★ ***The wage-price spiral was already moving sharply upward, but the Court's decision has now given it added momentum.***

THE BASIC WAGE JUDGEMENT

The two outstanding economic events of 1950, by a remarkable coincidence, took place on the same day — October 12. Judgement was delivered in the inordinately drawn-out basic wage case and the Commonwealth Government brought down its 1950/51 Budget. The latter is completely overshadowed by the former. Indeed the anti-inflationary programme which the Budget is intended to introduce has been rendered utterly null and void by the decision of the Commonwealth Arbitration Court to grant an increase of £1 in the basic wage for men, and to establish, for the first time, a women's basic wage of 75% of the rate applying to men. Of the seven basic wage judgements given in the history of the Court this is, by a long stretch, the largest increase — the previous greatest being 7/-.

The Court's judgement is one of the most momentous decisions on economic policy ever taken by any body of men — whether governmental, financial or other —in the history of Australia, and proves conclusively what the experts have for many years contended — namely, that while the sole function of the Arbitration Court under the terms of the Constitution is limited to the settlement of interstate industrial disputes, in practical effect the Court is an economic policy-making body of overriding importance. Its decisions are of such a character that they can go much further than merely effect a settlement of a dispute between employers and unions; they can make, or break, the Australian economy.

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Interpretation of the practical import and the real intention of the judgements has been enormously complicated by the wide disparity existing between the actual wages being paid by industry and the wage levels provided for under the Court's awards. The judgement is a majority one. The Chief Judge, Judge Kelly, opposed any increase largely on the grounds that it would seriously add to the threatening inflationary tendencies already manifest in the economy. Judge Foster and Judge Dunphy, on the other hand, took the view that the economy was in a position to sustain increases in **award** rates of the amounts granted. As part proof of this Judge Foster pointed to the discrepancy between **actual** wages and **award** wages, and it is on this discrepancy that his decision is mainly founded. "I have as has appeared, very largely based my decision to grant basic wage increases upon the strong impression created in my mind by the evidence, figures and experience of the existence of a standard of living of the basic wage worker in Australia higher than the basic wage would buy today." But he shows himself prepared to go somewhat further:—"I do firmly con-

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clude that the economy will not be unduly hampered if the Court goes further and not merely awards the existing standards, but requires it to adjust itself to a slightly higher one." He concludes that for the Court to fix **award** rates substantially below **actual** rates would be so unrealistic as to bring it into contempt.

From this it appears that Judge Foster's opinion is that the economy today is in a position to sustain an average wage level **slightly above** that being paid by industry at the time of the Court's judgement. If this be so, then logically it follows that his view is that industry is not in a position to sustain a wage level **greatly in excess** of that being paid at the time of the Court's judgement.

This interpretation of the Judge's opinion seems to be justified also by his statement that: "I think the Court must, as in the past, go on assuming that its awards will be observed as maximums as well as minimums, and to refuse to contemplate or to take responsibility for what employers individually or as organisations may do. We can merely tell them that the Court has awarded what it regards in all the circumstances as fair. equitable, reasonable and in the public interest. If it is disregarded and there is substituted for the Court's Judgement one of their own making, the Court can do nothing whatever about it."

This appears to suggest that Judge Foster would deplore any increase in actual wages **greatly above** the levels prevailing before December as being contrary to the real intention of his judgement. If this is so, then it follows that his judgement is, **in intention,** not one for a £1 increase at all, but one for, at most, only a small increase of unspecified amount. If the parties to the dispute were to observe the real purport of Judge Foster's view, them, presumably, there would be no large increase in actual wages at all. On the other hand Judge Dunphy's intention is more obscure, but it might almost be taken from the wording of his judgement that in making his decision he was contemplating an increase in wages of something between 10/- and £1 above present **actual** wage rates.

The Practical Effect.

But, apart from all questions of the Court's intention, what is, in fact, likely to be the practical effect of its decision? Will it, for the most part, merely act to close the gap between award and actual wage rates with perhaps the addition of a small sum amounting to, say, a few shillings? Or will its practical consequence be to raise the wage level for men, on average, by something of the order of £1 above existing actual rates?

