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HIGH PRICES AND PROFITS.

In their discussion of the present situation two or more of the high authorities on economics have used a peculiar phrase. They described how merchants are induced, during a period like that of the past two or three years, to increase largely the volume of their business because of the extraordinary pressure of demand from their purchasing customers, and because *they think they are making large profits.* A statement like this is apt to puzzle the lay reader considerably. Why should there be uncertainty as to the merchants' profits during a season of high prices any more than in a season of low prices? Has not each one his proper margin between cost and selling price, then as well as at other times? And do not the books show clearly what has been made no matter whether prices are high or low? Questions such as these suggest themselves.

It can hardly be doubted that the men who run their books in an absolutely scientific manner—accurately measuring their costs, providing fully for depreciation, actual and prospective, valuing book accounts, bills receivable, goods on hand, with the right dash of pessimism—can tell their profits surely and correctly whatever be the general level of prices, whatever the state of general business. But it is not everybody that can do this. He who could, in the case of some trades would be almost superhuman. A very considerable number, especially of the smaller traders, make no attempt to do so. They are content to run along, when things are booming, without making allowance or provision for a possible let-down.

The first difficulty that confronts a merchant in a time of high and rising prices is that of increasing his selling price to correspond with the rise in his costs. Fearing a loss of custom, he may not make the full advance in the selling price, and his margin of profit thus becomes less when it ought to be greater.

In regard to his profits he is apt to be deceived in several ways. When high prices rule, if a man would know where he stands, there is need to charge costs and expenses of all kinds freely to the various expense accounts rather than to add them to the cost of goods, or capital account. The reason is because everything is more or less inflated at such times and the trader who is truly wise will aim at keeping his book values down to bed-rock—in other words he will combat his natural inclination to expand his notions of value with the price expansion. If this is neglected the stocktaking is not so apt to be accurate. The goods are likely to appear as assets at values which, though apparently warranted by the prevailing level of prices, are too high for conservatism. So long as trade is buoyant and things going swimmingly, all is well, but let a reaction come and prices fall, and the depression is likely to be accentuated, the drop in profits more severe, for the want of a more drastic cutting down of book values in the day of prosperity. As the trader is going along on a plane elevated somewhat above the solid ground, and not altogether secure, it behoves him to lay up funds against the day of his descent, which may be sudden or gradual, in the near or remote future. The firms which do this properly keep their book values systematically down, and make liberal allowances for depreciation. When their shelves are full of goods in boom times, they make ample deductions from each year's profits to accumulate a reserve fund against depreciation. There is need, in short, for special reserves of all kinds when trade is booming. If they are not set aside, the profits which the merchant thinks he has made may be seriously cut into when the tide ebbs.

The book accounts and bills receivable usually contain a greater risk of loss in prosperous times. Credit is given more freely, and at the same time extravagance is more in evidence. There are more of the merchant's debtors living beyond their means. And the increased cost of living makes it difficult for a great many families to pay their way as they go. So the book accounts and bills receivable are to be conservatively valued, the probable losses fully provided for at the end of each year.

Then, after the profits are arrived at, there is the matter of the drawings. Nearly every one finds that his private expenses are a great deal higher than they are in ordinary dull times. If he makes the same profits nominally as in quiet times, he is not really doing as well, because a thousand dollars will not do as much work when prices are high. Quite often the gains in profits are more than swallowed up by the increase in the private expenses.

When all these things are taken into consideration, it is easier to see that business men may some-