

# DISTRIBUTION OF *The Proceeds of Industry*

There is an urgent need for comprehensive fact-finding on the subject of wages and prices, and the relative shares of the national product going to wage-earners, salary-earners, shareholders, and other sections of the community. The recurring phenomenon of quarterly wage adjustments, abruptly followed by soaring gas accounts and household bills, is leaving the general public very bewildered, if not a little suspicious of unfair play. On the one hand, trade union advocates insist that the living standards of the worker are falling and that his wages must be increased if he is to maintain a decent level of subsistence: and, on the other, producers warn that failing higher productivity they cannot absorb wage increases without risk of losses or without charging higher prices.

The problem resolves itself into several issues. Is it true that workers are worse off than before the war, either absolutely or comparatively with other sections of the community? Is there scope for increasing wages at the expense of other sections without raising prices? Is the wage-earner today receiving a greater or smaller share of the national cake than before the war? Is he receiving a fair share? It is to be deplored that the facts are not readily available to the general public so that they may make up their own minds, and it is with this aim that the I.P.A. has endeavoured to assemble and analyse the statistical data available in order to throw some light on an urgent subject.

We have examined various wage statistics in reports by the Commonwealth and State Statisticians; company profits in manufacturing compiled by the Commonwealth Bank; national income estimates published with the Commonwealth budget papers; the distribution of the national income between different income groups as revealed by the annual reports of the Taxation Commissioners; savings bank figures; also data on retail expenditure and food consumption. We do not claim

complete accuracy or conclusive authority for these figures, as there are many shortcomings in the statistical data available. It is, however, significant that from whatever angle the subject is approached, the statistics all point to the conclusion that since before the war the wage-earner is better off both absolutely, and relatively to all other sections, with the possible exception of the farming community, which was almost certainly receiving an inadequate share of the total national income prewar.

### DISTRIBUTION OF PERSONAL INCOME

The following comparison of the distribution of personal income is based on estimates made by Mr. H. Brown, Director of Research in the Commonwealth Bureau of Census and Statistics.\*

	1937/8	1938/9	1948/9
	% of all personal incomes		
Wages and Salaries	56.3	59.4	55.6
Social Services	4.0	4.2	5.4
	<hr/>	<hr/>	<hr/>
	60.3	63.6	61.0
Farmers	13.9	10.4	19.5
Unincorporated businesses	12.0	11.1	11.1
Rent and interest	10.9	11.6	6.3
Dividends	2.9	3.3	2.1
	<hr/>	<hr/>	<hr/>
	100.0	100.0	100.0

It will be readily observed that in times of record seasons as in 1937/8, or of boom prices as in 1948/9, farmers received a much larger share of total incomes than in lean seasons such as 1938/9. Comparisons between a poor season 1938/9 and a good season 1948/9 are therefore most misleading. An interesting comparison between the distribution of income in 1938/9

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\*Personal income represents the total incomes received by all Australian residents and non-governmental organisations less income not distributed to persons by companies and financial institutions. It includes rental values of owner occupied dwellings. Social service benefits have been bracketed with wages and salaries in the table because they consist of such payments as child endowment, unemployment and sickness benefits and pensions which are primarily intended to supplement the incomes of employees or former employees.

*Distribution of The Proceeds of Industry* (continued)

and 1948/9 is obtained if the distortion caused by the inclusion of farm incomes is removed. The percentage distribution is then as follows:—

	1938/9	1948/9
	% of all personal incomes excluding farmers	
Wages and Salaries	66.0	69.1
Social Services	4.6	6.8
	<hr/>	<hr/>
Unincorporated Businesses	70.6	75.9
Rent and Interest	12.8	13.8
Dividends	12.9	7.8
	3.7	2.5
	<hr/>	<hr/>
	100.0	100.0

This table very clearly shows that wage and salary earners are much better off in relation to shareholders and property and bond holders, even before the levelling effects of personal taxation are taken into account.

*Wages and Salaries.*

A defect of this table, which is unavoidable because of the lumping together of wages and salaries in the national income statistics, is that the shares going to the wage-earner as distinct from the salary-earner are not shown. An indication of the relative movements in wages and salaries since 1938/9 can be obtained from the statistics of manufacturing published in the Annual Production Bulletins (Commonwealth Statistician) and Factory Statistics (State Statisticians). The figures show that wages have risen by a greater percentage than salaries.

