

By Maurice Crow
early 1950?A NEW PROPHET

A new prophet has arisen! John K. Gifford, Professor of Economics at the University of Queensland has a scheme which will enable all wage and salary earners to double their real income in thirty-one years!

Now this mass-scale 'get rich quick' scheme is something indeed! Only adopt this and all your sons will live to see their real standard of living doubled without marrying the boss's daughter!

No wonder the Professor feels justified in challenging - "all Parliamentarians, trade unionists (skilled and unskilled), salaried employees, including Ministers, Judges and even Governors" to examine his propositions and accept his gift.

Gifford's new book "Wages, inflation productivity" has a sub-title - "Adequate adjustment of wages, margins, salaries to inflation productivity, prosperity".

Mixture
MIXTURE

This book is a peculiar combination of correct and helpful facts and theories, with incorrect and misleading ones.

The unwary reader therefore, is confronted with two dangers. If he sees through the nonsense he is likely to jettison also much that is very useful. On the other hand, if he accepts what makes sense, he may be lead unsuspectingly into swallowing a good deal of nonsense.

The scheme of this analysis therefore will first outline Gifford's main ideas, then deal with those of them which should be accepted and finally deal with those which should be rejected.

Part II:

THE PROFESSOR'S IDEAS.

Spiral Fallacy

Professor Gifford makes a forthright attack on the Commonwealth Conciliation and Arbitration Commission for adopting fallacious "wages-prices-spiral" theory or what is sometimes called "cost-inflation" theory.

As a result the Commission has failed over a period of years to do what the Professor regards as its basic duty: that is, to provide systematic upward adjustment of all minimum wages and salaries (both as to the basic wage portion and as to marginal portion), so that the real income should not be reduced by monetary inflation.

The professor says that it is impossible for the Commission to cause inflation by increasing wages, because inflation has nothing to do with the cost of wages or any other costs, but is due to deliberate economic policy of Governments. Therefore, for fear of causing inflation, wage-fixing authorities have acted over-cautiously.

For the same reason the Commission has fallen down on what the Professor says is its second main duty; gradually advancing all minimum wages and salaries in keeping with increased productivity.

He accordingly recommends that the Commission should immediately adopt a policy to correct the injustice to all workers who are paid strictly on award rates, and discusses how this best can be done.

Gifford, who considers that the 'C' series retail price index (corrected to exclude rent) is the most satisfactory long-term guide for measuring retail price movements, believes however, that what he calls "goods rises in the price level", should be excluded from consideration in effecting increases to offset monetary inflation. That is to say when shortages of goods (say seasonal shortages of onions or potatoes) cause an increase in prices associated with the demand being greater than the supply, then this is not a factor in monetary inflation and does not justify an increase in wages.

Production and Earnings both Increase 47%

The Professor also examines increases in productivity. According to him the increase in the volume of production per person engaged for the period 1938-39 to 1959-60 was 47% and the increase in real average annual wage earnings of male and female wage and salary earners was also 47%. Similar statistics from the United States confirm the Professor in the conclusion that - "the tendency of competition in a free enterprise economy is to make all incomes in such periods (of monetary inflation) rise in the long run by roughly the same percentage as production per head."

"Wage earnings" are not to be confused with "wage rates". In Australia the Index is compiled from pay-roll tax returns, and consequently includes overtime, over-award payments, double-jobs and wages and salaries not only of industrial and white-collar workers (i.e. roughly those covered by trade unions and the various clerical, technical and professional associations),

but all these top executives and junior executives, who receive a salary.

According to the Professor, under modern conditions of inflationary monetary policy, it is inevitable that the total amount of such incomes increases by the same degree as does productivity, and this happens, over a sufficiently long period with or without the help of trade unions or arbitration courts.

Wonder

If this is the case, one may wonder, at this point, why unions, courts, or even the Professor's formula are necessary at all. If increases of average real "earnings" approximate average increased production per head, justice would seem to be done.

The Professor explains the chief influence which unions and wage-fixing authorities have, apart from hastening the inevitable is to "tidy up the ragged lower edge of the wage structure" and to give "the poor bargainers" amongst the wage earners a fair share. In Australia with so many employees of Governments and semi-Governmental bodies, which do not pay above award rates, the "ragged lower edge" is fairly large.

The wage adjustments which the Professor recommends favour those on award rates. He proposes that no increases should be awarded those who now enjoy above-award payments until such time as the increased award rates catch up to the above-award payments.

Unemployment.

Professor Gifford distinguishes two types of unemployment. There is what he calls "recession or depression" unemployment.

It is not the purpose of his book to discuss this.

Nevertheless he has something to say about it which deserves quotation :-

"In the bad old days before governments learnt to understand the effect of monetary policy in causing and curing depressions, the only idea expressed as a cure for depression unemployment was to reduce wages. This was all that business men could think of: it was the only thing in their power, the only thing in the power of wage-fixing authorities. It is now recognised that, though this does tend to increase employment in the long run, it has very slow effects compared with the effects of the stimulus which monetary expansion exercises on the demand for goods and labour. Any well-informed government, faced with depression or recession, would adopt a policy of monetary expansion. In this new environment, wage-fixing authorities will never have to undertake general reduction of minimum wages. Their only problems are concerned with how and when to increase them, how often, how much, whether evenly or unevenly, and whether in times of recession they should pause for a while in raising minimum wages to give the demand for labour time to increase sufficiently." (page 52)

Elsewhere he explains that there may be "occasional short periods of recession and recovery: in these periods unemployment may rise to 3 or 4 or 5 per cent as a result of a cause distinct from wage fixation. Such recession unemployment would happen no matter which Basic Wage was set." (page 79).

Wage-fixing authorities - "can rely on Governments adopting anti-depression policies soon after a mild recession starts and can expect any recession to be overcome in a year to eighteen months." (page 72)

The other types of unemployment, Gifford calls "avoidable unemployment" which can result from the Arbitration Commission fixing minimum wages too high. If they should happen to do this it is not a very serious matter and all the Commission has to do according to the Professor, is to "mark time" with upward adjustment of wages until the unemployed are re-absorbed in a very short time.

The Formula.

The formula consists of picking a favourable economic period i.e. when all is going as well as it possibly can, and when real wages are "normal" or as high as they can be in a period of full employment.

