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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.

NATIONAL SECURITY (INQUIRIES) REGULATIONS.

BOARD OF INQUIRY APPOINTED TO INQUIRE INTO HIRE PURCHASE AND CASH ORDER SYSTEMS.

REPORT

ON

CASH ORDERS.

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# BOARD OF INQUIRY APPOINTED TO INQUIRE INTO HIRE PURCHASE AND CASH ORDER SYSTEMS.

Sydney,

15th August, 1941.

The Honorable A. W. Fadden, M.P.,  
Treasurer,  
Commonwealth of Australia.

DEAR SIR,

## CASH ORDERS.

1. By notification appearing in the Commonwealth Government *Gazette* No. 34 of 24th February, 1941, the following were constituted a Board of Inquiry:—

Harold William Chancellor (Chairman).  
Joseph Benedict Chifley.  
George Stanley Colman.  
Marshal James McMahon.

2. The Board was appointed for the purpose of inquiring into and reporting on the following matters:—

- (1) The system of trading in Australia by means of cash orders and hire purchase agreements including the business and operations of any person who issues cash orders or enters into hire purchase transactions as lessor, vendor or owner, or finances, either directly or indirectly, hire purchase transactions.
- (2) The conditions under which such trading, business and operations should be carried on.

3. Mr. H. L. Tilley was appointed Secretary to the Board and the Board wish to express their appreciation of his valuable and capable assistance.

4. The Board has concluded its inquiries in relation to cash orders. The Board is not unanimous in its findings. This report is subscribed to by Messrs. Chancellor, Colman, and McMahon, and any opinions, conclusions or recommendations therein are, in so far as Mr. Chifley is concerned, subject to his separate report which is annexed.

5. Evidence was taken in Sydney, Melbourne and Brisbane and one witness from Western Australia was examined as to the cash order trading in that State. In all, 65 witnesses were examined in relation to cash orders.

6. The sittings of the Board were well advertised and notices were published in all the capital cities calling on any persons interested to offer information to assist the Board.

## EVIDENCE SOUGHT.

7. The Board sought to secure evidence from—

- (a) The proprietors of the stores and shops who honoured the orders (referred to in this report as retailers).
- (b) The companies or persons who issued cash orders (referred to in this report as cash order traders).
- (c) The persons to whom the orders were issued and who utilized them to secure merchandise (referred to in this report as customers).

8. A list was made of the principal retailers in all the capital cities.

9. The Board had no difficulty in compiling a list of the cash order traders as this information was readily obtained from the retailers.

10. The Board was faced with great difficulty in securing a representative list of customers. The "general public" who use the orders are legion and are not organized into groups nor are they vocal.

11. The retailers at the request of the Board supplied information as to the volume of cash order business done by them.

12. Certain retailers representing typical classes of business were selected by the Board and called for examination in each city visited. Various associations in or related to the retail trade which claimed to be affected by the cash order trading appeared by representatives, and presented statements on which they were examined.

13. A questionnaire was prepared by the Board and forwarded to each known cash order trader throughout Australia and the resulting data were assembled and considered by the Board.

14. A number of cash order traders were selected by the Board and examined in each of the three cities. Certain organizations representing the cash order traders or groups of them, asked leave to appear and present statements, and their representatives were examined.

15. Letters were received from a number of users of cash orders, some making complaints or criticisms of the system, but many commending the system and indicating their dependence on it. These were considered by the Board, and, where possible, the cash order traders concerned in such complaints were examined.

16. As mentioned above, the customer was hard to locate and slow to respond to press requests to appear, but this situation was met by courtesy of Miss Govan, the Director of the Board of Social Studies at the University of Sydney, who, with a group of her students, made a survey in 40 municipalities in the Sydney metropolitan area and secured direct information from 544 homes. The evidence given by Miss Govan is more fully discussed in paragraphs 96-107.

17. All information and evidence sought by the Board was readily given. There was some delay in the return of questionnaires, but this was explained as arising from staff shortage owing to military duties.

#### THE SYSTEM.

18. It was stated that the issue of cash orders had commenced about 58 years ago. In the first place it was by means of orders personally addressed to one retailer, but this gradually developed into the open order, negotiable by almost any retailer.

19. Briefly, the system is that a customer wishes to purchase goods and obtain immediate delivery, but wishes to pay for them in weekly instalments.

20. The cash order trader, on application, issues to the customer a more or less open order on any retailer to supply goods to the specified amount. The average value of the orders so issued would appear to be somewhere about £3.

21. The customer forthwith pays 1s. in the £1 on the face value of the order as a premium, and also 1s. in the £1 as the first instalment of the repayment to the cash order trader, who will have to pay for the goods to be purchased.

22. The balance of the order, 19s. in the £1, is paid off in weekly instalments. Payments are sometimes made at the office of the cash order trader, but are more frequently collected at the home of the customer by authorized collectors of the cash order trader.

23. In due course the customer selects the required goods at a retailer's store, and tenders the cash order in settlement.

24. The retailer then renders his account to the cash order trader. The cash order trader pays the retailer, but, in doing so, claims a discount, which varies from 10 per cent. to up to 20 per cent. The great bulk of the business is on the basis of 10 per cent., and the weighted average rate would be about 10.5 per cent.

25. The cash order trader has no property in the goods obtained by the customer from the retailer, and, therefore, has no security or right of repossession. The amount owing is an unsecured balance. The bad debt losses are, however, light, and, in many instances, the cash order traders show bad debt losses of less than 1 per cent. per annum on the total orders issued.

26. There are some variations in practice between the different States in the handling of the business.

27. In New South Wales the form of order issued is a general order stating the total value of goods to be supplied and, attached by perforations, is a set of coupons. The order and coupons all bear the same identification number. This order can be used successively at different retailers, until the total value of the order is exhausted.

28. Each retailer detaches a coupon, which he fills in for the amount of goods supplied, and his name and the amount expended are endorsed on the order itself, so that subsequent retailers can see the amount still available.

29. Retailers render their accounts to the cash order trader at the end of each month, and the cash order trader forwards the retailer a cheque towards the end of the following month.

