LIVED BEYOND OUR MEANS

Why Wages and Salaries Must Fall

HEAVY INTEREST BILL—LOW EXPORT PRICES

Must wages and salaries in Australia come down; and if so, to what extent?

Prof. L. G. Melville in a lecture at the University of Adelaide this week, declared that they must, and he estimated the decline at 15 per cent. in nominal wages or 5 per cent. in real wages. That was before Mr. J. H. Scullin (Prime Minister and Treasurer) announced the details of his Budget, the effect of which will be to increase the percentage.

By a series of graphs he demonstrated what has led up to the present crisis. He showed how the national income has declined, and the extent to which the interest burden and indebtedness have increased.

He emphasised that Australia must get down to hard work and stop quarrelling.

The question, Why is there such an acute depression in Australia today? is being asked by everybody because everybody is feeling the effects of it. Thousands are out of work, thousands more who are fortunate enough to have work are on short time, dividends have disappeared, causing distress to elderly people who were dependent upon them for their means of existence, land values have fallen, and capital has depreciated. Taxation alone is increasing.

The citizen who sets out to obtain the reason for it all is bewildered by a multiplicity of counsels, frequently punctuated by technical terms with which he has no acquaintance. On the one hand he hears some Labor members of Parliament expounding the theory that the banks are to blame because they have restricted the amount of credit to their customers and thus reduced the volume of notes in circulation; on the other he is told by the economist that the crisis is due to the inability of Australia to borrow overseas and to the fall in prices of our exportable surplus, particularly wool and wheat.

His bewilderment is further deepened by reading that the Hon. L. L. Hill (Premier) said that salaries and wages must be reviewed, while at the same time Mr. J. H. Scullin (Prime Minister) announced that it would be a policy of despair to admit that costs of production were too high and that wages must fall.

And the suggested cures for the disease are as numerous and as varied as the diagnoses of it. The farmer and the pastoralist who have to sell their wheat and wool in the markets of the world attribute our troubles to the high tariff and Arbitration Court awards. Already the Australian Country Party has announced that at the next Federal election it will have a candidate in every electorate who will seek a mandate to revise the tariff. The manufacturer contends that without a tariff he cannot continue his industry because of the high prices he must pay for his raw material and labor, and he is supported by the workmen to whom he gives employment.

WAGES MUST FALL 15 PER CENT.

Prof. Melville in his lecture remarked that the blame could not be attached to any political party, to Arbitration Court awards, or to high tariffs. All of those had to bear a portion of the responsibility together with other sections of the community and general world conditions. But he narrowed the remedy down to the one imperative need—**a reduction in costs of running industries.**

"This," he said, "can be partly achieved by increased efficiency, but this will not be sufficient. Wages must fall along with salaries, profits of all kinds, rents, and all incomes from land, and, in fact, nearly all income. On present indication the reduction in wages and salaries will need to be about 15 per cent. But the world is not static, and each day sees changes, some improving the position, some making it worse. Ultimately the reduction required may prove to be less. Indeed, the reductions themselves will effect changes that will stimulate industry and reduce the final loss."

This reduction of 15 per cent. is in nominal wages, but the fall in real wages, he said, would be much smaller once the dislocations caused by the reduction had passed and prices fell with the falling wages. Already the fall in land values and profits had resulted in some fall in the cost of living, and a reduction of about 5 per cent. in wages without resulting in any reduction in the standard of living. In addition to this first fall in prices a further fall would follow the reduction in wages and salaries.

"While it cannot be accurately calculated," Prof. Melville added, "those economists who have investigated the problem agree that a reduction of 15 per cent. in wages and salaries will result in a reduction in real wages of only about 5 per cent. **This calculation, however, assumes that the present prohibitions of imports are removed, and the existing high tariffs reduced. It this is not done the reduction in real incomes may be considerably greater than 5 per cent.**"

Mr. Scullin, however, has not taken any steps to remove the prohibitions or reduce the tariffs; on the contrary, he has added duties and taxation in order to [illegible] in revenue, all of which must add to the cost of production and increase the 15 per cent. fall in nominal wages.