The relationship of the basic wage in such a period to the average wage earnings is calculated. The basic wage and all minimum wages, i.e. all margins, are then adjusted upwards in

proportion as the average wage earnings increase. There are some proposals to streamline the curve of the index for average wage earnings so that award wages would not be subject to sudden and unexpected "bumps", but would rise in a steady regular fashion. But these details are minor matters compared with the principle of upward adjustment of all award rates in keeping with average earnings.

The Professor believes that adherence to this formula would have the great advantage of simultaneously correcting the wage to compensate for monetary inflation each quarter and adding to the wage each quarter a small increase equivalent to the steady increase in production. It would ensure that wages kept pace with industry's "capacity to pay".

Experts.

The formula is not to operate automatically. Unemployment statistics, and suitable retail price indexes (corrected to exclude "goods rises in the price level") should be intelligently used to modify the wage resulting from the formula if necessary.

Also the Commission may from time to time consider it expedient to revise what is considered "normal".

Naturally such matters are best understood by economists and experts, and the Professor clearly believes that it is such experts whose advice should guide the Commission.

The Professor believes that everyone with any knowledge should have the right to make either oral or written statements to the Commission, but by the same token he believes that most trade unions would soon find it of no value to be represented in

fixing (e.g. separate Federal, State hearings, separate basic wage and margins hearings, etc.) procedures could be overcome.

He considers the Arbitration Commission is really a subordinate legislative body of the Commonwealth Government.

The Professor expects it will take three years to convince all those in authority and the Unions that his scheme should be adopted.

Part II:

THE PROFESSOR'S CORRECT IDEAS

Governments Case Inflation

The Professor is absolutely correct to demolish the erroneous "wages-prices-spiral" theory or "cost-inflation" theory.

The price of a commodity fluctuates according to supply and demand around the value of that commodity, and the value is determined by the amount of labour required to produce that commodity.

If there were just sufficient money to circulate all the goods and services on the market, then prices of commodities would gradually come down because improved methods of production would reduce the amount of labour required to produce a commodity.

Wages would then buy more, i.e. the real wage would increase.

But such a state of affairs would not suit big business which aims to use increased productivity to increase its profits to the maximum. In such circumstances the employers would almost certainly endeavour to reduce nominal wages.

To decrease nominal wages however in these modern days, would create tremendous political opposition. Such a direct and

obvious discrimination against them would incense the Unions and lead to tremendous industrial struggles.

Big business finds it better politically to achieve the same purpose of pegging or even reducing real wages by a system of continual monetary inflation, that is, to say, deliberately ensuring that there is more money than required to circulate all commodities on the market.

It is more difficult for employees, on a union basis or any other basis, to fight against gradually increasing prices caused by inflation because it has a general effect, not aimed at particular industries or groups of employees. Inflation can only be fought by unity of the whole movement of unions and professional associations.

Small business men and farmers suffer by the policy of inflation too. Certainly, some benefit because their mortgage repayments are paid with inflated currency. As against this, very often they are saddled with fixed prices (e.g. Contract prices, falling prices for agricultural products or prices fixed by marketing boards, etc.) but their costs are forced up by increased prices of raw materials or machinery supplied by the big monopolies.

Inflation is the policy of the big monopolies. It not only suits them politically, but it favours them economically because they can and do increase their prices as fast or faster than the rate of inflation, which they are enabled to do by their very monopoly position. In effect, therefore, inflation assists the monopolies to maximise their profits at the expense both of the industrial and white-collar wage worker, and at the expense of the farmer and small business man.

In Australia inflation also assists Federal Government revenue because as nominal wages rise, however belatedly, limping behind prices, the rate of taxation as fixed by scale automatically increases.

This facilitates loans to big monopolies from Government-controlled sources (the classic example is G.M.H.) and provision of special harbours, roads and railways so that the monopolies are thus

still further strengthened by such Government-assisted investments. *By contrast the smaller businesses, denied bank credit, find the difficulties of raising alternate funds by issuing debentures to the public prohibitive.*

The whole process accelerates the shifting of surplus value

wealth created by smaller businesses where there is less mechanisation to the big highly mechanised monopolies. Incidentally, because of uniform taxation it also accelerates automatically the strengthening of the Federal Government at the expense of State and municipal finances which remain in a state of permanent semi-crisis.

Naturally it is not in the interests of the monopolies that the public should realise such facts. If they were generally understood, public outcry would sweep away any Government which dared to indulge in systematic monetary inflation.

Therefore, the theory of "cost-inflation" or "wage-prices spiral", i.e. the theory that inflation is caused by the increase in costs of production (and especially by wages), is a very important ~~screen~~ *screen* for the monopolies and the Governments which carry out their policy.

But it is an erroneous theory, because monetary inflation ~~always~~ *policy* has been a matter which ~~the~~ *of* the Federal Government ~~could prevent~~ and always will be.

Professor Gifford fails to show the inter-connection between monopoly policy and Government-induced inflation. Monopoly is politely omitted.

But his basic theory on inflation is correct.

"HONEST MONEY"

Professor Gifford says on page 13 ".....any rise in the average level of costs, which happens while the supply of the articles is increasing must be due to a monetary cause, to an increase in the amount of money spent, and that any rise in the general level of wages, which happens during a time of increasing employment must also be due to the same monetary cause. Such cost or wage rises should not be explained as causes of a rise in the price level, but as effects of monetary inflation, part of the rise in the price level caused by monetary inflation (costs being prices which are part of the general price level)."

At page 21: "Governments, at any time, tend to be inflationist in policy because it makes finance so much easier for them. They are being encouraged, however, at the present moment, by those "political" economists who advocate a rapid rate of capital development and think that it can be helped by gradual inflation."

"Wage theory seems to have been made the football of politics. Wage increases have been used as an excuse for continuing monetary inflation on the one hand, and, on the other, the argument that monetary inflation would follow has been used as a justification for refusing certain wage increases..."

Page 23: "...from 1939 to the present.....there was a large increase in the total volume of goods produced in Australia. This would have caused the price level to fall, if it had not been for the effect of the increase in money spent in increasing the price level...."