30. Assuming the purchases are made promptly after the issue of the order and to be spread uniformly throughout the month of purchase, the cash order trader would get an average period of credit of from five to six weeks from the time of issue of the order to the time the goods are paid for.

31. It is this lag between the time the customer commences to pay for the order and the time of payment for the goods by the cash order trader that produces the rather fantastic rates of "interest" claimed to be earned. In this connexion, see further comments in paragraphs 80-86.

32. The New South Wales system involves a fair amount of clerical work by the retailer, as the details on the coupons and the endorsement of the order have to be written in ink. It also involves a fair amount of clerical work by the cash order trader in recording the redemption of the multiple coupons against the orders.

33. In Victoria, a system of clearing house settlements has been evolved, under the title of the Victorian Shopping Service, which is used by the majority of the cash order traders.

34. The cash orders are in vouchers for fixed amounts as follows :—5s., 10s., £1, £2, £3, £5. The cash order traders buy these vouchers for cash from the Victorian Shopping Service at  $9\frac{1}{2}$  per cent. less than their face value. This is the 10 per cent. usual discount which the retailers will allow on redemption less half of 1 per cent., which the Victorian Shopping Service requires for its operating expenses.

35. These vouchers are stamped, in a space provided, with the name of the cash order trader and are issued to the customer by the cash order traders, subject to the usual terms of payment, i.e., the 1s. in the £1 premium and the repayment of the face value spread over twenty weeks.

36. Customers usually procure these vouchers in the denominations that will enable them to use each voucher completely with one retailer, but, if a voucher is not so expended, the first retailer retains the voucher and gives his own credit note to a subsequent retailer.

37. Settlements are made each week by the Victorian Shopping Service. Each retailer has merely to collect all vouchers honoured and group them into the total number of each denomination, extend these totals and deduct his agreed discount to the cash order traders.

38. All vouchers honoured up to Saturday are then paid for by Victorian Shopping Service on the following Wednesday.

39. It will be noted from paragraph 34 that the cash order traders have already purchased these vouchers from the Victorian Shopping Service on the basis of a discount of 10 per cent. on the assumption that they would be redeemed at that rate. As, however, some retailers grant discounts of  $12\frac{1}{2}$  per cent., 15 per cent. or, occasionally 20 per cent., the Victorian Shopping Service sort all the vouchers under names of the cash order traders who issued them. A statement is then forwarded to each cash order trader, showing the vouchers which had been redeemed subject to 10 per cent.,  $12\frac{1}{2}$  per cent., 15 per cent. or 20 per cent., and discounts in excess of 10 per cent. are passed back to the cash order traders.

40. The distinctive features of this system are—

The cash order trader actually pays for the cash orders before he issues them.

There is practically no clerical work imposed on the retailer.

The retailer receives prompt settlement each week for goods supplied.

41. It is true that the cash order traders own the Victorian Shopping Service, and, therefore, whilst they pay for the orders before issue, they are to a large extent paying themselves, but this is offset largely by the prompt payment to the retailers.

42. In Western Australia the retailers largely control the cash order business. Up to 1937, they refused to accept any cash orders, but then decided to form their own cash order company.

43. Orders honoured by the members of the Retail Traders Association are not subject to any discount on redemption, but orders honoured by other retailers are subject to a charge of 10 per cent. A levy to meet the costs of operation is made on the members of the Retail Traders Association, based on the value of orders honoured by them. This was stated to be 3 per cent. The total charges to members and non-members for the last year's trading represented an average rate of 5.7 per cent. on the face value of orders issued.

44. This figure can hardly be regarded as a general criterion of the costs of a cash order company, as, with the full control of the business in Perth, the cash order business is not encouraged, the granting of the orders can be most selective and, further, all payments by customers are made at the company's office.

## VOLUME OF BUSINESS.

45. The total business done by cash order traders as disclosed by the Board's survey, is summarized in Appendix "A". From this it will be seen that the values of orders issued over the last five years are as follows:—

	1936.	1937.	1938.	1939.	1940.
	£	£	£	£	£
New South Wales .. .. .	2,247,938	2,560,978	2,684,414	2,865,831	2,825,416
Victoria .. .. .	627,290	678,004	698,374	651,217	644,639
Queensland .. .. .	298,025	330,242	354,889	366,004	384,979
South Australia .. .. .	754	9,007	62,255	55,812	47,112
Western Australia .. .. .	1,575	9,110	37,100	50,862	66,391
Tasmania .. .. .	24,767	27,151	31,364	33,623	38,257
	3,200,349	3,614,492	3,868,396	4,023,349	4,006,794

46. Figures were given, in confidence, by the Retailers Traders Associations of Sydney, Melbourne and Brisbane, of their total sales for twelve months and a comparison of the cash orders issued with the total retail turnover shows that the use of cash orders in Brisbane was comparatively twice that of Melbourne, whilst Sydney was approximately twice that of Brisbane or four times that of Melbourne.

47. It will be seen from the above table, that over the past five years the cash order business in New South Wales showed a continuously progressive increase for four years with a slight decline in 1940; Queensland has shown a steadily progressive increase over the five years; whilst in Victoria the business increased progressively up to 1938, but 1939 showed a decline of 6.75 per cent. when compared with 1938, and 1940 shows a further decline. The Victorian trend was explained as arising from the restrictions imposed by the Money Lenders Act of 1938, which are referred to in paragraph 112.

## PEOPLE WHO USE THE ORDERS.

48. It was stated many times in evidence that the customers who use the cash orders are in the lower wage group, and, further, that about 95 per cent. of the potential users of cash orders do use them either regularly or intermittently.

49. The survey made by the Board of Social Studies tabulated the wage groups of those who use the orders. These data are given in paragraph 100 where it will be seen that the families who use cash orders fall into the following groups:—

	Number.	Percentage of Total.
Wages under £4 a week .. .. .	53	24.20
Wages between £4 and £6.. .. .	127	58.00
Wages between £6 and £8.. .. .	37	17.00
Wages over £8 .. .. .	2	.91
	219	100.00

50. There would also appear to be some topographical demarcation in the use of cash orders. In some districts it is apparently looked upon with disfavour and therefore housewives are less inclined to use this system. This was disclosed by the survey made by the Board of Social Studies, as—

## IN INCOME GROUP OF £6 TO £8.

In Auburn .. .. .	Of 14 families approached 12 used cash orders.
Whereas—	
In Chatswood .. .. .	Of 13 families approached 0 used cash orders.
In North Sydney .. .. .	Of 13 families approached 3 used cash orders.

