MANUFACTURING—Costs and Outlook

The immense development in manufacturing in Australia is one of the most striking, and certainly one of the most important, facts of the last decade. Manufacturing capacity has expanded by some 50%,* volume of production by something like 45%†, and employment by 58%. In 1939 one out of every five employed Australians were working in factories (of which there were 27,000 compared with 40,000 in 1949); to-day the ratio is one in three. This is possibly even a higher proportion than that in the intensely industrialised United States.

A large part of this extraordinary development can be attributed directly to the war, when we were forced back on our own resources to produce the munitions and equipment of modern warfare and other manufactured articles which we could no longer obtain from abroad. But the abnormal conditions of the five post-war years have given a further powerful impetus to the expansion of the manufacturing industries. The pent-up demand for goods within Australia, the shortages of world supplies and the world sellers' market, the high level of overseas costs (aggravated by the slow turn-round of shipping in Australian ports) have provided the Australian manufacturer with an abnormally large and heavily protected home market for his goods. He has also been able to expand greatly his overseas market in certain products, although not as much as would have been possible if more stable industrial relationships had prevailed in the key industries.

But these conditions are now rapidly altering. The world sellers' market is shifting over to a world buyers' market, competition is increasing with the expansion of supplies and the disappearance of world shortages, the Australian advantage in comparative costs of production, which was most marked up to 1947, has since been dwindling. The easy period of manufacturing expansion, except in certain individual lines, is approaching an end, and the manufacturing industries as a whole must shortly face a sterner period of trial and readjustment.

Stress of Competition.

Already in many important articles, manufacturers are beginning to feel the stress of overseas competition and imported manufactured goods are coming on to the Australian market in rapidly increasing quantities. Statistics show a marked rise in the import of manufactured articles and some manufacturers are beginning to complain bitterly of the competition of imported goods. To mention only a few items: Imports of underwear (other than silk and wool) jumped from 10,000 garments in 1946/7 to 1¼ million in 1948 and over 2 million in 1949; imports of small electric motors have risen from 69,000 in 1946/7 to 176,000 in 1948 and 203,000 in 1949; imports of stoves and ovens have quadrupled between 1946/7 and 1949. A notable fact is that the number of applications for increased protective duties before the Commonwealth Tariff Board has more than doubled in the last twelve months.

This process is likely to intensify rather than diminish. Economic recovery in Western Europe, assisted by American generosity, is proceeding at a faster rate than was anticipated a few years ago. Moreover, German and Japanese production is developing and will, within the next few years, add to the already increasing competitive pressure in world markets.

What then, is the outlook for manufacturing? To what extent will we be able to maintain, as part of our permanent economic structure the great developments of

*From the Budget Speech of the Federal Treasurer, September, 1949.

†Estimate by an officer of the Division of Industrial Development, published in the Melbourne "Age," December 29, 1949.

OVER

the war and immediate post-war periods, when the conditions which have been partly responsible for bringing them about have largely disappeared?

The answer to these vital questions depends mainly on two factors:—First, on the ability of the main industrial nations to avoid anything in the nature of a tragic recession, and thus to maintain world demand, and therefore Australian demand, at a high level; and second, on the degree to which Australian manufacturing is successful in achieving and maintaining a competitive level of production costs.

The first factor, so far as Australia is concerned, is largely in the lap of the gods. The second, however, lies within our own control and in the wisdom of our political, financial and industrial policies.

Disquieting Cost Position.

At present the cost position is disquieting. In fact, the rising level of production costs in all Australian industries constitutes the weakest and most vulnerable section of the Australian economic anatomy. This disquiet is evident in the reports of official bodies such as the Commonwealth Bank and the Tariff Board. The last Annual Report (1949) of the Commonwealth Bank stated:—

> "While Australian costs continue to rise, overseas costs have either levelled off or are falling. In such a situation, the Australian economy is particularly vulnerable to a downturn in economic activity overseas or to the effects of internal instability. In these circumstances it is important that every effort should be made to reduce costs of production, and to make our industries as competitive as possible."

The Tariff Board, too, has expressed similar sentiments. In its 1948 report the Board suggested that the trend of costs was adverse to Australian industries and stated:—

> "There has never been a period in the economic history of Australia when efforts to increase industrial efficiency were more necessary than they are now."

