There is widespread dismay among all sections of the community at the magnitude of the recent quarterly cost-of-living wage adjustments, unaccompanied by increased productivity. These wage increases have seriously weakened the competitive position of Australian industry.

THE MAD SPIRAL...

THE quarterly cost-of-living adjustment has become the chief point of weakness and instability in the Australian economy. Twelve months ago it was the fantastic level of wool prices that constituted the main grounds for concern. But since then, wool at an average price of 78 pence per lb. has settled down—temporarily at any rate—to a saner level. There are signs, too, that the pressure of internal demand on costs and prices, caused by over-ambitious programmes of public and private capital expansion, has been somewhat reduced by the Commonwealth Government's policy of tighter money and credit, higher interest rates, heavy taxation and curtailed expenditure from public loans. Were it not, then, for the leapfrogging of costs and prices caused by the quarterly wage revisions, confidence could be felt that 1952 would see the end of the great post-war inflation, which has brought sleepless nights both to governments seeking the goal of economic stability, and to housewives confronted with the unenviable task of balancing the domestic budget.

The latest cost-of-living increase of 10/- follows upon the increases of 13/- and 11/- for the third and fourth quarters of 1951. Clearly this is economic madness. Certainly nothing like adjustments of this magnitude were contemplated by the originators of the system of wage revisions in their well-meant efforts to maintain the purchasing power of the basic wage at a reasonable level. In the past the system has worked without inflicting serious harm on the economy. But over the last year or two it has operated in such a way as to bring severe hardship to many sections of the community and to dangerously weaken the foundations of long-term economic stability.

There is widespread dismay at the magnitude of these adjustments, not least among the wage-earners themselves and their representatives. But up to the present the system of automatic cost-of-living revisions seems to have been regarded as one of the unchangeable laws of the Universe—sacrosanct, immutable, untouchable.

The responsibility for stopping this madness clearly lies in the first place with the representatives of employers and trade unionists.

THE STATISTICS.

The statistics of the situation are worth a moment's consideration. The table on page 19 lists the adjustments made since the beginning of 1946.

For the first two years, 1946 and 1947, the increases could be regarded as of normal proportions. The rises in 1948, however, amounting to 10/- for the whole year, gave birth to some disquiet. This alarm heightened as the experience of 1948 was persistently maintained through 1949 and 1950. In 1951, the increases totalled 38/- and the system was completely out-of-hand.

The total increase in wages, caused by the adjustments, amounts to £4/7/- over the last six years. If we accept the usual basis of computation (i.e. an addition of £5 million per anum to the national

COST OF LIVING ADJUSTMENTS.

	Amount of Adjustment	Total for the Year	
1946			
1st quarter	—		
2nd quarter	1/-		
3rd quarter	1/-		
4th quarter	—	2/-	1st December—7/- interim increase.
1947			
1st quarter	1/-		
2nd quarter	—		
3rd quarter	1/-		
4th quarter	2/-	4/-	16/-
1948			
1st quarter	2/-		
2nd quarter	3/-		
3rd quarter	2/-		
4th quarter	3/-	10/-	
1949			
1st quarter	3/-		
2nd quarter	2/-		
3rd quarter	3/-		
4th quarter	2/-	10/-	
1950			
1st quarter	4/-		
2nd quarter	2/-		61/-
3rd quarter	3/-		
4th quarter	4/-	13/-	1st December—Basic Wage Increase £1.
1951			
1st quarter	7/-		
2nd quarter	7/-		
3rd quarter	13/-		
4th quarter	11/-	38/-	
1952			
1st quarter	10/-		

wages bill for every 1/- increase in wages) the total increase in Australia's wages bill since 1946, caused by the quarterly revisions, would be of the order of £500 millions. During 1951, out of an overall increase in the wage and salary bill of £304 millions the cost-of-living adjustments accounted for roughly £200 millions.

At the end of the war the Australian basic wage was £4/13/- (c.f. 1939 £3/19/-). Today it is £10/10/-. Of this increase 27/- is accounted for by the interim 7/- granted by the Commonwealth Arbitration Court in December 1946 and by the basic wage increase of £1 awarded in December 1950. The cost-of-living revisions comprise the balance of £4/10/-.

OVER

The rise in wage costs in Australia since the end of the war is out of all proportion to that which has occurred in any other of the English-speaking countries. The following are the percentage increases in hourly earnings since 1946 up to the latest period for which comparative figures are available.

United Kingdom	33%
Canada	59%
United States	45%
Australia	95%

NOTE: U.K. figures to April, 1951; all other data to March, 1951.

Source: U.N. Monthly Bulletin of Statistics. Commonwealth Bureau of Census and Statistics. U.K. Labour Gazette.

Most of the import competition with Australian industry comes from the United Kingdom. The rapidly widening discrepancy between hourly earnings in British and Australian factories as illustrated by the following table is therefore highly disturbing.

	Australia	United Kingdom	U.K. Advantage
1938/9	2/-	1/10*	2d.
1946/7	3/1	3/2*	—1d.
1948/9	4/3	3/8*	7d.
1950/1	5/11†	4/2‡	1/9d.

* October. † 3rd Quarter. ‡ April.

NOTE: All figures are expressed in Australian currency.

Source: U.K. Ministry of Labour Gazette. Commonwealth Bureau of Census and Statistics.