## IN INCOME GROUP UNDER £6.

In Paddington .. .. .	Of 25 families approached 19 used cash orders.
In Redfern .. .. .	Of 24 families approached 17 used cash orders.
In Rozelle .. .. .	Of 23 families approached 14 used cash orders.
In Camperdown .. .. .	Of 25 families approached 18 used cash orders.
Whereas—	
In Waverley .. .. .	Of 18 families approached 7 used cash orders.



## PURPOSE FOR WHICH ORDERS USED.

51. It was stated on evidence by practically all retailers examined that cash orders were principally used for the purchase of clothing, boots and shoes, and household manchester and furnishings.

52. Figures supplied by the Victorian Cash Order Association covering goods paid for by the clearing house for their members for the six months ended 28th February, 1941, were as follows :—

	Per cent.
Clothing, dress materials, boots and shoes, manchester and household necessities .. .. .	96.98
Jewellery, glassware, &c. .. .. .	1.15
Motor accessories, hardware and sporting .. .. .	0.61
Opticians and dentists .. .. .	0.52
Radio and furniture .. .. .	0.56
Furriers .. .. .	0.18
	100.00

53. Information secured in Sydney by the Board of Social Studies in a number of transactions only gave the following figures :—

	Per cent.
Clothing, dress materials, boots and shoes, manchester and household necessities .. .. .	285 .. 92.52
Jewellery and glassware .. .. .	5 .. 1.63
Hardware and sporting .. .. .	2 .. 0.65
Opticians and dentists .. .. .	2 .. 0.65
Radio and furniture .. .. .	8 .. 2.60
Miscellaneous .. .. .	6 .. 1.95
	308 .. 100.00

54. Cash order traders were insistent that the cash orders were only used for necessities, and the retailers supported this in their evidence.

55. Copies of sales dockets covering purchases made by means of cash orders were examined by the Board. The number so seen was necessarily limited, but they did seem to indicate that some items purchased could "only just" be classed as necessities. These dockets also indicated a tendency to buy small somewhat unnecessary articles to wipe out a small balance on an order.

56. One of the conclusions arrived at by the Board of Social Studies in Sydney as the result of their survey was—

Most of the families using cash orders use them sensibly and for necessities, and would have great difficulty in managing without them.

57. It is noticeable that cash orders are only accepted by retailers for goods which carry a comparatively high rate of gross profit. They are not accepted by grocers or vendors of other foodstuffs. This is sound in principle, as long credit should not be given for goods which are consumed almost immediately after purchase. It is probable, however, that the reason that grocers and similar vendors do not accept cash orders is that their goods do not carry a sufficient rate of gross profit to permit of any substantial allowance by way of discount to the cash order traders.

58. It was stated many times in evidence that they are largely used to outfit children in clothes at the beginning of school years; to provide necessary clothing at seasonal changes, particularly at the onset of winter, and allow them to provide extra furnishings, such as blankets.

59. Miss Daley, the organizing secretary of the Women's Central Committee of the Australian Labour Party in Melbourne, stated that a usual use was—

Three times a year—just before the summer sales, just before the winter sales, and when children were being outfitted for school at the beginning of the year.

## NECESSITY FOR ORDERS.

60. It does appear that certain sections of the community, particularly those in the lower wage group, have come to regard the cash order as a necessity in arranging their finances.

61. The average use of cash orders was claimed to be about £13 per annum, which is about 5 per cent. of the annual income of a man earning £4 10s. per week. It was described by one witness as the "poor man's overdraft".

62. It was stated many times by various witnesses that the average housewife likes to budget her expenditure on clothing and household drapery on a weekly basis, and the cash order was the only safe method of doing it as the money was called for regularly each week, and so the allotment was automatic, whereas prior saving would not be so controlled.

63. Naturally, an "average housewife" is a difficult witness to produce, but the evidence of Miss Daley, organizing secretary of the Women's Central Committee of the Australian Labour Party, and the survey made by the Board of Social Studies in Sydney did support these contentions.

64. Out of 209 families questioned in the survey made by the Board of Social Studies as to whether they could manage their finances if cash orders were abolished, the following replies were received :—

	Number.	Percentage of Total.
Could not manage .. .. .	98	46.9
Would find it difficult .. .. .	56	26.8
.. .. .	154	73.7
Could manage .. .. .	55	26.3
	209	100.0

65. It does appear to the Board that cash orders are oversold by enterprising representatives of the cash order traders. It was vigorously denied by all the cash order traders that they employed canvassers or salesmen, but they almost all employ teams of collectors and these collectors do, in the opinion of the Board, "push the wares" of the cash order traders, and make every effort once a customer is on their books to see that such customer becomes a perpetual user of cash orders. The collectors also have a keen eye and ear for new business in the areas in which they collect.

66. This is amply borne out by the drop in the cash order business in Victoria when quite moderate restrictions were imposed in 1938.

67. This placing of orders (except in Victoria) is largely done at the homes of the customers when the husband is not available, and complaints were made that wives were over-committed without the husband's knowledge. Some cash order traders do claim they always secure the husband's consent, but this is not invariable.

#### SERVICE AFFORDED BY CASH ORDER TRADERS.

68. It is claimed by the cash order traders that they perform the following functions :—

- (a) They provide the retailers with a large group of customers which they would not otherwise have, owing to the lack of funds in the hands of such customers.
- (b) They attend to the collection of the amounts owing by such customers, involving many personal calls, and carry all bad debt risks on these accounts.
- (c) By concentration of a large number of accounts under centralized control, the aggregate costs of control and collection of the customers' accounts is less than it would be if each retailer handled his own group of small extended credit accounts.

