Federal Trade Commission Scores Profiteers

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taking exhorbitant profits on their leather business. Increases of 30 to 100 per cent in tanners' profits are cited, one company boosting its profits from $644,390 in 1914 to $3,576,544 in 1916.

"During 1917 the prices of hides, particularly packer hides, were advanced very rapidly, notwithstanding that during the period of advance great supplies of hides were withheld from the public," the report says.

Shoe Profits Very Large.

"Many shoe manufacturers in 1917 made larger profits than usual. Wholesale shoe dealers secured wider margins of profit in 1917 than they had been accustomed to receive. The margins of retail shoe dealers widened greatly during 1917, especially upon fancy shoes. This was true to a less extent on staple shoes. It appears that the retailer has profited more in proportion than the wholesaler.

"As an indication of earnings of the big packers in the selling branch of their leather business, the following is quoted from a letter of Jan. 17, 1917, by the Eastern Leather Company, an Armour selling subsidiary, to Mr. F. W. Croll of Armour & Co.:

"'We are inclosing our check on the National City bank, New York city, payable to Mr. J. Ogden Armour, for $915,787, same being a dividend of 53 per cent on the 17,279 shares of common stock standing in his name. In addition to this, and, in accordance with our conversation when in Chicago, we have set aside as a surplus $250,000, which represents 10 per cent on the common stock.

Show Vast Earnings.

"'We are also inclosing a check on the National City bank for $202,145.62, payable to Mr. Armour, this being the balance due on 6,020 shares of common stock held for employes.'

"Here is a memorandum of May 15, 1917, from J. D. Murphy to Mr. H. W. Boyd, president of the Armour Leather Co.:

"'May 15, 1917—Mr. H. W. Boyd: Herewith comparative statement of results in the leather business for the three months ending April 28, showing earnings of $1,964,945.18. This does not include Woodstock, as we have not finished enough of our own leather up there to make a loss and gain result of any value, as indicating the possibilities of the plant.

Charge Off Large Amounts.

"'As per Mr. Armour's instructions, given through Mr. Stull, we are charging off in reduction of the above the following reserves:

"'Earnings as above, $1,964,945.18.

"'Reserve for income tax, three months, ending April 29, '17, $36,916.61.

"'Reserve for estimated excess profit tax six months ending April 28, '17, $423,620.84—total for both $460,536.45.

"'Net earnings, $1,504,408.73.

"'J. D. Murphy.'

"Here's another letter in which Mr. H. W. Boyd writes Mr. Armour comparing the results for the Armour Leather company with the Central Leather company's statement:

"'Oct. 31, 1917.—Dear Mr. Armour: In reference to the Central Leather company's statement, would say that it does not compare favorably with ours. You will notice that after deducting interest with dividends they only have $40,000 to add to the surplus. We made $600,000, and they are doing four times the amount of business, and only made $1,900,000, and, as stated above, after deducting interest on the bonds and paying dividends, they only had $40,000 left to add to their surplus.

"'I think, considering their lumber business, which is wonderful (the manager of the Pennsylvania Lumber company told me that they never expected to realize the profits they were making on hemlock lumber and that they were doing an enormous business) that our statement is a great deal better than theirs. Yours truly, H. W. Boyd.'

Reappraise Swift Properties.

"The way in which Swift & Co. proceeds when a government limitation of profits is expected is shown by the following letter, in which Louis F. Swift writes to his brother, Ed. F. Swift, stating that he has learned that the government expects to establish profit control in the leather industry and suggesting the advisability of re-appraising their properties in certain companies. Edward F. replies.

"'I approve, if done quietly and promptly.—E. F. S.'"

Charge Salmon Profiteering.

Still more charges of profiteering are leveled at the packers in the following report on salmon canneries:

"In 1917 the average net profit on investment of ninety companies, packing 7,426,678 full cases (87 per cent of the total year's pack), was $2.28 per case, or 52.8 per cent on the net investment in the salmon canning business proper. This average of 52.8 per cent does not reveal the fact that some of the low cost companies, included in the average, made over 200 per cent. It is significant that some of these low cost companies are those allied with the big meat packers."

Accuse Flour Millers.

Some of the most conscienceless profiteering so far exposed is attributed by the commission to the flour millers, whose greed has enhanced the cost of our daily bread.

"In the case of flour milling, it is apparent that while the government fixed price for wheat and an allowance of maximum margin of profit over cost on flour have had the virtue of stabilization, nevertheless the profits resulting are heavy," the report says. "Before the government interfered flour sold in 1917 with an average profit as high as 52 cents a barrel. After the fixation of the price of wheat and the determination of a maximum profit of 25 cents per barrel of flour the very high average profit per barrel dropped toward the maximum. Where this decline in price did not bring the price down to the maximum—that is, where the millers continued to exceed the government maximum, as they did in many instances—many of the millers were actuated by the hope that they would be allowed to include income and excess profit taxes in their costs and pass these taxes on to the consumer.

"However, if there had been a fairly general compliance with the maximum of 25 cents the profits of the least efficient mills would have been considerable and those of the most efficient mills proportionately heavier. To the extent that the maximum price was exceeded the profits were larger and in general were in fact very great.

