Appendix IV: Federal Trade Commission Data on the Textile Industry

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APPENDIX IV

Federal Trade Commission Data
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Textile Industry
From time to time the Federal Trade Commission conducts investigations of industries in the course of which a considerable body of economic data is collected. The Commission has made two studies involving the textile industry. In 1921 a report was submitted to the House of Representatives pursuant to a resolution (H.R. 451, 66th Cong., 2d Sess.) requesting the Commission "to inquire into the increase in the price of combed cotton yarns during the years 1914 to 1919, inclusive. . . ."

The report on combed cotton yarn (April 14, 1921) contains:

a) averages on various cost items
b) monthly average prices on upland short staple, upland long staple, sea island, and imported Egyptian cotton from August 1913 through December 1920
c) monthly average prices on single-combed cones, 2-ply combed peeler skeins, and southern 2-ply warps, skeins, and cones from August 1913 through December 1920
d) costs and prices of combed yarn manufacturers for combed peeler cotton yarns, by counts, 1914-19

On September 26, 1934, following the textile strike of that year, the Federal Trade Commission was directed by an executive order of the President to make an investigation of the textile
industry. Pursuant to the authority vested in the President under the National Industrial Recovery Act, this order directed that "in order to furnish a basis for determining whether wage increases based upon reduction of hours or otherwise can, under prevailing economic conditions be sustained, the Federal Trade Commission shall undertake an investigation of, and report on, labor costs, profits and investments of companies and establishments in the textile industry", etc.

On January 25, 1935, the President issued a supplemental direction for the continuance of these reports. Subsequently, on the recommendation of the Textile Cabinet Committee, the Commission continued the reports on its own authority, additional funds having been provided by Congress.

The following statement with respect to these reports was prepared at the request of this Committee by W. H. S. Stevens, Assistant Director, Bureau of Statistics, Interstate Commerce Commission; formerly Assistant Chief Economist, Federal Trade Commission:

"Following the original presidential order the Commission undertook conferences with the textile industries and accounting experts from those industries. As a result of these conferences there was formulated a report form consisting of three schedules, together with a limited amount of other data. These three main schedules called by six-month periods for (1) balance sheets, (2) expense, income and earned surplus, (3) raw material and inventory data. The general information asked for included (1) manufacturing processes performed on various raw materials, (2) mills included in the report with the principal products manufactured by each, (3) spindle and loom operating data, and (4) notes and loans payable and bonds and mortgages outstanding at the end of each month.

The manufacturing cost information was made a part of schedule 2. It consisted of (1) wages to include all mill payrolls, but excluding superintendents', labor applicable to plant construction, officers', directors', general and mill office salaries, (2) power purchased, (3) fuel consumed, (4) dyes and chemicals, (5) supplies, repairs and maintenance, (6) taxes, except federal income, and processing, (7) depreciation on mill plant and equipment, (8) mill office expense, (9) rents, and (10) other. The inventory data, commodity future profits and losses, processing tax and the like were then combined with the total manufac-
turing expenses to derive the cost of sales. Selling commissions, 
bad debts, and other selling expenses, officers' and directors' 
salaries, commissions, and bonuses, and all other general ex-
penses, excluding interest, were added to obtain the total for 
selling, administrative, and general expenses.

Under the original executive order the cost and profits data 
were used chiefly to estimate the effects on net profits, labor 
cost, cost of sales and prices of given reductions in hours with- 
out change of pay, or of corresponding increases in wages with- 
out change in hours, all other conditions being assumed to 
remain unchanged.

The first Commission reports also showed the investment 
and rate of return and rate of net profit on sales. Originally the 
breakdowns of the foregoing data were very limited. In cotton 
the first studies were made simply for spinning, for weaving, 
and for spinning and weaving companies combined, and dyeing 
and finishing companies. Later a finer classification of com-
panies by kind of product was undertaken with the participa-
tion of the study sub-committee of the Textile Cabinet Com-
mittee. This classification set up for reporting purposes twenty-
odd classes of products manufactured for sale and provided 
spaces for reporting by range of yarn numbers, the goods pro-
duced for sale in pounds for yarn and pounds and square yards 
for woven fabrics. These classifications by kind of goods were 
based upon a single type of goods if that type constituted as 
much as 95 per cent of the total; otherwise, companies were 
distributed according to the combinations of goods which were 
produced. These classifications by kind of product made pos-
sible more significant and satisfactory figures in the later reports. 
Thus it has been possible to show cost in the details above speci-
ified by pounds or by pounds and square yards of product for 
special groups of companies engaged in manufacturing various 
specified cotton textiles.