As to (a) whilst there is competition between retailers, with some of them honouring cash orders and others refusing to do so, the retailer which did accept the cash orders would be provided with some additional custom, but, if there were no cash order traders, it is probable that most of the business now going through cash orders would come to the retailers, either as cash business or in some form of direct credit.

69. Retailers on the whole expressed their acceptance of the business so placed with them, and did not generally object to the charge of 10 per cent. Smaller suburban retailers, who had been charged discounts of 12½ per cent. did protest that the charge was unreasonable.

#### DISCOUNTS CLAIMED BY CASH ORDER TRADERS.

70. The rate of discount charged by cash order traders on the redemption of their orders from the retailers is basically 10 per cent., but there are variations.

71. It would appear that suburban retailers are usually charged 12½ per cent. It was claimed that the reason for this was that the volume of business was small, and, therefore, the cost of the clerical work, stamp duty, &c., was high in proportion to the actual gross revenue to

the cash order trader. The Board is of opinion, however, that the cash order traders exact this higher discount because the smaller suburban trader is not strong enough or organized enough effectively to protest, and yet cannot afford to forego the business.

72. Professional services such as optometrists and dentists are charged a discount of 15 per cent., or even 20 per cent., and no sound reason was advanced as to why this should be so. It appeared to the Board that this also was the measure of what the cash order trader could demand without making the charge so expensive that orders would be refused.

73. As mentioned in paragraph 43, in Perth the members of the Retail Traders Association grant a discount of 3 per cent. (by means of a levy). This is, however, offset to some extent by the discounts of 10 per cent. claimed from non-members.

74. In Sydney, one of the cash order trader companies is controlled by a group of retailers. These retailers are charged the usual 10 per cent., but, after shareholders receive 15 per cent. dividends on their capital, rebates of discount are made to the controlling retailer members so that their net discount is approximately  $7\frac{1}{2}$  per cent. However, non-member retailers pay higher rates of discount so that the average rate of discount obtained by this cash order trader is in excess of 10 per cent.

75. The Board carefully considered the discounts claimed from the retailers by the cash order traders. They feel that the reasons given for claiming any discount higher than 10 per cent. were not convincing and that if a general discount of 10 per cent. were applied it would remove a lot of the opposition of the retailers to this system.

76. It might be mentioned here that in some cities the retailers grant discounts of 10 per cent. to housewives associations, commercial travellers and similar bodies who render no service comparable with that afforded by the cash order traders.

77. A general limitation to 10 per cent. would mean a general reduction in the income of most cash order traders and a substantial reduction in some of them.

78. A survey was made of the accounts of the cash order traders which have been aggregated in Appendix "A", to see what the effect would be on the results for 1940 if the discount from retailers were reduced generally to 8 per cent. In considering these figures all cash order traders with shareholders funds of less than £4,000 were omitted as these are largely personal businesses where the net profits are the result of the personal exertions of the proprietors and percentages to capital are misleading and confusing when combined with more substantial companies.

79. The following is a summary of the results of this survey. The companies are grouped according to the percentages to total shareholders' funds (capital and reserves less any intangibles such as goodwill) of the net profits (after providing for normal income taxes but not allowing special war-time taxes).

Rate of profit.	Number of Companies.	
	On basis of actual profits.	On basis of profits after reducing discount to 8 per cent.
Over 10 per cent. . . . .	26	10
$7\frac{1}{2}$ per cent., but under 10 per cent. . . . .	14	12
5 per cent., but under $7\frac{1}{2}$ per cent. . . . .	8	15
Under 5 per cent. . . . .	6	11
Loss . . . . .	7	13
	61	61

Of the smaller traders not included in the above summary ten showed losses on the figures submitted for 1940, but a further ten would be thrown into losses by a reduction of discount to 8 per cent.

#### NATURE OF CHARGES MADE BY CASH ORDER TRADERS.

80. Much comment has been made on the aggregate charges made by cash order traders either in the form of a premium charged to the customer or a discount claimed from the retailer.

81. These charges are often referred to as the interest earned by the cash order traders and calculations were brought under the notice of the Board showing the "true" rate of interest earned by a comparison of these earnings with the cash actually outlaid in redemption of the cash order. These calculations showed rather extraordinary rates of interest.

82. But such calculations ignore the fact that the money outlayed does not automatically return to the cash order trader with its accumulated earnings as one looks for in an interest-earning transaction and gave no consideration to the expenses of conducting the business, for management, bookkeeping and control of a multitude of small accounts, collection costs and bad debt losses.

83. Whilst some customers pay their instalments at the office of the cash order trader the majority of the amounts are collected in weekly instalments at the homes of the customers. If the contracts were strictly adhered to this would involve nineteen separate visits, but the evidence showed that the usual number of calls is about 25. As a general rule, no extra charges are made to the customers on over-due instalments.

84. Leaving aside therefore time factors and the mere comparison of cash collections from customers and payments made to retailer, the charges made can be regarded as the gross income of the cash order trader against which are the expenses of operation, leaving a margin which is the actual return on the capital involved.

85. Some effort was made to learn the real costs of conducting a cash order business, but this was made difficult by so many of the cash order traders also carrying on hire purchase and cash loan businesses (and sometimes retailing merchandise) in a single organization and in each instance having a single staff used generally in all sections of the business.

86. It was possible to secure some examples as set out below where the actual cost of the cash order business could be demonstrated or could be estimated sufficiently closely to accuracy to be accepted. In considering the figures it can be assumed that the usual gross earnings of a cash order trader on the face value of the order are—

Charge to customer .. .. .	Per cent.
Discount from retailer (Average) .. .. .	5.0
	10.5
	15.5

Example.	(a) Face value of orders issued, 1940.	(b) Cost of operation.		(c) Allowance for 6 per cent. on shareholders' funds.		Total of (b) and (c).	
		£	Percentage to (a).	£	Percentage to (a)	£	Percentage to (a)
	£						
A. .. .	11,500	1,331	11.57	135	1.17	1,466	12.74
B. .. .	17,700	2,673	15.10	222	1.20	2,895	16.30
C. .. .	28,600	3,121	10.91	330	1.16	3,451	12.07
D. .. .	32,900	3,725	11.40	520	1.55	4,263	12.95
E. .. .	52,000	5,201	10.00	300	0.60	5,501	10.60
F. .. .	226,613	22,500	9.90	1,656	0.73	24,060	10.63
G. .. .	423,824	53,945	12.72	5,866	1.38	59,811	14.10

#### NOTES.

Traders A and E are in specially favoured circumstances as they are in association with retailers and have actually a monopoly of the business in their respective towns. All the customers' repayments are made at the office so that no collectors are involved. The gross income of Company E was 10.8 per cent.