It has been almost universally assumed by commentators on the Court's judgement that its outcome will be to directly increase the wage level for men by approximately a £1 all round. As this would appear to be the most likely consequence, we have taken it as the basis of our analysis of the economic effects of the judgement. This assumption is founded, first, on the undoubted probability that the unions and their members will expect the Court's decision to mean a **de facto** increase in wages of something approaching a £1, and not merely a **de jure** increase; and, second, that the inter-relationships of wage scales within the individual firm or public utility are of such a nature that an actual increase of about £1 all round will prove to be unavoidable.

If this reasoning is valid, presumably the effect of the Court's decision will probably be to raise wages above the level which the Court—or at least Judge Foster — would regard as "fair, equitable, reasonable and in the public interest" under existing economic conditions. In arriving at their judgment, it is not reasonable to suggest that those members of the Court favouring an increase should have taken cognisance of the probable practical—as opposed to the theoretical—consequences of any adjustment they might contemplate to the then existing wage awards? That Judge Foster is fully aware of these possibilities is shown by the text of his opinion: "No doubt efforts would be made, as is rational enough, to add the new award increase to the existing rate, but whether this effort succeeds or not is a matter for the employers and is beyond the Court's power."

The Court and Inflation.

If the decision of the Court will add greatly to an inflationary situation already, by almost universal consent, assuming serious proportions, how does the Court justify its action? Judge Foster's opinion is the most illuminating and provocative in this regard. It is clearly in his mind that the Commonwealth Government should take such steps as are necessary to mitigate the dangers arising from inflation. But many would think he overestimates the powers of the Government to arrest inflation. He appears to believe that the re-institution of controls provides the answer. "Experience has shown that controls have been effective and may again when the people are sufficiently impressed with the necessity of exercising them."

In this reference Judge Foster apparently has in mind the success of controls during the war in preventing any rapid upward movement in price levels. **But it should be remembered that this achievement was possible only because a main part of the cost structure was frozen through wage pegging.** It is clearly impossible to avoid large increases in prices in a situation where wage levels are rising rapidly. Judge Foster may be hinting, on the other hand, at the need for the re-institution of wage-pegging at the new levels of wages which his opinion is intended to establish.

Judge Foster maintains that inflation is a matter for the Government and not for the Court, and in any case a question a little remote from the Court's immediate responsibility for providing an effective settlement of an industrial dispute. He seems to imply that that task must be fulfilled whether or not the terms of its fulfilment give rise to unfortunate effects on the national economy. In a curious passage he almost appears to wish to sever the Court from responsibility for the wider economic consequences of its decision. "In my view the Court is not only not empowered to act in the public interest at large but could not be so empowered under the Constitution to so function except insofar as the public good is incidental to the settlement of an interstate industrial dispute. Obviously the principles which the Court applies in reaching the basis of settlement will conform as far as possible with its conception of the

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public good but its task must always remain the settlement of the dispute."

Does this mean, as it would appear to, that if an industrial dispute can be settled only on terms that are opposed to the general public interest then the Court has no alternative but to act against the public interest? Does it mean that, in the last analysis, the task of the Court is to settle a dispute no matter what the price that might have to be paid in terms of injury to the public welfare? Once the principle of the general public interest is rejected as the prime consideration in Arbitration Court decisions, we enter a strange and treacherous territory indeed.

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In its practical implications the Court's judgement amounts to a decision for the continuation and intensification of the already threatening inflationary spiral. Thus it is a decision which runs flatly counter to the economic policy of the Commonwealth Government to arrest inflation. Estimates of the additional annual wage cost of the £1 increase have ranged from £100 million to £200 million. When all the secondary effects of the judgement are taken into account, the latter figure is likely to prove much closer to the truth than the former—indeed it may turn out to be a substantial underestimation. It is of course true, as the Court makes clear, that there are various special loadings applying in different awards which may have to be deducted from the £1 increase in establishing the new basic wage. But any adjustments on this account are likely to be more than counter-balanced by the effect of the increase on other wage costs, such as payroll tax, workers compensation, accident insurance, and overtime rates.

