

The Margins Judgment

THE eagerly awaited judgment of the Commonwealth Arbitration Court on margins in the metal trades was given on the 5th November. The judgment, while confined specifically to the metal trades, sets a new standard for the revision of margins throughout industry. Substantial increases were awarded to highly skilled tradesmen, with smaller increments to those less skilled, while no increases were granted to process workers and to unskilled labourers.

The judgment corrects a serious, fundamental anomaly in the existing wage structure by restoring the position of the skilled worker in relation to the unskilled.

On the grounds of industrial justice, the Court's decision cannot be disputed. Unfortunately, in this instance, it was inevitable that industrial justice would conflict with the best interests of the economy. At this point the undoubted path of economic wisdom for Australia lies in the resolute avoidance of further inflation, the reduction of industrial costs and the narrowing of the present gap between Australian and overseas costs. Any increase at all in costs, be it ever so small, is a movement in the wrong direction.

It is difficult to estimate the magnitude of the additions to costs which the Court's judgment will involve. But the wages of probably well over 1,000,000 workers will ultimately be increased by increments ranging from a few shillings to over two pounds. Considered in the totality of the economy, this should not be a burden of crippling proportions; but it will not be insignificant. The

judgment must lead in due course to increases in wages costs and thus in prices throughout the economy and it will disturb the short-lived period of cost-price stability of the last 18 months. The Australian cost structure, already too high, will inevitably be pushed up another notch or two. This will add to the difficulties of the export industries suffering from excess costs; it will increase the vulnerability of industries catering for the home market and competitive with overseas production; it will add to the intractability of the balance of payments problem and lessen the likelihood of the removal or easing of import restrictions; and it will increase the burdens of those whose incomes do not respond readily to price changes. These effects of the judgment are undeniable and they cannot be viewed without misgiving.

Admittedly—and perhaps regretably—the Court attempts to justify its decision on the grounds of broad economics. “Examination of the statistical evidence in relation to the ‘indicators’ of the condition of the economy . . . has led the Court to the conclusion that the present situation is such that there is sufficient capacity in the nation's productive and economic activity to sustain the award rates now proposed.” But the Court's analysis of the economic position is by no means wholly convincing (in some respects it is naive) and in any case it is difficult to avoid the conclusion that its decision will lead to a renewal of inflationary tendencies and push up further a cost structure already causing strain at vital parts of the economy.

This is not necessarily to suggest that the Court should, or could, have arrived at any other decision. It could be argued that in this case the demands of wage justice should take priority over economic considerations. The unfortunate thing is that the Court was compelled to confront this delicate dilemma. The fact that it could not be escaped is due, however, in a not insignificant measure, to the series of major decisions made by the Court itself since the war. It must be added, of course, that the present personnel of the Court were not in the main responsible for these decisions.

The judgment must therefore be viewed, on the one hand, with gratification that justice has been done to a vitally important section of industry—the skilled workers—and, on the other, with disquiet at its implications for the basic soundness of the Australian economy and its capacity to withstand the impact of adverse changes in the climate of world economics.

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PERHAPS the most profitable subject for discussion that arises from the judgment is whether the Court, in its present form, is a satisfactory instrument for the task it is called upon to perform. Whatever may be the theory of the matter, this task is, in hard fact, not so much one of settling industrial disputes as of economic policy-making. The question arises not because of the decision to increase the margins of the skilled man (which is to be commended on industrial and social grounds) but because of the nature of the investigations which the Court is compelled to make in reaching its decisions. These are concerned almost wholly with economic problems

of the greatest complexity. Yet there is not one economist on the personnel of the Court; nor has the Court ready access to the views and advice of an economic authority of high and impartial repute. This weakness was recognised over seven years ago in the Arbitration Act of 1947 which made provision for an economic bureau to be attached to the Court. But with the usual Australian reluctance to do something until it can no longer be avoided, the weakness remains unremedied.