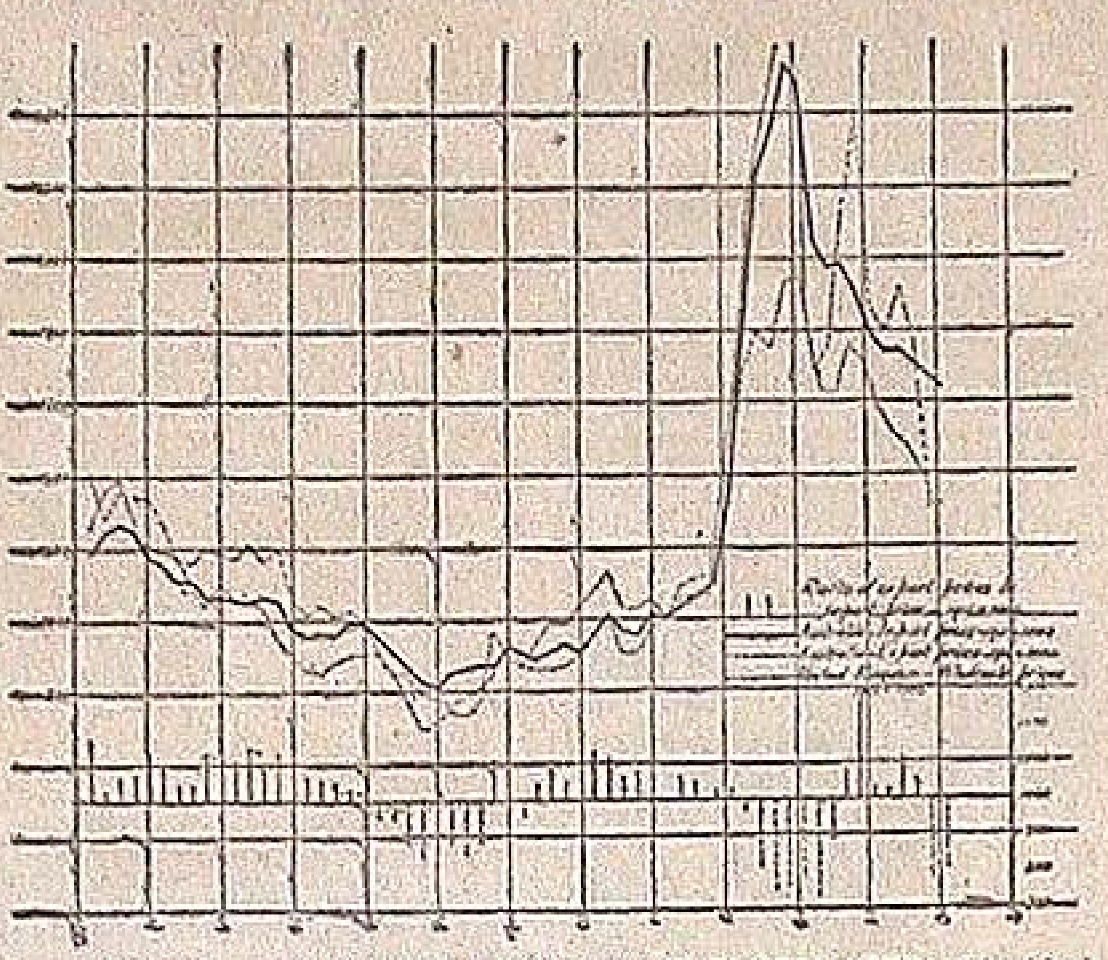
WHO SHOULD CARRY BURDEN?

A stock argument is that it is not the men on wages and salaries who should carry the burden of this drop of 15 per cent., but that it should come out of profits. Prof. Melville referred to it.

"Prof. L. F. Giblin," he said, "has demonstrated as well as it can be done that it would be impossible to throw all the loss on high incomes and profits and still provide the annual taxation of £44,000,000 and savings of £50,000,000 (loss of national income). As a matter of fact the margin of incomes left after savings and taxation have been deducted is quite small and wholly inadequate to meet a loss which at the very lowest will exceed £50,000,000. As a matter of theory some reasonable return on investments and margins for skill and ability are necessary if capital and skilled manual and mental workers are to be obtained, and without them prosperity cannot be regained. In addition our imports must be curtailed, and this can be best done by reducing our ability to purchase imports—by reducing wages and salaries."