Prior to the making of this finer classification by kind of 
product the Commission had undertaken to show various im-
portant cost and profit items for companies grouped according 
to the size of the investment, the rate of return on the invest-
ment, and the rate of net profit on sales. Those distributions 
were, of course, made at first for only the large groups of com-
panies, spinning, weaving and combined spinning and weaving, 
dyeing and finishing, etc. Classification of companies by kind
of product made it possible also to show similar analyses according to the finer classification referred to above.

The report, published November 20, 1936 on the Cotton Textile Industry, showed sales per dollar of textile investment, rate of return on investment and percentages of raw material, labor, selling, general and administrative expense, the total cost of goods sold and the net profit or loss on sales for companies grouped according to the kind of goods manufactured, as well as by size of investment, rate of return, and rate of net profit on sales. In many cases the number of companies was too few to permit grouping by size of investment, rate of return and net profit or sales without disclosure of individual results.

One of the chief difficulties that arises in the use of the Federal Trade Commission's figures for price analysis is the fact that the reports are all furnished on a company basis. Many plants produced more than one kind of product, but it is, of course, obvious that the number of cases in which costs can be related to prices is likely to be substantially less where the results are on a company basis rather than on a mill basis. However, in the case of any mill producing more than one kind of goods there is some difficulty in using costs for price or other similar analysis because of the necessity of splitting overhead expenses between products. While it is possible to make such prorations or allocations according to various more or less well recognized principles of accounting, this practice is particularly questionable where the matter of price is involved. Selling expense particularly is a factor which may, if actual records are carefully kept, show very great divergence from any figures resulting from the customary methods of accounting proration or allocation. It is this situation that suggests that cost data for price analysis should be based upon representative or selected companies where so large a proportion of the total product is of a single kind of goods or single type of construction that the figures would not be substantially affected by the inclusion of a small quantity of other products.

The commission in its report for the last half of 1935 was able to show detailed operating expenses and net profit per unit for certain companies producing carded yarn, 40's or coarser, and combed yarn, 40's or coarser, and finer than 40's, together with the average selling price on the same basis. Similar
figures were shown for certain companies producing towels and
toweling, upholstery fabrics and tapes. Other groupings for the
combined spinning and weaving companies included sheetings,
drills and jeans combined, print cloth yarn fabrics, fine cotton
goods, coarse colored cottons, gingham, and chambrays, napped
goods, and rayon fabrics. In several of these groups, however,
the representation was small.

So far as price analysis is concerned, however, these figures
possess considerable value because they do show exactly the com-
position of the price on a unit basis. If the various companies
could be induced to furnish more adequate classification data,
it would be possible to expand some of these groups. Even then,
however, there would remain outside many companies whose
lines of production are too composite to permit their allocation
to any single group. If the Trade Commission textile reports
are continued, the members of the industry interested in the
price analysis aspects of these reports might well endeavor to
arrange for certain of these composite companies to cooperate
in furnishing supplementary reports by such individual plants
as produce particular products or constructions. Such data
should necessarily be accompanied by sales realizations and
whatever other information may be available regarding the dis-
tribution of the general selling and overhead expenses of the
organization by the products which the company sells. These
plant figures could probably be used to supplement the com-
pany information for those concerns manufacturing a single
line or construction, thus enlarging the size of the usable sample.