*Wages and Salaries in Manufacturing (Actual Earnings)*

	1938/9	1948/9	% increase
Wages—males	£211	£433	105
females	105	240	129
Salaries—males	356	621	74
females	140	260	86

NOTE.—Because of changes in classification between the two dates the earnings are not entirely comparable, but the differences are not of such importance as to invalidate the general trend.

A study of the salary scales of professional and other white collar workers also suggests that the rise in their earnings, like that of their counterparts in manufacturing, has tended to lag well behind wages. This is important when considering the personal incomes table shown above. It would suggest that the share of wages has increased by a greater percentage than that indicated when both salaries and wages are combined.

### *Wages and Profits.*

The following statistics of wage and profit earnings in manufacturing industry throw further light on the share going to wages as compared with the share going to profits.

Average Earnings	1938/9		1948/9		% increase Money		% increase Real	
	£211		£433		105		38	
Profits of Manufacturing Companies	1938		1948		1949		% decrease Real	
	8.6%		8.2%		7.9%		-5	-8
							-34	-40

*Source:* Official wage statistics, Vic. and N.S.W. Statisticians, Commonwealth Bank "Statistical Bulletin," and Economics Department.

The wages figures represent the average annual earnings of male factory workers, i.e., excluding managerial, clerical and technical staff, and the profits of manufacturing companies are after provision for company taxation (but before taxation on shareholders' dividends) and are expressed as a percentage of funds employed.

The "real" figures have been obtained by deflating by the C Series Index of retail prices. Since this index purports to measure the change in prices of those commodities and services on which the average wage earner spends his income, when related to the change in money wages it gives a reasonable indication of the increase in "real" wages. On the other hand it would tend to an understatement of the fall in "real" profits.

It seems clear from these figures that the position of the average factory-worker has greatly improved, whereas the position of the average shareholder in manufacturing industry has declined. Whilst it may be argued that the shareholder, still holding his 1938 shares, is 60% better off in capital because of the rise in share values since that time, this is still lower than the general appreciation of capital assets. More-

over, he would be maintaining merely his "real" capital position if the shares were sold at a premium of 60% on 1938.

An indication of the trend in the distribution of the proceeds of manufacturing between the various partners in industry is given by statistics showing wages and salaries in manufacturing as a proportion of net value of production. The "net value of production" represents the actual value added in the process of manufacture. Raw materials and other direct expenses, such as fuel and water, are deducted so that any duplication of output is excluded where the raw material of one factory represents the output of another.

*Wages and Salaries as a % of Net Value of Production*  
(N.S.W.) *All Factories.*

1938/9	49.4
1947/8	57.3
1948/9	58.3

The share of proceeds paid to employees in 1948/9 is the highest ever recorded in secondary industry. Since 1938/9 wages and salaries have reaped an extra 1/9 out of every £1 of net product. This must, of necessity, be at the expense of the share absorbed by profits and overhead. These amounts cannot be directly ascertained from the statisticians records, but an estimate is possible. An examination of company accounts and a comparison of income tax data with factory statistics suggest that, after payment of wages and salaries and of materials costs, about half the remaining income is absorbed in overhead expenses, the balance representing the profits available for payment of taxation, for re-investment purposes, and for distribution to shareholders and proprietors as a return on their invested capital.\*

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\*The taxable income of all private and public manufacturing companies for 1943-44 (latest available), was £70m. For the same year, value of production for all non-government factories, less wages and salaries, was £138m.

Combining the estimate for overhead expenditure with the national income figures of company taxation, dividends and reserves, it can be roughly estimated that the net proceeds of N.S.W. manufacturing in 1948/9 (excluding government factories) were distributed somewhat as follows:—

	%	Share per £
Wages and Salaries	57	11/5
Overhead Expenses	21	4/2
Taxation	8	1/7
Reserves	9	1/10
Dividends	5	1/0
	100	20/0

It is clear from this table that an increase in wages of 10%, failing any increase in prices or productivity, would completely wipe out dividends. Average wages paid to male factory workers increased by 13% between 1947/8 and 1948/9. It is obvious that in the absence of an increase in productivity per man (the Queensland Bureau of Industry estimates that productivity per man in Queensland increased by only 2% between 1947/8 and 1948/9) a wage increase of these proportions must cause a serious rise in prices if manufacturing concerns are to pay dividends to their shareholders.

Nor, if economic progress is to be maintained, can reserves be drawn upon to pay dividends. A society which aims at increasing its standard of living and the opportunities of employment for its people must set aside a large proportion of each year's surplus over costs for re-investment in new plant and equipment and new buildings, and for replacement of worn-out plant, and plant which, for various reasons, has become obsolescent and uncompetitive. This is particularly important for small public companies and private companies who lack ready access to stock exchange flotations.

