

THIS MATTER OF ~~COSTS~~. Wages

In the last few years we have been told many things about costs and our high wage system. I would be the last to say that costs do not matter but at the same time I have not seen one impartial account that gives due weight to all the factors that depend upon our wage level. This is largely because of the difficulty in isolating forces that tend to work in opposite directions and in giving due weight to each.

The most important consideration is that wage earners should maintain their economic security. What matters to them is not the money wage but the real wage. If the money wage is doubled and the price of goods is also doubled the real wage remains the same but if the price of goods rises less than wages then real earnings are increased. It would be a brave government indeed that did anything to lower real wages for if each wage earner cut his consumption of goods by even a small amount due to his decreased real wage the overall deflationary result would be serious.

It is argued that the cheaper prices resulting from lower wages would enable us to export more but that is not going to help the wage earner with his decreased real wage. The first consideration of any government must be the prosperity and happiness of its own people.

It is no coincidence that the highest wage country in the world is the most efficient in terms of output per man hour. In the United States labour is scarce and dear while capital and machinery have been relatively cheap. Hence where they could employers have been forced to use machinery that led to high output per man hour. High wages have thus resulted not only in efficient factories but also in high purchasing power for the wage earner.

It is possible for a country to get into difficulties in international trade if its cost system increases more than those in other countries. Under the gold standard the remedy for this used to be an automatic tightening of credit that led to deflation and unemployment till costs were brought into line. This remedy is harsh and can only be effective through great hardship to the wage earner.



It will never again be used. International organisations have recognised that domestic happiness must not be made to suffer for the sake of international trade. There are other equally effective remedies.

The real cost of production does not rise and real wages do not alter if output per man hour increases as does the money wage. If money costs remain the same and if output per man hour increases then the cost of production is decreased and the real wage is increased. This stimulates further domestic consumption and at the same time makes goods more saleable abroad. It is largely this remedy that has cured England's financial ills since the war.

~~If it is impossible to get our costs into line with overseas through greater productivity then depreciation of our currency should be made. This is a perfectly legitimate weapon to cure permanent disequilibrium in the terms of trade.~~

It is true that Australian costs have risen too much compared with other countries while our production has lagged behind. The answer to this problem is to concentrate on those things that we can produce cheaply and efficiently and to work for greater productivity. In this way both the country's trade balance and the wage earner will benefit. The people who talk of reducing our actual and real wages are taking their economic practice and theory from the nineteenth century when depressions were the accepted order of things.

If Australians all recognised that these are things of the past and all worked together to achieve greater efficiency in industry the question of costs would resolve itself.