It may be suggested that for purposes of adequate price
analysis not only the costs but also the selling prices must be
considered in the light of the investment and net profits in-
volved. The reason for additional investment is frequently to
reduce cost. High investment per unit of production is fre-
quently compensated by low cost of production and vice versa,
though this, of course, is subject to great variations depending
upon the character of the industry. This would lead to the
conclusion that investment data and net profit should be tabu-
lated and analyzed for those groups of companies for which
any unit cost and price data are available. So far as the Federal
Trade Commission reports are concerned this could, no doubt,
be done provided funds are available for such a purpose."
The reports prepared by the Commission have been issued in semi-annual series as follows:

First Series
Preliminary report covering the three six-month periods and the two-month period, January 1933 to August 1934

Part
I Investment and Profit
II Cotton Textile Industry
III Woolen and Worsted Industry
IV Silk and Rayon Textile Industry
V Thread, Cordage, and Twine Industries
VI Financial and Operating Results for textile companies according to rates of return on investment, rates of net profit, or loss on sales, and amount of investment

Second Series
Textile Industries in 1933 and 1934
I Cotton Textile Industry
II Woolen and Worsted Industry
III Silk and Rayon Textile Industry (Appendix tables were issued separately for the above, showing Financial and Operating results for textile companies grouped according to rates of return on investment, rates of net profit, or loss on sales, and amount of investment)
IV Thread, Cordage, and Twine Industries

Third Series
Textile Industries in the first half of 1935
I Cotton Textile Industry (incl. Thread, Cordage and Twine)
II Woolen and Worsted Textile Industry
III Silk and Rayon Textile Industry
This series introduced the presentation of detailed cost per pound or square yard for a closely related group of products of a general type, constituting the entire output of certain mills.

Fourth Series
Textile Industries in the second half of 1935
I Cotton Textile Industry
II Woolen and Worsted Textile Industry
III Silk and Rayon Textile Industry
Each report issued subsequent to the Second Series contains data not only applicable to the period covered but also for comparative purposes for the preceding six-month periods.

The following outline listing the data contained in the report for the Cotton Textile Industry (including Thread, Cordage and Twine) for the first half of 1936 summarizes the general character of the data collected by the Commission.

1 Rates of Return on Investment; Distribution of Mill Cost, Proportion of Sales Dollar Represented by Cost, Expenses, and Profit. These data are presented for spinning companies; weaving companies; combined spinning and weaving companies; stock dyeing and finishing companies; commission dyeing and finishing companies; thread manufacturing companies; companies finishing and spooling thread; and companies manufacturing cordage and twine.

2 Detailed costs, expenses, and profits per pound or square yard for a closely related group of products of a general type, constituting the entire, or substantially entire, output of certain mills:
   a) Spinning companies manufacturing carded cotton yarn coarser than 40s
   b) Spinning companies manufacturing combed cotton yarn coarser than 40s (5 companies in the second half of 1935)
   c) Spinning companies manufacturing combed 40s or finer
   d) Weaving companies manufacturing 'towels' and 'toweling' and 'upholstery fabrics'
   e) Combined spinning and weaving mills manufacturing cotton duck; sheetings; drills and jeans; print-cloth-yarn fabrics; fine goods; coarse colored cottons, napped goods; and rayon fabrics

3 Sales per dollar of textile investment; rates of return and specified costs, expenses, and profit to sales, in cents, are presented for each group enumerated under (1) above.
APPENDIX V

Textile Data in Cost Investigations
Made by the
United States Tariff Commission
THE United States Tariff Commission has been engaged in the investigation of production costs on various products of the textile industry since 1922, primarily under the flexible provisions of the tariff acts. Such a provision was first contained in the Tariff Act of 1922 and was known in that Act as Section 315. A similar provision, more precisely worded, constitutes Section 336 of the Tariff Act of 1930, still in force. The principle of the flexible provision is that the tariff applying to imports of specified articles from foreign countries should equalize the differences in production costs in the United States and the principal competing foreign country.

Investigations are made by the Tariff Commission upon request of the President, upon resolution of either or both Houses of Congress, upon the Commission's own motion, or upon application of interested parties, approved by the Commission. The work remains entirely within the hands of the Commission during the course of the investigation.

Upon completion of the investigation the Commission reports its findings to the President. These findings relate primarily to the ascertainment of differences in production costs and may indicate the advisability of an increase in duty, a decrease in duty, or no change. The information collected by the Commission in its cost inquiries is ultimately summarized in a report.