

EMBARCOED UNTIL AFTER DELIVERY
PLEASE CHECK AGAINST DELIVERY

Speech by Dr Goh Keng Swee, Deputy Prime Minister
and Minister of Defence at the NTUC Second Triennial
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As the Prime Minister told you last Sunday, Singapore now faces a new situation in the post-Vietnam era. This is due not only to the victory of communists in the Vietnam peninsula, but also due to the state of the world economy. Though it is recovering from the recession, led by expansion of the US economy, it is far from certain that we shall see fast growth rates of the 1950s and 60s. This is the right time to take stock of our situation, and I therefore want to say a few words about the role of trade unions in Singapore.

It is a good practice before we decide what we should do to see what other people are doing. I therefore want to discuss workers and trade unions in two countries, Japan and Britain. As you all know, the Japanese have been extremely successful in economic management, but the British have had a lot of trouble.

First I want to describe a strange experience that I had when I visited Japan four or five years ago. I noticed that the driver of a car I travelled in was wearing a red arm band. Later, when I visited the Tokyo office of SIA, I noticed that all Japanese employees were wearing red arm bands. I asked whether there was some kind of festival going on. "No" said the manager, "they are on strike."

"Then why don't they stay away from work?" I asked. The manager said: "They do not want to cause inconvenience to their employers. So they put on red arm bands and turn up for work."

During the recent recession, you would have read newspaper reports of how Japanese bosses and Japanese personnel managers, who had to lay off workers, committed suicide after discharging their workers. In Singapore, there was recently considerable retrenchment in some industries but no boss or personnel manager even contemplated this course of action.

It will be difficult to convince Singaporeans that what the Japanese did was rational and logical. Yet how does one explain the economic miracle they achieved in the post-war years? How could illogical people achieve such success?

There are certain features of Japanese trade unions, labour-management relationship and management philosophy and practice that make such seemingly bizarre conduct consistent and logical.

Japanese trade unions are organised along lines which western liberal intellectuals would deplore. They are company unions. Any British trade union leader will tell you that this is a thoroughly bad thing. Fortunately for Japanese workers, they did not have to learn from British experience.

In the larger Japanese enterprises, which is the main sector in which organised trade unions flourish, workers are engaged for life. The kind of jobs they are given depends on their level of education. Since employment lasts throughout working life, annual increments are expected every year and accordingly salary scales are very long.

The pay a worker gets therefore depends on the job he does and on the number of years he has served the company. There is no such thing as a rate for the job in these large corporations. We may call them zaibatsu enterprises for most of them are organised into giant conglomerates called zaibatsu. Pay depends on seniority and so does promotion.

Dismissals or resignations are very rare events, possible only when some scandalous misconduct could no longer be concealed. This is true of what may be called the permanent staff of the zaibatsu enterprises. In addition, there are temporary workers who can be hired and fired according to market demand.

A Singaporean who is assured of life time employment, annual increments, regular annual bonuses, will find his eagerness for hard work and initiative greatly reduced. Why try to excel when this makes no difference to your pay? This apparently has not happened in Japanese enterprises. Why?

The answer lies in Japanese management philosophy. They believe that the way to get most out of employees is to secure their total commitment to company. Such loyal employees can then be depended to give of their best without costly and irksome supervision. Japanese employers, in the zaibatsu sector anyway, understand that commitment is a two-way process.

Loyalty of employees is secured in a number of ways. There are wide fringe benefits and big zaibatsu firms provide hospitals, creches and kindergartens, schools, holiday resorts, subsidized cafeterias and supermarkets, overseas holidays and even cemeteries.

Total commitment of a work force can be sustained only if relations between them are harmonious. Accelerated promotion disrupts this harmony and is therefore not resorted to as a general practice. However, at top management level, the really big prizes go to executives after their retirement at 55. The best join the top layer of corporate executives, the others are retired.

Harmony is also preserved within the management structure by a peculiar practice of decision making through consensus. No major decision is taken without the agreement of all departments of the enterprise. This is a long and tedious process but it has some benefits. Once a decision is taken, all concerned are familiar with the reasons for the decision and the action which their departments have to take. Consequently implementation is swift and thorough because coordination becomes an effortless process, in contrast to the normal system in which decisions are made at the top and filtered down.

