

1929.

NEW ZEALAND.

THE CASH-ORDER TRADING SYSTEM.

REPORT OF INQUIRY CONDUCTED BY THE HON. J. G. COBBE, MINISTER OF INDUSTRIES
AND COMMERCE, UNDER AUTHORITY OF CABINET MINUTE DATED 17TH JANUARY, 1929.

ASSOCIATED WITH THE HON. THE MINISTER WAS MR. J. W. COLLINS, SECRETARY, DEPARTMENT OF INDUSTRIES AND
COMMERCE.

Laid on the Table of the House of Representatives by leave.

REPORT.

27th April, 1929.

To the Right Hon. Sir J. G. Ward, Bart., P.C., K.C.M.G., Prime Minister, Wellington.

WITH reference to the inquiry into the system of cash-order trading we have the honour to report as follows :—

1. We visited the four main centres of the Dominion, where opportunity was given to any person so desiring to give evidence for or against the system of cash-order trading. Previous to visiting the main centres advertisements inviting evidence from persons interested appeared in the newspapers published in those cities.

Evidence was taken—in Wellington on the 4th, 5th, and 20th March, 1929, the number of witnesses heard being 12; in Christchurch on the 8th March, 1929 (number of witnesses, 5); in Dunedin on the 11th, 12th, and 13th March, 1929 (number of witnesses, 10); and in Auckland on the 25th, 26th, 27th, and 28th March, 1929 (number of witnesses, 28). The total number of witnesses heard was 55. The witnesses included representatives of trade organizations, principals of cash-order trading companies, retailers, and householders.

In addition to the evidence obtained from witnesses we have perused the reports prepared by the Department of Industries and Commerce regarding investigations carried out in New Zealand and in Australia (notably New South Wales and Victoria).

2. **The System explained.**—The cash-order system is operated as follows: An individual or firm issues to approved clients orders which on presentation to a trader will be accepted for their face value in exchange for goods. The firm or person issuing the cash order collects from the client the amount of the order in instalments, usually spread over a period of twenty weeks. The usual weekly repayments are fixed at the rate of 1s. for every £1 value of the order issued. The client also pays a commission of 1s. or 2s. in the pound on the value of each order. On a £5 order 5s. to 10s. is paid, and this commission is charged at the commencement of the transaction. Two cash-order firms charge no commission to clients. The retailer accepting the order tenders it to the order-issuing house, and secures payment less an agreed-upon discount, which ranges from 10 to 15 per cent.; the average discount granted by retailers is 12½ per cent. The majority of cash-order-issuing houses therefore make two profits—the commission charged to the client and the discount received from the retailer.

The systems adopted by different cash-order companies vary slightly, but they are all of the same general character. A few retail houses carry as part of their method of giving credit a cash-order system. This eliminates the third party, but the methods of conducting the system are substantially the same, but the purchases must generally be made in the shop from which the order is accepted.

The classes of articles usually bought under the cash-order system are unlike those which are purchased under instalment plans. They comprise goods which usually depreciate rapidly, and once in possession of the purchaser and used are of little resale value. The vendor has no lien on goods usually sold under the cash-order system.

3. Cash-order Trading in New Zealand.—The cash-order system has been in operation in New Zealand for at least thirty-three years, but except for the last two years has not shown any marked tendency to increase. The system has grown most rapidly in certain States of Australia. Whilst not so deep-rooted and far-reaching in New Zealand, it is undoubted that in Auckland the system has shown great strides during the past year, but the steady resistance of an influential section of the retailers in Wellington, Christchurch, and Dunedin has checked its development. The majority of the general public is unaware of the manner in which the system is conducted, and but for the publicity arising out of the inquiry would probably have remained ignorant of its purpose and ramifications. Details as to the extent of the system both in Australia and New Zealand are included in another section of this report. Considerable concern, however, has been expressed by many retailers at the proposal to establish companies conducted on the same lines as those in the Commonwealth, with a view to popularizing and spreading the system throughout the chief and secondary towns of New Zealand.

4. Extent of Operations and Annual Value of Turnover.—Dealing with the present position of companies and individuals engaged in the business of granting credit by cash orders, we find that in New Zealand there are ten companies established—five of which are located in Auckland—and about twenty proprietary concerns. Some of these latter, especially in Dunedin and Wellington, do quite a substantial business. As to turnover it was difficult to obtain definite figures, but approximately the value of orders in 1928 issued in Auckland totalled £140,000; in Wellington, £120,000; Christchurch, £15,000; and in Dunedin, £14,000: a total of £289,000.

5. Terms and Ruling Charges for Orders.—There are somewhat wide variations in the terms upon which cash orders are issued. In Auckland 10s. is added on a £5 order, or 2s. for every £1 advanced; the discounts allowed by the retailers vary from 10 per cent. to 15 per cent., but the predominating average is $12\frac{1}{2}$ per cent. Up to $33\frac{1}{3}$ per cent. is allowed by some traders dealing in jewellery, or by opticians, mainly for eye-testing services and the sale of spectacles.

In Wellington a commission of 5s. is added on a £5 order or 1s. for every £1 advanced, and the discount allowed by retailers is $12\frac{1}{2}$ per cent. The same conditions are operating in Christchurch and Dunedin, but one successful and long-standing concern in Dunedin charges no commission. The discount allowed by the retailers, however, ranges from $12\frac{1}{2}$ per cent. to 15 per cent., plus $2\frac{1}{2}$ per cent. for prompt monthly settlements.

6. Napier Retailers' Experiment.—In Napier an interesting experiment is being conducted, a cash-order company having been organized and financed by the retailers of Napier itself. This step was taken in order to prevent, if possible, any outside cash-order trading concern coming into the territory. This company, known as "The Budget Corporation, Ltd.," makes no charge for the order itself, but charges a commission of $12\frac{1}{2}$ per cent. to the traders. The corporation has been operating only for a period of six months. One-third of the profits is to be devoted to the expenses of running the corporation, and the other two-thirds is to be returned to retail shareholders. The company includes practically all the leading retailers in Napier.

7. Cash-order Trading in Australia.—With a view to obtaining authentic information as to the system in Australia, the Department deputed one of its executive officers—a qualified accountant—to make inquiries on the spot, and he accordingly interviewed interested parties and Government officials in both Melbourne and Sydney during October of last year. A brief summary of his reports is included for general information.

New South Wales.—The most remarkable aspect of post-war trading in New South Wales has been the phenomenal encroachment of the cash-order system into the general trading of the community. There are fifty cash-order companies, twenty-six registered and twenty-four unregistered, operating under firm-names in the State, besides numerous individual concerns. The twenty-six registered companies have a nominal capital of £2,959,500 and a paid-up capital of £1,000,000. The value of the turnover of one of these concerns amounted to no less than £340,000 for one year.

As an illustration of the financial success of one fairly-long-established cash-order company the following particulars are submitted:—

The Australian Cash Orders, Ltd.: this company commenced business in Sydney during the year 1920. The profits for the three years ended 31st March have been—1926, £36,535; 1927, £46,575; 1928, £41,421. The dividends paid have been—1926, £21,318, equal to $22\frac{1}{2}$ per cent.; 1927, £35,423, equal to 35 per cent.; 1928, £31,034, equal to 15 per cent. Gross profits rose from £47,251 in 1923 to £86,170 in 1928. According to the balance-sheet at the 31st March, 1928, the paid-up capital was £198,446, but of this amount no less a sum than £133,609 represents bonus scrip issued since the year 1922.

With the exception of a few of the large establishments, cash orders are accepted by retailers generally. Whilst no legislation has been introduced into the State Parliament dealing with the cash-order trading system, the matter is causing considerable concern among commercial men.