Trader B showed a loss.

Trader F also in a somewhat favoured position to obtain business and had a gross income of only 12.5 per cent.

Generally expenses include income tax at ordinary company rates but do not include any allowance for special war taxes or special private company taxes.

87. From a perusal of the detail figures used in compiling the summaries given in Appendices "A" and "B", it was found that net results vary considerably, apparently being a reflection of management, but that results disclose a better average return with a larger turnover and that cash order traders whose sales exceed £200,000 per annum had consistently high results.

88. This would bear out the evidence given by one trader that it takes a minimum number of travellers to cover a metropolitan area and that it required a turnover of £100,000 to cover standing expenses of management and collection.

89. It is obvious that if collections are to be made over the whole of a metropolitan area practically the same distances would be covered if calls are made each week whether a total of £200,000 per annum is to be collected or only £50,000. The larger amount would involve more individual calls but would not require four times the number of collectors that the smaller total would employ.

90. From the foregoing it would appear that if the cash order traders were eliminated and the same credit facilities were to be supplied by retailers individually the division into smaller groups might well mean that whilst the profits of the cash order traders would be eliminated the extra costs of the smaller units of business may preclude any net saving.

#### EFFECT ON PRICES.

91. It was claimed by the retailers that a moderate amount of cash order business added to their normal turnover did not cause any general increase in the prices of goods sold, for the reasons that, in spite of the discount given to the cash order trader, there is actually an increase in the net profit. This increase arises owing to the fact that after the discount charge is added to the general overhead the increase in trading profit more than absorbs the extra overhead costs. Other overhead costs are not increased by the extra business.

92. We have applied this theory to the actual figures of one of the retailers before us, and the following figures support the claims made :—

	Present sales.		Addition to sales of £25,000 from cash orders.	
	£	Percentage to sales.	£	Percentage to sales.
Sales .. .. .	540,400	100.00	565,400	100.00
Trading profit after charging direct expenses which would vary with volume of sales .. .. .	103,588	19.10	..	..
Add 19.1 per cent. of £25,000 = £4,755 .. .. .	..	..	108,343	19.10
Indirect overheads .. .. .	74,234	13.70	..	..
Add £2,500 being 10 per cent. charge on new cash order sales .. .. .	..	..	76,734	13.60
Net Profit .. .. .	29,354	5.40	31,609	5.50

93. As between individual retailers competing for existing business the above claims appear to be sound. However, if this added turnover could be obtained in cash business the retailer could reduce prices and thus whilst the cash order business may not cause any increase in prices it may defer reductions.

94. It is difficult to venture an opinion as to whether the business now done by means of cash orders would all come to the retailers as cash business if cash orders were abolished. If the contentions of cash order traders and retailers, that cash orders are only used for necessities, are sound, presumably it would.

95. If, on the other hand, credit facilities of some form must be available to induce this business then cost to individual retailers, in affording this credit, may be just as costly as paying a discount to a cash order trader. This is further referred to in paragraph 90.

#### SURVEY BY BOARD OF SOCIAL STUDIES.

96. The Board of Inquiry wishes to express its appreciation of the valuable assistance rendered by Miss E. Govan, the Acting Director of the Board of Social Studies of the University of Sydney in planning and directing a survey which was carried out by the second-year students.

97. A total of 544 questionnaires were completed in a house-to-house canvass over 40 municipalities in the metropolitan area of Sydney. The districts were carefully selected to obtain a broad sampling of the community.

98. The data so obtained were carefully and efficiently tabulated and presented to the Board and afforded valuable independent information.

99. Miss Govan and some of her students also appeared before the Board and were examined as to their submissions and as to their conversations with users of cash orders.

100. It was disclosed that of the 544 families interviewed, the use of cash orders was largely confined to the lower income groups. Of 87 families with incomes of £8 a week or more, only two were found to be using cash orders. The results of this aspect of the survey are summarized as follows :—

Wage group.	Number of families.	Percentage using cash orders.		Percentage not using cash orders.	
		Number.	Per cent.	Number.	Per cent.
Under £4 .. .. .	94	53	56.4	41	43.6
£4 and under £6 .. .. .	235	127	54.1	108	45.9
£6 and under £8 .. .. .	128	37	28.9	91	71.1
£8 and over .. .. .	87	2	2.3	85	97.7
	544	219	40.3	325	59.7

101. Of the families who were using cash orders—

71.9 per cent. use them regularly.

28.1 per cent. use them only in emergencies.

102. Of the families who were using cash orders it was further found that—

70.3 per cent. had only one order current ;

20.1 per cent. had two orders current ;

9.6 per cent. had more than two orders current ;

which would suggest that the majority of those who use cash orders do so to a reasonable extent.

103. Of 211 families who disclosed the amounts they were paying weekly on account of instalments on cash orders—

137 were paying up to 5s. a week.

54 were paying up to 10s. a week.

14 were paying up to 15s. a week.

6 were paying in excess of 15s. a week.

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211

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104. Only 99 families admitted they were or had been in arrears in their instalments. In most cases the cash order traders had merely sent reminders and the families felt that the traders were very considerate.

105. Families using cash orders were on the whole larger than those which did not use them. Several families who do not now use orders did so when their children were young.

106. Many housewives commented that cash orders were used as a convenient method of budgeting, and the visits of the collectors were regular reminders. Some expressed the view that they were better than direct saving as if money were withdrawn from the bank it would not be paid back in regular weekly instalments as was done with cash orders.