He then gives supporting statistics for period 1938/39 to

	<u>Percentage increase</u>
"C" Series Index	203%
"C" " excluding rent	245%
Nominal weekly wage rates	274%
Money value of national income	604%
Average weekly bank clearings	979%

And finally, (at page 52) after explaining that the machinery of inflation, i.e. expansion of bank loans permitted by the Central Bank (which is of course, controlled by the Government) or deficit financing by the Government itself borrowing from the Reserve Bank, the Professor deserves full marks for the following:

"The present writer does not think that an inflationary rise in the price level is on the whole a good thing; he prefers and advocates a policy of honest money, with purchasing power undiminished by monetary inflation."

CHILD ENDOWMENT

An interesting illustration of the hypocrisy associated with the adherents of the fallacious wages-spiral theory is propaganda in relation to increased child-endowment.

Now if an "honest money" policy is to be followed, then clearly child endowment payments as well as wages, should be increased to compensate for loss of purchasing power due to inflation.

The A.C.T.U., A.C.S.P.A., the Labour Party, the Communist Party and the Democratic Labour Party all advocate such increases.

But the D.L.P. spokesmen unlike the other bodies mentioned, usually advance increase in child endowment as a demand instead of wage increases and even attack the A.C.T.U. and Labour Party for concentrating on wages instead of child endowment.

The reasons they advance are instructions^{ve}. "Wages", they argue, "are part of the cost structure. Increased wages therefore, cause inflation, so the Unions shouldn't press for wage increases. But child endowment is not part of the cost structure because it is paid out of Government revenue, therefore increased endowment will benefit the familyman without causing inflation which will take away the benefit."

So runs the argument. We have already dealt with the argument that increased wages cause inflation. They don't. Monetary inflation causes both prices and wages to rise.

But, to the Professor's credit he also makes mincemeat of the D.L.P. theory that child endowment has, mysteriously, no economic effect.

He says "the imposition of a pay-roll tax is a burden on employers similar in effect to a rise in wages and diminishes their demand for labour and their capacity to pay wages. It would be not unreasonable to regard the Commonwealth Pay-roll tax (£m55.2 in 1959-60) as largely paying for child endowment £m62.5 in 1959-60) This was what Parliament intended."

"According to this way of thinking, child endowment would have been paid largely by wage earners who could have had higher minimum and actual wages but for the existence of child endowment."

(p34)

Well said, Professor!

HOW MUCH?

It is one thing to say that wage-earners have suffered because there has not been an "honest money" policy of correcting wages to compensate for Government-caused inflation.

It is another thing to say just how much they have suffered. This matter of measurement of inflation is very important indeed to the wage-earner. A distortion in the retail price index can result in a lower real wage.

Or, what is more serious, is that if the retail price index has not sufficiently reflected inflationary price increases, wage-earners are left without a proper guide as to what they are justified in claiming.

A distorted retail price index in other words, can produce wage injustice in the name of justice.

To give the Professor full credit, he does not lightly dismiss this problem, but gives careful examination to some aspects of it.

The result, is a damning indictment of the powers-that-be although the Professor is careful not to say so too forthrightly.

The Professor poses the problem in this way; "Are wages worth more than in 1938-39?" The answer varies according to the index used.

If the "C" Series index is used, the real value of the Basic Wage (6 Capital cities) shows an increase of 10% as at the end of 1960. The index of real average weekly wage rates shows an increase of 19%.

But if rent is excluded from the "C" series, the Commonwealth basic wage shows a decrease of 2.6% as at the end of 1960 and

real average weekly wage rates show an increase of only 5.9% over this period of 20 years.

Why this startling difference?

The traditional pre-war criticism of the "C" Series index by the Unions was its omission from the regimen of certain items of daily consumption, e.g. fresh fruit. The seasonal character, and rapid price changes due to changing supply of such items made them difficult, in the writer's opinion, to be dealt with statistically.

The Professor does not mention such matters.

But he does deal with rent.

THE COST OF SHELTER

The "C" series ^{index}/1939 to end of 1960 shows an increase of 222%. This increase has been considerably affected downwards by the inclusion of rent-controlled houses in the regimen as a result of which rent shows an increase of only 95% in the same period.

Using census figures of 1933 and 1954, the Professor estimates that real rents rose in this period from 21/- to £2.14. 7. a minimum increase of 160%, and average home-building costs in Queensland by 330%. Average price of shelter therefore rose not by 95% but somewhere between 160% to 330%. Certainly a rental of £2.14. 7. in 1960 is fantastically low and as the Professor says, estate agents quote him from £3.10. -. to £5. -. -. for rent-controlled houses and more for uncontrolled houses.

The Professor concludes therefore that the inclusion of rent from 1939 to 1960 seriously distorted the "C" series index, and that a truer index of consumer retail prices is obtained by

deleting rent from the "C" series. The result is an increase of 263% instead of 222% for the "C" series.

In other words, the "C" series (without rent) shows an increase over the "C" series (with rent) as the Professor says, "a little over 3 times the pre-war level, instead of a little over 3 times". As a consequence, "the usual calculations of changes in real income are defective when made with the help of the "C" series index including rent"-(page 4.) At this point the professor stops short.

However, really startling implications are there for all to draw.

It means that the cost-of-living adjustment, to the basic wage from 1939 to 1953 did not properly reflect the rise in the cost-of-living.

The distortion of the "C" series statistics on rent 'cheated' wage and salary earners of the proper upward adjustment, and the degree of cheating increased progressively from 1939 onwards, as real rents and housing costs departed more and more from pegged 1939 rent levels reflected in the index.

It means that when the Arbitration court from time to time made a good name for itself by handing down a decision for a new higher basic wage (as distinct from a cost-of-living adjustment) it was in effect only restoring cost-of-living losses due to faulty statistics or mainly doing this!

The total amount lost by the wage and salary earner and ^{lost} the amount /from quarter to quarter due to rent distortions in the "C" series would make an interesting calculation.

This deception must have been known to the Government Arbitration experts, who nevertheless, along with the courts continued to advance spurious economic theories that it is wages that cause price increases. If theory were not sufficient, then the Professor's statistics should be. They show that the real purchasing power of the Commonwealth basic wage in December, 1960 was 2.6% lower than the 1959 basic wage using the "C" series index, excluding rent, as the measuring stick for increases of retail prices.

NEW DECEPTIONS FOR OLD!

But what is more damning still, is the abandonment of the cost-of-living adjustments in 1953, the attempted abrupt abandonment of the "C" series index in 1960 and its replacement by the Consumer Price Series index.