And in 1949 the Board stated:—

> "The competitive position of Australian industry seems to have deteriorated in the year under review, both in materials and labour costs."

Up till the beginning of 1948 Australian manufacturing industries enjoyed a substantial cost advantage over overseas countries by comparison with the position pre-war. This was largely due to the success of our wage and price pegging policies, a success made easier of achievement by the nature and size of the Australian economy. This cost advantage was maintained throughout 1948, but by the end of the year it had been reduced. During 1949 costs in Australia continued to rise rapidly, whereas in overseas countries they were virtually stable.

Cost Statistics.

The following tables showing indexes of raw materials and labour costs illustrate vividly the broad trends:—

TRENDS IN MANUFACTURING COSTS—AUSTRALIA AND OVERSEAS.

		Aust.	U.K.	U.S.A.	Canada
Raw Materials			1937-9 = 100		
January,	1948	170	275	244	198
,,	1949	193	291	225	218
,,	1950	225	302	211	213
		38/9 =	Oct. 38		
Hourly Earnings		100	= 100	1939 = 100	
December,	1947	174	190	205	175
March,	1948	199			
December,	1948	208	204	221	196
,,	1949	227	211	223	204

NOTES.

1. The raw materials indexes for U.K., U.S.A. and Canada are Wholesale Prices (raw materials) indexes published by the United Nations Monthly Bulletin of Statistics and the index for Australia is derived from the Commonwealth Statistician's Wholesale Prices (basic materials) index.

2. The indexes of hourly earnings in manufacturing are from the United Nations Monthly Bulletin of Statistics in the case of U.S.A. and Canada, and from the Ministry of Labour for United Kingdom. The Australian figure is compiled from earnings per "male unit" in manufacturing published by the Commonwealth Statistician.

3. Hourly earnings for U.K. are for each October.

4. The Canadian index does not go back beyond 1944; hourly earnings in 1939 were approximately 70% of 1944.

5. The March, 1948, figure is shown for Australia in order to illustrate the steep rise in hourly wages brought about by the 40-hour week.

It is most important to bear in mind that these figures do not present an accurate comparison of movements of costs in individual industries; such comparisons are extremely difficult to make, and would vary widely from the trends portrayed above. The figures do, however, reveal broadly the changes in the general average of costs. The trend over the last two years is quite clearly against Australia. Over the two years, 1948 and 1949, hourly labour costs in this country rose by about 30%, compared with 11% in the United Kingdom, 9% in the U.S.A., and 17% in Canada. In the same period the cost of materials in Australia rose by 32%, compared with 10% for the United Kingdom, 8% for Canada, and a fall of 14% in the United States. The advantages which Australian manufacturers enjoy over their counterparts in Britain, because of the lower prices in this country for coal and steel, are partly nullified by the unnecessary shortages of these basic materials which occasion frequent and costly interruptions to production.

One of the influences making for a high level of labour costs in Australia is the alarming rate of labour turnover which appears to be considerably greater than in Britain and the U.S.A. The proportion of total wages, paid for time not worked is also substantially greater than in overseas countries. The Tariff Board, in its 1948 Report, quotes the estimate of one industrial company that 10.9% of its total wages is paid for time not worked, and states that for the United Kingdom the average percentage is 4.2%. The greater percentage in Australia is due to three factors—longer annual holidays, paid sick leave, and more statutory holidays. The position of Australia vis-a-vis the United States and Canada would be closely similar.

Productive Efficiency.

Production costs are a composite of income levels on the one hand, and productive efficiency, roughly indicated by manhour output, on the other. It seems probable that there has been overall no marked improvement in manhour output in Australian manufacturing since 1939. (This statement, of course, does not apply to individual industries, where in some cases there have been striking improvements in productive efficiency). If we can accept as reasonably accurate the estimate of a 45% increase in volume of production made by an officer of the Commonwealth Division of Industrial Development, then output per man engaged has dropped since 1939, since employment in manufacturing shows an increase of 58%. However, as standard hours of work have fallen from 44 to 40 and paid holidays have greatly increased, manhour output (as distinct from output per man) in manufacturing has probably slightly increased since before the war.

Unhealthy Distortion.