107. Miss Govan submitted the following summary of the conclusions as a result of the sampling taken :—

- (1) Most of the families using cash orders use them sensibly and for necessities, and would have great difficulty in managing without them.
- (2) Most of the users have little idea of the actual amount of interest they are paying, and, since they regard these methods of purchasing as necessary, they consider they have no choice.
- (3) Some regulation in regard to methods of canvassing would seem advisable.

#### OTHER SYSTEMS.

108. Credit facilities akin to that afforded by cash orders are provided by certain retailers for their own customers.

109. In one such system the retailer made a charge of 5 per cent. for the credit afforded. In two other cases no extra charge was made.

110. Unfortunately these retailers did not know the costs of operating these credit systems but one of them estimated the costs as 6.8 per cent. of the face value of the credit given.

111. None of these systems were, however, comparable with the usual cash order traders, as in all three instances the whole of the instalments were payable at the company's offices. They would, therefore—at any rate in the large cities—be confined to city workers and the expenses to the retailer concerned would not include the costs of collection at the houses of customers, involving 20 to 30 weekly calls.

#### LEGISLATION.

112. Victoria and South Australia are the only States in which cash order trading is subject to control by any special legislation. The Victorian control was first applied by the Money Lenders Act of 1938, which places a cash order trader virtually in the same position as to restrictions and penalties as a money lender. The Act referred to contains, *inter alia*, the following provisions :—

A cash order trader must hold a licence renewable annually for each business address.

Prohibits canvassing.

Restricts advertising.

Requires a note of contract to be supplied to the customer.

The contract must set out the true rate of interest charged to the customer.

Requires the business of issuing the orders to be carried on at the registered address

#### CASH LOANS.

113. Many of the cash order traders also issue cash loans, some of the traders having a large volume of this business.

114. Customers for cash orders are also a potential field for the cash loans, and the collectors of the traders collect instalments on account of both cash orders and cash loans.

115. It was noticeable in Queensland, where legislation was stated to have fixed the rate of interest on cash loans to 20 per cent. per annum, that the cash order traders did not conduct money lending business.

116. In New South Wales, however, it would appear from evidence, that the usual rate of interest on an unsecured loan for a small amount was 4s. in the £1, or 20 per cent. flat. As the loans are repayable in weekly instalments over a period of six months, the average date of repayment would be approximately three months, and therefore, the actual rate of interest would be approximately 80 per cent. per annum.

117. With a cash order transaction with a charge of 5 per cent. to the customer and a discount of 10 per cent. claimed from the retailer, the cash order trader, on cash orders of a face value of £100, would recover £105 for an outlay of £90, and, if this be paid off by 20 weekly instalments, represents an average date of repayment of about ten weeks. This gives an interest rate of somewhat more than 80 per cent. per annum, and, in addition, the cash order trader has the benefit arising from the delay in actually making the payment of £90 to the retailer.

118. We have already discussed the question as to whether these earnings can be looked upon as true interest earnings, or whether they should be regarded as a gross trading profit, but apart from this, as a matter of comparison, it would appear that to the cash order trader the cash order business was more profitable than the cash loan business.

119. In addition, cash loans are much more expensive to the customer, who bears the whole cost of 4s. in the £1 (flat) whereas, with cash orders, the customer only pays the flat premium of 1s. in the £1.

120. In spite of this, a large volume of these cash loans is made, and it should be borne in mind, if any restrictions are imposed on cash orders, the customers may be driven to cash loans for his needs, or the cash order trader may endeavour to expand his cash loans to replace any diminution in cash order turnover.

121. Therefore, any control imposed on cash orders, should, as far as applicable also be imposed on cash loans made by cash order traders.

#### CONCLUSIONS.

122. The conclusions reached by the Board as a result of its inquiries are as follows :—

- (a) The Board has been mindful of present war conditions, which on the one hand, may call more and more upon manufacturing sources for war materials and, on the other hand, may develop the need for restricting demand for consumption goods so as to increase the resources available for the war effort.
- (b) They feel, however, that the total cash order turnover though substantial is not, relatively, a large portion of consumer credit available to the community; that cash order transactions are very largely for necessities such as clothing and boots, and that there appears to be no good reason why this form of credit should be denied to people to whom it is practically the only form of credit available.
- (c) The same credit facilities could be afforded by the larger retailers who now honour the cash orders, but may be as costly to them as is the present cost of granting a discount to the cash order traders. Smaller retailers who honour the cash orders, however, would not have the finance to grant similar credit facilities to their own customers.
- (d) The system is of most use to people in the lower wage groups of up to £6 per week, and is largely used by income groups up to £8 per week. It does assist these groups to budget their expenditure on a weekly basis.
- (e) In the main, the system is acceptable to the retailers, and if the discounts claimed from them are reasonable, it is equitable, as it does render them a service in debt collection facilities and relief from bad debts on this particular type of credit. A uniform rate of discount appears to be desirable.
- (f) Whilst it is true that a number of cash order traders have been making substantial profits, it is also a fact that a large percentage of these traders earn only moderate profits, and, therefore it does not appear equitable drastically to reduce the rate of discount allowed to cash order traders by retailers, and so render the business practically impossible to many now engaged in it. At the same time, the Board proposes to make recommendations to tighten up the system in certain respects, and to suggest how the volume might be restricted.
- (g) The charge made to the customer is not unreasonable in view of the fact that it largely involves many calls for collection of the repayments. Further, any reduction in this charge would be an encouragement to customers to extended use of the cash orders.

- (h) The system, as such, has had little, if any, effect on the retail prices of goods. The granting of credit of any kind does affect costs, and, if all credit were eliminated, particularly in non-durable consumption goods, prices would, in the opinion of the Board, be reduced.
- (i) In the opinion of the Board, the cash order traders do make every effort to extend their business, and the sales effort of the cash order traders or the easy facility of obtaining orders at their homes does induce some customers to over commit themselves.
- (j) If, under stress of national necessity, it becomes necessary to restrict consumption goods, the most effective means, in the opinion of the Board, will be to limit the production of such goods at the point of manufacture, leaving the distributing and financing channels intact to adjust themselves to a reduced stream of business. This would also preserve such organizations for use in peace time, when they might most usefully be used to assist production of consumption goods in the post-war period. This method should also best meet Government demands for converting existing factories to war purposes, and gradually absorb operatives into war work.
- (k) It is thought that restriction in this one class of credit would not necessarily divert additional money to war savings, or war purposes since, if people cease to budget for repayments of cash orders, they might easily spend the same money in less useful ways than the purchase of clothing and similar goods.

