AWARDS OF THE COURT BINDING UPON THE AUSTRALIAN RAILWAYS UNION AND OTHERS.

Basic Wage Inquiry.

Variation of awards—Basic wage—Alteration of method of computing for basic wage purposes the equivalent of the "Harvester" judgment standard—Discontinuance of "Powers 3s."—Fall in national income—Reality of the lost spending power—Effect of reduced spending power—Past profits of industry—Costs of production—Need of rationalization of industry—Wage reduction in relation to (i) *the spending power and employment of wage-earners, and* (ii) *purchasing power—Currency and credits—Extension of credits—Necessity for all sections of community to share the burden arising from the fall in the national income and the consequent economic position.*

On an application by employers that awards be varied by altering the method of computing the basic wage, and by discontinuing the allowance of the "Powers 3s.", the Court refused to make these alterations without further inquiry.

But having regard to the economic position consequent upon the fall in the national income and other causes, the Court ordered the reduction of prescribed wages by 10 per centum.

1930.
MELBOURNE, Oct. 6, 13, 17, 20–24, 27; Nov. 3, 10, 12, 17, 24, 26, 27, 28; Dec. 1–4.
SYDNEY, Dec. 8–12.
MELBOURNE, Dec. 15–18, 22–24, 29, 30, 31.
1931.
Jan. 5–9, 12–15, 22.
Full Court.

On 15th August, 1930, summonses were issued at the instance of the Victorian and New South Wales Railways Commissioners for variation of current awards in the railways industry (i.e., Daily Paid Grades and Salaried Officers' awards[1], Locomotive Enginemen's awards[2], Professional Officers' awards[3]). The applicants sought orders making provision for (*a*) a variation of the basic wage, (*b*) rationing of employment, and (*c*) a percentage reduction of wages and/or salaries.

The variations in the basic wage sought by the applicant Commissioners were—The abolition of the "Powers 3s."; the adoption of the Statistician's "all items" purchasing power of money figures in lieu of the figures now in use for determining the basic wage and adjustments thereof.

These summonses were returnable before His Honour Judge Drake-Brockman on 20th August, 1930, and were by him referred to Full Court in respect of Basic Wage and Standard Hours; and the two other Judges were invited to sit with him in respect of other matters (section 18A(2) of the Act).

Four Conciliation Committees in relation to industrial disputes in the Railways industry were appointed on 21st August, 1930.

The matters were listed before the Full Court (Dethridge, *C.J.*, Beeby, *J.*, Drake-Brockman, *J.*) on 27th August, 1930, pursuant to the above-mentioned reference.

At the outset the union's representatives contended that the appointment of Conciliation Committees deprived this Court of jurisdiction (section 33 of the Act). The validity of the appointment of the respective Conciliation Committees was challenged by counsel for the Commissioners, and judgment on this question was delivered on 29th August, 1930[1]. The Court declared that the purported appointment

(1) 28 C.A.R., pp. 804; 851; 882; 905. (2) 21 C.A.R., p. 442; 23 C.A.R., p. 222; 25 C.A.R., p. 124; (3) 27 C.A.R., p. 2; 28 C.A.R., pp. 173, 559.

of Committees was not valid so as to bring into operation section 33 of the Act; and adjourned the applications *re* basic wage till 10th September, 1930.

Four further Conciliation Committees were appointed on 8th September, 1930. The matters were again listed in Court on 10th September, 1930. The validity of the appointment of the latter Committee was not challenged by the applicant Commissioners. The Court intimated that in view of section 33 of the Act it would not proceed with the hearing of the applications.

On 3rd and 5th September, 1930, summonses similar to those above mentioned were issued on behalf of the Tasmanian and South Australian Railways Commissioners respectively.

On 11th September, 1930, applications for orders setting aside the awards above mentioned were made by the Railways Commissioners for Victoria, New South Wales, Tasmania, and South Australia. These applications were heard on 17th, 18th, 19th, 22nd, 29th, and 30th September, and on 1st October, 1930. On 4th October, 1930, judgment was delivered setting aside the said awards except in respect of "basic wage" and "standard hours" within the meaning of section 18A of the Act[2].

The respective Conciliation Committees met and considered the applications which the Full Court had intimated it would refrain from hearing, and on the dates shown hereunder stated cases for the opinion of the Full Court as to what alteration, if any, in the basic wage should be made in the respective awards:—

Australian Railways Union (Daily-paid), 23rd September, 1930.

Locomotive Enginemen, 24th September, 1930.

Professional Officers, 26th September, 1930.

Salaried Officers, 26th September, 1930.

These cases stated were listed before the Full Court on 29th September, 1930, together with an application to vary the basic wage under the Metal Trades award[3], which application came before the Court pursuant to a summons issued at the instance of the Metal Trades Employers Association, an organization of employers bound by the award.

The hearing was adjourned to 6th October to permit of the preparation of a case by union representatives, and on 6th October, the hearing was further adjourned till 20th October, 1930. On 13th October, 1930, argument was heard on an objection, taken by union representatives on 6th October, to the appearance of counsel for the applicant Commissioners. Judgment on this objection was delivered on 17th October, the Court, in the exercise of its discretion, declining to hear counsel for the applicants[4].

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(1) 29 C.A.R., p. 436. (2) 29 C.A.R., p. 464. (3) 28 C.A.R., p. 923. (4) 29 C.A.R., p. 487.

BASIC WAGE AND WAGE REDUCTION INQUIRY.

[*Full Court.*

On 5th November, 1930, by direction of the Court, all organizations bound by awards of the Court were notified that the matters in issue affected the basic wage and were advised that they could intervene in the hearing if so advised.

On 17th November, 1930, by notice in writing under section 18B of the Act, the Acting Attorney-General of the Commonwealth intervened in the public interest in the matters listed. Notification of the intervention was published in the *Commonwealth Gazette* of 18th November, 1930.

On 17th November, 1930, the representative of the Railway Commissioners for New South Wales and of the Metropolitan Transport Trust, Sydney, announced that these applicants withdrew from the proceedings.

An application to the High Court of Australia under section 21AA of the Act was made by the Australian Railways Union regarding the jurisdiction of the Full Arbitration Court to make the order setting aside awards in part dated 4th October, 1930(1). The High Court delivered formal judgment on 1st December, 1930, holding that the Full Arbitration Court had jurisdiction to make the order setting aside, and that the appointment of Conciliation Committees did not operate to divest the Commonwealth Court of Conciliation and Arbitration of its jurisdiction(2).

Thereafter the applications of the Railways Commissioners above mentioned for variation of the awards were restored to the list, and on 20th October, 1930, and on subsequent dates the hearing of all applications proceeded concurrently.

From time to time further cases were added to the list. In these added cases variations of the basic wage, similar to those claimed in the Railways cases, were sought.

P. J. Carolan for the Victorian Railways Commissioners.

V. G. Hall for the Railway Commissioners for New South Wales and the Metropolitan Transport Trust, Sydney.

P. F. Cherry for the South Australian Railways Commissioner.

R. C. Procter for the Tasmanian Railways Commissioner.

L. C. Meagher for the Victorian Chamber of Manufactures and associated employers.

F. H. Corke for the Employers Federation of New South Wales, the Sydney and Suburban Timber Merchants Association, the Newcastle Timber Merchants Association, and the Master Builders Association of New South Wales.

T. Bishop for the Motor Body and Coachbuilders Association of Australia.

F. L. King for the Melbourne and Metropolitan Board of Works.

G. G. Downe for the Flour Mill Owners Association of Australia.

H. D. Paroissien for the Wool Merchants, Wool Scourers and Fellmongers Association.

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(1) 29 C.A.R., p. 464. (2) 44 C.L.R., p. 319.

W. C. Myhill for the Metal Trades Employers Association.

J. Harrison for the Colonial Gas Association and others.

J. W. Allen for the Graziers Associations of New South Wales, West Darling, Southern Riverina, Victoria, South Australia, and Tasmania.

W. L. Sanderson for the Pastoralists Association of Western Australia (Inc.).

L. Mann for the Victorian Employers Federation, and the Timber Merchants and Sawmillers Association and others.

T. Maughan for the Mount Lyell Mining and Railway Co.

E. W. Quinn for the Sawmillers Association of New South Wales and Victoria.

H. J. Grant for the Vacuum Oil Co. Pty. Ltd.

J. F. Pemberton for the Shell Co. of Australia Ltd.

N. R. Bennett for the Melbourne City Council.

H. M. Adams for the Commonwealth Steamship Owners Association.

H. A. L. Binder for the State Electricity Commission of Victoria.

W. Letcher (with *L. C. Meagher*) for the Chamber of Manufactures of Victoria, and the Chamber of Manufactures of New South Wales.

K. H. Boykett for the South Australian Employers Federation.

C. Grant for H. V. McKay Pty. Ltd.

J. L. Moore for the Commonwealth Jam Preserving and Condiment Manufacturers Association and the Northern Victorian Fruitgrowers Association.