As soon as rent-control had been abandoned, and rents previously controlled (which the "C" series had been based on) began a rapid upward trend which, when reflected in the "C" series, would have at last given long-overdue recognition to real costs of shelter, the cost-of-living system was dropped!

Worse still: The old deception in the "C" series, was replaced by a new deception relating to housing in the new Consumer Price Index. The statistician tried hard to quietly to abandon this index last year, and employers and daily press are doing their utmost to "sell" the new modern streamlined Consumer Price Index in place of (they say) the out-moded horse-and-buggy "C" Series index.

The professor reveals that the "weighting" given to housing

in the Consumer Price index is only approximately 10% of the total.

He points out that no one anywhere can get shelter for 10% of the basic wage, e.g. the basic wage for Brisbane at the end of 1960 was £12.18.-., ten per cent of this is only £1. 6. -. The Professor protests mildly that - "26/-d. was far below the average at that time." !

"Far below" indeed! Very, very far below. The Professor adds mildly: "The smallness of the percentage weight given to the housing element in the Consumer Price index would probably not matter very much in normal times, but the recent past and the near future are abnormal in that rents have recently been in a process of being adjusted to the monetary inflation which has taken place since 1938-39 and this process is continuing."

Exactly! To use stronger words: The Consumer Price index continues the deception of the real extent of the rise of shelter.

The "C" series did so by being based on specific houses which were rent-controlled. At the point of history when rent controls were lifted, just when the "C" series would have begun to rapidly make good this deficiency, it is replaced by the Consumer Price Index. This index is artfully constructed so that rent-increases for 1953 onwards are again distorted, this time by the technique of giving a very small "weight" in the index to housing!

No wonder, the employers and the Federal Government are barracking for the Consumer Price index! No wonder the Professor finds it an unsatisfactory index to use and prefers the "C" series (recalculated by him, without rent)! No wonder the Consumer Price

index shows less of an increase than the "C" Series index!

The Professor deserves full marks for his honest and scientific treatment of the "C" Series and Consumer Price indexes in relation to the housing element.

WAGE LEGISLATION

The Professor should also receive full marks for his telling characterisation of the Australian Arbitration system.

Gifford says that a basic wage a judgment is "merely a piece of legislation on the basic wage by a subordinate legislative body of the Commonwealth Government "(P.vii)

The conception that arbitration on wages is or can be of a judicial nature, that the Arbitration Court can use the scales of justice to weigh out a "just wage", and that it has to clothe itself with powers of contempt of court to protect itself from adverse comment is all part of a system designed to elevate the wage-fixing authority to an exalted position above criticism, above politics, and above the operation of economic theory.

As Gifford says however, a judgment - "has no more authority than the economic ideas which form its foundation, and one of the chief ideas underlying it is the fallacious notion that raising wages causes monetary inflation" (pvii).

He sheets the responsibility for inflation right home where it belongs "whether the Federal Government actively causes or merely does not prevent monetary inflation, it is still responsible; it is the only body which can cause it or prevent it"(pxi)

Moreover, he explains that the role of the wage-fixing authorities is the historically humble one of registering existing economic facts, rather than create history with the scales of justice.

"Money wages", he says, "tend to adjust themselves to inflation even without a system of minimum wages, though more slowly and unevenly. It is one of the most useful functions of wage-fixing authorities to make this change smoothly and evenly and the easiest to perform" (Page 54).

His main complaint, in fact, the whole reason for his formula, and for his book, is precisely because the courts have not been properly exercising even this modest role.

And to give credit where it is due, Gifford approaches the problem from the stand point of paying wage and salary earners., the maximum possible, i.e. not merely sufficient to compensate for monetary inflation, but enough to take into account increasing productivity and that all this be done quarterly without special argument, fuss or delay.

PART III:

WHERE THE PROFESSOR ERRS

"Capacity to pay?"

Despite the correct and good aspects of Professor Gifford's work, he clings to a number of incorrect theories and assumptions which prevent him from developing his positive proposals into a useful solution.

Apart from theory, the Professor's scheme also involves matters of policy which run counter to the trade unions and

professional and technical associations of salaried workers.

First for theoretical matters. Gifford advanced with approval the conception of "industry's capacity to pay wages".

He says this is a useful conception and gives it two meanings:-

"It would not be unreasonable to say that the monetary inflation referred to would increase the country's capacity to pay wage and salary rates by 10%"(p.100)

The writer believes that it is confusing to talk about 'capacity to pay' in this sense. This is simply using other words to say that there should be an "honest money" policy referred to in Part II above. If inflation is the only change ^{and} Gifford means for instance that £11. this year is now required to pay what last year's was bought with £10., then of course, there is "capacity" to pay it for all prices including wages because £11(today) equals £10(yesterday) "in anybody's money" as you might say.

The second meaning Gifford gives relates to productivity. i.e. "an increase in a country's "capacity to pay wage rates which results from increasing productivity helped by a suitable monetary policy" (page 100).

This assumes a number of other economic factors which Gifford simply evades altogether, or distorts.

There can, and does, occur increased productivity accompanied by the same or even decreased production. In times of depression or recession this can be quite severe. The more uneconomic factories can be idle all over the countryside so increasing the

average productivity, The raw material they could be using stockpiling unsaleable, and the manpower which could be operating the machines unemployed.

PRODUCTIVITY UP, PRODUCTION DOWN

A new feature appearing in post-war economic history is that such under-capacity production can happen even in a so-called boom period.

Consider these facts. U.S. economist Alvin H. Hansen writes in New York Times Magazine (12/3/1961) of U.S. industry:-

"...manufacturing output has increasingly fallen below manufacturing capacity. In 1954, output fell 10% below capacity; in 1958 20%, currently the margin between capacity and utilization has widened to 23%".

It is estimated that the big American steel companies can operate at a profit at as little as 30% of capacity. For example, in 1960 U.S. Steel though operating at half capacity much of the year, recorded its highest yearly profit. Thus the main purpose of investment in the American steel industry is not expansion of productive capacity and production, but the cutting of unit costs and the raising of profit ability.

The same applies to the U.S. automobile industry. The same trends are beginning to show themselves in Australia, in the automobile and coal industries, to mention but two.