One of the most disquieting features of the system in Sydney is the practice of canvassers from the cash-order trading companies going from house to house inducing womenfolk, when the husband or wage-earner is away from home, to purchase orders, and instances have occurred where young married women have been persuaded to buy orders from several companies with disastrous results to the home. The temptation to the canvasser is irresistible to suggest that the husband need never know the wife is borrowing, thus implanting the seeds of domestic deceit.

Victoria.—The cash-order trading system in Victoria has not been developed to the same extent as in New South Wales, but nevertheless has reached large proportions. It was stated in the Victorian Parliament that a few years ago there were seven cash-order firms in Victoria, and their business amounted to about £10,000 per annum. To-day there are seventy firms, and the volume of the cash-order business exceeds £1,000,000. The system has been severely criticized by the leading retailers' associations of the State. A private member introduced a Bill into the State Parliament with a view to placing restrictions on the system. Although the Bill passed its second reading, it has not been proceeded with pending action being taken by Government by way of inquiry—probably by a Commission. The object of the Bill was to license traders, and to compel them to enter into fidelity bonds to prohibit the issue of cash orders to persons under twenty-one years of age, and to married women without the consent of their husbands. There is strong objection in Melbourne, as in Sydney, amongst social workers to the method of house-to-house canvassing.

In the report issued by the Commonwealth Inter-State Commission on the system, dated 2nd July, 1919, the following summary is given:—

The operations of the cash-order companies grew in value from £30,795 in 1914 (11,164 orders) to £77,170 in 1917 (25,034 orders). The net profits of four companies equalled in 1927 35·15 per cent. on capital; whilst in another company working on small capital, and which for a period confined its operations to dental orders, the profits were in 1915 231·40 per cent. on capital; in 1916, 235·75 per cent.; and in 1917, 40·24 per cent. In 1917, however, but for the writing-off of a large sum, profits would have been 95·68 per cent. It may be mentioned that this company turned over its capital in 1915 and in 1916 no less than twenty-five times in each year, a fact to which the large profits are partly attributable.

In a police report issued in Victoria the following statement was made by the police: "Most of the distress warrants were the results of the extensive cash-order business. He [the police officer] was stationed at Hawthorn, and of the one thousand distress warrants executed six hundred were for cash-order debts. From two thousand to three thousand distress warrants were issued in Collingwood, ten thousand at Russell Street, and eight thousand at Burke Street West." The police officer said he had seen wedding presents seized and sold, pets taken from children, valuable dogs, poultry, and articles of every description taken by the police, whose heart was never in their job, all to satisfy these money grabbers.

These statements were made as arguments in support of the police objections to serving distress warrants. If the figures are correct—and the Commonwealth Inter-State Commission states that it has no doubt they are—then it shows what an enormous hold the system has obtained in Victoria.

When weekly payments fall into arrears the only procedure open to the cash-order company is to take legal action for recovery of debt. Failing satisfaction being secured by this method, a further legal remedy is invoked in securing a distress warrant for seizure of sufficient goods to satisfy the debt. The amount of the debt owing is considerably added to by solicitor's costs, Court fees, &c. The information that has been secured from Australian States reveals many cases where the legal procedure for recovery of debt incurred with cash-order companies has been carried to the utmost limit.

Queensland.—It is difficult to estimate the extent of the cash-order trading system in Brisbane, but there is sufficient evidence to show that it is encroaching to a great degree on the ordinary methods of trading. The cash-order trading system has been a subject of much controversy. In some cases agitation has been made for the abolition of the system; in other cases its continuance, subject to some review, is urged. No legislation dealing specifically with the system has been introduced into the State Parliament. The Board of Trade recommended that the matter was one that should be dealt with under the Moneylenders Act.

South Australia.—The cash-order system of trading is comparatively new to South Australia. Efforts have been made by retailers' associations to secure restrictions on this form of trading.

Western Australia.—The cash-order trading system has failed to secure a footing. The retailers combined and were successful in inducing their members generally to refuse to accept cash orders.

8. Case for the Cash-order Traders.—The case for the cash-order traders was set out in concise form in a circular issued by the Auckland firms, and it is attached as an appendix (A) to this report. The chief points claimed in favour of the system are—

- (1) That it is of distinct advantage to the poorer classes, particularly in times of illness and unemployment:

- (2) That it enables necessities such as clothing, footwear, &c., to be purchased at cash prices :
- (3) That it assists retailers because it brings additional trade :
- (4) That it saves a shopkeeper any anxiety as to payment of his account :
- (5) That it saves the retailer booking-costs, costs of collection of debts, and keeps down advertising-expenses (the cash-order firms, as expert credit-raters, judge and take the risk of all orders issued) :
- (6) That it is a form of credit superior to the open credit system, the system of hire-purchase and time-payment selling, &c.

The whole problem of the cash-order trading was summarized by an Auckland group of witnesses in favour of the system as follows :—

It provides—

- (1) Facilities for purchasing goods at lowest cash prices from retailers whose commercial integrity is beyond question :
- (2) A credit instalment account whereby its patrons are enabled to purchase requirements at times most disadvantageous to themselves :
- (3) It increases the purchasing-power of the public, and thereby increasing sales it must of necessity increase production, and thus tend to relieve unemployment and lower the cost of living.

9. Case against the Cash-order System.—The principal evidence tendered emanated from the New Zealand Federation of Drapers, Clothiers, and Boot-retailers. A full statement setting out the views of the Federation (with certain confidential evidence expunged) is attached to this report (Appendix B). Summarized, the objections may be stated as follows :—

- (1) The system is opposed to sound business principles, and is not legitimate trade.
- (2) It is quite as unfair as the trading-stamp system, which was made illegal many years ago.
- (3) The system adds considerably to selling-prices of goods, and therefore materially increases the cost of living.
- (4) The system encourages overbuying and debt, and is opposed to cash buying and thrift.
- (5) The system is bringing into the field of distribution a third party who makes large profits at the expense of legitimate traders and the general public.
- (6) It is a money-lending system, and the rates charged for interest are exorbitant.
- (7) The system has spread so rapidly that it should be checked at once, otherwise it will obtain a stranglehold on New Zealand trade, as it has done in parts of Australia, Great Britain, and America.
- (8) The expense of conducting a soft-goods trade will not bear the extra payment of a 12½ per cent. discount without increasing general prices.
- (9) The system encourages dishonesty in business in that many retailers advance prices surreptitiously to the buyers holding cash orders.
- (10) The system discriminates most unfairly against the thrifty buyer who pays cash, no differentiation being made in his favour as against the person who obtains credit and pays by instalments through the cash-order system.
- (11) It is building up a class of undesirable middlemen who live as parasites on the traders to exploit the public.

10. General Evidence for and against Cash Orders.—In addition to the evidence obtained from parties directly interested in the system we received representations from the Associated Chambers of Commerce, which at its last annual meeting, held in Wellington in October, 1928, passed the following resolution: "That this Conference is of opinion that the cash-order system is inimical to the interests of the community, and that legislation should be brought down immediately to prohibit the same."

In conveying this resolution the secretary of the Associated Chambers added: "The opinion of the Conference as expressed in the resolution indicates a strong feeling held by the majority of business men against the system, and any steps that may be taken to curtail, if not entirely eliminate, the system will be heartily supported by the various Chambers of Commerce."

The Dominion Secretary of the New Zealand Farmers' Union wrote on the 18th February last as follows: "The New Zealand Farmers' Union is unanimous in its opposition to the cash-order trading system. I asked the various provincial executives of this union to express an opinion, and they were all against it."

The Auckland Branch of the National Council of Women, representing approximately eight thousand members, tendered evidence through the president and a member of the executive that the Council and all their members were practically unanimously opposed, and considered that the

Government should legislate and put it right out of existence. The New Zealand Master Grocers' Federation, through its secretary, gave evidence showing that his organization was definitely against the system. Other bodies also forwarded letters and resolutions strongly opposing the system, but it is unnecessary to quote them here, it being considered sufficient for this report to quote only those having Dominion or provincial status.