C. Crofts, J. F. Chapple, and W. Robeson for the Australian Railways Union.

A. S. Drakeford and *J. Galvin* for the Australian Federated Union of Locomotive Enginemen.

T. C. Maher for the Association of Railway Professional Officers of Australia.

D. McCullagh for the Federation of Salaried Officers of Railways Commissioners.

A. C. Warton for the New South Wales Branch of the Australian Tramway Employees Association.

T. Jewell for the Australian Tramway Employees Association.

E. Grayndler and *J. Healy* for the Australian Workers Union.

H. C. Gibson for the Federated Engine Drivers and Firemen's Association of Australia.

C. E. Mundy for the Amalgamated Engineering Union.

J. McPherson for the Australian Institute of Marine and Power Engineers.

H. Moloney and *R. Mahony* for the Federated Ship Painters and Dockers Union of Australia.

BASIC WAGE AND WAGE REDUCTION INQUIRY.

[*Full Court.*

H. Carter for the Amalgamated Clothing and Allied Trades Union of Australia.

P. J. Clarey for the Amalgamated Food Preserving Employees Union of Australia.

A. M. Fraser, of counsel, for the Acting Attorney-General of the Commonwealth (intervening).

On 12th November, 1930, the Court made the following intimation:—

The Court adjourned to consider: (i) whether further inquiries should now be made by the Commonwealth Statistician, and (ii) the scope and further course of the present proceedings. Representatives of the unions have suggested that the Statistician should make inquiries concerning the following subjects:—

(1) Growth of companies' profits, including reserves and capitalized profits (described as watered stock).
(2) Statistics as to banking profits, &c., in Australia.
(3) Increase of value of land, and of production, by reason of railway facilities.
(4) Increase of interest rates on renewals of loans expended on railway purposes.
(5) Costs and methods of working of the railways.
(6) Costs of production, particularly of primary products.
(7) Costs of distribution, including transport.
(8) Technological unemployment.
(9) Proportion of national dividend taken by basic wage workers in the past.
(10) Proportion of unemployed to national dividend in the past.
(11) Proportion of working hours used in production in the past to the number of employable workers at the time.
(12) Statistics as to average wage rates and basic wage rates in the past.
(13) Portions of national dividend attributable to each State.
(14) Effect of variation of exchange rates upon—
 (*a*) statement of national dividend;
 (*b*) local manufactures.
(15) The proper method to be used by the Court for purpose of adjustment of the basic wage.

Thorough investigation of these matters might be productive of information valuable to the community, as well as to the Court; but, as to most of them, that investigation, if possible at all, could only be made by obtaining the services of a considerable body of inquirers employed over a very lengthy period—probably of years. As to others of these inquiries, for example, that concerning the proper method of adjusting the basic wage, they might be very appropriate for consideration if the Court were dealing with the determination of the basic wage in and for normal times. Although the present method of arriving at the basic wage has been in operation for many years, all have been aware of its imperfections, and there has been a growing belief, shared by the Court as at present constituted, that the whole matter required full reconsideration. No perfect system based on averages derived from statistical data can be devised for the fixing of statutory minimum wages. With its acknowledged imperfections the method adopted by our predecessors of applying the Commonwealth Statistician's index numbers to the standard set by the Harvester judgment, has done good service, and the discovery of any better method can only be made after long and careful inquiry.

The Court has, since the adjournment, had an opportunity of reading the material already furnished by the Statistician to the parties; and it thinks that material is sufficient for present purposes. The suggestion that he should embark upon the extensive further inquiries specified ignores the nature of the applications now before the Court. Those applications are said by the applicants to be made for the purpose of meeting what they allege is the gravest economic emergency in the history of the Commonwealth. They specifically raise the issue that the recent decline in the national income, and the reduction of the spending power of the community, arising from the sudden cessation of loan credits, make an immediate reduction of the basic wage imperative. That is the main issue raised by the applicants; and is the only issue which the Court proposes, at present, to hear and determine. The issue involves a consideration of present conditions only—a lengthy inquiry into what has happened in the past is not called for. The Court is now being asked to make a determination to meet a crisis, and it does not think it should apply itself to considerations which are at present ill-timed, however appropriate they may be in normal circumstances. For these reasons, the Court is unanimously of opinion that this is not the proper occasion for asking the Statistician to make any of the further inquiries suggested. With regard, however, to that concerned with the method of adjustment, it suggests that the parties concerned and the Statistician may consider investigation, with a view to furnishing information to the Court to be used at a more fitting time in future.

The Court will on Monday, 17th November, 1930, proceed to deal with the one and only issue which, in its opinion, is raised in this proceeding, namely, that the decline in the national income, and the reduction in the spending power due to cessation of loans, make necessary a reduction of the basic wage. Upon that issue, it will on that day proceed to hear the rest of the evidence of those witnesses, who have not yet completed their evidence, to hear what evidence the various unions appearing desire to submit thereon, and to hear arguments whether, on the evidence submitted by both sides, there should be any reduction in the basic wage now operating in the different awards concerned.

The hearing was accordingly resumed on 17th November, 1930, and continued from time to time until 15th January, 1931, when judgment was reserved.

BASIC WAGE AND WAGE REDUCTION INQUIRY.

[*Full Court.*

On Thursday, 22nd January, 1931, the following written judgment of the Court was delivered:—

Although the applications for variation of awards before the Court ask for a change in the method of correcting the Harvester standard by adopting the "all items" index numbers, applicants in fact, on the evidence, sought a reduction in wage rates prescribed by the Court on the ground that a sudden and violent change in the economic conditions of the Commonwealth has made maintenance of existing wage standards impossible.

A proposal to reduce wage standards, laboriously built up by organized labour during the last quarter of a century, naturally met with strenuous opposition. But however desirous a Court with wage fixing powers may be to maintain standards largely created through its instrumentality it cannot accept the principle enunciated that under no circumstances should there be reductions. In the past the Court has been compelled by economic circumstances to refuse to apply those standards to particular industries, and in some industries to reduce standards which previously it had prescribed. Always it has been necessary and always it will be necessary to entertain applications to vary awards on the ground of substantial change in economic conditions.

The real issue raised in this lengthy inquiry was whether escape from the world economic crisis with added difficulties of local origin can be effected without wage reduction or, in simple words, can the wage standards built up during past years of prosperity be maintained? It is now universally agreed that wage reduction, with consequent diminution of the power of the majority to purchase consumable goods, should be the last resort in any scheme of economic re-adjustment forced by extraordinary circumstances. In Australia, particularly, economists and leaders of public thought subscribe to the doctrine that wage reduction should be the last resort. As stated during the proceedings, tragic as it may be, the Court in these applications is compelled to decide whether or not prevailing circumstances force recourse to the last resort.

The vital question raised by applicants was whether or not the national income of Australia had fallen to such an extent as to make it impossible to maintain present wage standards. The evidence submitted by the applicants was to the effect that the fall in the national income had been so serious as to disturb completely the whole economic balance. The primary cause of the present crisis was the rapid fall in prices received for exported surplus primary products admittedly to the extent of £40,000,000 per annum, and the world fall in general price levels.

Various economic theories, some fantastic and some rational except for the premises on which they were based, were put forward to establish that this loss need not result in reduction of standards of living, and that we can, by changing our customary regimen, adapt ourselves to a different mode of life supplied from our own resources. But we are dealing with practical remedies for real problems. All the theorizing in the world cannot alter the fact that in goods we are at present receiving £40,000,000 worth per annum less than we received two years ago in exchange for our exports. To quote a simple illustration: before 1929, for 100 bales of wool or 1,000 bags of wheat we received in exchange, say, 1,000 boxes of tea; now, for the same quantity of wool we can only exchange 600 boxes of tea, or for the 1,000 boxes of tea we are asked to provide 140 bales of wool or 1,600 bags of wheat.

