

## 15. Labour Relations

There is a North American Indian fable about a hungry mink who thought of a way to enjoy a meal of two fishes each too big for him to catch. His ruse was to tell each fish in turn that the other had been abusing him. Going back and forth from one to the other, he eventually succeeded in getting the angry fishes to fight each other, which they did, to the death, whereupon the mink was able to consume them both.<sup>1</sup>

One of the greatest tragedies of this age of Anti-Trade, and causally associated with it, is the anarchy to which relations between employers and employees has been reduced. The situation, as this is being written, is one of open warfare with the consumer the helpless victim, akin to the refugee caught in the cross-fire in a civil war.

Whereas in the early years of the industrial revolution the excesses of the employers' exploitation of workers were by modern standards unbelievably harsh, the general situation today represents a complete turning of the tables, in which the trade unions are using their power to force wage levels and working conditions to limits beyond the ability of industry in the main, hamstrung as it is by taxation and its own policy of protectionism, to sustain, and in utter disregard of the repercussions on the long-suffering third party, the general public.

The press is full nowadays of stories of exploitation by trade unions, wielding the power of monopoly to exact unrealistic conditions, the worst aspect of which is the political philosophy activating so many of the union leaders, based on the tragic misconceptions of Marxism.

The unions are no longer democratically constructed and conducted agencies for achieving and maintaining equitable wages and working conditions; they are in many instances, particularly in industries concerned in delivering large-scale services, like electric power, public transport and public communications, vehicles of privilege and blatant power in the hands of minorities determined on the socialisation of all industry which they have not been able to achieve through the ballot box. Ironically, the nationalisation of certain industries, such as those of coal and steel, railways and electric power in Britain, has not produced a lessening of union militancy, even under a socialist government. On the contrary, advantage is taken of that fact to exert blackmail on a government expected to be fully sympathetic to their demands.

The real tragedy is that it is all so unnecessary, that it is based on a woeful ignorance, on the part both of the employers and employees, as well as of politicians, government officials and professional economists, of the

principles of political economy. All are operating like boxers with one hand tied behind their backs, fighting in the dark. All, including their hapless victim, the public, are powerless to achieve the ends for which they ostensibly strive in the vicious circle in which they are all enmeshed, the so-called 'wage-price spiral', out of which not all the political gadgetry, such as 'indexation', will ever release them.

Just as the mercantilism of the employing groups reduces the power of the free market to maintain that equilibrium which is its natural function, the modern version of mediaeval guild protectionism now practised by the unions has the same effect. Instead of recognising this and working together, as the two complementary factors in production in all common sense should, each side, intent on its own short-sighted objective, throws the whole process out of balance. It then only remains for the politician and the professional economist between them to finish the job, the end being the chaos which is now the universal condition.

The major misconception under which both sides labour is that an essential conflict of interest divides them. As far as the unions are concerned this tragic myth has arisen, and is perpetuated by, the class-conscious nonsense of Marxist socialism which, after recognising the error of the early economists who constructed the fiction that labour was made possible, and was sustainable only by the fund of capital available to employ it, made the equally egregious error of claiming that the value of a product was solely the amount of labour expended to produce it.

An almost equally important cause of misunderstanding is the confusion in the minds of those who should know better — such as politicians with economics degrees — over wages in the economic sense and the 'contract' wages which are what the employer pays the employee. This has largely been responsible for the fallacious assertion that wage increases are the cause of inflation, an assertion that has become a doctrine among leading politicians of the Right and their protection-fostered clients.

The wages which today are the subject of so much public discussion, disputation and conflict, the 'take-home pay', to use the pathetic cliché of the media-men, bear little relation — after the government's depredations have been made upon them by taxation, monopoly and inflation — to what political economy shows is the true reward of Labour, as the active factor in the production of wealth.