It was to the New Zealand Federation of Drapers, Clothiers, and Boot-retailers, however, that we looked for the main evidence regarding the working of the system as it affected retailers. In addition to the full statement, which was read to us by the secretary, it was pointed out that the propaganda issued by the cash-order companies was designed to mislead the public. The system was undoubtedly an incentive to extravagant buying, and witnesses subsequently called on behalf of the Federation proved that those in possession of the orders did not get the same value that the ordinary customers received. The secretary further asserted that the system had been kept out of towns like Napier, New Plymouth, and Wanganui because of the opposition of retailers, but they feared that even in these communities if some check were not put upon the system it would inevitably find a footing. It was further declared that the association represented 85 per cent. to 90 per cent. of the capital invested in the businesses covered by the association, but in point of membership the association included perhaps from 45 per cent. to 50 per cent. of the total number engaged in the trades. A questionnaire was submitted by the association to their members, and although only 150 responses were received, a large majority opposed cash-order trading. The secretary of the Federation averred that the introduction of cash orders had increased the credit business tremendously, and that the majority of retailers felt, despite the opposition of some of the members (particularly in Auckland), that they should not allow the system to operate.

The witness under cross-examination stated that the retailers themselves could not stop the system or introduce a system of their own for the reason that unanimity could not be secured.

We have dealt at some length with his evidence because it was asserted that fully 95 per cent. of the orders are negotiated with firms dealing in drapery, clothing, and footwear, and the evidence of the association is therefore to be given great weight because of this fact.

The evidence given by retailers generally supported that of the New Zealand Federation, but in Auckland an influential section of retailers gave contrary views. We propose to quote that evidence in some detail.

It was decided at a meeting of the Auckland Drapers, Clothiers, and Boot-retailers' Association that the body would not tender evidence as an organization, but that it should be left to individual members to represent their views. A group of six representative firms submitted a statement, and the main points may be summarized as follows:—

- (a) That the opposition to the system is being made by firms which do not indulge in that form of trading, but employ other methods of accommodating customers, such as long-term credit, hire-purchase systems, &c. Some of the advantages of the system were, in the opinion of these witnesses, as follows:—
- (b) The cash-order trade is confined to necessities, and is therefore preferable to hire-purchase systems under which luxury goods are bought in excess of the income of purchasers.
- (c) Housewives requiring an article but having insufficient money to make complete purchase, and who are unable to obtain credit, are able to take out a cash order, obtain the article, and pay off from future earnings; frequently this is used in cases of dire necessity.
- (d) Persons entering employment, or their parents outfitting them, often use this system, which is of great benefit, enabling them to be equipped for their job.
- (e) Purchases of drapery are generally too small to be governed by a hire-purchase agreement, and the only method of obtaining credit for the poorer folk is by means of a cash order; by this system the working-classes are placed on a more equitable footing with those in better circumstances and who are able to obtain unsecured credit.
- (f) In these days of purchasing ahead of income, cash-order trading is probably the safest of all systems, and payments are kept up to the mark by weekly collections; also, the caution of the cash-order trading companies has a controlling and limiting effect which keeps the transactions within bounds.

It was further stated that associated bodies, such as the Federation of Drapers and Boot-retailers, and Chambers of Commerce, were inexperienced in the handling of cash-order business, and that it was not competent for these bodies to judge of the merits or demerits of the system, and that many of the members of these bodies were interested only in other credit systems and were therefore not altogether unbiased.

As to the limitation of discount, the witnesses were of opinion that this could be safely left to the cash-order companies and the traders to contract upon, the trader being relied upon to ensure that the discount did not get out of bounds. The point was emphasized that the retailer, in giving, say, 10 to 12½ per cent. discount to a cash-order trader, would charge the public more for goods. This was considered to be fallacious in view of the fact that no trader would allow a large proportion of his sales to be made on cash-order business. In Auckland it was considered that if 10 per cent. is allowed cash-order traders, and taking the value in turnover of cash orders at 10 per cent., the cost to the business would be less than 1 per cent. As this evidence has an important bearing on our finding, we are attaching it as an appendix to this report. (See Appendix C.)

In the course of cross-examination it was ascertained quite definitely that none of these witnesses desired the business in cash-order trading to increase to more than 10 per cent. of the turnover. If it showed a tendency to grow, then retailers should restrict it by refusing to accept the orders. The witnesses were definitely of the opinion that the trade in cash orders should be confined within certain limitations, and generally agreed that if it grew beyond 10 per cent. of turnover it must inevitably increase the price of goods to the general public.

A deputation equally influential from drapers and boot-retailers of Auckland also waited upon us to support the case presented at Wellington by the Federation in opposition to the system.

Whilst the bulk of the evidence was tendered by those directly interested in the system, we examined a few independent witnesses, and also received some valuable statements by correspondence. Points arising out of this evidence have been embodied in the findings.

Petitions were also signed by a large number of people who expressed appreciation of the benefits derived from the cash-order system. The preface stated that the petitioners had made constant use of the system and that it had proved an invaluable aid to that section of the community who desired to purchase the necessities of life on the instalment plan. In all over 2,300 signatures were obtained, fully 90 per cent. of the signatories being married women.

11. Findings and Recommendations.—We confess that we are faced with considerable difficulty in making our recommendations, because the mass of evidence tendered by witnesses was either strongly in favour of the system or, on the other hand, was just as strongly against it. It is necessary first of all that an authoritative statement should be made upon the rates or profits that it is possible to gain under the system. For the purpose we have considered the position from several aspects, and in justice to those conducting the system have not taken theoretical cases, but have been guided by the actual practices existing in each of the four centres. It is fully expected that this statement will be criticized as exaggerating the true position, and that the actual net profits earned should be quoted. We consider, however, that it is necessary in the public interest to state the facts in this way, as, although we did obtain some balance-sheets and disclosures of profits, they were considered to be strictly confidential and therefore cannot be quoted. The figures, however, in the Australian section, page 3, paragraph 7, are indicative of the high profits earned. It is essential to emphasize both to those who take out the orders and to those who accept them the rates of interest that can be and are being made in New Zealand to-day.

The following table analyses four methods adopted by New Zealand cash-order concerns and shows how profits are obtainable. From the evidence of thirty-one retail houses it was shown that twenty-six cash-order concerns were giving one month's credit, two two months', one fifty days', one two weeks', and one on demand.

Example 1 analyses the position of the cash-order trader who issues a £5 order and charges the client a commission of 10s., the client repaying in twenty instalments of 5s. weekly, the cash-order company receiving the discount of 12½ per cent. from the retailers on a monthly account.

Example 2: The cash-order trader charges a commission of 5s. for each £5 order, repayable in twenty weekly instalments, and the discount collected from the retailer is 12½ per cent. on a monthly account.

Example 3: The cash-order trader charges no commission, collects 10s. for each £5 order at the time the order is issued (representing the first two of the twenty weekly instalments), and receives 12½ per cent. from the retailer on a monthly account.

Example 4: The cash-order trader charges a commission of 5s. for each £5 order, repayable in twenty weekly instalments, and the discount received from the retailer is 12½ per cent., but the terms are fourteen days instead of monthly.

It should be pointed out in considering these tables that the cash-order traders' profits come from three sources—(1) The borrower's premium, if any, paid on cash order, representing the total interest charged to the borrower; (2) the discount of 12½ per cent. allowed by the trader; (3) the month, fortnight, or other period of credit, if any, allowed by the trader to the company to meet the order.