The level of real income in any community is determined by the productivity of that community's industry and trade, and what we can receive in exchange for exported products, particularly where we rely on such surplus for our financial adjustments abroad, is the one essential factor that cannot be overlooked. The £40,000,000 fall in prices is therefore a real and immediate fall in the spending power of the Commonwealth. But our loss of spending power does not end with this. Before the beginning of the present disturbance we were able to borrow £30,000,000 per annum for use in developmental and other labour-employing works. Now we cannot borrow money from abroad. It is quite clear that for a long time to come any money borrowed for governmental purposes must be raised locally. Loans raised locally divert capital from agricultural and industrial development, and to that extent reduce the amount available for furnishing credits to private enterprise. It is true that this £30,000,000 per annum is not in the true sense of the term national income; it is true that ultimately we may be better off if public borrowing comes from internal wealth. But for the moment and for some time to come we have £30,000,000 per annum less to spend, making, with the loss from fall in prices, a total of £70,000,000 as compared with 1928. The disaster, however, did not end here. Such a violent change in spending power reacted in all directions. It immediately reduced income derived from services, particularly those controlled by State railway and tramway authorities whose receipts declined rapidly and whose deficits increased month by month at an alarming rate. This with other declines in public revenue left the State and the Commonwealth Governments unable to balance their budgets. Grave governmental deficiencies created a general air of financial insecurity which increased the general stagnation. Then again the contraction of purchasing power traceable to a direct loss of income led to further decline in productivity. The first loss was added to by internal losses the extent of which cannot be calculated. Opinions differ as to the actual money figure for these repercussions. Some economists are of opinion that they equal the original loss, but this probably is an exaggeration. It can be safely said, however, that for the moment they exceed 50 per cent. of the primary loss making the reduced spending power of the community over £100,000,000, or in the vicinity of one-sixth of the average national income of the preceding five years.

Although there are differences of opinion as to the extent of the decline in the Commonwealth's spending power during the last two years, it can be reasonably concluded, on the evidence, that it is somewhere between 15 per cent. and 20 per cent. The following is the analysis of the position made by Mr. D. T. Sawkins, Statistician and

Economist, attached to the New South Wales Industrial Commission, comprised in a paper read by him at a gathering of economists:—

"On our side we must definitely work on a reduction of £45,000,000 in export values and £30,000,000 fall in loans, making, say, £75,000,000 in all, which is perhaps a 10 per cent., or at most, 12 per cent. fall in our average national income since 1925. In a broad round way we may describe our national economy since 1925 on the productive and trading side as follows, without considering the export of coupons (for new loans) or import of coupons (for interest paid):—

	£M.
Value of principal commodities at point of production	440
Value of exports	—140
Value of imports	+150
Total net value at place of production, or at seaboard, available for internal use	450
Add 50 per cent. to get total national dividend ..	225
Total national dividend	£675M

To-day, if we export the same volume of goods as hitherto, we must reckon on a fall of at least £75,000,000 in our power to import as a combined result of the reduced value of exports, and of our lack of new loans, public and private, i.e., imports must fall to, say, £75,000,000. The value at production of the principal commodities produced in Australia which we have consumed ourselves has been £440,000,000, less £140,000,000, i.e., £300,000,000. Assuming that we shall still need and use the same volume, and that we gradually adjust ourselves towards the world price level, the valuation will drop by 20 per cent. to £240,000,000. Now including the reduced imports, viz., £75,000,000, we shall thus have a total net value at production, or seaboard, of £315,000,000. Adding 50 per cent. to this as before, we arrive at about £475,000,000 as the new valuation of the national dividend. We may expect a considerable fall in the price per unit of our imports. As already pointed out, the countries from whom we buy secondary goods have not yet adjusted the prices of such goods harmoniously with new primary levels. Probably £120,000,000 can be regarded as a rough estimate of value at new levels of the full volume of £150,000,000 at the old levels. Our loss on imports may, therefore, be estimated at £45,000,000 at new levels. We may gradually replace this £45,000,000 of lost imports by internal production, but the cost of production here may perhaps be £60,000,000. Thus, ultimately, we may have a national dividend of about £375,000,000 plus 50 per cent., i.e., £560,000,000, valued at the reduced price levels, but it is some sum such as £550,000,000 at most that we should work to for the earlier future as compared with the old figure of £675,000,000. It is a drop of about 20 per cent., and will leave us with an increased quantity of internal production at a general price level in reasonable agreement with the present world price level, which is about 15 per cent. above pre-war.

The world level may, however, fall further or may even recover somewhat. But in any case we must adjust ourselves gradually. Such a sudden and extensive fall in the income of a debtor country is unprecedented."

The Court's difficulty was to get the respondents to realize the actuality and alarming extent of this fall in the community's spending power. Some of the decline is undoubtedly psychological in origin. The prevailing air of uncertainty, the precarious state of public finance and continuance of fall in price levels, local and universal, are responsible for much of the commercial and industrial stagnation. But taking the most optimistic view, it is clear that the bulk of the lost spending power is a harsh reality, and the restoration of the customary value of our productivity will be a long and laborious process.

The Reality of the Lost Spending Power.

Drawing inferences from evidence given by Mr. Irvine (late Professor Economics of the University of Sydney), Mr. Gordon Massey, Mr. Gunn, Mr. Alison, Mr. F. A. Russell, K.C., and Mr. Chomley, union advocates argued that the economic collapse is transitory, that we have been drawn temporarily into a world maelstrom, which like all previous cycles of depression will soon spend itself. It is true that much of our trouble is of world origin. But in one way we are distinct from other countries. Until less than two years ago our price level for primary products remained at about the level reached after post-war deflation, whilst those of other countries came down relatively to about the 1913 position. In 1928 British price levels were about 33 per cent. above pre-war levels, whilst those of Australia were 65 per cent. above. There is some dispute as to the actual difference in these levels. Wholesale prices in the United Kingdom fell from 160 to 142 (11 per cent.) in 1928, and the same fall occurred in the United States of America. By the end if 1929 they fell to 127, and by the middle of 1930 to 115—a total fall from 160 to 115 (28.2 per cent.). But Australia's raw products suddenly fell as follows:—Wool 40 per cent., butter 35 per cent., mutton 20 per cent., copper 25 per cent., spelter 35 per cent., hides 27 per cent., and now are practically at pre-war levels.

It cannot be disputed that the Australian level was sustained at a high figure whilst overseas prices were falling, or had reached a fixed lower level. Our policy to maintain this higher level was largely contributed to by the maintenance of credits in London through borrowed money. But this sustaining factor quite suddenly disappeared and prices of wool, wheat, metals, and other primary products came tumbling down to the vicinity of pre-war levels. Thus it is that, apart from the world-wide disturbance, Australia has to face a purely local disturbance of great violence. We acted as though the prices received for our exports were stabilized at a level much higher than world levels, and we lived accordingly. Then came the day of reckoning. These prices collapsed, and with such collapse there must inevitably be a readjustment of all community standards. Sir Robert Horne, in the following extract from a recent speech made in London, showed that in some circles abroad there is an appreciation of the peculiar difficulties of the Commonwealth. He said:—

"Declining prices have not been confined to the metal markets, but have been general amongst all staple commodities. Sugar, tea, coffee, wheat, rubber, wool, cotton, have all suffered a similar fate, and producers of such articles throughout the world are the victims of a consequent serious decline in their revenue. This movement does not represent any orderly adjustment of the world's price levels—it has been sudden and violent, and for this reason has in some cases assumed the character of a catastrophe, seriously disturbing the social as well as the financial and commercial structure of many important countries. Abrupt dislocation of employment has been one of its gravest effects. The first to suffer, and suffer severely from movements of this character, are debtor countries, and those whose industries are to an important degree concerned with the production and distribution of basic commodities. Creditor nations and those largely exporting manufactured goods were, for a short time, only slightly affected, but now with a decline in the purchases of manufactured goods and a heavy reduction in the return on their external investments they, too, are being severely hit."

Relying on the witnesses mentioned, the unions' advocates disputed the reality of this decline in national income, but none of them were able, by theorizing on currency problems, to meet the facts that for the time being the fall in price levels and the cutting off of our customary supplies of borrowed money have directly reduced spending power by £70,000,000 per annum, and that this primary reduction has necessarily led to further contractions of a secondary nature.

Mr. Irvine supported this view in the following words:—

"Our trouble does not lie in our capacity or failure to produce sufficient wealth to maintain a high standard of living. It is bound up with the question of money and prices, especially prices for the surplus which we send abroad. We have got into the habit of depreciating the importance of our domestic production and consumption, and of exaggerating the importance of our surplus. We have allowed the surplus and world parity to dominate the internal situation. The surpluses over and above what we have reserved for a high standard of living have undoubtedly enabled us to operate freely for developmental purposes, and in addition to import a large volume of goods. From that point of view the surplus is important. . . . I am inclined to think that we may work to a large extent independently of what you might call the international or foreign parity in prices."

That is true enough. But we have been forced suddenly not to rely on prices received for our exported surpluses of primary products. If those prices do not recover, we must of necessity attach less importance to primary products, and seek other fields of production for the absorption of the army of unemployed. That will be a long and slow process, largely controlled by costs of production. If such costs persist at their present high level, as compared with those of other countries, we will not be able to export manufactured products.