Japanese enterprises go to great lengths to cultivate loyalty and promote commitment. It is a common practice for employees to line up first thing each morning to sing the company song. Special care is taken to relieve frustration not only through the normal management processes but at times by special gimmicks. One company has installed a small room equipped with a dummy of the boss and a base ball bat. Frustrated workers leave the work-shop floor to have a whack at their boss, and go back apparently satisfied and productive.

Mitsubishi, one of the biggest of the zaibatsus, recently established a computerised marriage bureau for employees. The object is to pair off Mitsubishi bachelors with Mitsubishi spinsters and the computer works out who is compatible with whom.

The executive in charge could hardly wait to see the results.

"Just imagine" he said, "what would happen when a Mitsubishi man marries a Mitsubishi girl. The Mitsubishi child will be totally committed to Mitsubishi right from birth."

I have been saying that these arrangements hold good for the large corporations. Outside these, what is the position? The smaller employers cannot afford either the high wages, wide fringe benefits nor permanent employment which big corporations offer. In this sector of the Japanese economy, which employs nearly three quarters of the work force, the normal competitive process applies in a harsh degree. One reason is that it is the custom for Japanese companies to depend on bank loans and other forms of borrowed capital to a greater extent than is normal elsewhere. During a recession, large numbers go bankrupt when they cannot repay these loans. So the counterpart to the idyllic scene of zaibatsu enterprises is this larger and more fearsome and fiercely competitive arena.

This sector of the economy is much involved in providing supporting services or semi-finished goods and components to the large corporations. It confers three advantages on the Japanese economy. First, there is flexibility in resource allocation - labour and capital - which the zaibatsu enterprises lack because of life time employment and other practices. Next, it provides zaibatsu industries with first class low price supporting services and products thereby making these competitive in export markets. Third, it is a constant reminder to zaibatsu employees how lucky they are and what would happen to them should they resign, for no other zaibatsu will engage them. You can see that the system is complete and logically consistent.

I now turn to British experience. It is a sad story. In recent years, a new term has been coined - malaise anglais - or English sickness. The reasons for Britain's economic troubles are complex and I won't go into them here. But the nature of their affliction is less difficult to describe.

There is a high rate of inflation. When this went down to 14% the last six months, the Chancellor of the Exchequer considered this a cause for congratulation. High inflation rates are accompanied by high unemployment, now 1 $\frac{1}{4}$ million. The growth rate of their GNP has been low not merely in the last two or three years but for nearly two decades. Soon after world war two Britain enjoyed the second highest per capita GNP in Europe. Now only countries like Italy, Spain and Portugal are behind her. What happened?

To oversimplify a complex process, let us start with a typical year when the British Government decides that the growth rate should be increased. The Government decides to spend more, reflating the economy, as they put it, by allowing government expenditure to exceed revenue. Money incomes go up, prices also go up, and for a while there is some temporary increase in employment and output. However imports also increase as people buy more. This causes a balance of payment deficit and a fall in their foreign exchange reserves. Sooner or later, this becomes severe and policy has to be reversed.

In course of time this process sometimes called stop-go policy, is repeated several times. It becomes increasingly difficult to cut down expenditure. Politically, reducing welfare state expenditure is not feasible. So taxes have to be increased, often on the most productive section of the economy. The public sector in Britain now disposes of 60% of the GNP.

Over the years, workers and trade unions become restive over continuing inflation. Trade unions decide to go for really big wage hikes to keep up with rising prices. Until recently, a 40% wage increase was considered reasonable. These wage claims are backed by strikes when necessary. It is a field day for militant labour leaders. But in the end, what the workers get is even higher prices for the goods they buy. This is the result of so-called cost-push inflation. As prices of their goods they export also rise, they lose out to foreign competitors, thereby increasing their balance of payments troubles. And so it goes on in a vicious circle and economic problems become more and more unmanageable.

It is remarkable that Britain of all countries should get caught in economic tribulations of this kind. For their universities have produced, from Adam Smith to Maynard Keynes, the main body of economics as we know it today. Further, the British have always been strong in science and technology. Take winners of the Nobel Prize given for outstanding scientific achievements. From its inception in 1901 to 1975, the British had 71 prize winners, the Germans 58, the Americans 125. Per head of population, the British lead Germans and Americans by a wide margin. It is sad to see so talented a people reduced to such a stricken condition.