Economic analysis, in its highest sense, is a matter for experienced economic experts. It is much more than a mere recitation of the favourable or unfavourable factors in the current economic position. The all-important thing is the interpretation and emphasis placed on the various factors. It is idle to pretend that this task of interpretation and the policies which it indicates can be adequately performed except on a foundation of the highest technical expertise. The decisions of the Court exercise a predominant influence, for good or ill, on the Australian economy. Yet these decisions are in the hands of men who, although eminent in their own profession, have for the most part received no basic training in economics and have no close practical acquaintance with commerce and industry. To say the least, this is a highly anomalous and illogical situation.

That there is an urgent need for the Court to receive impartial expert guidance of this kind would no doubt be readily acknowledged by the judges themselves. But until this glaring weakness in the present procedure is acknowledged and rectified there must remain doubts as to the technical competence of the Court for the task it is called upon to do.

For instance, in the margins case the most vital issue which the Court had to confront was the effect of any increase it might award upon costs and thus the competitive capacity of Australian industry on home and overseas markets. Yet it disposes of this issue in a most unscientific and unsatisfying fashion. It finds support for its judgment in recent wage increases in the United Kingdom and it argues that these increases have reduced the cost disparity between the British manufacturer and his Australian counterpart in the interval since the Court postponed consideration of the margins issue last February. It instances that the weekly wage for a Birmingham fitter has increased by 10/7 and that of the ordinary labourer by 8/2, whereas there has been no alteration in the Australian rates. This still leaves the wage cost very substantially in favour of the British manufacturer. (For a fitter £9/1/1— in Australian currency—in Britain

as against £14/15/- in Australia). But when the new award takes effect the Australian rate will rise to £15/18/- and the disparity will be wider than when the Court deferred consideration of the matter last February.

The Court also finds some grounds for comfort in the cost position in a table comparing exports of manufactured goods in 1953/54 with the preceding year 1952/53. This table, which was submitted as evidence and which is published in the judgment, shows varying increases in the value of exports of a comprehensive range of manufactured goods. The total increase in exports of all manufactured goods is 20%. The judgment states: "These figures do support, in some degree, the claim of the applicants that Australian industry has the capacity to enter into competition with overseas manufacturers in spite of high costs in this field in Australia." Here is the table:—

EXPORTS OF MANUFACTURED GOODS (£'000 f.o.b.)

	Year Ended June 30		% Increase
	1953.	1954.	
Yarns and Manufactured fibres	387	444	14.7
Textiles	891	1,384	55.3
Apparel	474	474	—
Pigments, paints and varnishes	664	860	29.5
*Metals, metal manufacturers and machinery	15,504	20,309	30.9
Dynamo electrical machinery, appliances and equipment	1,630	1,965	20.5
Machines and machinery (except dynamo electrical)	7,535	8,947	18.7
Earthenware, cement, china, glass and stone-ware	710	1,013	42.6
Paper and stationery	1,549	1,863	20.2
Sporting materials, toys, fancy goods, jewellery and timepieces	497	562	13.0
Optical, surgical and scientific instruments and appliances and photographic goods	1,310	1,699	29.6
Drugs, fertilizers and chemicals	5,069	4,047	20.1 (decrease)
	<u>36,220</u>	<u>43,567</u>	<u>Incr. 20.3</u>

Source: Oversea Trade Statistics (June, 1954), pp. 22-26.

*Excluding Cadmium, Lead Bullion and Silver-Lead Bullion, Pig Lead, Other Lead, Platinum, Tin Ingots, Zinc Bars, Blocks, etc., and other metals (including single strand wire).

It is hard to believe that this table gives any valid guide at all to the competitiveness of Australian costs in general. For one thing, exports of manufactured goods have never comprised more than an infinitesimal proportion of total production—except for a brief period after the war, around 1% to 1.5% of the total value of manufacturing output. The proportion today is in fact no greater than before the war. Moreover, a large part of these exports go to New Zealand and adjacent islands which for this purpose can almost be regarded as Australian States. Moreover, if the increases in 1953/54 over 1952/53 in the various classifications of manufactured goods shown in the table are meant to suggest that the position is improving in favour of Australia, exactly the reverse conclusion might have been reached if 1953/54 had been compared with 1951/52 (instead of 1952/53) since when, in most classifications, the value of exports has declined. Moreover, the figures are completely distorted by exports of iron and steel which in 1953/54 amounted to about £13.6 million, practically one-third of all manufactured exports. In 1951/52 exports of iron and steel were only £2.4 million. The figure for 1953/54 is entirely abnormal, made possible by surpluses in Australia resulting from recession conditions. Now that there is a domestic steel shortage, exports are certain to be much lower in the current financial year.