There seems little doubt that this increase could have been much greater but for shortages of fuel and power and of essential materials such as steel, which have prevented a smooth flow of production, and, incidentally, have added greatly to the burden of overhead costs. These shortages have affected particularly the efficiency of the vital heavy and constructional industries, which have also been dogged by their inability to obtain adequate supplies of labour. These industries are working well below capacity. They show increases in production since 1939, which are much lower than the average

OVER

increase in manufacturing as a whole; whereas in the lighter consumer trades such as textiles, food, drink and tobacco, and household appliances production increases are well above the average. There has certainly been over-expansion in some trades and the broad picture of manufacturing development conceals an unhealthy distortion of production in favour of the less essential industries. This distortion is partly the result of an inflated income and cost structure.

Official sources of information suggest that manhour output in manufacturing in the United States and Canada has risen by roughly 20% in the last decade. Before the war manhour production in these countries was, of course, far above Australia. It is this fact which enables industries in the United States and Canada to pay a much higher level of wages and salaries than the United Kingdom and Australia without impairing their competitive position, and without incurring a disheartening spiral of rising prices. By contrast, the poor performance in many Australian industries is one of the main reasons why upward adjustments in money wages are nullified by constant advances in prices.

Manhour Output in Britain.

The 1948 Report of the Tariff Board suggests that manhour output in British factories is probably above that in Australia. This certainly applies to the metal working industries: "Statements of costs of production of the same commodities in the United Kingdom and Australian metal-working factories have frequently shown the average earnings of employees in the United Kingdom to be higher than in Australia; at the same time the labour costs per unit of production is often lower in the United Kingdom. The inference that Australian production per manhour is less than the United Kingdom is inescapable in these cases."

On the whole it seems likely that Australian manufacturing has lost ground since 1939 relative to overseas countries in overall productive efficiency. That, added to the rather alarming and still deteriorating cost position, strongly suggests a broad weakening of the competitive position of these industries. There is some evidence to support this view in the fact that during 1948/9 the quantity of exports of manufactured goods fell by about a third from the 1946/7 level.

Good reason therefore exists for the disquiet felt in these industries and in official quarters.

A Precarious Situation?

The immediate outlook may not be serious, but the continuation of present trends of stable or falling costs abroad and rising costs at home could by the end of this year bring about an extremely precarious situation. Costs in the United States appear to be falling and will possibly continue to do so for the remainder of this year. Canadian costs which are influenced by economic changes in the United States may, on present indications, at least not increase. In Britain the position is obscure. The full effect of the devaluation of sterling on British prices is not yet clear. Moreover, the wage freeze shows signs of thawing out. These factors would strongly suggest a resumption of inflation were it not for the imperative need for Britain to resist anything that would result in cost increases. So far as Australia is concerned, there seems little reason to expect that the rising tide of costs will be arrested in the near future. Quite apart from the self-perpetuating momentum imposed by the quarterly cost-of-living revisions, there is strong and persistent pressure for higher wages; also the labour shortage leads many employers to indulge in competitive wage bidding. Finally, there is little sign yet that the various key sections of the community are sufficiently awake to the perils of inflation to get behind a worthwhile policy of price and cost stabilisation.

It is not unlikely that in comparative costs of production the position of Australian industry will have further deteriorated by the end of this year.

Moreover the gradual but inexorable transition to a competitive world buyers' market will in due course create new problems for all industries, but particularly for manufacturing. Some of the expansion generated by the feverish conditions of the war and post-war years will then almost unquestionably be found to be unsound. If there should be a recession of serious proportions, then this fact, added to unfavourable movements in competitive costs, would deal many of the manufacturing industries a very hard blow. But in any case manufacturing must eventually face a period of adjustment to a lower level of costs. This is unavoidable; the real question is whether the adjustment is to be achieved through a reduction of money incomes or by a higher standard of productive efficiency.

NOTE

The opinions expressed in this article should not be taken to mean that the long-term prospect for manufacturing in Australia is a bleak one. On the contrary, the rapid growth of population due to immigration, the development of improved facilities for the supply of power and fuel, and the strong long-term demand arising from public constructional projects and the housing and building shortage, should provide the basis of an excellent future. There is little or no reason to expect a reversal of the upward secular trend in manufacturing development. The article is concerned mainly with the short-term influences, and here the prospect is not unclouded. But these cyclical factors should not be confused with those influences making for long-term growth and expansion.

OVER