#### RECOMMENDATIONS.

123. As suggested in its conclusions the Board submits the following recommendations as to the conditions under which cash order trading should be carried on:—

- (a) Consideration might be given to licensing cash order traders, as is done in Victoria, and charging a licence-fee for each place of business.
- (b) Cash orders should only be issued on application at the place of business of the cash order trader.
- (c) Solicitation of applications for the issue of orders should be prohibited.
- (d) Advertising by cash order traders should be prohibited, except the mere announcement in newspapers or on screen slides of business name, nature of business and address.
- (e) The husband of a woman to whom a cash order has been issued should be freed from liability, unless his duly authenticated consent be obtained prior to the issue of the order.
- (f) Cash order traders should be debarred from making a cash loan to any customer who has any amount owing to that trader on a cash order.
- (g) Any balance not expended on a cash order should be credited against the amount finally payable by the customer on that cash order.
- (h) Premiums payable by the customer on a cash order should be not more than 1s. in the £1.
- (i) Discount claimed by cash order trader from retailer should not be more than 10 per cent.
- (j) The total amount owing at any time by any person (husband and wife for this purpose to be one person) should not exceed £6.
- (k) No order by terms of issue should be repayable in more than twenty weeks.
- (l) Cash order traders should be required to redeem all orders presented by retailers within fourteen days of presentation.
- (m) Cash order traders should not be permitted to limit the negotiability of their orders to specified retailers. (This not to apply to a cash order trader financed by a retailer solely to issue orders negotiable on that retailer.)
- (n) Restrictions imposed on cash orders should as far as applicable also be imposed on small cash loans.
- (o) Any expansion of the business might be controlled by requiring all cash order traders within a given time to reduce the total amount standing on their books for sums due by customers on cash orders to the maximum, or a percentage of the maximum, so standing on their books at a basic date.

H. W. CHANCELLOR.  
G. S. COLMAN.  
M. J. McMAHON.



# BOARD OF INQUIRY APPOINTED TO INQUIRE INTO HIRE PURCHASE AND CASH ORDER SYSTEMS.

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Sydney,

18th August, 1941.

The Honorable A. W. Fadden, M.P.,  
Treasurer,  
Commonwealth of Australia.

DEAR SIR,

## CASH ORDERS.

1. While I agree with many of the views expressed in the conclusions of the other members of the Board, I am of opinion that the cash order business as conducted by companies or individuals, other than the retailers themselves, is an economic excrescence, and creates an unfair charge on the trading community and the purchasing public generally.

2. The present cash order method, is, in the main, for financial firms (other than the retailers) to issue cash orders and to collect payments on them. This is, in effect, lending money to buy goods from certain specified shops. For this service the purchaser of the cash order is required to pay 1s. for each £1 made available and the retailer pays a discount on the value of the order of from 10 per cent. in many cases, although there are charges up to 15 per cent. and 20 per cent.

3. It is true that cash order companies render some service to a limited number of people, but the charges are out of all proportion to the services rendered. The discount of 12½ per cent. paid by suburban retailers is inexcusable and in the cases where 15 per cent. to 20 per cent. is charged, amounts to extortion.

4. I have no doubt at all that collectors also act as canvassers for new orders and induce many women to incur indebtedness that they otherwise would not enter into, and that would not be sanctioned by their husbands, although they are liable for the debt.

5. It is extremely difficult to form a reasonably correct opinion as to whether cash orders are used to purchase unnecessary goods, but it would appear that this does happen in many cases—especially in respect of the unexpended balance on orders after the essential articles have been obtained.

6. There is—taking the evidence generally—some need for such credit to be available for the purchase of urgently needed goods, but this would be met by permitting the retailers themselves to issue cash orders, redeemable only in their own shops.

7. It should be noted that the evidence shows that cash orders are issued almost entirely to persons whose husbands or themselves are in reasonably permanent employment with good security for repayment, but are refused to the poorer sections who might need them most. The evidence also indicates that most companies refuse to issue cash orders to soldiers' wives, because the soldiers are safeguarded by the National Security Regulations. It may be said, therefore, that the most needy do not obtain any advantage from this form of credit.

8. Cash orders are not—except in isolated cases—accepted for the purchase of foodstuffs, which to the poorer section is an exceedingly urgent need. The reason for this is apparently because the margin of profit on foodstuffs is not sufficient to enable retailers to meet the discount charges. In the case of wearing apparel the margin of profit is sufficiently large to enable the discount to be paid, but undoubtedly the additional charge is added on the cost of all goods sold to the public, both cash and cash order customers.

9. With most firms cash order sales form only a small percentage of their total business, and, therefore, the amount to be passed on is a very small percentage on individual lines or articles. If the number of cash orders accepted increases, so a larger amount has to be added to the cost of the goods.

10. I consider that a premium of 9d. in the £1 paid by customers on cash orders is ample cover for the cost of labour employed in issuing, collecting payments, and for bad debts, and likely to be incurred by retailers issuing their own cash orders.

11. The use of cash order credit no doubt increases the consumption of goods and, up to a point, in war-time, some of the goods might be regarded as unnecessary. I think the best manner in which to reduce the consumption of unnecessary goods is to restrict the supply at the source of production rather than through restriction of cash order credit.

12. There is no reason why the lower wage group only should be called upon to reduce the consumption of goods by restriction of their credit, whilst it is open to higher wage groups to obtain what they want because they have recourse to other credit systems not provided for the small wage-earner. Some facilities should be available for the cash order form of credit to enable people in need to obtain necessities, but I am of the opinion that the present system is undesirable and uneconomic and should be drastically restricted.

