commission, told the committee that the retailers have unquestionably been more prosperous since the war than ever before. He explained that as the retailers retain the same percentage of profit on the increased prices, they make larger returns if their volume of sales is maintained. Style demands, particularly in women's shoes, he said, have served to increase costs, as this adds to the cost of carrying stock, and results in larger proportions of left-overs which in the end become unsalable.

The commission's investigation showed that 51 per cent of the tanners made more than 20 per cent in 1917, and only two firms in a total of 62 made less than 2 per cent. Turning to the manufacturers, it was found that 67 per cent earned over 20 per cent in 1917, and less

than 7 per cent made less than 10 per cent.

LABOR NOT BLAMED
"The effect of these large profits on the cost of shoes to the consumer is pronounced," says the report. "Leather is the principal item in the cost of production of shoes. (Not labor, as asserted in the publicity statements of the pack-ers.) The shoe manufacturer includes a profit on this leather in the price he charges the retail merchant for shoes, and the merchant exacts a very high percentage of profit from the consumer.

"Thus the final purchaser of shoes, the consumer, pays the profit the tanner receives on his leather, the profit the shoe manufacturer receives from the merchant and the profit taken by the merchant. To the extent that these profits are too high, to that extent consumers pay too much."

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