These three sources of profit, when combined, result in a very large profit to those who issue the orders. It is clear from the table that the borrowers contribute less than the retailers to the total profit; and, moreover, the result of a reduction of the period of credit from a month to a fortnight shows a considerable decrease in the nominal and effective rate of interest earned. It should be noted also that the nominal rate of interest is fifty-two times the weekly rate of interest, and that the effective rate of interest is the total interest earned by a unit of capital on the assumption that the actual periodical interest is immediately invested as it becomes due on the same terms as the original capital. The table has been submitted to the Government Actuary, who has certified to its correctness.

INTEREST EARNED BY CASH-ORDER CONCERNS.

Example.	By whom the Cash Order is issued.	Period for Re-payment of Cash Order.	Face Value of Order.	Premium on Commission paid at Time Order is issued.	Total Payments (including Premium) made by the Borrower before Trader receives Payment (Monthly Terms).	Discount allowed by Trader to Cash-order Co.	Amount actually advanced by Cash-order Co.	Gross Profit by Cash-order Co.
		Weeks.	£	s. d.	£ s. d.	% s. d.	£ s. d.	s. d.
1	Cash-order Co.	20	5	10 0	1 10 0	12½ = 12 6	2 17 6	22 6
2	"	20	5	5 0	1 5 0	12½ = 12 6	3 2 6	17 6
3	"	18	5	Nil.	1 10 0*	12½ = 12 6	2 17 6	12 6
4	"	20	5	5 0	0 15 0†	12½ = 12 6	3 12 6	17 6

Interest-yield to the Cash-order Traders.

Example.	Nominal Rate per Annum (Convertible Weekly).			Effective Rate per Annum.		
	From Borrower's Premium alone.	From Borrower's Premium and Trader's 12½ per Cent. Discount.	From all Sources (including Credit allowed by Trader).	From Borrower's Premium alone.	From Borrower's Premium and Trader's 12½ per Cent. Discount.	From all Sources (including Credit allowed by Trader).
	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.
1	53	133	267	70	272	1,248
2	26	99	179	29	167	482
3	(Loss)	84	176	(Loss)	131	464
4	26	99	127	29	167	250

* 10s. deposit paid at time of receiving order.

† Fortnightly terms.

A further factor that must be taken into consideration is the effect upon the retail houses in giving a 12½ per cent. discount. The evidence, whilst somewhat varying as to overhead charges, showed conclusively that, taking general-drapery business, the gross overhead costs ranged from 22½ per cent. to 30 per cent. Taking a rough average of, say, 25 per cent., it is obvious that a discount of 12½ per cent. must be added to the price of goods if the system grows in such volume that the bulk of the sales are effected by cash orders. It is difficult to say at just what point the giving of a 12½ per cent. discount would make the revision of all prices essential, but it is clear to us that, irrespective of the volume of cash orders dealt with, the public must pay the discount granted either in part or in full.

For the purpose of arriving at definite recommendations we submit the following questions, the answers to which embody our views:—

Is the system so general in New Zealand as to constitute an undesirable form of credit?

It has not yet reached such a stage, but in Auckland if it remains unchecked it is likely to reach such dimensions as to raise the cost of living generally. There is a danger also of the system spreading in the other centres and towns unless some control is exercised.

Is the system of benefit to the working classes?

To a limited extent, Yes. This form of credit is no doubt of assistance to workers in casual employment and not in receipt of regular wages. We are definitely of the opinion, however, that the beneficial scope for this class of credit is limited, and that it is probably one of the most expensive forms of credit of which the worker could avail himself.

Is the system conducted on a basis that is fair to clients and to retailers?

As conducted by a few firms in its present limited application, particularly in the South Island, it imposes no great hardship on clients or on traders.

Does the system act disadvantageously to the genuine cash buyer?

Generally, Yes. Very little recognition, we regret to say, is given by traders to those tendering cash. The evidence stresses most markedly that those possessing cash orders receive on the whole equal treatment to those paying actual money. Of 147 traders approached on the question as to whether a cash customer was allowed any discount, 74 answered No, 33 answered Yes (they did not state the amount of the discount), 5 gave $2\frac{1}{2}$ per cent., 6 $3\frac{3}{4}$ per cent., and 29 5 per cent. This in effect shows that over 50 per cent. of the traders consulted did not allow any discount for cash, whereas to cash-order firms a discount of $12\frac{1}{2}$ per cent. was generally given.

If the system became more general would it increase the cost of living?

Emphatically, Yes. The consensus of thoughtful opinion supported this view, and traders who warmly support the system were of the opinion that if over 5 per cent. or 10 per cent. of the turnover were done in cash orders, prices would need to be revised upward.

Are the methods of securing business by the cash-order traders open to question?

Despite the conflict of evidence on this point we are of opinion that the methods practised by the majority of those issuing cash orders are most undesirable, particularly in the collection of instalments at people's homes, at the doors of factories and offices, and the securing of custom by canvassing, and the signing of the orders by housewives surreptitiously. In this connection we had evidence from a reliable witness employed as a collector on behalf of one of the companies stating that his visits to make the collections had to be made very discreetly and secretly. The instalment cards were hidden in secret corners apparently out of sight of husbands and other occupants of the house. He was promised a definite round of two hundred customers providing he could, within a fortnight, increase the clientele to five hundred by canvassing.

Another undesirable feature, and one to be strongly condemned, is the issue of booklets or pamphlets often cleverly illustrated and worded so as to appeal to the more ignorant and careless sections of the community. Reliable evidence was given that in several cases where there was delay in payment of instalments housewives were threatened by the collectors that the transactions would be divulged to their husbands. In one instance a woman had taken out two orders practically at the same time, each of £5, from two separate cash-order companies, and had given a false name in one instance. On finding difficulty in meeting the payments each had threatened disclosure to her husband. She then appealed in great distress to a friend, who paid up both balances due, and produced the receipts for our inspection.

Does the system encourage extravagant buying?

The system certainly has that tendency, but the weight of evidence shows that those possessing the orders were discriminating buyers. In cases, however, where the full order was not expended the balance of the money was frequently wasted on goods other than necessities.

Is it desirable that the system should be controlled by legislation?

We believe that control by the State is necessary, and are further of the opinion that in the public interest legislation is necessary, and that proper control can only be made fully effective by law. Unfortunately the system has burst the narrow limits where little or no harm could have been done to the general public, and it is now necessary to discipline it in such a way as to put it on a fair basis. With this end in view we have to recommend that the Government favourably consider the following proposals:—

- (1) That the charge to clients should not exceed 6d. in the pound sterling.
- (2) That the trade and cash discounts allowed by retailers accepting the orders should not exceed 10 per cent.
- (3) That canvassing for orders should be prohibited.
- (4) That no mail-order propaganda be allowed.
- (5) That the cash orders be open to any firm willing to accept them, and not limited to one firm or individual.
- (6) That all orders should be issuable from a registered office only.
- (7) That no orders shall be issued to persons under the age of twenty-one, or to married women without the consent in writing of their husbands.
- (8) That no order be issued to any person who has not completed payment of any previous order.

Commenting briefly upon these recommendations, it is suggested that three months' notice be given to the cash-order companies and individuals to express their willingness or otherwise to conform to the preceding proposals. If acquiescence is shown then it should be stated that the Government will not proceed with legislation. Such notifications should be made to the Department of Industries and Commerce within three months of the publication of this report. Failure to send notification will be taken as an indication of refusal to comply. It is further suggested that the Secretary of the Department should report the result to the Government during the approaching session of Parliament.

We desire to place on record our appreciation of the manner in which the evidence was tendered to us, and for the help given which enabled us to complete the inquiry within about six weeks from the date of its opening. There was no failure on the part of any section to disclose information, and even that of a confidential nature was freely given. We should also like to observe that the witnesses had generally prepared their cases in a very able manner, and that we did not lack any information in order to enable us to come to our findings.

JOHN G. COBBE,
Minister of Industries and Commerce.