13. I, therefore, recommend as follows:—

- (1) That cash orders be issued only by retailers for the purchase of goods in their own stores or branch stores.
- (2) That retailers issuing cash orders be licensed and that the Attorney-General be given power to cancel a licence if a retailer is guilty of any improper practice.
- (3) All cash orders to be issued at the place of business of the retailer or at any branch store.
- (4) Mail orders and/or advertising to be prohibited, although retailers might be allowed to advertise in the newspaper and on theatre screens their place of business and the fact that cash orders are issued.
- (5) Collectors not to issue orders except in conformity with paragraph (3).
- (6) Any retailer licensed to issue cash orders should be prohibited from making cash loans.
- (7) The premium to be paid by purchasers of cash orders to be not more than 9d. in the £1.
- (8) A married woman should not be allowed to obtain a cash order without her husband's written consent, to be witnessed by the retailer or an employee, or other prescribed person. If this consent is not obtained the husband should not be liable for the debt.
- (9) Total amount of order or orders to issue to any one person at one time to be not more than £6. Husband and wife living together to be regarded as one person.
- (10) No orders to be issued to persons under 21 years of age.

J. B. CHIFLEY.

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## APPENDIX " A ".

### SUMMARY OF PROFITS AND TURNOVER OF CASH ORDER TRADERS.—ALL STATES.

	Number of Traders.	Capital and Profits.			Cash Order Transactions.									
		Shareholders' Funds*. (a)	Profits. (b)	Percentage of (a) to (b).	Total of Orders Issued.					Gross Income, 1940, from—				
					1936.	1937.	1938.	1939.	1940.(c)	Retail Discount.		Premium.		
										£	Percentage to (c).	£	Percentage to (c)	
		£	£		£	£	£	£	£	£			£	
New South Wales .. .. .	38	2,533,816	252,370	9.9	2,247,938	2,560,978	2,684,414	2,865,831	2,825,416	306,678	10.9	137,688	4.9	
Victoria .. .. .	59	487,484	46,885	9.6	627,290	678,004	698,374	651,217	644,639	60,710	9.4	30,720	4.8	
Queensland .. .. .	18	118,545	9,350	7.9	298,025	330,242	354,889	366,004	384,979	39,898	10.6	20,026	5.1	
South Australia .. .. .	2	42,765	9,856	23.0	754	9,007	62,255	55,812	47,112	4,590	9.8	3,400	7.2	
Western Australia .. .. .	3	10,826	537	5.0	1,575	9,110	37,100	50,862	66,391	4,427	6.6	3,337	5.0	
Tasmania .. .. .	3	10,427	1,404	13.5	24,767	27,151	31,364	33,623	38,257	3,924	10.3	2,324	6.0	
	123	3,203,863	320,402	10.0	3,200,349	3,614,492	3,868,396	4,023,349	4,006,794	420,227	10.5	197,495	4.9	

\* Includes capital of non-corporate traders.

NOTE.—In Appendix " B " the above results are divided into four groups.

APPENDIX " B "

SUMMARY OF PROFITS AND TURNOVER OF CASH ORDERS TRADERS.—ALL STATES.

	Number of Traders.	Capital and Profits.			Cash Order Transactions.									
		Shareholders' Funds*. (a)	Profits. (b)	Percentage of (a) to (b).	Total of Orders Issued.					Gross Income, 1940, from—				
					1936.	1937.	1938.	1939.	1940.(c)	Retail Discount.		Premium.		
										£	Percentage to (c).	£	Percentage to (c)	
£	£		£	£	£	£	£							
<b>TRADERS DEALING ONLY IN CASH ORDERS.</b>														
New South Wales .. .. .	..	28,356	1,543	5.5	112,123	117,857	121,858	117,170	116,468	13,913	11.9	5,807	5.0	
Queensland .. .. .	..	95,428	8,227	8.6	287,007	306,498	315,375	318,090	332,613	34,142	10.3	17,375	5.2	
Western Australia .. .. .	..	2,632	410	15.6	..	..	6,132	9,670	11,491	1,150	10.0	591	5.1	
Tasmania .. .. .	..	10,427	1,404	13.5	24,767	27,151	31,364	33,623	38,257	3,924	10.3	2,324	6.0	
	23	136,843	11,584	8.5	423,897	451,506	474,729	478,553	498,829	53,129	10.7	26,097	5.2	
<b>TRADERS DEALING IN CASH ORDERS, HIRE PURCHASE AND CASH LOANS.</b>														
New South Wales .. .. .	..	631,513	52,110	8.3	531,180	630,263	742,576	944,745	987,338	106,216	10.8	48,803	4.9	
Victoria .. .. .	..	323,555	23,676	7.3	389,863	426,958	447,800	407,131	391,359	39,549	10.1	18,227	4.7	
Queensland .. .. .	..	23,117	1,123	4.8	11,018	23,744	39,514	47,914	52,366	5,756	10.9	2,651	5.0	
South Australia .. .. .	..	42,765	9,856	23.0	754	9,007	62,255	55,812	47,112	4,590	9.8	3,400	7.2	
Western Australia .. .. .	..	2,982	Loss 63	..	1,575	4,484	5,783	3,208	2,985	282	9.5	150	5.0	
	81	1,023,932	86,702	8.5	934,390	1,094,456	1,297,928	1,458,810	1,481,160	156,393	10.6	73,231	4.9	
<b>TRADERS DEALING IN CASH ORDERS, HIRE PURCHASE AND CASH LOANS AND RETAILING GOODS.</b>														
New South Wales .. .. .	..	1,794,645	188,861	10.5	1,413,501	1,581,327	1,578,184	1,557,611	1,472,425	158,936	10.8	70,618	4.9	
Victoria .. .. .	..	87,890	8,689	9.9	31,565	36,195	34,406	27,115	26,667	3,346	12.6	1,163	4.4	
	16	1,882,535	197,550	10.5	1,445,066	1,617,522	1,612,590	1,584,726	1,499,092	162,282	10.8	71,781	4.8	
<b>TRADERS CONTROLLED BY RETAILERS AND DEALING IN CASH ORDERS AND HIRE PURCHASE.</b>														
All States .. .. .	3	160,553	24,566	15.3	396,996	451,008	483,149	501,260	527,713	48,423	9.1	26,386	5.0	

\* Includes capital of non-corporate traders.

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