This loss of £50,000,000 was stated at a conference of economists in Brisbane recently to be due to a fall in world prices and a probable reduction of overseas borrowing. The amount could not be estimated accurately, it was said, it might reach £100,000,000.

Prof. Melville by the aid of a series of graphs indicated the fluctuations in productivity in Australia. He showed that the greatest period of productivity of a breadwinner based on 1911 prices was 1909-13. Between that period and 1924-5 to 1928-9 there was a decline of 3½ per cent. Prosperity, however, does not depend upon productivity; it depends upon terms of exchange with other countries and borrowing abroad. Exports purchase varying quantities of imports. Because prices for our exports were good the gross income for the period 1924-5 to 1928-9 fell only 3 per cent. compared with 1909-13. To ascertain the net income overseas interest obligations must be deducted from the gross income. The net income fell 2½ per cent. from 1909-13 to the period 1924-5 to 1928-9. But in the last two years 1929-30 and 1930-1, although there was no considerable fall-off in productivity **there was a reduction of 10 per cent. in net and gross income owing to adverse terms of exchange.** The present lag in the drop of wages tended to increase real wages, and to increase general difficulties.



HOW EXPORT AND IMPORT PRICES HAVE FLUCTUATED.—The black line shows variations in import prices on the basis of 1911, the thin broken line the export prices, and the dotted line the wholesale prices in the United Kingdom. Note how Australia's export prices have fallen in recent years in comparison with import prices.

WAR LOANS NOT TO BLAME

An illuminating graph showed the extent to which the interest burden has contributed to the crisis. The load of interest is reduced by increasing population and better prices, but in recent years the accelerated rate of borrowing and fall in prices have made it heavier. Unfortunately for Australia world prices are still falling.

Prof. Melville emphasised that the debt represented by this interest was not due only to war loans; indeed, increasing prices reduced the burden by more than the new borrowings increased it. Australia had borrowed too heavily, but not to finance the war. **It was the so-called developmental works that had not developed which had caused the trouble.**

To meet obligations abroad Australia in 1929-30, owing to the collapse in prices and borrowings had to export gold. That action could not be repeated without reducing the reserve of gold to notes below the statutory limit. Borrowing permitted a country to devote its activities to the production of capital goods, building of waterworks, water conservation schemes, and railways. People had to be kept while this was going on, but curiously enough they were usually better kept. Borrowing permitted them to live on the goods produced by other countries, while they were increasing their own productive capacity. That was justified, provided productive capacity was increasing rapidly enough to pay interest on the increased overseas indebtedness. But that had not been happening in recent years, and so the real living fund had been depleted. As he had previously stated, the net income for the period 1924-5 to 1928-9 had fallen 2½ per cent., but with the increased quantity of goods imported expenditure had advanced 2 per cent. Even if there had not been the present fall in prices of Australian exports there would have been some reduction in standards in Australia—a reduction in real income of about 3 per cent., necessitating a fall of nominal incomes of about 9 per cent. Owing to the fall since 1928-9 the decline would have to be 15 per cent.