#### *Effect of Taxation.*

The effect of the greatly increased rates of taxation since before the war in re-distributing income from the high income groups (such as shareholders, salaried executives, and other business and professional men) in favour of the lower incomes, is considerable.

Unfortunately, prewar statistics are extremely defective, largely because of the absence of uniform taxation. Also the latest figures available are those for 1945/6. But even allowing for the defects in the prewar data, and the lag in the availability of post-war data, the general trend (as shown in the table below) is highly revealing.

*Personal Incomes by Groups—Australia.*

Range of Income Before tax £	1938/9				1945/6		
	No. Incs. 000's	Average Income		No. Incs. 000's	Average Income		
		Before tax £	After tax £		Before tax £	After tax £	
201- 500	998	290	285	1286	330	291	
501-1000	106	650	610	220	650	510	
1001-2000	29	1350	1200	47	1349	909	
2001-5000	10	2940	2400	14	2828	1470	
Over 5000	2	8700	6100	2	8766	3236	
		1145			1569		

*Source:* Commonwealth Bureau of Census and Statistics.

There has been a great increase in the numbers in the lower income groups which consist mainly of wage-earners. Not only is the average income of this group well above prewar, it is the only group which has maintained its post-tax position.

The top income group has slightly increased its pre-tax income, but after tax is only about 50% as well off in money terms as before the war.

The equalising of incomes brought about through higher wages at the lower end of the income scale, and by heavy taxation at the upper end, is apparent. This trend towards greater equality has almost certainly continued since 1945/6, particularly if abnormal farm incomes are disregarded.

Taxation has not been appreciably reduced on the top income ranges, but has been greatly cut in the lower ranges; also money wages have risen substantially since 1945/6.

### *Savings Banks Statistics.*

A further indication of the improvement in the position of employees since 1939 is contained in the statistics of savings banks which are predominantly patronised by wage-earners. Average savings per operative account in the State Savings Bank of Victoria have increased from £65 as at June 30, 1939, to £134 as at June 30, 1948, an increase of 106%.

Statistics of the number of accounts in different size groups in all State Savings banks for 1939, 1947 and 1948, are also revealing:—

Size of Account	Number of Accounts (000's)		
	1939	1947	1948
Under £50	1075	1087	
51-100	118	179	N.
101-200	98	186	A.
201-500	86	219	
	—	—	—
Under 500	1377	1671	1699
Over 500	41	125	139
	—	—	—
	1418	1796	1838

*Source:* Commonwealth Finance Bulletin No. 39.

The number of accounts under £500 has increased by one quarter between 1939 and 1948, and the deposits to the credit of these accounts have more than doubled. Victorian State Savings Bank figures indicate further improvement in 1949. The relative position of the average wage-earner as against the average salary-earner is also reflected in savings bank data. Between June, 1939 and June, 1949, average balances at the credit of ordinary operative accounts with the Victorian State Savings Bank have more than doubled in industrial areas comprising wage earners, but less than doubled in residential areas consisting predominantly of salaried people.

### *Food Consumption and Retail Sales.*

Statistics relating to consumption per head of the population do not bear out the suggestions of falling living standards. Information published by the Commonwealth Statistician on estimated foodstuffs, etc., moving into Australian consumption



all show increases per head on the pre-war average except for rationed items such as meat and butter. Typical comparisons are:—

	Pre-war average lbs. per head consumed	1947/8
Milk	39	49
Meat	253	216
Sugar, etc.	112	132
Grain Products	204	214
Fruit and Vegetables	414	479
	1938/9	1948/9
Beer, gals, per head	12.1	17.9
Tobacco, lbs. per head	3.3	4.4

*Source:* Manufacturing Industries, 1947/8. Review of Food Production, 1947/8.

Sales of retail stores (adjusted for the lower purchasing power of the £) show an increase of about 10% per head between 1938/9 and 1948/9.

This would suggest the existence of increased purchasing power in the hands of the lower income groups, which constitute by far the majority of the consuming public.

#### *Conclusion.*

The conclusion to be drawn from the statistics presented in this article is clear. All statistics point to a striking improvement in the position of the wage-earner by comparison with other sections of the community. Save for the primary producer and unincorporated businesses, all other sections are relatively worse off than in 1938/9. Even if the wage-earner were worse off, the arithmetic of production costs and prices demonstrates that wages cannot be appreciably raised, without increased productivity per man, if higher prices are to be avoided. Higher productivity is therefore the road to higher wages without higher prices.