The answer to this was, "We must learn to do without exports and become a self-contained nation." To achieve that ideal we must do without mineral oils, rubber goods, cotton fabrics, and many other commodities which we regard as necessaries, and must also repudiate our foreign interest liabilities. We can only pay those liabilities in surplus goods produced locally, and we can only get the commodities we now import in exchange for goods produced. Complete isolation may be desirable to some, but it is clear that its achievement means the adoption of all-round standards of living much lower than those now enjoyed. Even if we discard luxuries, the establishment of industries to supply all our present needs would, if possible, take many years, and would fail to remedy existing unemployment. However interesting speculations as to the future possibilities of the social order may be, none of this class of evidence faced the real problem of the moment. What is to be done immediately, even if temporarily, to meet the sudden reduction by at least one-sixth of the Commonwealth's spending power? How can we adapt ourselves to this new situation? That we must immediately answer these questions is self evident. Each day's delay aggravates the crisis.

The Effect of Reduced Spending Power.

The immediate and most serious effect of lost spending power was an upward trend in unemployment which has now become tragic in its consequences. The last available figures show that from information supplied by trade unions, the unemployed number 25 per cent. But the percentage in the ranks of non-unionized labour is probably greater. Then, again, the union figures do not include all partial employment. Evidence given disclosed that in New South Wales unemployment in the building and timber trades was, in December last, over 40 per cent.; and in the metal trades, over 30 per cent. It is no exaggeration to say that more than 30 per cent. of the employable population is now (completely or partially) unemployed and, except in Queensland, the tendency is still upwards. This of course leads to great reduction of the wage earners' spending power and reduces demand for goods.

The next important result has been the decline in public revenues, with the consequent financial embarrassment of all Australian Governments.

To meet deficiencies and for unemployed relief, taxation has been substantially increased and this has reacted on industry.

Governmental and financial difficulties with decline in the value of Government securities have reacted on all finance, commerce and industry.

The necessity of bank financing of State and Commonwealth deficiencies has reduced the funds available in banks for private credits.

The limitation of spending of borrowed money has reduced Government orders for manufactured goods and increased stagnation in the metal and other industries.

Inability to stabilize price levels has made industrial operations largely speculative. Manufacturers only operate to meet immediate needs, and as far as possible trade on stocks accumulated before the crisis.

The insecurity of the position leads to timorous reduction of spending and decline in demand for goods. Those who could spend more hold on to a reserve which in normal times they would not consider necessary.

The falling price levels make costs of production a more vital element. Manufacturers have great difficulty in supplying goods at marketable prices. The values of land, buildings, stocks and shares, and of many other classes of property have declined. The margins for bank overdrafts and other forms of credit having contracted, the natural tendency of banks is to ask for reductions of existing credits, and to refuse new credits.

All the economic and financial experts emphasize the overwhelming influence of the position of public finance, and urge that there can be no recovery until the Governments are able to meet their expenditure out of revenue. The importance of this phase of the question is increased by the fact that the floating debts of the various Governments to Australia already amount to £45,000,000, mainly representing deficiencies in revenues. Payment of these deficiencies out of future revenue is practically impossible, and ultimately the whole of the amount with its consequent increase of interest charges must be covered by long-dated Government securities. It is obvious that this method of paying deficiencies, in other words, of paying costs of Government, out of loan money cannot continue. The addition of the £45,000,000 dead weight to the national debt is serious enough. Further additions of a similar nature can only end in complete financial disaster.

The accumulated results are a crisis far more intense and far more difficult to overcome than any of the cycles of depression from which in the past Australia emerged with comparative ease.

The Past Profits of Industry.

One of the more impressive arguments submitted by the respondents against wage reductions is here alluded to. Advocates for the respondents relied largely on the argument that those in control of industry have made such large profits in the past, and have such stores of accumulated reserves, that they should carry on their operations at reduced profits without wage reduction. In support of this contention a great deal of material, proving beyond dispute the high remuneration which capital has been able in many cases to command during recent years, was tendered. The increase in dividend earning power of capital since the war as compared with pre-war years was well-known to the Court, but the advocates thought it necessary to submit a great mass of detail showing the operations of different companies. Apart from increases in dividends it was also well known, and reiterated by the production of various returns, that undivided profits had also increased, and that much increased capitalization thereof has been made since 1913.

The advocates, however, were not content with bringing out these facts, but went into the past history of many corporations to prove that, apart from capitalization of undistributed profits, there have been waterings of stock, and that portion of the so-called capital upon which dividends were now being paid was purely fictitious, and did not represent actual capital investments. All this can be conceded. Any one acquainted with the economic history of Australia during the last twenty years knows that capital has been able to secure for itself high returns and greatly to increase its field of operation by capitalization of undistributed profits, and that there have been notable instances of increases of nominal capital without actual investment of new funds. Involved in this was a contention that in past division of the national income, labour had not been rewarded in proportion to its productivity, and that the undistributed profits should have been distributed in wages. The basis of past distribution has been under an established economic system controlled by the Legislature, and, as we have often pointed out, this Court is not the Legislature, but functions in an economic system which the Legislature alone can alter. The difficulty was to get union advocates not to live in the past but to face the present situation and future prospects.

Since June of 1929 the earning power of companies (except those engaged in sheltered or monopolistic industries) has been greatly reduced and is still falling. The evidence justifies the conclusion that for the current year the dividend rate of prosperous years will almost entirely disappear. As to the sheltered and monopolistic industries, it is not the function of this Court to suggest what special efforts should be made to compel them to share the loss. That is a matter entirely for the Legislature. Whatever the past has been, it is evident that at present the majority of enterprises which provide employment for the great mass of industrialists are now more concerned in keeping their businesses going than with immediate profit-making possibilities. Much of this, of course, is temporary, but one is forced to the conclusion that recovery to anything like the old level will be a slow process. It was contended that most companies could carry on for a long time to come by using the reserves accumulated during years of prosperity. But these reserves are represented by property, including extended plant. The idea that a company with £1,000,000 reserves has £1,000,000 cash in hand to meet emergencies, which some of the advocates seem to believe, is entirely fallacious. Most of the reserves of companies have been expended in the erection of buildings, and in extension of plant. It is generally agreed that much of this expenditure has been too lavish. Sydney, for instance, has been over-built and, for a large portion of the new expenditure on buildings, owners will now receive a very meagre return. The industrialist, of course, participated in much of the expenditure by receiving wages at the higher rates. As the economist Hobson points out, "Too much savings may be put into capital goods instead of into consumers' goods," but once there it is not available in the form of liquid assets to meet economic emergency. If the accumulations of undistributed profits of past years were actually in the hands of employers concerned, in the form of liquid assets, there would be much in the argument that for a time at least industry could carry the load without reduction of wages, but the majority of these concerns are without liquid assets, and cannot now obtain from the banks credit on the assets which represent undistributed profits.

On the contrary, on account of the fall in values, the tendency is to force reduction of the credits now existing. Legislatures have also taken a share of the extra profits made during recent years in the form of taxation.

In January of last year State and Federal taxation absorbed 19.9 per cent. of direct production, and 14.7 per cent. of the national income. Since September last these percentages have been substantially increased. Although much of this taxation arises from Customs revenue, to which all contribute, the amount contributed in the form of income tax has been steadily increasing. It is agreed that taxation may reach a limit at which it defeats its own ends, and some economists are of opinion that if we have not reached it we are very near that point in Australia.

Viewing present facts rather than past history there is no doubt that, except in sheltered industries, industrial concerns have no surplus assets in liquid form, and now have unexpected difficulties in monetizing the different forms of property which represent their reserves.

Costs of Production.

The advocates for respondents strongly contested the necessity of reducing production costs and refused to see any connexion between reduced spending power and reduced costs. But the facts must be faced.

Another result of the decreased spending power of the community is its reaction on costs of production. The cost of the manufacture of goods, particularly those made by specialized machine processes, depends on turnover. If by reduced consumption the turnover falls away costs of production immediately increase. The wage cost of making 10,000 of a particular article may be 8s. per item, but if only 5,000 are made the labour cost may go up to 12s. per item. The overhead charges distributed over the smaller turnover also increase notwithstanding economies that may be effected in administration. So the circle attributable to the original trouble extends. The ultimate result is inexorable. We cannot continue to produce on the reduced turnover at present costs, and in every direction reduction of costs of production is unavoidable.

As one witness said: "In the actual facts of the Australian situation the level of monetary costs to the level of real costs is undoubtedly too high to maintain parity either with the rest of the world or the maintenance of what has hitherto been regarded as the appropriate Australian standard of living. Money costs being above parity with the rest of the world creates exchange difficulties and an increasing disinclination to purchase Australian goods. The level of real costs in Australia being too high the real wage is unable to rise, whatever may be the appearance of money wages, and if the attempt to maintain money wages and real wages at a preconceived level is persisted in, the unavoidable conclusion will be further increasing difficulty of employing the total employable population at the present standard of money wages. The high nominal wage which only employs a proportion of the population is in fact a low effective wage."