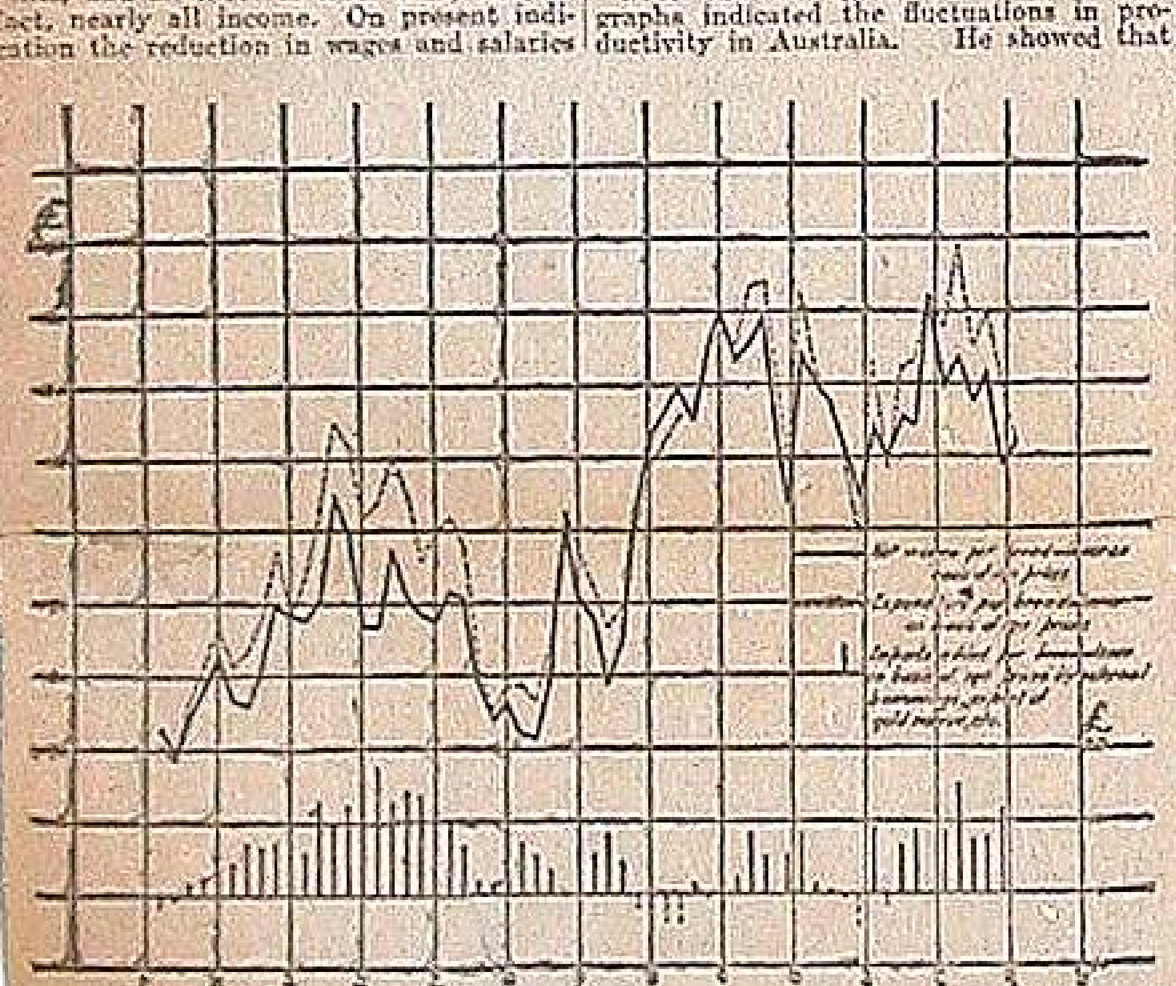
SIMILAR CRISIS IN THE 90's

Prof. Melville illustrated the similarity of the present crisis with one in the '90's. Interest charges, he said, increased rapidly before the crisis of the 90's, just as they did recently, and again gross and net income did not increase. Another similarity was that a fall in prices of exports precipitated the crisis. After the disturbance there was a material increase in exports. A feature which made the drop during the 90's and recently so difficult was that wages lagged behind the fall in prices. Borrowing before the 90's, as in recent years, was not accompanied by increase in productivity to pay the increasing interest charge.

To demonstrate further that wages must fall, Prof. Melville quoted export and import prices, and wholesale prices. Export prices, he stated, kept above import prices for a time after the war, but had now collapsed during a period of falling prices and world depression. A catastrophe had resulted because wages had resisted a fall equivalent to the shrinkage in the national income. Wholesale prices had fallen rapidly in England since the war.