In the Australian car industry, output in May, 1961 was 22% less, employment 17% less and unsold car stocks 100% more than in May, 1960 and the industry was operating at about 66% of its capacity. And by October, 1961 things were worse still.

According to the Department of Trade Survey written in December, 1961, the increase in employment by March, 1962 was only expected to be about half the increase in output over the same period, and it was estimated that by March, 1962 total output would still be 15% lower than in May, 1960.

Yet, although 1961 sales fell, most list prices remained unchanged (aside from the varying sales tax imposed by the Government). Despite these gloomy prospects of "recovery" for 1962 with undercapacity production continuing and with less workers per car employed, Ford, G.M.C. and Volkswagen were proceeding with plans for extension of production capacity.

In the Australian coal industry taking the 1959/60 to 1960/61 period for comparison there was an increase of 11% tonnage of coal produced with 726 less miners than the previous year which was 5% drop in the workforce. Production per man-shift for underground miners increased 12% in this one year. The number of mines in operation dropped from 102 to 25.

The Joint Coal Board's report for 1960-61 said "despite the closure of mines the industry's output had continued to increase and the growth in stocks had become a matter of concern. The Board has drawn to the attention of the industry the need for some curtailment of output."

Now to return to Professor Gifford. These hard facts of modern monopoly industry are as a closed book to him.

According to him, the capacity to pay wages means the same thing as "demand for labour".

But in the examples just given, the demand for labour is less

and yet production is, in some cases, less (e.g. U.S. Steel) and in some cases more (e.g. Australian Coal Industry), but in both cases productivity has increased.

THE ECONOMIC PIE THEORY

Remembering this, hearken to the Professor:

"It is worth emphasising that an increase in productivity is associated with a rising real national income of goods and services which is divided somehow between competing groups, and competing purposes. The more wage earners get of the economic pie the less there is for profits, or for the Government to spend in building, road constructions, etc. The more skilled wage earners and salary workers get, the less there is available for the basic wage earner and vice versa; the more there is taken in payroll tax to pay child endowment the less there is available to pay out as wages or to provide profit." (page 69).

This sentence (which I shall call the 'economic pie' sentence) deserves close attention. It is packful of implications well worth examining.

The first implication is that - "an increase in productivity is associated with rising real income."

The unemployed Australian coal miner, driven from his home-township through mechanisation or close-down of his mine, as well as his mates lucky enough to be still in the pits, could teach the Professor a lesson on that score. The U.S. steel worker lucky enough to keep his job, would laugh if he were told that his enormously increased productivity must mean higher wages. Using the Professor's terminology, he would point out that the "economic

Just to pose these questions is to illustrate sharply that the conception "economic pie" and "capacity to pay" is a completely unscientific one.

The answer depends on your political position, ranging from monopolists who use every means, including control of Governments, to maximise their profits at one extreme, to the ordinary wage or salary earner who expects modern industry to apply the miracles of modern science and provide him with a steadily increasing standard of living at the other extreme.

Rather, if we were to include all definitions, there would be a fifth definition favoured by socialists who prefer employee-owned and controlled industry and who therefore favour no profit at all.

But excluding from consideration the socialist position, it is quite clear that the conception of "capacity of industry to pay" adopted by the Arbitration Court in 1940 in place of Justice Higgins conception of a "living wage" is an unacceptable one to the trade unions and white-collar associations.

It provides no firm principle on which to base wage-fixation nor can it be made to do so, by any Arbitration Court, because the selection of one definition or another pre-supposes a definite government policy which is beyond the Court to enforce.

EVASION

Professor Gifford evades this whole problem by the following assumptions:-

Referring again to the "economic pie" sentence, he jumbles up a host of competitors for the "pie" and the employers are made

to appear as if they were ranking on an equal footing in the dispute along with a host of other contestants. There are unemployed workers, unskilled workers, semi-skilled workers, skilled workers, salaried workers, employers, child endowees, Governments, etc.

But the facts of the matter are that wage disputes are between all manner of employees on the one hand, and all manner of employers (including Governments) on the other.

Every Arbitration Court hearing proves it. It is the outcome of a dispute between employers and employees. Moreover, both the A.C.T.U. and A.C.S.P.A. co-operate and do not compete either on basic wage or marginal claims, and both the A.C.T.U. and A.C.S.P.A. favour increased child endowment.

With his idea that "capacity of industry to pay" is the same thing as the "demand for labour" which can be discovered by looking to the market just like the demand for onions or automobiles, The Professor hides the problem of profits completely.

It is extraordinary that in a book of 160 pages crammed full of statistics on wages and inflation, there is not a single fact produced about profits. How the Professor can manage to produce masses of charts, tables and graphs on every subject connected with wages and yet skate all around the examination of profits which is a subject lying at the very heart of the problem is a wonder indeed!

Apart from the quotation already mentioned there is another similar quotation in which profits rate a bare mention:

"Minimum wage fixing is contentious, it is part of a question of influencing the distribution of income between

employed and unemployed, between wage earners and employers, between unskilled, skilled and salaried workers; it is also a question of how Government capital expenditure will be affected and the rate of investment in private industry." And then the Professor comments -

"No wage-fixing judgment can be purely scientific depending merely on knowledge; it must be affected by the social ideals of the wage-fixing authorities....." (page 71)

Just so Professor! The "social ideal" of what profits are reasonable, and whether employers should be permitted by Governments to operate industries under capacity, or to use their monopoly position to raise prices beyond the reach of potentially fuller markets, all have a bearing on what "economic pie" that industry can be made to provide.

In addition to these two quotations the Professor has two small sections, each about one page. Both entitled the same - "The margin of profitability" which turns out to be discourses on elementary theory for students for which the book was originally written.

"What courts should consider is not the size of profits in the past twelve months, not the rate of profits in the last month not an accurate forecast of how profits would move over the next twelve months if wages remained the same and not even how employment would be affected in the short run but how profits, employment and unemployment would be affected in the long run by a rise in minimum wages in whatever situation is developing as regards increasing productivity and monetary expansion" (page 61).

Well! That lets the Court out! No statistics whatever are required on profits, but volumes of statistics are required on wages, unemployment and productivity! It lets the Professor out too! The next two paragraphs follow with hypothetical questions of what "might" happen in hypothetical industries - no less than twelve "mights" in two paragraphs.

But not a single fact, nor table nor chart nor graph.