But one straight, simple question might be asked in relation to the Court's conclusion in this matter. If costs in Australian secondary industry are generally competitive with overseas costs, why has there been such a flood of applications before the Tariff Board, compelling the

Commonwealth Government to greatly enlarge the personnel of the Board?

The Court quotes the 1954 Report of the Tariff Board, apparently to support its astoundingly optimistic approach to the cost dilemma. However, the final conclusion by the Board in its Report in a section headed "Total Costs and Competitive Position" gives an impression entirely opposed to that conveyed in the Court's judgment: "Though industry in the immediate past year has been relieved of the strain of rapidly increasing costs, the level reached prior to the check is so high in comparison with the level of costs in competing overseas countries that it is imperative that the long range aim be to bring them more into line."

The Court's treatment of the economic situation is equally open to question over a number of other points. For instance, we are told that in 1953/54 the overseas trade position was better than any year in the last five years with the exception of 1952/53—in spite of the fact that the favourable position was secured only by severe licensing of imports. It is also worth noticing that in 1953/54 only a nominal £9,000,000 was added to our overseas financial reserves compared with £183,000,000 in 1949/50 and £174,000,000 in 1950/51, two years which are unfavourably compared with 1953/54.

Moreover, in economic analysis a calendar year is an arbitrary period and can be misleading. The fact is that in the closing months of 1953/54 the trade position became severely adverse and this has continued into the early months of the current financial year which has opened on an uncertain note with wool prices down

and the tightening of import restrictions.

Although an increase in margins was clearly necessary to restore industrial justice to the wage structure, a less optimistic interpretation of the economic situation might have led the Court to include in its judgment a strong warning that additions to costs under present circumstances could not be viewed with equanimity and that every effort should be made to compensate for the increases granted by improved productivity.

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THERE is plainly need for strengthening the economic aspects of the Court's work. No Aus-

tralian Government has yet revealed any disposition to alter the fundamental constitution and nature of the Court itself, although there are powerful, commonsense arguments in favour of such a course. But, if this is politically impracticable, it still remains true that something drastic needs to be done. If the Court had at its disposal the considered conclusions and findings of a body of high economic authority, if possible with some independence of status—such as the Council of Economic Advisers in the United States—it would no doubt feel greatly fortified in the undertaking of its immensely complex and supremely important function.



A Report to Read

PERHAPS the most instructive report of the 67 British productivity teams that have visited the United States under the sponsorship of the Anglo-American Productivity Council was published in September this year. This is the report of the team on "Industrial Engineering." *It is so important that every employer, manager and trade union official in Australia should make it his business to procure a copy and read it.* So should politicians and government officials concerned with the current national necessity of reducing costs in Australian industry to safer and more economic levels.*

The team on "industrial engineering," comprising 13 members drawn from British management, trade unions and government service, visited the United States early in 1953.

The report makes no bones about the remarkable industrial efficiency of the United States. "*American productivity,*" it says, "*is outstanding. The striking contrast between it and that of Britain has been frequently shown.*" Moreover, the difference is not static. It is widening in America's favour. The Report asserts that during the last decade American superiority has increased. If present trends are not altered the current discrepancy in living standards, real national wealth and productivity which can be roughly represented by the ratio 2:1 might, in 15 to 20 years time, become 3:1. This is, to say the least, a highly disturbing, even humiliating, prospect for the British peoples.

The Report is concerned to lay bare the reasons for this discrepancy and thus to deduce the steps which Britain must take if it is to remain a front-rank economic power. A short article cannot pretend to cover adequately the findings of this Report, but perhaps it can draw attention to some of its significant features. If this is sufficient to induce the reader to obtain a copy for himself, the purpose of the article will have been served.

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*Copies can be obtained from the British Productivity Council, 21 Tothill Street, London, S.W.1.