What lessons can we draw from the experiences of the British and the Japanese? From the Japanese success story, I am afraid there is little that we in Singapore can follow. The reason is that the system they have established is based on the cultural values and social customs which they have developed

over the centuries. The stress in zaibatsu companies on loyalty and commitment, and the success which they have achieved here, is not something that we in Singapore can hope to emulate. We have a different history, and a different set of social values. Take the long salary scales, for instance, which the zaibatsu companies have found a necessary part of their management policies. Mr Devan Nair has come out openly against such practices in Singapore, which grew out of different circumstances. Does it mean that he is wrong? I think not. Ours is a more mobile system, where outside the civil service and some public sector institutions, neither life long careers nor job security are regarded as desirable. On the contrary many Singaporeans are inveterate job hoppers, believing they improve their prospects this way. You can't change this **overnight** by exhorting people to be more sensible.

Nevertheless the Japanese experience shows that one basic ingredient of their economic success is the ability of unions and management to work for the common good of the enterprise. It is not unknown for Japanese unions to allow hard pressed employers to pay their bi-annual bonuses in instalments.

We should also note that the free for all competitive area which employs most of Japanese workers, enables the economy to adapt to changing circumstances more efficiently than most other countries can. It is a cruel process but then the world of business and finance is not made for kindly and gentle people.

The third lesson we can learn from the Japanese is the importance of supporting industries. I will deal with this in detail later but in the meantime I turn to British experience.

The most important lesson we can draw from their misfortunes is the danger of small or no economic growth. People who are against growth, such as environmentalists and at one time, the Club of Rome, do not understand the dangers to which zero growth rate exposes society. They forget that in a modern industrial state, productivity grows at something like $2\frac{1}{2}$ to 3% a year, mainly as a result of the spread of better management techniques, new production methods and the accumulation of skill and experience of workers. This means that the same GNP can be produced by a work force $2\frac{1}{2}$ to 3% smaller each year. If you have 5 years of zero growth, this means that 10% to 15% of your work force will be redundant.

Zero growth must result in an intensification of class antagonism as we have seen is happening in Britain today. More money for the workers means lower profits and less income for management and professional people. This not only arouses their resentment but it reduces the incentive to invest, thereby making matters worse for everybody.

Next, we have seen how strong the collective strength of trade unions is in a democratic state. When this power is used not for the national interest but to advance sectional interest, the results are disastrous for everyone, especially the workers.

Third, we note that excellence in science and technology is no substitute for sound economic policy.

The lesson of all this for all of us is clear. Singapore must at all cost strive to achieve a fair rate of economic growth. The somewhat relaxed condition of our society

today, leading even to undue complacency among some people, is the consequence of good rates of economic growth we have achieved in the last ten to fifteen years. Had we been unable to do so, the picture would have been completely different. It would be a sour position which communists and their allies can exploit to produce a vicious downward spiral. The result will be endemic political crises, increasing unemployment and poverty. Communists thrive in this situation which they regard as a prelude to a revolution in which they seize power. It is all in their text-books; you can read it in the works of Marx, Lenin, Stalin and Mao Tse-tung.

Let us compare our position with other developing countries in Asia which have achieved growth rates as fast as ours - Hongkong, Taiwan and South Korea. There are many similarities and differences between them and us. But one feature separates us from the three - none of them have a democratically elected trade union movement and a free vote for every citizen to elect their government. Only Singapore has this. And only in Singapore will it be possible for a misguided trade union movement to wreck the economy and bring about misfortune on the people of Singapore. Trade unions must therefore do nothing that would harm the growth of our economy.

I referred to the importance of supporting industries, the lesson from Japanese experience. As we industrialise, mainly through the establishment of medium and large-scale industries, there will be increasing demand for components and semi-finished goods, maintenance and repair services, which have to be provided by what is termed "supporting industries".

These are mostly small enterprises with work forces of less than 50 persons. Information on these sectors of our economy is scanty. The census of industrial production, 1974, showed there are 1528 small enterprises employing between 10 - 49 workers. They employ 32,200 people, double the number in 1965. No information is available on businesses with less than 10 workers.