The available evidence seems to indicate very clearly that Australian costs are too high, whether looked at in terms of productivity per labour unit expended or in terms of money. Two factors have in the immediate past tended to obscure this fact. The first is heavy borrowing overseas; the second the exceptionally high prices that have ruled for our two principal export commodities. These are the factors which, in the past, have enabled us to maintain and even improve our national standard of living. Both of these props have been either wholly (as in the case of foreign loans) or very materially (as in the case of wheat and wool) reduced. It becomes necessary then to examine the Australian unit of productivity to determine whether without the two aids already indicated it is possible to maintain the wages standard that had obtained in the immediate past. For this purpose it is necessary to take as a starting point the year 1907, because in that year the standard basic wage of the Court was first determined. The standard then fixed has never up to now been seriously challenged by employers and has been generally accepted by employees. It has been claimed (probably correctly) that the 1907 standard was about 25 per cent. higher than that which had ruled prior to that date. Had it been economically unsound it must have produced a large measure of unemployment, which does not appear to have been the case. In the circumstances 1907 seems a proper starting point for the examination of the Australian unit of productivity in this connexion. Inspection of the official figures (Labour Report No. 20, page 84) discloses that the index number for 1911 was taken at 1,000. The relative figure for 1907 was 948, while the figure for 1928-1929 was 937, which discloses that the productivity per head of population for the last named year was slightly less than in 1907. According to the evidence before the Court the relative figure for the year 1929-1930 will be somewhere in the vicinity of 800, and for the year 1930-1931 may be expected to be even less.

The union advocates, in discussing the productivity index figures, took as the beginning of their calculations the year 1871 and claimed that over the whole period from that time to the end of 1929 there had been a steady increase although there had been considerable oscillation from time to time. In the circumstances it is perhaps desirable to examine productivity figures in some detail. From 1871 to 1911 the index numbers of relative productivity per head rose from 543 to 1,000 having thus nearly doubled in 40 years. There were marked retrogressions during this period following the boom in the nineties and the drought of 1901-2. (We assume that Mr. Justice Higgins in fixing the Harvester wage—and the generally increased wage following therefrom—took into account the productivity activity per unit of the population at that time). The year 1912-1913 remained about stationary while in 1914 there was a fall of 20 per cent. to 842 due, no doubt, to the drought in that year and to the outbreak of war. During the subsequent period the index number though always above that of 1914 failed to show any satisfactory increase until 1920-1921, when the figure rose to 928. From that time on, with slight oscillations from year to year, the figure has remained almost stationary with a slight tendency to rise. As indicated above in the year 1928-1929 the figure was 937. Even after making due allowance for seasonal conditions and the intense dislocation owing to rapid changes in price levels following the war period there appears to be no satisfactory explanation of the slow growth of productivity since 1920-1921. In that period the productivity figure has remained constantly at about the same level, which is, in fact, almost identical with the 1907 level. It is interesting to note that during recent years there is supposed to have been a general increase of about 3 per cent. per annum in most other civilized countries.

Now let us turn to the question of the division of the productivity of industry. In 1907 the wage-earners received 56.2 per cent. of the national dividend, while workers on their own account earning on an average the same as wage-earners received 8.3 per cent., and higher incomes 35.5 per cent. During the years intervening between 1907-1929 there have been some variations in the amount going to the wage-earners, the lowest point being reached during the war period (48.4 per cent.), and the highest point being reached in 1920-1921, when it rose to 61.1 per cent. In the year 1928-1929 it was 57 per cent., and the average over the whole period appears to be about 55 per cent. During the same period the portion going to workers on their own account has increased from 8.3 per cent. to 19.8 per cent., while the share going to the higher incomes has steadily decreased (except in the war period when it rose as high as 41.3 per cent.) until the year 1928-1929 when it had fallen to 23.2 per cent.

Now let us turn to the level of effective wages in Australia from 1907 to date. During that time the effective wage level appears (subject to seasonal or war-time oscillations) to have steadily risen until the present time, when it is about 9 per cent. higher than in 1907.

It is axiomatic and inescapable that the only source from which wages can be derived is in production or money borrowed from abroad. The latter is no longer available and therefore we are driven to an examination of the productivity figures alone to ascertain whether or not our present wage standards can be maintained. Taken by themselves and assuming that in 1907 the Harvester decision provided the workers with a proper share of production there is no warrant in the present figures for a higher wage level than in fact obtained in 1907.

THE NEED OF RATIONALIZATION OF INDUSTRY.

Another contention of advocates for the respondents was that the necessary reduction of costs of production could be achieved without interfering with wages by what is now generally termed "rationalization of industry." Mr. Mundy, of the Amalgamated Engineering Union, submitted a mass of information showing the unnecessary multiplication of plants and overhead charges for the production of similar products. The great change which has taken place in Great Britain in this direction was referred to, and although that country has by no means eliminated the waste of over competition in production great improvements have been made. But even now labour costs in Great Britain are higher than in other countries competing in world markets. As was pointed out in the judgment in the Metal Trades disputes[1], there is room for greater improvement of methods in Australian industry with the resultant economies of overhead expenses. But this is a long-standing evil. It has no direct bearing on the problem of the moment. Its elimination, which necessarily must be slow, may ultimately improve the situation, but it has no relation to the sudden fall in national income which led to the applications now before the Court.

Wage Reduction in Relation to (1) The Spending Power and Employment of Wage-earners; and (2) Purchasing Power.

One of the main arguments of the respondents against the proposed reduction was, as first put, based on the supposition that it would reduce the spending power of the community. This is plainly fallacious in that the reduction would leave the spending power of the community in the aggregate unaltered in quantity, although it would, as to such wage-earners as are still in employment, effect to the extent of the reduction a transfer of part of their spending power to their employers. But the argument as finally put was that this would result in the transferred spending power being exercised less beneficially to wage-earners in the aggregate and that it would lead to an increase instead of a decrease in unemployment. The argument in this form was advanced with such earnestness and evident sincerity that it calls for serious consideration and for an analysis of the possible results of the proposed general reduction of wage rates, for it must be remembered that the question in issue touches not merely a reduction of wages actually being paid to wage-earners now in employment, but also a reduction of rates applicable to all wage-earners, whether or not now in employment. The proposed reduction would or may operate in three directions:

(1) In respect of wage-earners *now in employment,* it would cause a transfer from them to their employers of spending power to the extent of the reduction.

(2) In respect of wage-earners *not* in employment, it may enable employers desirous of employing such wage-earners to do so without incurring a loss.

(3) In respect of all wage-earners, it may enable employers and entrepreneurs, at present largely inactive and therefore themselves "unemployed", to engage with such wage-earners in industry without incurring a loss.

In the second of these cases there is no transfer of spending power from wage-earners because those wage-earners have none to transfer. The arguments against reduction which are based upon the detrimental effect of a transfer of spending power from wage-earners ignore the possible effect of a reduction upon the position of unemployed wage-earners. These second and third operations of a reduction may indeed

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[1] 28 C.A.R., p. 923.

have results to wage-earners in the aggregate and to the community far outweighing those that follow upon a transfer of part of their spending power from those wage-earners who are fortunate enough to be in employment.

The manner in which the reduction would affect spending power can be indicated as follows. Without the reduction, the spending power would be exercised by those wage-earners still in employment mainly in expenditure upon commodities produced by what may be called the necessity industries, which industries in normal times find the greater part of their *home* market among the wage-earners. These necessity industries comprise both primary and secondary production, the primary being mainly of wool, wheat, meat, and milk, which must rely very largely upon foreign markets for support, and the secondary being mainly of processed foods, clothing, housing, fuel, and transport, which chiefly rely upon the home market. Australian wage-earners in the aggregate constitute the largest buyers of the secondary necessity industries, but they are certainly far from being the largest buyers of the aggregated primary necessity industries. The transfer of spending power will affect chiefly the secondary industries which rely mainly upon the home market.

Let us assume that the reduction has been made and that the corresponding amount of spending power has been transferred. The transferred spending power will be used by the employers, or by those to whom it may be assigned by the employers, either in employing other labour or in the purchase of goods or services which may be necessaries or luxuries or capital goods, but as to all of which the production, in the long run, is achieved by the employment of labour. The labour thus employed ultimately in Australia by means of the transferred spending power may not be used in the production of goods or services so necessary to wage-earners in the aggregate or to the community as those that would have been produced if the spending power had not been transferred; if this be so it would be objectionable, but on other grounds than a lessening of employment. Only to the extent that the spending power is as a result of the transfer more used abroad would the total amount of employment in Australia procured by the spending power be diminished by the transfer.

It may however be said that some dislocation of these necessity industries would be occasioned by the transfer. But any falling off in demand from the wage-earners in employment whose wages have been reduced may be counteracted in two ways. The unemployed brought into employment by means of the expenditure of the transferred spending power would consume commodities substantially similar to those consumed by the wage-earners from whom the spending power has been transferred, and would thus largely, though probably not wholly, compensate for the falling off of demand from the reduced wage-earners. The main counteractive effect would however arise from the added demand created when other wage-earners at present unemployed were restored to productive industry. Before deciding either for or against a reduction of general wage rates with its attendant transfer of employed wage-earners' spending power, it is therefore necessary to consider the current extent of unemployment and the probable effect of the reduction as an antidote. If that unemployment be very great, and particularly if it be constantly tending to increase, then its substantial decrease will certainly increase the home market for the necessity industries to a greater extent than that home market would be decreased by appropriate wage-rate reduction.