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

APPENDIX A.

THE CASH-ORDER SYSTEM AS VIEWED BY AUCKLAND COMPANIES CONDUCTING THE BUSINESS.

THE system is as follows :—

A person requires certain goods. He has not the ready cash to purchase them, and he cannot induce the retailer to give him credit. He secures an order for the required amount from the cash-order trader, and with this obtains from the retailer goods to the amount stated on the order. He repays the cash-order trader the amount of the order plus commission, by weekly, fortnightly, or monthly instalments. The fact that he is willing to pay the commission charge would indicate that he thinks it a fair one, and that it is worth his while to pay it.

The retailer who accepts the order presents it to the cash-order trader and receives payment according to arrangement, less an agreed-upon commission or discount. The fact that he is willing to allow this commission or discount would indicate that he thinks it a fair one and worth his while to allow.

Looking broadly at the question, we find on the one hand a big section of the buying public anxious to secure for themselves the convenience of a credit account so that they may buy their requirements at those times most advantageous and convenient to themselves, instead of waiting until they have accumulated the necessary cash. We find on the other hand a big number of retail traders anxious to supply the requirements of the would-be buyers, but unable to do so because they find it impracticable, and in many cases impossible, to install the necessary credit departments. The cash-order trader offers to serve both the would-be buyer and the would-be seller by placing at their disposal his financial stability and his expert knowledge of handling retail credit. Through his agency, buyer and seller are brought together to their mutual satisfaction and benefit.

Therefore we find that the cash-order system is the agent between the buyer and seller of household necessities covering a wide range ; its chief application is to clothing and footwear. An analysis of orders issued over a period of twelve months by one Auckland company discloses that approximately 90 per cent. of orders were expended upon these lines, the balance being spread over hardware, furnishings, dental work, &c. The system unites the advantages of cash buying with those of credit buying with the relief to the buyer given by instalment payments. In no case may a retailer charge a customer purchasing with a cash order more than the actual cash price, as there is no means of knowing before the selection has been made and the cash order presented that the transaction is other than a cash one. This applies all the year round, including sale periods. For this service, combined with the advantage of instalment payments, the cash-order trader charges his client a commission. The retailer accepting the cash order does so with the knowledge that he takes no risk, as prompt payment of the amount by the firm issuing the order is assured.

For this service, coupled with the extra trade secured, the retailer allows the cash-order trader a commission or discount on the sale. Therefore the cash-order trader derives his profit or payment for service from two sources—part from the purchaser who uses the order and part from the retailer who accepts it. Both parties benefit through the transaction, and both are willing to pay the charge made, which in the aggregate is only an amount which the cash-order trader is justly entitled to for service rendered. Both parties are fully aware of the arrangement and are equally free to accept or reject it.

Its Advantages to the Public.—The economic system at present adopted by the principal civilized countries of the world is interwoven with a system of credit. This being the case it is reasonable to expect that the working classes or people of slender means shall not be penalized by placing upon them the absolute restriction of cash trading only. These people may very properly require credit, particularly at times of short working or unemployment, to obtain necessities such as clothing, footwear, &c., for

the household, and the cash-order system enables them to obtain that which the retailer would not otherwise supply them with. Thus they are enabled to purchase at cash prices from retailers of high standing and yet receive credit accommodation at a comparatively low rate.

Advantages to the Retailer.—The retailer voluntarily accepts the system because it brings to him a large volume of additional trade which he would not otherwise have obtained save by more costly means. The cost of extra advertisement, of canvassing and travellers, is greater than the commission or discount which he pays to the cash-order trader.

The cash order saves the giving of credit, booking-costs, and bad debts, and gives the retailer the great boon of prompt cash payment. The retailer sells his goods and retains no risk and has no expense of collection. These fall upon the cash-order trader.

The customer beginning with a cash order may remain as an ordinary cash or credit customer. When in funds he returns to the same shop and may purchase for cash, as well as bringing friends with him who may also spend cash. The extra trade would not probably be obtained by the retailer save by means of the advertisement which the cash-order trader gives him. The retailers adopting the system have admitted its advantages as indicated.

Comparison with other Credit Systems.—The systems of credit in use by the public are many and varied. Practically every business in the world to-day has its credit system in some form. Sales on credit constitute a proportion of practically every business man's turnover. Open credit, hire-purchase, money-lending, pawn-broking, time-payment selling direct, all these are widely used credit systems, and an analysis of each leaves one pondering as to why the cash-order system should be singled out as being undesirable. If it is undesirable, then the above-mentioned systems are much more undesirable.

Let us now compare the cash-order system with those systems with which it is competing.

Open Credit.—It is a well-established fact that this tends to extravagant purchasing and is a source of expense to the country. We think that a glance through what is known as judgment-summons cases should confirm this view. Cases are of daily occurrence, and some of them disclose amazing features from a business point of view: some show that this form of credit is being continually abused by dishonest persons; some show that it is being used by merely foolish persons, while others prove a lack of discrimination on the part of the retailer, inasmuch that perfectly honest people are brought before the Court through contracting a debt they are unable to pay through force of circumstances. Open credit is being continually condemned by our Magistrates and Official Assignees. Just recently, in Christchurch, a Magistrate, after hearing a case in which one John McKenzie had swindled no less than twenty-eight traders through their system of open credit or charge accounts, remarked that such loose methods of extending credit simply put a premium on dishonesty.

It is most significant that though the cash-order system has been operating in Auckland for over twenty-five years, no single instance of litigation such as is continually before the Court with regard to other systems has appeared. This certainly gives food for serious thought. The reason that the cash-order system does not figure in these Court cases is because the self-interest of the cash-order trader and the system he employs tends to prevent these abuses taking place. For this very good reason the dishonest person finds it extremely difficult to open an account. The foolish person finds he may not purchase extravagantly, while the honest person who cannot meet instalments through stress of circumstances receives the measure of consideration which is his due.

The hire-purchase system of extending credit embodies the same principles as the cash-order system in that it allows payment to be made by instalments, but it is far more open to abuse by the unscrupulous trader because of his powers of repossession on the default of the buyer. It has been suggested in certain quarters that cash-order traders are in fact money-lenders, and should therefore be registered as such. It is impossible to see how this change would be likely to benefit the public, as the money-lenders invariably charge a much higher rate than is charged for cash-order accommodation, and in addition they take security for their loan over all available chattels; and, as the actual cash is advanced, it may or may not be spent usefully, whereas in the case of the cash order, goods only may be supplied; the operations of the pawnbrokers are too well known to call for any comment.

Does the cash-order system compare favourably with the hire-purchase system, money-lending, pawnbroking, or time-payment selling direct? Careful analysis of each reveals that it is infinitely superior to them in its general operation and service to the community. Its popularity with those who require credit is a sure indication of its merits as compared with other systems.

An objection raised against the system is that it adds to the existing means of obtaining credit. In practice it is not an addition to existing credit systems, but a substitution for them. It provides a simpler and more effective credit system, which is infinitely less liable to abuse than are the alternative systems of time payment and money-lending.

The sale of drapery on time payment direct is almost universally carried out by hawkers, who purchase from the warehouse to sell from door to door. It is noteworthy that the big majority of firms operating in this way have gone out of business owing to the activities of the cash-order system, against which they cannot hope to compete, on account of the difference in the quality of the service rendered. It cannot be overemphasized that by making use of the cash order instead of dealing direct with a time-payment trader, buyers gain the assurance of full value for their money, because they buy at marked cash prices from retailers of the very highest standing.

Let us then examine the result should the activities of the cash-order system cease. The business which it is doing would immediately be diverted into other channels, the greatest of which would undoubtedly be time-payment, selling direct, the remainder going to other credit systems and money-lenders. It is ridiculous to suggest that such a change would be of benefit to the community.