Contrasted with this the Professor, for example, spends a whole chapter with voluminous statistics on "Are Wages Worth More than in 1933-39?" Very good.

But why, Professor, did you not have a chapter - "Are Profits Worth More Than in 1933-39?" ? It "might" have lead you into an investigation of growth of monopoly in this country and this "might" have shown their profits expanding at a far greater rate than is good to be known. In turn, this "might" have lead you to the conclusion that control of profits should accompany control of wages, and that "might" be carrying criticism of the powers-that-be farther than you "might" have cared!

From the Professor's entirely theoretical dissertation not on profits but on the "margin of profitableness" we learn that, confronted with a wage increase, if a monopolist were unable to sell as much when he passed on the wage increase in the form of higher prices it "would pay him to produce less with fewer employees." (page 51)

According to the Professor therefor in the case of "monopolist" we have to consider what it would "pay the monopolist" best to do to ~~maximize~~ preserve his "margin of profitableness". Please don't

bother to enquire how much these profits are! Please don't stop to ask whether he is entitled to sack thousands of workers!

No doubt it "pays" the U.S. steel monopolist at times to operate at 50% capacity, and throw idle not only plant but the employees who could be using that plant to produce a very much bigger "economic pie" to use the Professor's terminology.

What does the Professor say to this question?

RIGHT TO FULL EMPLOYMENT

Having evaded an actual examination of monopoly profits, the Professor neatly side-steps the effect of monopoly on employment by the calm assumption that now-a-days there can never be any serious "recession/^{un}employment", which he relegates to the "bad old days" (see page 52). In - "Occasional short periods of recession and recovery.....unemployment may rise to 3 or 4 or 5 per cent." but no more.

The Professor is referred to a report issued in March 1960 by the U.S. Special Senate Committee on Unemployment Problems which concludes:

"The problem of unemployment will assume far greater proportions in the next ten years unless decisive action is taken. After each of the last three recessions the rate of unemployment was higher than it had been before the recession".

And, to be more statistical, the statement by President Kennedy's Council of Economic Advisers in March, 1961 -

"...the three successive upswings from 1949 to 1950 lasted forty-five, thirty-five and twenty-five months respectively. In

eleven months of the first of these unemployment fell below 3%. In the second it dropped to about 4% and in the third only to about 5%. A continuation of this trend is evident in the present upswing."

So, if the Professor looks to America instead of Australia, he will see that his estimated maximum of 5% unemployment for a recession period has already in that country become a 5% minimum of unemployment in the boom periods, which are lasting less and less.

In other words, unemployment is mass unemployment never less than 2 million ranging up to 5 or 6 million in recessions (official statistics) and is therefore chronic.

U.S. Secretary of Labour, Arthur J. Goldberg asserts that at least 7 million new jobs representing a 14% increase in the gross national product would have to be created in 1962 to even reduce unemployment to 4%. But the annual overall increase in production in the best of times in post-war America is only something like 2 1/2%.

From this it can be seen that as long as American Unions tolerate the giant corporations operating at chronic undercapacity they are tolerating also chronic unemployment.

Of course this question leads on to problems of the world market. For the capitalist this is a serious matter. The hard facts are that the Socialist countries do not have unemployment, do not have inflation in peacetime, do not have overproduction or undercapacity, do not have insoluble trading problems, whereas most capitalist countries are suffering from most or all of these maladies.

The Professor believes that these problems are soluble in Australia. He is entitled to his belief and to his formula for correction, but surely he cannot fail to see that what is happening in America now can happen tomorrow in Australia, all the more so since America is actively concerned to see that Australia loses its Commonwealth preferences/ trading advantage when Britain enters the Common Market.

In place of Commonwealth preferences, President Kennedy has called, in effect for a system of preferences between the enlarged Common Market bloc of countries and America herself.

The writer believes that whatever measures are taken to assist trading outlets within the "Western World" can provide only a very temporary solution to the problem of unemployment, if they provide a solution at all. This is because such developments can only be at the expense of the ruination of tens of thousands of small and middle-sized businesses and farmers which cannot stand up to the competition of the giant monopolies in a world without tariffs or import restrictions. Such a "solution" may save the necks of the big monopolies at the cost of cutting off the necks of the smaller concerns along with the workers employed by them.

The writer believes that a temporary solution would be provided by total disarmament by agreement between all the great powers, and trade with the Socialist countries, thus diverting the enormous burden of armament investment to peacetime uses and providing a steadier overseas market (i.e. a bigger "economic pie")

But even that cannot provide a permanent solution because capitalist economics cannot avoid overproducing at regular intervals no matter what drastic temporary measures are adopted.

It is clear that the Professor does not subscribe to such ideas. Nor may the reader fully subscribe to them, because whether you do or not depends, as the Professor might say, on the "social ideal" which you hold. The monopolist must have a different view to the wage earner on such issues. And there are always people (although their numbers are declining) who refuse to examine anything to do with socialist countries, because it is uncomfortable to upset previously-held political convictions.

However, it is equally clear that the Professor cannot sit on the fence and pretend he has produced a watertight scheme for doubling real incomes along with full employment without facing up to these work-shaking economic developments.

PROSPERITY INDEX - WHOSE PROSPERITY?

To revert once more to the Professor's "economic pie" sentence. He says - "...an increase in productivity is associated with a rising real national income of goods."

It may be protested that we have done Gifford an injustice. We have produced figures from the American scene to refute the assumption that an increase in productivity must mean increasing production. Gifford's book, however, concerns Australian not American capitalism.

But Gifford himself appeals to American statistics to verify Australian statistics in a closely related subject in which he advances a new theory which lies at the very core of his formula for wage adjustment.

As explained in Part I the Professor states that volume of production per person in Australia 1939 to 1960, i.e. productivity

has increased 47% and real average wage earnings have also increased 47%.

Readers not versed in scientific method might well jump to the conclusion from this that the whole of the increased national product due to increased productivity had gone to wage and salary earners.

This, of course, would not be correct, although the simple reader would be well excused his mistake because when it comes to profits the Professor here, as elsewhere, is strangely silent.

Assuming that industry was operating at 100% capacity then an averaged percentage increase in productivity would result in a similar percentage increase in national production. Therefore, given a 47% increase in productivity and a 47% increase in average wage earnings, there must be also a 47% increase in profits.