Similarly, the concept of capital in current economic jargon and in the common speech of sharebrokers, businessmen and bankers, is as inaccurate as the current concept of wages. For capital, in economic terms, is only a secondary factor in the production of wealth, being simply a part of labour's reward stored for future use to increase its power of production; land, of course (in economic terms all natural resources), being the *passive* factor in the production of wealth. So the current jargon concerning capital is wrong in two ways: (1) it erroneously sustains a form of the old Wage Fund theory

in attaching to capital a degree of importance, as a factor in production, to which it is not entitled, and (2) (largely the cause of the first error) it includes in the term 'capital' the very basis of wealth production, land itself. (See any company or bank balance-sheet.)

Despite the fact that this, the fundamental error, was seen by Adam Smith, Herbert Spencer, Ricardo and John Stuart Mill, and exposed for all time by Henry George<sup>2</sup>, it continues to invalidate the teaching of modern economics, as it does the practices of accounts and lawyers and the enactment of legislation and is, in consequence, a basic cause of the mounting crisis in our civilization.

This basic error which permits land (natural resources) to be appropriated as private capital, and consequently the private appropriation of rent, the third part of the economic equation ('the production of wealth equals rent, wages and interest') distorts the modern economy and involves the two complementary elements in production, 'labour' and 'capital', in the fracticidal warfare which is destroying the fabric of society and threatening the world with another Dark Age through submergence in the swelling tide of communism. *Like the two fishes in the fable, they fight each other while the appropriator of the economic rent is killing them both.*

Until, therefore, this grave error is corrected — by the appropriation of the economic rent by the community as its natural public revenue, with the consequential removal of all forms of misappropriation of the rewards of labour and capital alike through taxation and the manipulation of money and credit — the powers acquired, vide the Australian Constitutional provisions respecting conciliation and arbitration, and the vast machinery for the exercise of such powers<sup>3</sup>, will achieve nothing of any real value, certainly nothing to justify the appalling cost to the nation of maintaining it.

The history of the arbitration system in Australia reads like a version of the Mad Hatter's Tea Party. A little after the turn of the century, the H.V. Mackay Machinery Company, a monopoly flourishing under tariff protection, applied for exemption from payment of excise duty on its exports under the Commonwealth Excise Tariff Act (1906) — an Act subsequently declared invalid by the High Court. The Act provided that a manufacturer who could obtain a declaration that a fair and reasonable wage was being paid to its employees would be exempted. Mr Justice Higgins was given the task of interpreting a 'fair and reasonable' wage. Thus the arbitration system was born and Australia was able to boast that "it led the world in social legislation".

The conclusion reached by Mr Justice Higgins was that "the only appropriate standard of a living wage was the normal needs of the average employee regarded as a human being living in a civilized community". (The below-average employee, presumably, was expected to manage on less.) Faced as he was with the task of giving intelligibility to an arbitrary formula utterly unrelated to any economic concept, he should not be judged too

harshly for evading any definition of his own phrases 'normal needs' and 'average employee'; he has, however, been judged very harshly for his finding that the average necessary expenditure in 1907 for a household of five on rent, food and fuel was £1.12.5 weekly. To this amount he added the princely sum of 9/7d for "light, clothes, boots, furniture, utensils, rates, life insurance, savings, fares, books, sewing machine, school requisites, amusements, tobacco, sickness and death, religion and charity". Support for this estimation of an acceptable standard of living was given by Mr Justice Heydon (ref. the *Bulletin of the N.S.W. Board of Trade* 1918) who made the world-shattering pronouncement that "so far as laws can do it, competition should no longer be allowed to crush the worker into sweated conditions."

It was of little comfort to the 'average employee' that Mr Justice Higgins later admitted that his figures were based on inconclusive evidence and explained that he had no statistics to guide him. This lack of adequate information, however, did not stop him decreeing the infamous 'Harvester Award'; one may suspect that innumerable subsequent judgements have been based on equally unreliable data.