Its Desirability to the Community.—Upon analysis we find that the cash-order system is more desirable than other credit systems for the following reasons:—

Money is not supplied to the user, but an order to obtain goods of a definite nature, and this therefore must be used within its proper scope and cannot be unwisely or improperly utilized. The user does not purchase goods of doubtful quality at exorbitant prices, but is enabled to select

requirements from retailers of standing in the business community. No security for the debt is taken, therefore the self-interest of the cash-order traders tends to check extravagance.

Trade Usages.—Much has been said in condemnation of the principle involved in the commission or discount allowed to the cash-order trader by the retailer and the charge made by the cash-order trader to the customer. Upon investigating this point we find that it is only in accordance with common practice. The retailer may take a customer to the warehouse to select goods, and though he does not handle the goods he receives a handsome profit on the sale to the customer, and also a discount from the warehouse. He may also give the customer an order for goods upon a neighbouring shop, from whom he receives a discount. It is also a common practice among retail traders to allow discounts equivalent to those allowed to the cash-order trader to individuals or combinations of individuals who may be in a position to buy unusual quantities of goods. It is a matter of common knowledge that such discounts are allowed to such bodies as Civil servants' associations, to traders in kindred lines, to agents in other centres, hotels, boardinghouses, restaurants, shipping companies, and in a whole host of similar directions. It is puzzling therefore to know why the cash-order trader is the one who should be singled out for condemnation on account of the discount he receives.

But is the charge made by the cash-order traders a fair one? The economic law of supply and demand ensures that the system is run at a reasonable and not excessive charge to all parties thereto. If a better system could be engaged the open competition in the commercial world generally would have displaced it long ago, but such has not been forthcoming.

Who may complain? It has been shown from the foregoing that the arrangement between the cash-order trader and the retailer is a mutual one; so also is the arrangement between the cash-order trader and the purchaser; each of the three parties concerned are quite satisfied. Then who may complain? Competitors who find the system is attracting trade from them may complain, but would not such complaint only confirm the view that the system is better and more suited to the public need than that which they employ?

Cash-order Trading in Australia.—Much capital has been made from time to time by competitors by means of loose statement with regard to cash-order trading in Australia. We hear that "legislation is being brought down to abolish the system." We must certainly admit that it has been vigorously attacked in Australia, but is still successfully catering for those who wish to use it. A Bill for the abolition of cash-order trading was before the Victorian Parliament in 1927 and was defeated. A Bill designed to regulate cash-order trading was debated by the Victorian Parliament on the 23rd August, 1928, and passed its second reading. Owing to the overthrow of the Government since that date nothing further has been heard of it. Reference to *Hansard* of Saturday, 25th August, 1928, however, will throw much light upon the attitude adopted by the Government in Victoria, and should quite dispel the idea that there is any wish or intent to suppress the system excepting by the few who are in competition against it. A Committee of inquiry composed of nine members was set up, and in referring to that inquiry the secretary states that "though particular attention was directed to the abuses which were charged against it and the extraordinarily high rates of interest that were mentioned, we could find no proof of many things that were charged against the cash-order system. We received hundreds of letters from those who were concerned in transactions with cash orders, and it was amply demonstrated in those letters that there was urgent need for some form of credit to enable the writers to purchase the necessities of life. The firms whose business we investigated offered no restriction to our inquiry and placed all their cards upon the table." (See *Hansard*, 25th August, 1928.)

Summary.—The whole problem of cash-order trading may be summarized and stated briefly as follows:—

That the four main features of the system are—

- (1) That the cash-order trader receives from the retailer a mutually-agreed-upon discount in consideration of extra business secured;
- (2) That the cash-order trader charges the purchaser a mutually-agreed-upon percentage in addition to cash prices, in consideration of the services rendered in providing the convenience of an instalment credit account;
- (3) That repayment is made by instalments;
- (4) That the cash-order trader secures his profit without actually handling the goods concerned.

A little consideration will show that none of these four main features is by any means peculiar to the cash-order system.

It has been shown that one of the commonest practices in business is that of allowing a discount to any agent, firm, or individual who is in a position to control and divert to the trader a considerable volume of trade which he would not otherwise get. It cannot be held, therefore, that the cash-order system is undesirable because it entails the giving and receiving of discounts.

The practice of making a definite charge in addition to cash prices for the convenience of credit accommodation is recognized as being a sound practice in all forms of trading. The practice is sometimes varied by fixing the price at which goods may be supplied on credit and allowing a discount for cash, but the principle involved—that of charging for credit—remains the same. There seems to be no logical reason, therefore, why the cash-order system should be singled out for adverse criticism on account of such a charge being made. The basic principles of instalment selling have been so widely debated and are now so generally understood, and the system is so firmly established as an integral part of our modern commercial system, that it seems quite unnecessary to further labour the point. In view of the foregoing it is quite fantastic for any one to suggest that cash-order trading can be condemned because it applies the principles of instalment selling.

Neither can there be any objection to the fact that the cash-order trader secured a profit without handling the goods concerned, unless the same objection is held to be good against the broker, the indent agent, or the manufacturers' agent on the one hand, and such concerns as automobile finance companies on the other hand. It must be recognized, therefore, that the cash-order system is after all simply a distinctive combination of well-established, widely recognized, and universally practised trade customs.

APPENDIX B.

CASH-ORDER TRADING.

PREAMBLE.—This evidence was submitted on behalf of the New Zealand Federation of Drapers, Clothiers, and Boot-retailers, and represents the opinion of the majority of its members. The federation has branches in the following towns: Auckland, Hamilton, Tauranga, Thames, New Plymouth, Wanganui, Marton, Palmerston North, Feilding, Napier, Gisborne, Masterton, Wellington, Nelson, Westport, Christchurch, Blenheim, Ashburton, Timaru, Waimate, Oamaru, Dunedin, and Invercargill. The Auckland Branch, however, which is affiliated to the federation, does not wholly subscribe to the views which will be expressed, and desires that an opportunity be given for its members to be heard on the subject in Auckland.

Cash-order trading is a vexed question with traders, and strenuously opposed by the vast majority. Many of them who have adopted the system have done so under competitive compulsion, and would gladly discontinue it if their competitors would do likewise.

The system is in opposition to sound business principles, as it is not legitimate trading. It is quite as unfair as the trading-stamp system, which the Government made illegal many years ago. By the system the public are duped in that they are misled into the belief that they are buying the goods at the lowest cash prices, whereas the system adds considerably to the selling-prices and materially increases the cost of living. The system encourages overbuying and debt, and is opposed to cash buying and thrift. The system is denounced by all economists and the majority of those who have inquired into or have had experience of its working. It is bringing into existence a class of middlemen who make large profits at the expense of the legitimate traders and the general public. It is a clever scheme for enriching the originator at the expense of established businesses without calling for any service in exchange.

The title "cash-order trading" is a misnomer and misleading. It beguiles people into thinking that they are receiving a benefit by cash trading, but in reality it is not cash trading at all but is merely a disguised credit system. "Coupon trading" would be a more appropriate term and less likely to mislead the public. The system is a social evil. We are gratified that the Government is examining it, and we believe the examination will afford convincing proof that it is against the interests of the public. It is a money-lending system, and the rates of interest charged by the cash-order traders are in keeping with the high rates of the regular money-lender.

The ramifications of the system are spreading throughout the towns of New Zealand at a somewhat alarming rate, and if anything is to be done it should be done now, before it gets a stranglehold on New Zealand trade, as it has done in parts of Australia, Britain, and America.