"The flour millers have had unusual profits for considerably more than a year. Information collected and verified by the commission shows for the four years ending June 30, 1916, a profit of 13½ cents on each barrel of flour and 12 per cent on the capital investment.

"In the year ending June 30, 1917, these same mills made an average of 52 cents on each barrel of flour sold, and nearly 38 per cent on their investment — profits that are indefensible considering that an average of the profit of one mill for six months of the year shows as high as $2 per barrel.

"The commission has tabulated returns covering the sale of something over 4,000,000 barrels of flour made and sold under the food administration's regulations from September, 1917, to March, 1918, inclusive. In face of the regulation of 25 cents per barrel maximum, the average profit per barrel on this flour was about 45 cents, or over three times the normal profit per barrel referred to above. The return on investment was apparently between 25 and 30 per cent.

Jobbers' Profits Jump.

"However, with prices maintained at the same level, cost would probably have increased and profit would have been somewhat reduced in April, May, and June, 1918, because of the smaller output in those months. The average net profit of jobbers reporting to the commission was about 15 cents per barrel for 1913 and 1914, but increased to nearly 50 cents in the first half of 1917. These profits include all the pay received by the proprietors of the business for their services.

"It is clear that if the profit above such pay was reasonably high in 1913 and 1914, it was exorbitant in the first half of 1917. The food administration has succeeded in reducing the profit of these concerns, but for the year 1917 it was still over twice as high as in the earlier years.

"In cases where the government fixes a definite margin of profit above costs, as in the case of flour, there is a considerable incentive to a fictitious enhancement of costs through account juggling. This has added to the volume of unusual profits.

"Increase of cost showing on the producers' books can be accomplished in various ways. The item of depreciation can be padded. Officers' salaries can be increased. Interest on investment can be included in cost. New construction can be recorded as repairs. Fictitious valuations on raw material can be added. And inventories can be manipulated."

Some Comfortable Salaries.

The commission says it has detected the payment of extraordinary salaries and in some instances bonuses to executives of corporations, and adds:

"An illuminating example of high remuneration, charged to the expense account, is that given by the American Metal company, limited, of New York, the chief dealings of which are in zinc. Appended are the salaries and tantieme (French—an interest, commission or proportional amount) of some of the chief officials:

"B. Hochschild, chairman of board of directors, $179,663.36.

"C. M. Loeb, president, $364,326.73.

"Otto Sussman, vice-president, $221,596.04.

"J. Loeb, vice-president, $147,930.69

"Sol Roos, manager St. Louis office, $148,530.69.

"M. Schott, manager Denver office, $136,553.12."

Coal Margins Increase.

On the subject of coal operators' profits, the commission says:

"Generally speaking, the bituminous coal operators in 1917 had very much larger margins than in previous years, while in 1916 the margins (what operators actually received for coal sold over f. o. b. mine cost) may be regarded in some cases as lower than normal, yet the margins of 1917 were often two or three times the normal return. In the figures for 1916 and 1917 mentioned below return on investment must be covered in margins shown.

"The increase of margins is illustrated by an examination of the returns for 1916 and 1917 of twenty-three typical bituminous coal companies in the central Pennsylvania field. The average margin of these companies in 1916 was 20 cents per ton, and in 1917 was 90 cents. The highest margin for any company of the twenty-three companies in 1917 was $1.85. The corresponding margin for this company in 1916 was 41 cents.

"Similarly the lowest margin for any of these companies in 1917 was 27 cents, the corresponding margin for the same company in 1916 being 13 cents.

"April realizations contain relatively little coal sold on contracts made prior to August 21, since most such contracts expired April 1, 1918. Sample reports for April operations, covering 12,619,274 tons actually mined in West Virginia, Pennsylvania, Ohio, Indiana, Illinois, and Kentucky, show an average margin between claimed f. o. b. mine cost and actual realization from sales of about 54 cents, as against a pre-war margin of an average of 10 to 15 cents.

Fraud on Gasoline Reports.

"In anthracite the average receipts per ton, including all sizes, during the year 1914 (thirteen companies producing 79 per cent of the total tonnage in 1916) were $2.86 per ton. The average receipts per ton of anthracite, including all sizes, allowing for later obligatory summer discounts on prepared sizes, during the period January-March, 1918 (six companies, producing 50 per cent of the tonnage in 1916), were $4.26 per ton.

"The average labor cost increase per ton since 1914 was 76 cents, and if this is deducted from the 1918 average receipts per ton on increase of 60 cents per ton (or 22 per cent) in average receipts is indicated, without allowance for increased cost of supplies and general expense."

The commission charges that false reports of gasoline famine have been spread "for the purpose of maintaining the high price of that product and the heavy profits from it."

Enormous Profits in Fuel Oil.

"A survey of the petroleum field," the report says, "shows that the market, when under the control of dominating factors, such as Standard Oil, can be one of huge profits without the device of the high fixed price.

"Enormous profits are now being made in fuel oil, with the advantage to the refiner that the high price of that product meets no popular challenge.

"The average profit in the oil industry is about 21 per cent on the investment. This is a considerable increase over the rate of profits indicated for pre-war years, as the commission's gasoline report indicates an average profit for the years 1913, 1914 and 1915 of 15 per cent on the investment."

U. S. Steel Profits.

In 1917 the steel companies, the commission says, made abnormal