In the financial year 1949-50 the total wage and salary bill was £135 million greater than in the previous year, in spite of the fact that there were no blanket adjustments of the character of a basic wage decision. Possibly 50-60% of the £135 million increase is accounted for by cost of living adjustments, the remainder by increases in margins and special rates and by higher payments by employers to attract labour in competition with other bidders. It would not surprise if the ultimate effect of the basic wage decision were to raise the total of all money incomes by something of the order of £300 million a year.

No Relation to Productivity.

Normal anti-inflationary fiscal or monetary devices are quite powerless to cope with increases of this magnitude. **In fact, postwar experience is making it increasingly clear that, if inflation is to be arrested or prevented, there must be some reasonable stability in money incomes — whether they are the incomes of farmers, manufacturers, or wage-earners.** This stability provides the basis on which some approach by the monetary or fiscal routes has a reasonable prospect of maintaining the purchasing power of the currency unit. It is utterly idle for any section of the community to expect that they can, in the short period, add substantially to their money incomes, without having to pay higher prices for all those things on which their incomes are spent. Unless additions to money incomes are kept broadly in line with improvements in productivity, costs and prices must rise. The £1 increase represents, in effect, an addition of, at the minimum, 10% and probably, when all secondary effects are allowed for, at nearer 20% of the current actual wage level. But productivity in Australia in spite of greatly increased mechanisation, is at present rising at the rate of possibly 1% per annum—and certainly not more than 2%*. The increase in actual wage earnings which may follow as a consequence of the Court's judgement would therefore bear no conceivable relationship to movements in productivity.

Rising Prices.

The immediate economic effect of the wage decision must be a dramatic increase in selling prices and costs, which will be continued as the first increase snowballs in the quarterly cost of living revisions and as compensatory adjustments are made to other incomes, such as salaries, pensions, rents and profits, striving to recoup the losses imposed on them by rising prices. The spiral of costs and prices, which before October was already alarmingly rapid, has by the basic wage judgement been given a mighty kick on its way. Just at the time when the Commonwealth Government had decided to apply the brake to the vehicle of monetary inflation, the Arbitration Court has put its foot hard down on the accelerator. The Government can hardly be blamed if the vehicle fails to respond to the brakes. If there were any hope that over the next twelve months or two years the internal value of the Australian £ might be stabilised around its present level, that hope must now be abandoned.

Reactions of Economist.

What is the economist to say of the consequences likely to flow from this decision? It would be safe to assume that there would be very few economists who could view them with other than feelings of profound misgiving. The economic history of modern times is largely a story of periods of rising prices, prosperity and boom, alternating with periods of falling prices, slack trade, depression and unemployment. The postwar economist, therefore, in pursuit of his ideal of full employment, has been led to place an exceptionally heavy emphasis—even, perhaps, an undue emphasis—on the need for stability in prices, costs and values.* It is for this reason that the great majority of economists have viewed with anxiety the rapid inflations which have marked the economies of so many countries in the postwar years. And it is the reason, too, why governments in many countries, particularly in those of Western Europe, have taken such far-reaching—in some cases almost savage—measures to arrest the inflationary tendencies of the after-war period. The Arbitration Court's decision, considered as an economic measure, must be, in its effects, directly contrary to all the accepted tenets of present-day economic thinking.

There appears to be a tendency abroad today to assume that if it were possible to keep an inflation going more or less indefinitely, it need not necessarily be a bad thing. It is true, so the argument runs, that the currency unit would steadily decline in purchasing power—which would certainly be a source of constant irritation—but real incomes as a whole need not decline, since their money content can be expanded to compensate for increases in prices.

Four serious Consequences.

However, even assuming that the process of inflation does or need not necessarily sow the seeds of eventual depression—a brave assumption—this argument is exceedingly weak. For long-continued inflation gives rise inevitably to at least four serious consequences.

*See calculations of Colin Clark. Also Professor Sir Douglas Copland's statement in address to the Federal Institute of Accountants.

*See, for instance, report by Committee of economists in U.S.A.: "The Problem of Economic Instability" (published in "The American Economic Review," September, 1950).