As before stated all intelligent people nowadays accept the principle that the general wage-rate level should be as high as the marketable productivity of the country permits, and that in a time of depression the last remedy to be sought is a lowering of that wage level. They realize that in the home market of the most vital industries of the country, that is to say, the necessity industries, wage-earners provide the largest consumption, and that a forcing down of the wage level below the highest point which the country's marketable productivity enables it to attain, tends to weaken those vital industries and to lower the welfare of the whole community. They accept the proposition that such a forcing down of the wage level must cause "under-consumption" of the products of those industries and diminishes distribution of those products among the people who sorely need them. But they are also compelled to recognize that if a country attempts to force or maintain a wage level at a point higher than the country's marketable productivity allows, there will be an irresistible tendency to ever-increasing unemployment with ever-increasing "under-consumption".

It has been shown by material checked by the Commonwealth Statistician that under the present economic system the wage-earners' share of the total national dividend or income may be taken as averaging roughly about 55 per cent. thereof, that the share of persons working for themselves, like small farmers and others, earning on an average about the same as wage-earners, may be taken as about 19 per cent., and that the share of persons receiving higher incomes is about 25 per cent. The odd 1 per cent. may be taken as spread. The home market of the necessity industries would in the ordinary course receive most of its demand from the 55 per cent. share of the wage-earners, who are by far the most numerous in the community, but quite a considerable demand would come from the 19 per cent. share of the people with small incomes working for themselves, and this latter class has been hit very severely by the recent loss of national income. The people with larger incomes from the same cause have also lost much of their spending power, so that they are unable to cause nearly as much employment as previously, and thus to indirectly sustain the home market of the necessity industries. So far as these industries are concerned, just as with other industries, it may very well be that some reduction in the general wage level would enable the diminished spending power of the nation as a whole to buy more of their products at the cheaper rates and thus reduce unemployment.

The real question is whether the general wage level is too high for the present spending power of the country. If it is too high then a reduction, although causing an unfortunate transfer of spending power away from wage-earners now in employment, would operate as a stimulus of general industrial activity, thus giving work to men now unemployed, with consequential benefit to *all* industries. Now the spending power of a country is co-extensive with its marketable productivity in goods and services, plus commodities borrowed from abroad; it is not mere money unbacked by such marketable productivity or commodities. Just in the same way, a wage-earner's spending power really rests in his power to render marketable services to an employer—those services are marketable only if they are wanted —and the employer in his turn obtains those services by an exercise of *his* spending power, which rests in his ability to enable the wage-earner to obtain real commodities. Whether we deal with the spending power of a nation, or the spending power of the employer or of the wage-earner, we are dealing with real marketable goods or services, and not with "purchasing power" which relates only to the sufficiency of the supply of money or of its analogous credits.

Great and increasing unemployment is strongly symptomatic of a wage level too high for our present capacity. The national loss of spending power synchronizes with the recent aggravated increase of unemployment; after analysis of other suggested causes elsewhere in this judgment, the conclusion is unavoidable that the present wage level is above that which can be supported by the marketable productivity of the Commonwealth and that a lowering of that level is one of the essential means of checking a further increase of unemployment, of gradually restoring employment and of restoring a proper economic balance.

It was also argued on behalf of the unions that not only is a lowering of the general wage level not necessary, but that wages should be raised in order that "purchasing power" should be increased. Conflicting lines of reasoning in support of this proposition were taken by various witnesses. At times the term "purchasing power" was used in the sense of "spending power," which has already been discussed. But the idea which usually appeared to prompt the suggestion that the wage level should be maintained or increased was that the supply of currency provided is not sufficient to enable consumers to remove from the market the products of industry. By some witnesses it appeared to be thought that the raising of the wage level would have an effect similar to that of an increased issue of currency or so-called "purchasing power." This misconception was not shared by others, who advocated a system involving the distribution of "new money" to consumers, somewhat similar to that enunciated during the last ten years by Major Douglas and his followers. But all who advocated a raising of the wage level did so on the assumption that it would stimulate unforeseeable demands for commodities, (which is very likely) and that in some way (not explained) industry generally would be able to produce and dispose of the commodities to satisfy those demands before a crash developed from the raising of the wage level. Obviously no such scheme is practicable at present.

Whether sufficient "purchasing power" in the sense of currency or credit instrumentalities is available in Australia is a question referred to elsewhere in this judgment. Beyond doubt, the grave hardships to wage-earning as well as to other long-period debtors and the discouragements to industry which accompany the continuous fall of the internal general price levels in Australia, demand the most earnest consideration by those who are able to exercise any control of the factors governing price levels.

Currency and Credits.

Of the arguments submitted by the union advocates the next in importance was substantially as follows:—

(*a*) The present crisis in Australia is part of a world crisis caused entirely by maladministration of currency and the control of money and credits by private banking institutions run for purposes of profit.

(*b*) That in the Commonwealth the crisis, if not caused by, has been largely contributed to by the policy of private banks.

(*c*) That the crisis can be overcome by "release of credits"—in other words, by an increase in paper currency itself, or of credits based thereon.

Involved in these contentions are many complicated questions on which there is a wide divergence of opinion among economists and financial experts. There is a considerable body of opinion in support of the contention that the handling of currency and credit and the banking systems of the world are largely responsible for the present world crisis. Lord D'Abernon went so far recently as to express the opinion "that independent international action would probably furnish the most effective solution, if applied in time." One school of economic thought believes that the manipulation of gold reserves is the foundation cause of the present world economic crisis. So long as the world seeks to work on the gold basis there appears to be little doubt that the distribution of gold reserves materially affects all countries. If gold is accepted as the basis of credit and some countries have too much for their real needs whilst others have too little, trading between countries is disturbed. According to the best available estimates the world's known gold reserves have increased from 8,663 million dollars to 10,567 million dollars between June, 1924, and June, 1930—an increase of 21.6 per cent. This appears to throw doubts on the contention put forward by some that a shortage of gold is the trouble. Of the total known reserves France and America between them hold 54.8 per cent. It may be that the world before long will have to find some new method of adjusting trade balances and that great reforms in banking methods will occur. The whole mechanism of finance is theoretically a device to facilitate the movement of existing wealth, internally and externally. Under the world's banking systems it has become an instrument for controlling the future production of wealth. Whether this control is for ever to be left in the hands of profit-making institutions has become a question which has been agitating the minds of thinking men in all parts of the world. Many eminent economists and statesmen to-day support the idea that the control of money should be a State function rather than a field for dividend making. But banking reform is a matter beyond the province of the Court. It is, however, material for the purposes of this inquiry to examine the contention that our local banking policy has been the main cause of the present depression. In support of this contention the unions relied on returns furnished by Mr. Stokes, a qualified accountant, the substance of which was that eleven of the leading banking corporations of the Commonwealth between the years 1919 and 1930 on an aggregate paid up capital of £44,845,575, accumulated reserves to the extent of £36,651,121, and made net profits of £41,355,237. It was submitted that the banks, notwithstanding the prosperous run they have had since the war, were unnecessarily contracting credit, and were dictating the financial policy of enterprise all in the direction of forcing reductions of wages. In order to test this argument the Court secured from the Commonwealth Statistician an analysis of banking statistics between the years 1914 and 1930 with a view of determining whether there had been any undue contraction of credits during recent years. The return facilitated preparation of the following table showing the percentages of advances by the banks to total deposits and to total assets.

Year.	Advances.	Total Assets.	Percentage of Advances to Total Assets.	Total Deposits.	Percentage of Advances to Total Deposits, excluding Government and Municipal Securities.
	£	£		£	
1914 ..	114,337,465	168,656,036	67·79	157,069,480	72·79
1915 ..	115,307,453	182,771,943	63·09	163,570,498	70·49
1916 ..	126,169,253	188,012,225	67·11	162,720,317	77·54
1917 ..	115,599,353	176,015,845	65·68	165,546,866	69·83
1918 ..	130,686,841	192,434,334	67·91	177,142,417	73·78
1919 ..	161,812,276	222,797,211	72·63	193,428,304	83·66
1920 ..	149,575,272	231,164,219	64·71	217,063,121	68·91
1921 ..	178,539,135	252,514,104	70·70	221,541,096	80·59
1922 ..	168,106,871	238,637,794	70·45	222,359,245	75·60
1923 ..	188,235,548	260,872,121	72·16	240,840,983	78·16
1924 ..	198,750,775	265,966,718	74·73	239,651,856	82·93
1925 ..	197,450,902	273,147,652	72·29	250,585,468	78·80
1926 ..	213,252,020	292,523,291	72·90	264,792,151	80·54
1927 ..	236,136,717	312,708,485	75·51	270,211,653	87·39
1928 ..	240,677,748	332,336,395	72·42	289,535,632	83·13
1929 ..	267,831,631	355,400,684	75·36	302,274,716	88·61
1930 ..	284,283,139	359,449,432	79·09	285,194,939	99·68

Including Government and municipal securities, the percentage of advances to deposits has increased approximately from 72 per cent. to 105 per cent. It will thus be seen that during recent years, particularly the last two years, there has been no undue contraction of credits by the banks. On the contrary, from 1920 to 1930 percentages largely increased.