How Cash-order Trading affects Profits and Prices.—The following illustrations, which are based on facts, show how the system of cash-order trading affects the profits of the traders and puts an extra cost on to the general public. In New Zealand the discounts allowed to the cash-order companies by the traders vary from 12½ per cent. to 15 per cent. No. 1 illustration is based on 12½ per cent. and No. 2 on 15 per cent. :—

Example No. 1 (soft-goods trade) :—						£
Total turnover	..	..	..	..	..	100,000
Ordinary trade	..	..	..	..	..	60,000
Cash-order trade	..	..	..	..	..	40,000
£60,000 at 30 per cent. on return	..	..	..	..	..	18,000
£40,000 at 17½ per cent. (discount 12½ per cent.)	..	..	..	..	..	7,000
Total profit	..	..	..	..	..	£25,000

The average profit on gross return will thus be seen to be 25 per cent., or 5 per cent. below the usual rate.

Example No. 2 (soft-goods trade) :—						£
Total turnover	..	..	..	..	..	100,000
Ordinary trade	..	..	..	..	..	50,000
Cash-order trade	..	..	..	..	..	50,000
£50,000 at 30 per cent. on return	..	..	..	..	..	15,000
£50,000 at 15 per cent. (discount 15 per cent.)	..	..	..	..	..	7,500
Total profit	..	..	..	..	..	£22,500

The average profit on the gross return will thus be seen to be 22½ per cent., or 7½ per cent. below the usual rate.

In the soft-goods trade, with its heavy expenses—i.e., rents, rates, taxes, wages, advertising, &c.—a gross profit of 30 per cent. is necessary, and this percentage is aimed at by nearly all the soft-goods businesses of the Dominion. In some of the businesses that deal in credit and have well-paid staffs it costs from 22½ per cent. to 27½ per cent. to sell the goods; in a few instances it has cost more, with the result that some unfortunate concerns have had to go out of business. In proof of the contention that the trade cannot afford to pay for cash-order trading without passing on the cost to the customers we have the fact that many of our branches during the last two years have lost members of long standing through their failure in business. Further, the number of assistants has been considerably reduced, as shown by our subscriptions, which are based on the number of sales-hands employed. Our returns show a reduction of 584 sales-hands for 1928 as compared with 1927.

In the illustration No. 1, where the percentage of gross profits is reduced from 30 per cent. to 25 per cent., an all-round increase in selling-prices of $7\frac{1}{2}$ per cent. would be necessary to provide for cut prices on some lines and sale prices on others and show the usual average profit on the returns. In the second illustration an all-round increase on the selling-prices of 10 per cent. would be necessary to show the usual average profit on the returns.

It may be argued—in fact, it is argued—that the extra business more than makes up for the deficiency in profit and that the extra business is found money. The argument, however, is fallacious and does not work out in practice, as some traders have already found out to their cost.

In the first instance, in the event of a firm taking on the cash-order system a fair proportion of the firm's own customers would be induced by clever advertising and plausible canvassers to go over to the new system. For every customer that did so it would mean a direct loss of profit amounting to $12\frac{1}{2}$ per cent. or 15 per cent. as the case may be. Secondly, if the system caught on, as it has in two or three centres in New Zealand and in most parts of Australia and Britain, it is only a matter of time when all traders in that particular line of business will be compelled to adopt the system in self-defence, or see their businesses gradually leaving them and going to their rivals. They would be compelled to adopt the system however much they might be opposed to it.

If one or two firms only in a trade adopted the system and the others held aloof they would undoubtedly, for the time being, increase their trade at very little extra cost, and the extra money would be found money; but business people nowadays are not so conservative or so stupid as to stand idly by and allow their trade to be filched by their opponents in the manner described. If one or two adopt the system others are compelled to follow suit. In the end all are in it, to their detriment, unless the public can be made to pay the piper, and even then they are no better off.

The purchasing-power of the public is limited—cash-order trading certainly cannot increase it. The community has a certain amount of money to spend: this amount is divided among the traders in accordance with custom, and if all the traders adopt a new method of trade and all go together, the same distribution of trade will remain; no one firm will be the gainer.

The case is on all-fours with an incident which took place in New Zealand some years ago. There were six wholesale warehouses in the same line of business; they each had seven travellers on the road and each traveller had a round that took him six weeks to complete. The manager of one of the firms reckoned that he could get ahead of his competitors by putting two more travellers out and doing the round in four weeks instead of the usual six. He did so, and scored a point; but it was short-lived. His competitors very soon discovered the move and followed suit. The result was that the whole six warehouses were compelled to employ the two extra men; the trade returned to its old position in so far as the distribution of it was concerned, and all the warehouses were burdened with a permanent recurring cost of two extra travellers without any gain whatsoever. The same is happening with cash-order trading. Where it is initiated it is only a question of time when all shopkeepers will be compelled to adopt it also, with the same result that the distribution comes back again to its old proportion and none are better off. By increasing their selling-prices, as they must do, they save a loss, but the public have to pay for it by way of a material increase in the cost of living.

As the outcome of the rationalization of industry which is taking place throughout the world of trade, retail traders have been resolutely banishing discounts, and had practically wiped them out with the exception of a $2\frac{1}{2}$ per cent. discount on straight-out cash transactions. Now the cash-order trading has been originated, and discounts are brought back again in a more evil form. The system is not so fair as the old trading-stamp system which the Government of New Zealand put down by legislation before it got a stranglehold on trade. Could a plebiscite be taken of the retail traders of the Dominion it is a certainty that its abolition would be carried by an overwhelming majority, and if the public knew of its many ramifications they would not hesitate to boycott it. That the system encourages people to overbuy and run themselves into debt cannot be gainsaid. It encourages extravagance and the buying of more expensive articles than many of the purchasers can afford. A retail clothier writing from a town in England states that "If a customer comes in for a suit of clothes for which he is prepared to pay cash he is willing to pay up to £2 10s. or £3 for it, but if he has a cash order he will go up to £5 or £6 for it." This illustration can be taken as typical of the system.

The most unfair feature of the system is that the careful thrifty buyer who pays cash is penalized in that no differentiation can be made in his favour as against the person who seeks credit and payment by instalments through the cash-order system. This is opposed to all the principles of fair trading, and should, if possible, be put a stop to. It is largely on this account that the system is so roundly denounced by economists all over the world. The system is also building up a class of undesirable middlemen who, unrestricted, live as parasites on the traders to exploit the public. They charge the customer from 5 per cent. to 7 per cent. on the money lent, which is, of course, an increase on the selling-price; they then demand another $12\frac{1}{2}$ per cent. to 15 per cent. discount from the trader, who, unable to give it on his ordinary prices, is compelled to advance them, as mentioned in the foregoing, to make good the deficiency, the whole community paying alike the increased cost.

It is estimated that in towns where the system is in full swing the ordinary public pay on account of the system from 5 to 10 per cent. more than they would otherwise do, and the clients of the system the 5 to $7\frac{1}{2}$ per cent. commission charged by the cash-order company over and above the trade discount. In other words, the cash buyers are mulcted by the system to the extent of from 5 to 10 per cent., and the cash-order patrons to the extent of from 10 to $17\frac{1}{2}$ per cent.

As stated before, the term "cash-order trading" is a misnomer, as it leads the public to believe that they are buying the goods at cash prices, whereas they are paying the prices of a credit or money-lending system. Legislation should be enacted making it a punishable offence to use the name in respect of that particular kind of trading. "Coupon trading" would be a fairer term and not so misleading. The system is a credit system of an iniquitous character.

When the Cash Order Regulation Bill was before the Victorian Parliament a few months ago it was stated on authority that some of the cash-order traders in Australia compelled their clients who happened to fall in arrears with their payments to sign a loan contract for the balance, for which they charged the usual terms of the regular money-lender, and this, be it noted, over and above the excessive rates charged in the first instance. It was also stated during the debate on the Bill that in a few instances cash-order companies were combining money-lending with cash-order trading. If this kind of trading becomes general it will be a sorry day for the country that permits it.