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In the first place it is just not possible for all income receivers to adjust their incomes upward in proportion to rising prices. There is, for instance, the whole range of retired people living on pensions, whether provided by the state or out of their own savings. Inflation inflicts cruel hardships on these people. There are great numbers of salary-earners whose incomes must inevitably lag behind in the chase after rising prices. Professional people, doctors, lawyers, teachers, architects, engineers and so on, are in the same straits. These sections of the community may be in a substantial minority numerically, but they are qualitatively of great importance, and any serious deterioration in their standards of life must eventually react to the detriment of the whole community. Inflation imposes a redistribution of the national income which is quite arbitrary and inequitable and in particular penalises a large part of the so-called middle classes in cruel fashion. People falling within these groups will most certainly suffer further through the decision of the Court.

Inflation and Production.

Second, the creation of more and more money weakens the incentive to produce. It is frequently said that the answer to inflation is greater production, but this kind of thought seems to be a perpetuation of the "cart-before-the-horse" fallacy. **If greater production is to be the prime purpose of economic policy then a prior condition of its achievement may well be the correction of inflation.** In a period of inflation money is plentiful and easy to come by. Business profits are not over-difficult to earn, competition and the compulsion to reduce costs is weakened, and there is a tendency on the part of many able brains to concentrate on the easy gains to be won from the inflation of capital values rather than on work of real national consequence. Moreover, worker turnover and absenteeism are abnormally high, and resources of materials and labour are drawn hither and thither in response to competitive demands. The resources of the community are spread over too many projects and this leads to a high degree of waste and inefficiency of effort.

Third, and perhaps most important of all, is the fact the inflation tends to tear the economy out of its natural and most productive shape. By placing excessive money supplies in the hands of consumers, it leads to heavy spending on consumption goods of a luxury or semi-luxury type. **Industries catering for these needs become highly profitable and are able to expand and attract resources of men and materials at the expense of the basic essential industries, which become undermanned and under-supplied.** It is clear that this consideration weighed very heavily with the Chief Judge in his decision to refuse any increase. "For the principal evil of the form of inflation which the evidence before the Court indicates to be rapidly gathering weight (apart from the grave injustice it perpetrates against the receivers of fixed or less responsive incomes) is already becoming very apparent in the investment by savers of their capital, and by workers of their labour, in the less essential forms of production, of goods which we could normally, and probably in the future will be able to, buy more cheaply and consistently from abroad, at the expense of production, in accordance with urgent requirements of goods which are essential to the real development of the potential resources of this country."

The Court's decision must, in its effects, intensify this serious unbalance in the Australian economy, and partly, if not wholly, nullify the efforts the Commonwealth Government is taking to correct it by means of the tax imposed on luxury and semi-luxury goods in the new budget, and of the reintroduction of controls over capital issues and basic materials.

Inflation Compels Controls.

And here is to be found the fourth great evil of inflation namely, its tendency to lead to, even to compel, the introduction of more and more government controls. Because inflation produces glaring distortions and artificial scarcities, because it unfairly penalises large and important sections of the economy, and results in higher and higher living costs for all, it gives rise to strong political pressures on the government for immediate remedial action. These pressures are powerful and not easy to resist. Rising costs lead to demands from one industry for a subsidy, from another for increased tariff protection, from consumers for a wider application of price control, and so the area of governmental control spreads alarmingly. These controls are not a good thing in themselves. On the contrary, since they unavoidably slow down the normal processes of trade and enlarge the bureaucratic machine, they impose heavy burdens on production. The free price market and free enterprise simply cannot fulfil their traditional functions of maximum production and the efficient allocation of productive resources under conditions of rampant inflation, accompanied by artificial economic restrictions.

The basic wage decision must aggravate all these tendencies, which, before the decision, were already becoming more and more pronounced.

Can Inflation be Maintained Indefinitely?

But even if the community were prepared to accept all these consequences of inflation, would it be possible to keep inflation going indefinitely; or must there, at the same stage, be a reversal of the inflationary movement with rapidly falling prices, declining incomes, business depression and unemployment? All experience suggests that inflation sows the seeds of its own eventual collapse. Will this inflation prove to have a different outcome? Possibly! But should we in any case, be prepared to tempt fortune and fly in the face of all past experience?