Extension of Credits.

It was freely argued that the remedy for our existing problems is "extension of credits." When pressed for the exact meaning attached to this phrase, it was admitted that what advocates meant was the issue of paper currency for the purpose of enabling Governments to carry on public work and to enable banks to make more liberal advances. Some witnesses put forward the theory that consumption of goods would be stimulated and industry revived by an increase in the volume of money in circulation, irrespective of the country's productivity. Although some witnesses objected to the use of the term, what they really meant was that inflation of the currency would have immediate beneficial effects. On this dangerous controversy it is not the function of the Court to express personal opinions. It is, however, necessary to summarize the evidence on this issue, although it is one upon which there is such wide divergence of opinion. Professor Copland pointed out that whatever policy may be ultimately adopted on this issue Australia's problem is not a mere monetary re-adjustment.

"In addition to monetary changes," he said, "there has been a severe and, at present, irreparable loss of income. It is therefore all the more important that in the process of re-adjustment this loss of income should be given first consideration; monetary re-adjustment may be made later. To attempt to make both at the same time imposes a burden that may imperil the success of Australia's efforts, however readily the country is prepared to make the necessary sacrifices. The middle course is to be preferred, because it isolates the monetary from the real adjustments, and concentrates upon the latter. The first step is the equitable distribution of the loss of income. Export producers, unemployed wage-earners, and recipients of profits from Australian businesses are bearing the main part of the burden at the moment. But the burden is too great to be borne by a few groups, comprising only a section of the total producers. It cannot be met from any surplus of income in special groups, because this surplus is quite inadequate. As long as some producers are bearing a disproportionate share and others are escaping serious losses, the disharmonies of depression will continue and, indeed, increase. The task of economic re-adjustment is to eliminate these disharmonies by spreading evenly the loss of income over the whole community with the minimum disturbance to existing arrangements and the fabric of industry. We have to consider not only the position of export producers, unemployed wage-earners, and recipients of business profits, but also wage-earners and producers in general, recipients of fixed incomes, Governments (State and Commonwealth), and the overseas investor."

The Professor further said "That all proposals for increasing currency and credit are open to fundamental objection; they do not show how real loss of income can be made up. Of course, an increase in currency and credit will increase spending power as measured with money. It cannot increase spending power as measured in goods. It cannot increase real income of the country unless profitable production is developed." The Professor was very definitely of opinion that whatever steps are taken to arrest hasty deflation nothing must be done to lay the foundation for the disasters of inflation. In his various treatises on the economic situation he searched for a middle course, and suggested two possible lines of action—"A reduction in real income and real wages accompanied by a higher fixed exchange rate and relatively stable internal price levels," or "a free exchange rate accompanied by a slight extension of credit and a rise in prices while nominal wages and incomes remain fixed." The Professor seemed rather to favour the opinion that the effort of Australian financial authorities to return to exchange parity was a wrong policy. Mr. Wickens, Commonwealth Statistician, has expressed the opinion that "Deflation is proceeding too rapidly. A rigidly limited issue of currency is advisable with an increase in exchange rates." Since the hearing of this inquiry concluded exchange rates have increased rapidly, but not as the result of any reasoned scheme of stabilization.

Mr. H. R. Irvine, for many years Professor of Economics at the Sydney University, was largely in agreement with Professor Copland on most of his statements, but differed from him on one or two material points. He contended, "that it is practically a question of life and death to stop deflation and initiate a movement in the other direction, that is, to re-trace our steps by way of a carefully guarded inflation. Such a policy is forced upon us by facts. . . . The first step is to make available to primary producers, manufacturers, and commercial businesses sufficient credit to enable them to get going again. There is nothing indiscriminate in this, nor do we need to put into force any unsafe principles. The banks should control the use of the new credit . . . the assets and productive power vested in individuals such as land, buildings, plant, and income-producing assets should be monetized by the granting of credits. If a suitable amount of credit be made available in this way it will soon begin to absorb the unemployed, at first slowly, and then more rapidly as demand for commodities increases. . . . The extension of credit may be brought about in various ways. The Government may arrange through the Commonwealth Bank for the issue of notes in such quantities as may be considered necessary and prudent; the matter should not be left to political guess-work, but should be determined by a monetary council consisting of statisticians, economists, bankers, &c., competent to assemble facts and to apply scientific principles to their interpretation. . . . I should not allow any bank, not even the Commonwealth Bank, to determine what amount of credit we should have. The work of the bank is to use the credit. It is not their work to determine the policy. . . . It is not necessary, of course, that the whole of the issue should come directly into circulation. All but a small part required for cash payment would be used to strengthen cash reservations, thus enabling the banks to lend more freely. I think it very inadvisable to issue the huge amount often spoken of in current discussions just now. A £10,000,000 issue can go a tremendous distance. A £20,000,000 issue will enable them to build an enormous amount of credit quite successfully."

There was almost unanimity in the opinions of witnesses that in some form banking policy should be changed, and that there should be a limited note issue. Professor Copland, Mr. F. A. A. Russell, K.C., one time lecturer in Economics at Sydney University, Mr. Portus, of the Sydney University, Mr. Dyason, by way of his contributions to economic literature, and many others are in agreement that if the risks of indiscriminate inflation can be avoided the position can be substantially assisted by a change in the banking policy, carrying with it abandonment of the attempt to maintain parity of exchange and a note issue for the sole purpose of facilitating some stabilization of price levels. In a joint article of Professor Copland, Mr. G. L. Wood, of the Sydney University, and Professor Giblin, published in the November issue of the *Economic Record of Australia,* the authors contend "that there is no question of opening the door to inflation. The door is always open, whether we have contraction of prices or stable prices, and the impulse to use it is more likely to come by reaction from a policy of drastic deflation than under a scheme of stable prices."

They emphasize that any inflation of the currency must be only used as part of a scheme to stabilize prices. In their article they continue that "the only possible defence against inflation is a good guardian at the door. The control of the currency should be in hands that are at once competent, unbiassed, and as free as possible from political influence . . . as Professor Gregory recently said, 'there is little to choose between the two hells, the hell of inflation on the one hand and the hell of deflation on the other, but no choice is necessary because it is possible to avoid both.'"

We think it necessary to place this summary of the view of economists on record. There are three contending classes of thought—those who believe that whatever the consequences we must continue the struggle to re-establish exchange parity; those who believe that the exchange should be allowed to run free with prices stabilized, whilst a carefully-guarded paper issue for the purposes of stabilization of local price levels should be adopted; and, finally, those who believe that there should be practically unlimited inflation and utter disregard of exchange rates. The consensus of opinion, however, is that some change in the direction of granting facilities to increase credits is necessary.

Sharing of the Burden.

It is needless to state that wage reduction alone will not materially alter the present situation. Other important changes are obviously essential. The sifting of the evidence taken and the argument thereon disclosed that apart from controversial banking and currency questions, strong opinion prevails that many other changes must be made before economic stability can be restored. A popular phrase used by witnesses was that "all must share the burden." Mr. Gibson, one of the advocates for the respondents, urged that if the economic position did necessitate a reduction of wages, such reduction should be the last resort, and that every other possibility of meeting the situation should be exhausted before wages were touched. Professor Copland admitted that wage reduction alone would by no means meet the situation, and attached great importance to stabilization of price levels, reduction of the costs of Government, and a temporary departure from the effort which up to the time of his evidence had been made to establish exchange parity. But he was convinced that whatever else was done, there must be at least 10 per cent. reduction in real wages.

In considering this aspect of the case it is necessary to review the effect of the changed economic position on the different factors of production.

First and foremost in the list of those who have already suffered by the change are the unemployed—30 per cent. of the population—who are without any incomes, or whose incomes have been greatly reduced by partial unemployment. There was much argument as to the real cause of unemployment. Union advocates constantly reiterated that it was technological, i.e., it resulted from the displacement of labour by the adoption of machinery and specialized processes of manufacture. This undoubtedly is one of the constant causes of temporary unemployment.

