WAGES AND PRODUCTION . . .

THERE is no mystery or magic about the simple truths of economic life. They can be brought within the mental grasp of everyone. This, of course, is not so with the higher technical complexities of financial and social policy, the understanding of which is possible only to the trained specialist—just as the understanding of medical science, or any other science, is within the compass only of the expert in that science.

But just as the simple rules of good health can be grasped by all, so can the simple rules of good economics. And it has never been more important than now that those rules should be stated and restated, for we run a grave danger of undermining our economic health because of failure to observe them.

A BASIC ECONOMIC LAW

The most important of all these rules concerns the relationship between wages (including salaries) and production. By wages is meant here real wages, wages measured not in terms of pound notes, the value of which fluctuates widely, but wages in terms of what they will buy—in other words, standards of living.

All wages are paid out of production—this is equally true of free enterprise, communist and socialist economies. They can only be paid out of production. In the short term there are exceptions to this basic economic law; but they do not alter the fact that, ultimately, if we want to increase the real value of the pay envelope we must increase production. From this tight circle of inexorable economic logic there is no escape. Before we can consume anything at all we must produce it, and the more we produce the more we can consume. That is the first and most fundamental law of economics.

In fact one might almost say that the sole purpose of economic policy is to increase real incomes and thus to raise the standards of living of the community—and of these incomes wages and salaries constitute the predominant proportion. Whatever political doctrines or social policies we may support, in the end we must produce more if we are to win better standards of life. *All the politics, all the social theories in the world cannot contribute one jot to the raising of living standards, unless there is more production. If socialism means less production than free enterprise—as we believe it inevitably must—it would eventually mean lower standards of living all round.*

THE STATISTICAL FACTS

What has happened to the relationship between wages and production since the prewar years. Has there been any increase in production? And, if so, have wages shared fairly in this increase?

Between 1938/9 and 1947/8 the average money wage paid to men in manufacturing increased by over 60%, that for women by 90%. But what happened to production in this period? Were men and women engaged in manufacturing producing 60% to 90% more in 1947/8? They were not. They were producing about the same. These things cannot be calculated exactly, but we will allow the most favourable statistical calculations and assume that per head they were producing 10% more in 1947/8 than in 1938/9.

A 10% increase in production per head, but a 60% to 90% increase in wages and salaries per head. There was thus very little increase in output, a very large increase in wages and salaries. The result, vastly higher costs and prices—notwithstanding steadily increasing and improving mechanisation.

PROFITS AND PRICES

The wages and salaries cost per unit of output in manufacturing has increased by about 50% since 1938/9. The increase in wages cost alone (excluding salaries) would be somewhat more than this. For instance, hourly rates of wages for men rose 70% between 1938/9 and 1947/8; but hourly production remained about the same.

These figures do not pretend to be exact measures. But whichever way the statistics are treated, the result is much the

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same—namely, that the great increase in money wages and salaries has not been paralleled by anything like a corresponding increase in production. This is one of the basic causes of the inflation of prices from which we are at present suffering.

Everybody's income is somebody else's cost. Every increase in wages and salaries, unaccompanied by higher output, means an increase in costs of production and therefore in prices. It is sheer futility to contend that any substantial increase in wages can be paid for by reducing profits rather than by raising prices.* This truth has been emphasised to the trade unions in Britain by a great Labour leader, Sir Stafford Cripps. Profits, as Cripps pointed out, are simply not large enough in total to permit of any worthwhile increase in wages. If it were practicable (and of course it is not) for any big proportion of company profits to be shared up among wage and salary earners—and when people talk of profits they think of company profits, not of the profits of the local grocer, or ironmonger, or garage proprietor, or even of the farmer—the increase in the real income of the wage or salary earner would be meagre indeed.

The more enlightened labour leaders in Australia have consistently drawn attention to the fact that increased real wages can be paid only out of increased production. The President of the A.C.T.U. declared at the 1945 Summer School of the Institute of Political Science that: "We (i.e., the trade union movement) agree that there can be no increase in the standard of living of anyone, unless there is increased production." The Prime Minister was equally emphatic to a trade union conference in October, 1948. "The first task of Australian unionists was to increase production . . . what is short today is not money but willing hands."

THE WHOLE ECONOMY

If we look at the whole economy—not just manufacturing—the story remains the same. Wages and salaries per head rose by 55%—production per head did not improve. A statistician of world renown, Colin Clark, suggests it has fallen:

* This is demonstrated in an article on "Profits and Prices" (June, 1948, "Review").

"In Australia with real production per manhour only just above pre-war level, hours have been substantially reduced."

Because of higher prices the wage and salary earner have, therefore, got no great benefits from the considerable increases in the money they receive. Official statistics state that the man on wages is now about 10% better off in the real purchasing power of his income than in 1938/9. The salaried man is probably on average substantially worse off. The improvement in the wage-earner's position has not been achieved out of increased production or higher efficiency—it has been achieved by a reduction in the real incomes of certain other sections of the community, and at the expense of overseas workers who are paying exceedingly high prices for the foodstuffs and other materials we sell them.

THE INCENTIVE TO PRODUCE

Some of this redistribution of the total production of the Australian economy has probably been just, some of it probably unjust. But it is not intended to enter into moral judgments here. Economic judgments, however, must be made and there comes a point where increased wages, unaccompanied by increased production, defeat their own objective. If we go too far in redistributing income in favour of the wage-earner we weaken the incentive to work and produce of those on higher incomes. When that point is reached production is either actually reduced, or remains stationary, or does not increase so fast as it otherwise would. And that means a lower standard of living, not merely for those who have part of their incomes deducted to finance the higher wage-level, but for the wage-earner himself. *There comes a point where to increase money wages is to defeat the fundamental objective of economic policy—to increase real wages.*

Moreover, since wages are the main element in cost, if we keep on increasing money wages without increasing output we push our cost of production so high that many of our industries become totally uncompetitive by overseas standards. The uncompetitive industries go out of existence and the unemployment pool swells.

GREAT OBJECTIVES CAN BE WRECKED

The great objectives of full employment and higher living standards can both be wrecked by those who urge higher and higher wages quite beyond the capacity of the economy to sustain.

Those who state these truths run the danger of being classed as enemies of the wage-earner. This is not so. The real enemies of the wage-earner are not those who stand up to proclaim economic truth, but those who misguide and mislead by deliberately preaching economic falsehood.

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