In 1919, the Prime Minister, W. M. Hughes, set up a Royal Commission on the Basic Wage. This Commission added to the general lunacy by introducing a scientific method of measuring the standard of essential food by its calorific content, so that the cost of food required for 'normal needs' might be determined. In his *Fixation of Wages in Australia*<sup>4</sup> George Anderson published the indicator list worked out by the Commission. This showed that the calorific requirements of a 'working man' for one day totalled 3500. It was pointed out that the calculation ignored the fact that one man's capacity to transform food into energy is not the same as another's; experts in dietetics could not agree as to the respective quantities of protein and calories necessary for 'normal needs'. Mr Jethro Brown, President of the South Australian Arbitration Commission, on the possibility of reaching any satisfactory determination of a 'normal and reasonable standard of living' said: "normal is difficult to interpret with mathematical precision and 'reasonable' is a question-begging epithet. Much depends, firstly, upon such variations in personal equation as intelligence, training, thrift and general health, and, secondly as to the nature of the work — whether mental or physical, light or hard."

Who can wonder that with such Gilbertian ingredients as these, 'Arbitration' has become recognised by everyone but those in whose interests it is to perform upon its stages, as a costly farce. All that was needed to confirm this judgement for all time was the decision of the Arbitration Commission to make pronouncements on the capacity of the economy to sustain the wage rates fixed by its Awards, which it did in 1965. Here was the worst stupidity exemplified: lawyers, for the most part ignorant of

economic science, issuing judgements vitally affecting the economy of the nation.

Who can wonder that the colossal machine is breaking down under its own weight and ineptitude and that its judgements are being ignored or its functions by-passed by workers' organisations? It would seem that light is beginning to gleam in the minds of leaders of these organisations that legislation for 'industrial peace' is a meaningless anachronism so long as the essential components of that 'peace' are missing — the justice and equity without which 'industrial peace' is impossible. This justice and this equity themselves function only in a state of true equilibrium, of equal freedom, the equal freedom of two parties to a contract in a situation uninhibited by extraneous influences and undominated by unjust advantage on either side. In other words, in the only truly free situation, the Free Market. This is the one institution which it should be the task of both sides to the present unreal antagonism to establish.

The problem facing them both is, of course, the old one of who is to make the first move. While the folly of allowing the drift to disaster to continue is becoming clear to everyone, no one is prepared, or even free, to take the first step out of the perilous groove.

There *is* no easy way out of the dilemma. The errors of the past have accumulated to the point that nothing short of a completely new economic philosophy (new in terms of modern macro-economics; old at least as the dawn of the latter-day Enlightenment which emerged with 19th century liberalism) which this book is attempting to define, will restore sanity to labour relations, and hence to society as a whole.

#### NOTES ON CHAPTER 15

1. From *Menomeni Folk-lore*, by Skinner and Satterlee.
2. See the chapter on The Laws of Wages in George's *Progress and Poverty* — any edition. N.B. the conclusion that "wages depend upon the margin of production (cultivation) — that they will be greater or less as the produce which labour can obtain *from the highest natural opportunities open to it* is greater or less — flows from the principle that just as a free body tends to take the shortest route to the earth's centre, so do men seek the easiest mode to the gratification of their desires". (italics ours)
3. "The Parliament shall . . . have power to make laws . . . with respect to conciliation and arbitration for the prevention and settlement of industrial disputes extending beyond the limits of any one State."  
The Constitution of the Commonwealth of Australia; chapter 1, part V, 51 (xxxv).  
Legislation: the Conciliation and Arbitration Act 1904-1972. The Public Service Arbitration Act 1920-1972.  
Machinery: The Commonwealth Industrial Court,  
The Commonwealth Conciliation and  
Arbitration Commission.  
Description of Commonwealth and State Laws, and of awards, agreements and wage statistics occupies 35 pages of the 1973/74 *Commonwealth Year Book*.
4. *Fixation of Wages in Australia*, by George Anderson, M.A. Melbourne University Press, Melbourne 1929.