The great majority of economists, as we have pointed out, are apparently not so prepared. And it is here that the major condemnation of inflation must lie — namely, that it is incompatible with continued stability, with the maintenance of business prosperity and full employment. **The crux of the case against inflation is that, by embarking on it, or by allowing ourselves to be pushed into it, we incur the risk, the grave risk, of unemployment in the future.**

How long then can inflation and over-full employment in Australia be maintained? How long can the present levels of wage and other incomes be sustained? Just so long, in all probability, as present overseas price levels last! A collapse, or even a serious reversal of overseas prices, would prove a most serious embarrassment to an over-inflated Australian economy. If our costs and incomes at that point were greatly above the level of world costs and incomes we would have no alternative but to embark on a politically difficult and economically severe process of adjusting our own incomes and costs downward to accord with the new world levels. Let there be no mistake about this! The wage and income level which the Australian economy is at present sustaining is made possible and supported only by high over-

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seas prices, particularly the price for Australian wool. If that support were removed, there would inevitably follow a fall in Australian wage levels.

Australian and Overseas Costs.

There appears to be a popular belief that Australian prices and costs are at present generally below overseas prices and costs, and that we can therefore afford to take steps which would have the effect of closing the gap. Judge Foster's opinion reflects this belief: "Is it altogether undesirable that our prices should not be brought closer to overseas prices and can we stay the rise in our prices until the two approach nearer to equality?" It is difficult to understand the basis of this view. If we take pre-war prices as a starting point, then Australian prices have increased more than those of any other English-speaking country except the United Kingdom.

The following tables show the trends:—

INDEX NUMBERS OF WHOLESALE PRICES—ENGLISH-SPEAKING COUNTRIES.

	1945	June 1949	June 1950	September 1950
	Base 1937 = 100			
Australia	140	185	222	232
Canada	122	185	195	199
New Zealand	155	179	199	200(1)
South Africa	158	191	206	207(2)
United Kingdom	155	213	236	250
United States	123	179	182	196

Notes: (1) July. (2) August.

Source: Commonwealth Statistician; United Nations Monthly Bulletin of Statistics November 1950.

INDEX NUMBERS OF COST OF LIVING—ENGLISH-SPEAKING COUNTRIES.

	1945	June 1949	June 1950	September 1950
	Base 1937 = 100			
Australia*	129	161	176	180
Canada	118	159	163	168
New Zealand*	127	144	151	N.A.
South Africa	137	160	167	N.A.
United Kingdom	150	181	185	185
United States	125	165	166	169

*Quarters.

Source: London and Cambridge Economic Service, August 1950; United Nations Monthly Bulletin of Statistics, November 1950, Commonwealth Statistician.

These figures, of course do not take into account the effect of the wage increase. So far as wage costs are concerned, the basic wage decision will raise hourly earnings in Australia greatly above these countries as the following table reveals:

AVERAGE HOURLY EARNINGS IN MANUFACTURING INDUSTRY: AUSTRALIA, CANADA, UNITED KINGDOM AND THE UNITED STATES OF AMERICA.

	Base		June 1945	June 1949	June 1950	August 1950
Australia	1938/9	= 100	145[1]	219[2]	251[2]	266[3]
Canada	1939	= 100	140	200	210	N.A.
United Kingdom	Oct 1938	= 100	169[4]	207[5]	214[5]	N.A.
United States	1939	= 100	162	223	231	232

Notes: (1) 1945/6; (2) Quarters; (3) Month of August only; (4) July; (5) April.

Source: United Nations Monthly Bulletin of Statistics, November 1950; United Kingdom Labour Gazette, September 1950; Monthly Bulletin of Employment Statistics, August 1950.

There seems to be some substance, then, in the views of those who fear the effect of the wage increase on the eventual competitive position of Australian industry.

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The Australian economy was already travelling at a very high pace before the Arbitration Court's decision. It will now be travelling much faster. Sometimes the car, prepared to take the risk of racing at reckless speed, gets to its destination safely. Not seldom it crashes. There is no question that the basic wage decision increases the element of hazard or chanciness in the economy. Even if we avoid an economic smash-up and disaster—as we may very well do—the question will remain whether the risk was worth taking. When economic depression is the nature of the risk, we would prefer to play safe.

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