"We," stated Prof. Melville, "attempted to avoid the natural consequence by imposing an increased tariff. This did not save us, but for a time high prices for our exports did. Nevertheless, many of our industries began to give up the unequal struggle, and it became impossible to export at a profit. Today it is doubtful if we can export one commodity at a profit at existing world prices.

"In the 90's world prices began to recede and threatened to leave the Australian ship of State high and dry. We attempted to resist the tendency then by borrowing, but failed as we were bound to fail. At other times during temporary differences in the price level we took similar action quite legitimately. Recently the difference in price level became permanent. We frantically attempted to resist deflation by tariffs, bounties, and borrowing abroad, but again we have failed. A serious readjustment lies in front of us."



HOW EXPENDITURE A BREADWINNER HAS COMPARED WITH NET INCOME.—The thick black line indicates net income on the basis of 1911 prices and the dotted line expenditure. It will be noted that borrowing before the 90's was not accompanied by increased productivity. The experience in recent years is similar. The vertical lines below indicate the imports added a breadwinner by external borrowings and export of gold reserve.

Adv. 18-7-30

PHARMACEUTICAL SOCIETY

UNIVERSITY COURSE ARRANGED

"One of the most important steps made in its history" is how an arrangement made by the Pharmaceutical Society of South Australia with the University of Adelaide for a complete composite pharmacy course, extending over four years, was described in the annual report of the council, which was presented last night at the annual smoke social, held at the Grosvenor, North-terrace.

The course had been arranged exclusively for their own students, and was designed to meet the requirements of the examinations conducted by the Pharmacy Board, stated the report. The subjects dealt with would also be invaluable to students in their training to become pharmaceutical chemists. The society had undertaken a heavy financial responsibility in providing such an up-to-date curriculum, and fees had been assessed accordingly. The society controlled the arrangements entirely and appointed its own lecturers.

The annual report also drew attention to the very satisfactory financial position of the society and to the fact that during the year under review there had been an increase in membership of 14, making the total 186.

The president of the Pharmacy Board (Mr. M. C. Moore) presented diplomas to students who were successful in their final examination in March. The recipients were Messrs. F. Moore, J. J. Kelly, and P. K. Porter.

An excellent musical programme was supplied at the social by Messrs. D. Smith, W. G. Hurst, R. Saunders, and M. Skinner.

Reg 19-7-30

University Pharmacy Course.—35 students are taking the Pharmacy course at the Adelaide University. This began in February, when co-ordination was effected between the various sections of the degree. Lecturers now include Professor McBeath, Dr. Cooke, Dr. J. E. G. Davies, and Mr. E. F. Gryst (the final test).

Adv. 18-7-30

DIPLOMAS OF MUSIC

STATUS QUESTIONED

To the Editor

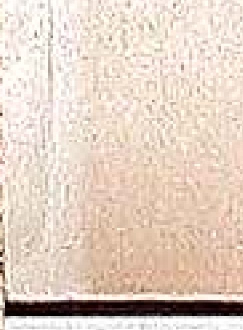
Sir—In your account of the constitution of our new musical association, eight institutions are mentioned the diplomas issued by which are considered by the committee to be reliable. Only one of these institutions claims University status, and I am inclined to think that any suggested claim to that status for the diplomas issued by the Elder Conservatorium is indefensible. None of the other institutions named claim it, not even the Royal Colleges. It is not the function of a University to issue diplomas such as those in question. It would lower the standing of a University to do this, and on the other hand would give the diplomas an unwarranted claim to a superiority (University status) which does not exist. These are the days of bogus claims, and it behoves us to set our own house in order.

I am doubtful whether the title A.M.U.A. is justifiable.—I am, Sir, &c.,

EDWARD HOWARD.

16, Harrow-road, St. Peters.

News 17-7-30



Dr. Davies

Prof. E. Harold Davies, Mus.Doc. (director of the Elder Conservatorium of Music) will celebrate tomorrow the sixty-third anniversary of his birth. Born at Oswestry, England, he came to Australia in 1887, and in 1896 graduated as Bachelor of Music at Adelaide University, and Doctor of Music six years later. He was the first student in the Commonwealth to obtain the latter degree. Dr. Davies has been director of the Conservatorium since 1919.