Fortunately in Australia we have not reached that degree of intense production in which the labour market is violently disturbed by the introduction of machinery. Mass production is in its infancy, and, so far, although new machinery may have temporarily affected employment, its introduction has not been a material factor. It is quite clear that the present unemployment crisis arises from entirely new circumstances, and is directly traceable to the sudden fall in the national income with its consequent business stagnation. The important point is that the greatest sufferers from the present crisis are wage-earners not in employment or able to secure only partial employment. Industrialists, as a class, for the moment are undoubtedly bearing the greatest share of the burden. But it is idle to contend that they are the only sufferers. Closely allied with them are small independent operators comprising about 19 per cent. of the working population and who, though not employees, only earn average wages. This class also is feeling the stress to the same extent as the direct wage-earner.

The primary producer is carrying more than his share of the burden. With wheat, wool, and base metals below pre-war levels, and with the marked fall in price levels for dairy produce, many primary producers on the margin will be unable to continue their operations on present costs of production. The only chance of maintaining the past average quantitative production of primary products is by reduction of production costs. Wool at 8d. per lb., and wheat at 2s. 6d. per bushel, do not leave producers any margin above present costs of production. However prosperous these classes of the community may have been during recent years, they are now in a parlous state. The value of their assets has greatly declined, whilst their fixed charges, such as interest, railway freights, &c., remain at a high level. The primary producer, unless there is some increase in prices, of which there is at present not the faintest indication, must be enabled to produce at lower costs. He must pay less for his machinery and plant, his fertilizers, his use of capital and his labour, or go out of production. The State, of course, up to a point may assist him and, while it lasts, the adverse exchange rate is in his favour. But in the present state of public finance there is a limit to the assistance the State can give, and the adverse exchange rate cannot be accepted as a permanent form of relief to those who export products. That the primary producer is carrying more than his share of the burden cannot be disputed.

Coming to employers of labour, they can be divided into groups, the ordinary manufacturer and trader dealing with every-day needs of the community, and the owners of sheltered industries.

As to the first group, there is no doubt that the changed economic conditions have involved them in heavy losses. Most manufacturing businesses that were showing high returns up to the 30th June, 1930, have now to face an entirely new position. Profits have dwindled, the value of property and holdings has greatly decreased, and unless we can achieve some stabilization of price levels their existence as labour-employing concerns will be very precarious.

This leaves two important groups which, except as to decline in value of their property, have not so far directly contributed to the general burden. The owners of sheltered industries, such as gas and electric supply companies and one or two other groups who have achieved monopolistic control, except by increased taxation, have not apparently been seriously affected by the crisis.

One distinct group, those who draw their incomes entirely from interest, except so far as they are affected by new taxation, have distinctly profited by the present crisis. The incomes they draw from interest have a much greater purchasing power owing to the fall in price levels.

How those in sheltered industries and those whose incomes are derived from interest should be made to take their proper share of the burden is a matter for the Legislature. There can be no mathematical apportionment of the loss of national income, and it is not the province of the Court to make any suggestions as to what the apportionment should be. But it is the duty of the Court to analyse and pronounce on the argument that only one section of the community, the wage-earner, is carrying the burden. It is true that the distribution of the loss of national income is fortuitous, and not the result of any considered scheme; and herein perhaps lies the weakness of the whole situation.

The Gravity of the Position.

It is almost impossible to exaggerate the gravity of the present situation, and it should be unnecessary to point out the need for proper comprehension of all the causes of the present crisis. Never in the history of the Commonwealth was there such need for calm, non-partisan consideration of national problems—never was there greater need for co-operation between the various factors to check the downward tendency which threatens to end in complete collapse. If we are allowed to drift into a final collapse, then re-adjustments, far more drastic than those which might be devised as the result of calm dispassionate discussion, will be imposed.

The Court agrees with the submission of the respondents and their witnesses that any re-adustment of wages must be accompanied by other changes. Wage reduction is not the magic wand which will restore stability. But as part of a reasoned scheme it is unavoidable.

The Court was made aware of the existence of a great body of opinion that the present position is so grave and the dangers of the future so immense as to justify the existence of a consultative body of experts freed of partisanship and political control who may guide the country to some correlated scheme for dealing with the whole situation.

The Basic Wage.

Union advocates strongly urged that no alteration in the basic wage or the method of calculation now prevailing should be made without exhaustive inquiry. Some of them, supported by Mr. Fraser, counsel appearing for the Attorney-General, went so far as to allege that recent amendments of the Act limit the power of the Court in the settlement of disputes to decrease the basic wage prevailing at the time of the amendments. This contention, in our opinion, is untenable. The only alteration of the law in the amending Act is that no variations of the basic wage shall be made except by a Court of three Judges. We think that the power of the Court in hearing disputes to fix wages, including the basic wage, is in no way restricted. We think, also, we are entitled upon these applications to take into consideration such matters as general unemployment.

In the announcement made by the Court on the 12th November last the Court stated that—

> "Although the present method of arriving at the basic wage had been in operation for many years, all had been aware of its imperfections, and there had been a growing belief, shared by the Court as at present constituted, that the whole matter required further consideration. No perfect system based on averages derived from statistical data could be devised for the fixing of statutory minimum wages. With its acknowledged imperfections the method adopted by our predecessors of applying the Commonwealth Statistician's index figures to the standard set by the Harvester judgment had done good service, and the discovery of any better method could only be made after long and careful inquiry."

Mr. Gibson contended that the proposed new method of calculating the wage would operate unfairly and would mean an actual lowering of the Harvester standard.

It is admitted on all sides that the fixation of a basic wage on family units results in serious anomalies. In some States the family unit adopted is an average family of man, wife, and two children; in the Federal area it is a man, wife, and three children; whilst in New South Wales it is man, wife, and one child, plus certain provision for child endowment. In Queensland productivity is now the determining factor.

The Federal standard clearly was not arrived at on averages but was intended to provide for the predominant family unit. During the proceedings the Court stated, and still adheres to the statement, that the finding of what is known as the Piddington Commission was an accurate estimate of the cost of living of a unit of man, wife, and three dependent children according to reasonable standards of comfort, and the application of later index numbers enables the Court to correct the estimate arrived at in accordance with present price levels.

But the function of the Court is not merely to ascertain what is the cost of living of the predominant family unit. It carries the responsibility of fixing a basic wage for adults, single, married without children, or married with children whatever the number may be. Whatever the ascertained cost of living at a certain standard of comfort may be, the Court in fixing a wage must of necessity consider the productive capacity of the Commonwealth. A basic wage to provide for the average needs of a man, wife, and three children, extended to all single men and to men who have no children, is admittedly beyond the capacity of industry. The New South Wales legislature has attempted to deal logically with the situation by prescribing a minimum for a man, wife, and one child, with a scheme of endowment for extra children.

If the basic wage system is to persist, national consideration of a system of child endowment appears to be the only method by which the wage can be equitably fixed. Mr. Gibson in his analysis of the present method of maintaining the Harvester standard by the use of the Commonwealth Statistician's index numbers made a prima facie case for revision of the present method of calculation and created serious doubt whether the "all items" table should be applied without much more detailed inquiry than was permissible in these proceedings.

Conclusions.

The Court refuses to make any variations in the basic wage or in the present method of calculation thereof without further inquiry, but after much anxious thought it is forced to the conclusion that for a period of twelve months and thereafter until further order a general reduction of wages is necessary. As stated in the Court's judgment(1) on the recent applications for cancellation of railway awards "an emergency has arisen which calls for immediate re-adjustment in all directions; re-adjustment of costs of government, costs of production and services, rents, dividends, interest, and other returns to capital, and costs of living." All must adapt themselves to the fundamental fall in national income and national wealth and to our changed trading relationship with other countries.

The applications before the Court suggest the elimination of the Powers 3s. and the use for adjustment of the "all items" table as a method by which the desired reduction of wages to the extent of about 10 per cent. may be effected. But the applications were not limited to that method. The issue actually debated by the parties during the proceedings, and to which the evidence and arguments on the applications were mainly directed, was whether in the present condition of industry some such reduction was necessary. This issue was fought out regardless of the form of the applications. The Court as to the summonses not already expressed in formal accord with this issue now allows them to be amended so as to bring them into such accord. With the exceptions hereafter mentioned orders are now made for variation of the awards covered by the applications by the reduction of all wage rates therein prescribed by 10 per cent., for a period of twelve months and thereafter until further order, such variation to operate as from the first day of February, 1931. Formal orders giving effect to this decision will be signed in due course.

Exceptions.

The wage rates of shearers, crutchers on piece-work rates, wool pressers on piece-work rates, and cooks at the shearing employed at a rate "per man," which were reduced by the order of the Court made on 14th July, 1930(2).

Note.—Orders of the Court varying the awards respectively covered by the above-mentioned applications and the foregoing judgment are reported herein, pp. 32 to 69.

(1) 29 C.A.R., p. 464, at p. 472. (2) Ibid., p. 261.