The Professor refers to the index of average wage earnings "as a kind of index of prosperity" (page 66) and makes it the basis of his quarterly wage-adjustment scheme.

"The best line for wage-fixing authorities to follow is to make the same percentage adjustment for increasing prosperity to all minimum wages and salaries. The increasing prosperity working with the existing labour supply is reflected in a rise in average wage earnings which, considered along with unemployment statistics, provides a basis for the best general guide to raising minimum wages and salaries" (page 69).

Now this is all very well, but, of the two component parts into which the national income is divided profits and wages, why did the Professor pick average wages earnings as a "prosperity" barometer? Why did he not take ~~profits~~ profits? He could equally well have said

for Australia, that since 1939 productivity has gone up 47%, profits have gone up 47% therefor let us use an index of profits and for every percentage increase in profits let us adjust all minimum wages by the same percentage.

And according to Cliford, the same relationships apply for America - "Now in manufacturing in Australia and the United States average value of production per person employed or engaged has moved very closely for the last two decades with average earnings per employed or engaged person in manufacturing " (page 65).

Why then, could we not take profits as our "measure of prosperity" and adjust wages accordingly?

Strange that the Professor who gives the appearance of looking at every problem from every possible ^{angle} ~~magik~~ hadn't even mentioned this possibility!

Why has the Professor so assiduously throughout the book cultivated the magicians art of directing the audience's attention to productivity and average wage earnings, while he hides profits up his sleeve?

There is a reason. Examination of profits alongside wage earnings would have brought the collapse of his neat little scheme of fixing the basic wage as a percentage of average wage earnings.

And this is not only a practical question. For the Professor, it is a key question of his whole theory of wages.

He says - "the increase in average money earnings of all employees in factories has been very close to the increase in the average value of production per employee. The same is shown for the United States of America.....This close correspondence of movement of actual average wage earnings and the value of produc-

challenge. He does not examine actual volume of commodities produced per worker. He objects that such an index couldn't be used for wage-fixing purposes because productivity of an industry varies greatly from "sample to sample" of the industries selected. (page 65).

But surely Professor, if it is possible for example to "weight" the different samples of the items included in the regimen of the "C" series of prices and add them together to make an index, it is possible to "weight" the different industries and add volume-per-head figures together to obtain an average?

The Professor also objects - "A volume of production per head index has to be compared with a real wage index but wage-fixing authorities have to fix money wages directly" (page 65).

Really Professor! Then don't protest too much! The "C" series index itself is not a wage index either. When the Court used it to adjust wages they worked out the percentage relationship of the index number to the wage they had set, and provided that any change in the "C" series index number should lead to an equivalent change in the wages by restoring the same percentage.

Gifford, therefore, although capable of painstaking and useful work in re-constructing the "C" series (without rent) for example, and calculating real wage increases as so corrected by a better retail price index, dismissed the construction of a genuine index of volume of commodities per person (i.e. productivity) as impossible.

Instead he says, talking of an index of volume of production per employee in factories - "There is no such statistical series available in Australia covering the period 1933-39 to 1959-60. The

realised by the products, and other costs of production apart from wages" (page 60).

And even more explicitly - "In such circumstances "(i.e. increase in productivity)"if the Federal Government allowed or encouraged sufficient monetary expansion, the price level could be kept from falling as it would otherwise do" (page 55).

And further - "...from 1939 to the present....there was a large increase in the total volume of goods produced in Australia. This would have caused the price level to fall, if it had not been for the effect of the increase in money spent in increasing the price level" (page 23).

Therefore, Professor, by your own words you have proved (and correctly so), that if correction is made for monetary inflation, you would find a "falling price level" per commodity wherever you have increased productivity and this is associated with an increased volume of such commodities.

The total "value" of production based on prices and corrected by monetary inflation therefore must increase at a slower rate than the total "volume" of production.

Therefore productivity as calculated by the methods used by the Professor is understated, i.e. the true average volume of production per head must have increased by more than 47%.

Now if total volume of production has increased commensurate with the increase in productivity (which is the Professor's assumption) then the total increase in yearly national increment has been more than 47%.

Now, if one of the two components, wages, has increased only by 47% from this it follows that the other component, profits,

has increased even more again than the increase in productivity.

If the Professor had produced profit figures they would no doubt have confirmed this and destroyed his neat equalitarian 47% increase all-round argument.

Hence no profit figures. Hence no examination of the history of distribution of the national income.

As to the national income, the Professor's little trick of mixing up Government expenditure - roads, social services, child endowment, etc., - for a share of the "economic pie" along with employers and employees cannot be taken seriously. Having taken their share of the pie, the workers put back portion of it into the pie-dish (i.e. income and sales taxes, etc.) and the employers put back a portion of it (company tax, payroll tax, etc.) so that Government expenditure, is a secondary re-distribution of the national income. Interesting and important as the subject of taxation is, it is not dealt with by the Professor, and should not be intruded to confuse the issue of wage-fixation which concerns the primary distribution of the national income.

According to the Professor's own showing, therefore, by extending the implications of his own argument into the fields where he remains strangely silent, the employers have taken a greater increase since 1947 than the employees.

UNION POLICY

If the trade union movement and the movement of professional and technical associations therefore were to accept the Professor's formula the percentage increases they would be demanding, i.e. those equivalent to average wage earnings, would be lower than

real increases in productivity, and still lower than increases in profits.

To accept the Professor's magic formula is to accept an inbuilt system whereby the wage and salary earner's incomes would increase less and less relatively to Companies' returns.

The unions and associations of employees never can submit to economic formulas as a basis for wage fixing.

The cornerstone of the ^{approach.} ~~approval~~ both of the A.C.T.U. and the A.C.S.P.A. is that the minimum wage should be a wage which can provide for the employee and his family a reasonable standard of living. A reasonable standard must take into consideration the mass-produced comforts which modern industry can now supply in sufficient quantity for all to enjoy.

To keep up that standard, the minimum wage must be adjusted to compensate for price changes in the goods purchased by the wage earner.

And what is a "reasonable standard" is to be determined in the light of what industry can produce at its peak, and not restricted by under-capacity operation of industries accompanied by unemployment.