As showing the rapidity of the growth of the system it is stated in one of the Australian papers that in Australia the number of cash-order companies in 1925 was ten, with a turnover of £1,000,000. In June, 1928, the number of companies had grown, it is estimated, to seventy, with a turnover of £10,000,000. He would be a bold man who would say that this huge amount represented new business. A proportion of the increased trade would be accounted for by increased population, but then it must be remembered that increased population brings with it an increase in the number of traders. The greater proportion of the ten millions must be ordinary trade done at a discount and commission for which the public have to pay.

In some parts of the Dominion the local traders have got together and by resolution have agreed among themselves not to accept cash-order coupons, and have for the time being prevented the system from being put into operation in their districts. This is only a temporary remedy, however, as sooner or later the system will creep in in spite of their resolutions. If the evil is to be remedied it can only be done by legislation. Those who are favourable to the system are those who in the meantime have secured extra business, which they are naturally loath to risk losing by the demise of the system. The consensus of opinion of economists, traders, and those who have studied the system is that it is an iniquitous system and should be abolished by law.

APPENDIX C.

CASH-ORDER TRADING.

It is desired to represent that there is not unanimity amongst the retailers in Auckland on the matter of cash-order trading, and that a considerable number of the members of the Auckland Drapers, Clothiers, and Boot-retailers' Association, a body affiliated to the New Zealand Federation of Drapers, Clothiers, and Boot-retailers, are adverse to any interference with what they consider legitimate business. In consequence of this it was decided at a meeting of the Auckland Drapers, Clothiers, and Boot-retailers' Association that that body would not tender evidence as an organization, but that it be left to individual members to represent their views. We desire, therefore, to respectfully tender as evidence the following:—

The opposition to cash-order trading is being made by firms who do not indulge in this form of trading, but who have other methods of accommodating customers, such as long-term credit, hire-purchase system, &c. Probably of all credit systems the long-term credit is the worst, where women with husbands in settled employment in professions and commerce can, with this backing, obtain credit for periods ranging from one to twelve months. When interest, cost of extra staff engaged in book-keeping, bad debts, cost of collection, and loss of turnover on the amount standing on a credit firm's books are considered it must be apparent that the public are paying for this accommodation.

Hire-purchase system has its abuses, and a recommendation was made to the New Zealand Drapers' Federation by the Auckland Association that in the event of restrictions being placed on cash-order trading similar restrictions should be made to apply to hire-purchase system, and with this we are in accord. It is only equitable, and it is a matter of comment in Auckland that one of the traders carrying on hire-purchase system to a dangerous extent is one of the most active in the attempt at suppression of cash-order trading; were this successful the effect would be to greatly increase this firm's turnover in this form of trading. Credit systems will be used by the community indefinitely, and to stifle cash-order trading will only have the effect of building up other systems in its place.

Some of the advantages of cash-order trading are as follows:—

- (a) Cash-order trading is confined almost entirely to purchase of necessities, not luxury articles, and in this respect is preferable to hire-purchase systems under which pianos, gramophones, &c., are bought in excess of the income of purchaser.
- (b) Housewives requiring an article but having insufficient money to make complete purchase, and who are unable to obtain credit, are able to take out a cash order, obtain the article, and pay off from future earnings: frequently this is used in cases of dire necessity.
- (c) Persons entering employment, or their parents outfitting them, often use this system, which is of great benefit, enabling them to be equipped for their job.
- (d) Purchases of drapery are generally too small to be governed by a hire-purchase agreement, and the only method of obtaining credit for the poorer folk is by means of a cash order; by this system the working classes are placed on a more equitable footing with better-class folk who are able to obtain unsecured credit.
- (e) In these days of purchasing ahead of income, cash-order trading is probably the safest of all systems, and payments are kept up to the mark by weekly collections; also, the caution of the cash-order trading companies has a controlling and limiting effect which keep the transactions within bounds.

We would further submit that the protest made by such bodies as the Federation of Drapers and the Chamber of Commerce expresses the opinion of that part of the business community which is inexperienced in the handling of cash-order business, and that, without holding an investigation such as your Commission is making, it is not competent for these bodies to judge on the merits or demerits of the system; also that many of the members of these bodies are interested in other credit systems and are not altogether unbiased.

In respect to limitation of commission from the trader to the cash-order company, we would submit that this can safely be left as a matter of contract between these two; the trader, who is naturally careful of his profits, will see to it that this does not get out of bounds.

Much is made of the point that the retailer to give, say, 10 per cent. discount to cash-order trader must charge the ordinary public more for their goods (as much as 5 per cent. to 10 per cent. being mentioned). This is fallacious, as no trader would allow a large proportion of his sales to be made on this basis (in Auckland it is under 5 per cent. on the total turnover), and the commission allowed the cash-order trader represents less than 1 per cent. on the whole turnover—a percentage probably less than is spent by the long-term credit trader in the cost of handling his class of business.

We would suggest that standard articles be purchased from the large firms giving unsecured and lengthy credit and from one doing cash-order business and a comparison made. Firms dealing with cash order are prepared to challenge values with any other firm.

Dealing with the evidence submitted by the Federation of Drapers, Clothiers, and Boot-retailers, we attach a copy, and have for convenience of reference numbered the clauses. Our comments thereon are as follows:—

1. We give this our emphatic denial so far as our firms are concerned.
4. There will be ample proof before you that this is not so.
5. We submit that these so-called middlemen are rendering a service to the public.
6. This is viewed as an attempt to discredit the system with the object of discouraging trade under this method, and is indicative of the attitude of those retailers who are feeling the competition.
8. The illustration of how cash-order trading affects profits and prices is out of all proportion (being 40 per cent. on turnover). This illustration should assure the Commission that retailers are not likely to let cash-order trading grow unduly. This trade can be viewed in light of a sale to a wholesale customer, the trade, including those opposing cash-order system, at present allowing a minimum of 10 per cent. to hotels, boardinghouses, and other wholesale buyers. The extra cash-order-trading turnover enables the merchant to purchase in larger quantities, at more advantageous prices, of which the public gets the benefit.
9. It is impossible to estimate what extra business is done by means of this system, and it is probable that without the easy means of payment for necessities, money would be spent in small sums on amusement and other luxuries.
11. This discloses the motive behind this organized attempt on the part of the retailers, either prohibited by their class of business or out of the swim, to smash the system. We can certify that the president of the federation, supported by the managing director of one of the fashionable and largest credit-giving houses in this city, was one of the prime movers recently in an attempt to promote a cash-order company amongst the members of the local association; this failed only because those already trading under this system refused to break off their present contracts; and, having failed, their next step was to seek a Commission to inquire into the system. The suggestions made by the federation have been aimed at suppressing the system; controlling it is only accepted as a last resource. This, in our mind, amply proves that the movement to abolish or control cash-order trading is biased, and originated in the desire of one section of traders to upset the method of their competitors.
13. Our reply to the statement that all shopkeepers will be compelled to adopt cash-order trading is that many businesses are not equipped for this form of trading, which is chiefly used by the working classes. These firms are the chief agitators against the system; their long-term and unsecured credit systems and hire-purchase system are in our opinion infinitely more harmful.
14. This argument applies more appropriately to a fashionable business giving lengthy credit: some one must pay for the advantage gained by one class of customer over another. A comparison of prices of the firms doing cash-order business with those doing a credit business will prove that the former's prices are invariably lower.
15. The trade in cash orders in Auckland does not exceed 5 per cent. of the turnover; the allowance to the cash-order trader on this amount does not amount to 1 per cent. of the total turnover—considerably less than would be paid by a credit firm for handling this amount of business on their books.
18. It will be obvious that 5 per cent. maximum each way would strangle the cash-order trader and kill the service.
23. It is obvious that this so-called extra business is the bone of contention and is the envy of a number of traders.

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