Unfortunately no later figures are available. However, quarterly adjustments to the basic wage alone since March 1951 have added 1/- an hour to Australian earnings whilst, under wage-pegging, hourly earnings have probably increased only slightly in the United Kingdom. **Compared, then, with almost equal wage costs in the immediate pre-war and post-war periods, Australia has now a wage cost disadvantage of between 2/- to 3/- an hour.**

The figures suggest that Australia has already drifted into a most alarming cost situation. The competitive position of Australian industry—from the aspect of wage costs—has become one of considerable concern. Up to the present, few industries have felt the consequences of this position because of the impact of re-armament on the world supply position and restrictions on imports from hard currency countries. But the situation will become increasingly acute as time goes on, particularly in the field of consumer goods.

In all this process the system of cost-of-living revisions has been the main villain of the piece. Can anything be done to destroy, or at the least curb, it?

TRADE UNIONS AND EMPLOYERS.

The answer rests primarily with trade unions and employers. If the A.C.T.U. and the chief employer organisations could devise and agree upon some practical expedient for terminating the fantastic game of financial leapfrog, at present proceeding with such destructive gusto, there is little doubt that the Arbitration Court and the Commonwealth Government would ensure that it was given the necessary formal sanction. Such a major achievement in the field of industrial relationships—for it would be that—would be greeted with warm approval and acclamation by every section of the Australian public.

The attitude of the A.C.T.U. has been defined on numerous occasions. Briefly, it amounts to a refusal to consider any alteration to the system unless prices are "stabilised." This is hardly helpful. If prices were "stabilised" the cost-of-living adjustments would, of course, automatically disappear. But even assuming, for the moment, that the freezing of prices would be desirable, how would it be enforced? At present the Commonwealth Government apparently lacks the constitutional power to control prices. The nerves of the public are hardly in a fit state as yet to stand up to the fantastic comedy of another referendum. And any attempt to obtain powers for the Commonwealth through legislation by the States would be long-drawn-out, and even then there would be little probability of unanimity.

PRICE FREEZING.

But, quite apart from these almost insuperable practical obstacles, the "freezing" of prices would be a most undesirable expedient. The prices on which attention would logically be concentrated would be the prices of the everyday essentials comprising the cost-of-living index. "Freezing" the prices of these commodities, while letting other prices go free, would provide an admirable incentive for producers to transfer productive resources to the less essential industries. Thus, at the very time when it is necessary to encourage the production of essentials—the prime object of the Government's financial policy and one approved by all—a first-class spanner would be thrown into the works.

The only means of avoiding this unhappy consequence would be to control not merely the price of essentials, but of every conceivable article of production. And even then, subsidies, possibly on a grand scale, would be necessary to offset increases in the prices of productive resources such as imported raw materials, outside of Australian control. This would mean a return not merely to price fixation on the scale practised during the war, but a return to a fully controlled economy. Since the allocation of resources between industries, and of finished goods between consumers, would no longer be determined automatically by the free movement of prices, the Commonwealth Government would be forced to undertake the control of supply and distribution. A bureaucratic machine of wartime proportions would be necessary. Clearly there is no practicable solution along the lines of overall price fixation; whereas partial price fixation would be largely ineffective and, in any case, have the most undesirable consequences. The argument against "freezing" the prices of essentials can be summarised thus:

"Freezing" the prices of essentials would discourage the production of these commodities and encourage production of the less essentials. It could not, in any case, for any length of time, be maintained without "freezing" the prices of everything including all factors of production. Universal price control would compel the institution of controls over supplies and distribution and increase an already dangerously large and costly bureaucratic machine.

THE ONLY PRACTICABLE MEANS.

When all is said and done there is only one practicable means of halting or slowing-up the spiral of wages and prices. That is for the unions, on receipt of a reasonable "quid pro quo" in some form, to agree to forego the cost-of-living adjustment, or at least a substantial part of it, for one quarter. What form could it take? Since it would be the family man who would be most adversely affected, the Commonwealth Government might give firm evidence of an intention to pass legislation to provide a special family allowance or, better still, to provide greater taxation discrimination in favour of the family breadwinner. Generally, the single person is receiving today an income out of all proportion to that being received by the older, more skilled and experienced family man carrying greater responsibilities. This course would be infinitely less costly and far more equitable than paying out subsidies on essential goods in order to freeze their prices. Subsidies would benefit every section of the community—the millionaire with no de-

OVER

pendants along with the family wage-earner with five children—regardless of need or financial position. Whereas discrimination in favour of the family man would concentrate the assistance where it is needed most.

In addition to this, large employers of labour in private and public companies might be asked to provide an undertaking through their representatives that they will make every effort to hold down selling prices and profit earnings to reasonable levels.

The provisions in the new budget imposing heavier taxation on public companies and abolishing the initial depreciation allowance of 40%, combined with financial restrictions, are already affecting prospective profit levels as shown by the general falling away of share prices in stock exchange quotations. **The factor which should be of most concern to the unions, however, is not the magnitude of company profits, but the long-term ability of companies to maintain their pay rolls at a level of wages which is rapidly becoming out of line with world levels. Stability of employment for their members is the main issue before the unions and should be their guiding consideration in reaching a decision on whether the cost-of-living adjustments should continue through 1952.**

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