The Unions' approach, in a word, has always been and must remain a humanitarian approach. They say: This lowest-paid worker must be given enough to buy a well-built comfortable house, properly equipped, have enough food, clothing, transport and education for himself and his family, ^{and enough to reproduce more of his kind} / have enough for recreation and a vacation. Modern industry can produce it! We demand it!

That is the attitude of the rank and file union member whether he is industrial or white-collar.

The Union advocate in the Court may produce this or that formula in support but the formula is not the principle.

And any formula, such as Professor Gifford produces, which, however smart its appearance, would operate to leave the employee behind in comparizon to the employer, must be rejected.

Even the comparatively simple cost-of-living adjustment scheme, as has been shown, based on the "C" series index, distorted and understated the extent of price rises, so that the Union movement had to step in from time totime and campaign for increases over-and-above the quarterly adjustment. But such distortions, serious as they were, were like a rock compared to what the Professor proposes.

Once shift off the ground of a humanitarian, reasonable wage, plus a price adjustment system to keep it that way, and you are on to shifting sands.

Once accept the Professor's idea of a prices adjustment to wages which responds only to price increases due to monetary inflation and not to increases due to a declining supply, and the real wage is ~~staggerly~~ thrown at the mercy of monopoly under-capacity production which can "jack-up" prices by manipulating the supply.

Once accept the Professor's calm assumption (p. 36) that increase in wages is more important to employees than a reduction in the working week, and the Union movement is throwing aside a most important measure which would partially relieve the pressure of over-production and unemployment.

~~The Union advocate in the Court may produce this or that formula in support but the formula is not the principle.~~

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~~Once shift off the ground of a humanitarian, reasonable wage, plus a price adjustment system to keep it that way, and you are on to shifting sands.~~

~~Once accept the Professor's ill-defined unscientific conception of "capacity of industry to pay wages", and the Union movement could find itself driven into the position of accepting a reduction in real wages on the grounds that there was less "economic pie" to go round because of recession or chronic under-capacity operation of industry due to a dozen different causes.~~

~~As for the Professor's hopeful oracle about real living standards doubling in 31 years pronounced right on the eve of Britain's entry into the Common market, one can only recall the 1920's.~~

~~Right on the eve of the crash of the 1930's Henry Ford was advocating a policy of high wages which would abolish economic crises for ever!~~

Professor, use your knowledge to help the Unions' applications, but do not expect them to follow you into the pipe-dreams of a system of private production which can never suffer from overproduction and crisis!

LION INTO
~~TIGER~~ AND LAMB

As the Professor comes bouncing on to the stage in the first few pages of his book he comes roaring like a ^{Lion}~~tiger~~, appealing to all tough unionists to follow his fighting lead.

"The Trade Union movement should not take the 1961 Basic Wage Judgment lying down!" he exclaims, (page vii) Strong words these! Unionists who haven't "lain down" under Court judgments in the past have found themselves in gaol or fined!

But by the time the Professor has finished his book he is bleating like a lamb appealing to the Employers - "the working of this scheme for wage and salary fixation would not mean any great extra burden on employers because it would merely make minimum wages and salaries rise as much as the average level of wages and salaries had already risen recently under the free competition of employers." (page 102-103).

And indeed, come to think of it, if minimum wages are to be tied to average earnings it would not be either a great burden on employers nor a great benefit to employees. Part of the Professor's scheme is that over-award payments should be slowly whittled down to the slowly increasing ~~an~~ minimum award rates, so that the increases for some unionists would be at the expense of losses for others.

There may be some who think that it would be a good scheme to

have workers' standards moving up as fast as those of the top executives, whose salaries are included in the average wage earnings index.

But the fact is that modern style top executives do not get their extra benefits in the form of salaries.

Rydge's Business Journal has just published a book called "Tax Planning for Australian Companies" by C.R. Fieldhouse LLB. Part 2 entitled "Tax Breaks for Company Executives" is devoted to ways and means of paying executives other than by salary.

As the book's advertisement explains "adequately remunerating senior executives is today a very great problem - the more such men are paid by their company, the more they lose themselves in tax. The position soon arrives where, to the individual, an increase in salary of even £1000. a year is hardly worth having. Consequently it is necessary for companies, in order to retain the enthusiasm of senior executives, to devise incentives that are tax deductible for the company but do not involve the executives personally in any additional tax payments."

There follows a cross-section of the "fringe-benefits" including rent-free housing - company-paid family vacations - overseas travel - discount buying - entertainment allowances - cars - home-financing programmes - split-cost travel - subsidised share purchases - trusts for executive's children - tax-free retirement income."

The standards of the favoured highly-paid few therefore are not reflected in the index of average earnings because they are not in the form of salaries.

The Professor's scheme therefore, which leaves out of account

the thriving state of company returns, is bound to leave out of account also an increasing tendency to hide from the Tax Department the real remuneration of the top executives.

Professor Gifford! You have started something! You have thrown down a challenge to examine your scheme, so here is a challenge in return!

Finish what you have started! Write a new chapter entitled - "The Growth of Profits 1939-1960"! Construct some productivity figures based on volume of actual commodities produced per head! Tell us how the National Income has been divided between employer and employee 1939-1960 and don't confuse the issue with taxation and Governments getting part of the pie!

And, finally, Professor a chapter on how you propose to deal with monopolies who would upset your scheme by operating under-capacity!

best that can be done to get a rough idea for this period is to take the statistics of value of production per person engaged and deflate the series to get rid of the effect of monetary inflation on the value figures" (page 57).

~~xxxx~~

FAULTY METHOD

Now that method is useless and cannot give a correct estimate of average increase of productivity and the figure of 47% increase in productivity cannot be correct.

The reason is that value is taken as the sales price of the commodity, but the sales price per unit commodity (if corrected for monetary inflation) tends to drop. In plain language, the application of modern technique to production cheapens the commodity. This process has been hidden partly because Monopolies, at the expense of other industries, have bolstered up the prices of their commodities, but mainly because of the persistent increase in all prices due to monetary inflation.

The Professor himself admits this by implication when he says - "Increasing productivity, associated with enough monetary expansion to prevent the price level from falling" (sic) "results in an increase of total business receipts" (page 68).

Indeed the fact that "volume" of commodities produced is one thing and the price per commodity is another is admitted by the Professor himself:

"An increase in the volume of goods produced is one of the things influencing total money receipts and therefore capacity to pay, but it is only one among a number which includes the prices

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