Small enterprises are important not only in the manufacturing industries but also in the service trades and in construction. There are large numbers of small motor repair workers and all kinds of building sub-contractors, mainly in specialist lines. In the aggregate, they add up to a considerable size and we neglect them to our disadvantage.

It is common knowledge among industrialists in Singapore that the level of competence of supporting industries often leaves room for improvement. While some of the larger firms have gone out of their way to upgrade the capabilities of supporting industries to whom they give sub-contracting jobs, others find it easier to buy from Taiwan, or even Japan.

These small industries are faced with numerous problems, quite apart from attending to their real business which is producing goods for their clients. Urban renewal has meant re-zoning of land, requiring many of these enterprises to move elsewhere. Building control laws, environmental regulations, labour shortages, rising wage costs and other problems present these enterprises with difficulties. There are also other handicaps inherent in the nature of businesses. Their access to finance is less easy than in the case with large companies,

since they will find it difficult to comply with normal loan criteria which commercial bankers insist upon.

At one time, the Light Industries Services (LIS), a subsidiary of the EDB helped small industries in various ways, including loan finance. The LIS was abolished in 1973, but after two years, EDB found it necessary to resuscitate some of the work the LIS was doing. SISIR provides technical assistance services to do trouble-shooting on the production line. Many of these small firms are probably members of the Manufacturing Association or Chamber of Commerce but because they are small in size, it is not likely that they will be able individually to exert influence as effective as larger and wealthier members.

Often these small businesses are contemptuously referred to as backyard industries. Such is their predicament, that they sometimes even approach members of Parliament for assistance. The trouble with these small enterprises when they run into difficulties with government departments is that they seldom present their case in an effective way to the MP or other people. They are prone to make wild accusations which would be found untrue on examination; they conceal important information which they believe detrimental to their case. When the MP approaches departments concerned, all these are brought to light and the MP feels that he has been let down. He therefore drops the case, which may well be deserving of help.

For these and other reasons our knowledge of small scale industries is not complete. This is dangerous for a number of reasons. First, government regulations, whether they be on safety, health, building control or urban renewal -

may not take into consideration the special circumstances of these small industries. Next, these industries are important to economic growth not merely as a provider of supporting services and products, but in many instances in their own right. Much of the processed food we eat belong to this category, e.g. tow-kua, tow-foo and tow-gay. Third, these are truly indigenuous industries and they give employment to large numbers of workers. Finally, they are capable of making a useful contribution to our exports, if we know how to develop them successfully.

On this last point, I suspect it is because we do not really understand how small industries are run that we have not been able to establish a worthwhile souvenir industry. More than a million tourists visit Singapore each year but the goods that they buy are nearly all imported goods. The real beneficiaries of tourist spending on souvenirs are the handicraft industries in Indonesia, Thailand, Hongkong, Taiwan and elsewhere. We can learn a useful lesson on this subject from Taiwan. There, the government establish^{ed} a thriving souvenir industry out of virtually nothing, and it is now a valuable earner of foreign exchange.

You may say "These are all businessmen and employers. What has it to do with us?" The proposal which I am asking you to consider is to organise them into an effective association of small enterprises, so that better information on how they are affected by various policies and regulations could be made available to government ministries. We could avoid unnecessary mistakes as well as unnecessary resentment. More positively, the agencies that have been set out to assist them, such as

EDB's Implementation Assistance Unit and SISIR, can do their work more effectively. Increasing the competence of small producers will add to our economic strength in innumerable ways.

You may ask why the NTUC? I can think of four reasons. First, the NTUC has much experience in organisation. Further it is equipped with a small but effective research unit. This research unit is equivalent to the General Staff of an army; it is the brain centre of the organisation. It can undertake field studies, analyse available options and make recommendations to the NTUC Central Executive.

Second, the NTUC has not only experience in organising people, but has successfully managed a number of complex business enterprises - taxi services, mini-bus services, a travel agency, supermarkets, insurance etc. This is an important point for small producers are businessmen and they will be more willing to accept the credentials of the NTUC when its business capability has been proven.

Third, and perhaps most relevant to you, the NTUC can help the workers in these small industries by first helping their employers to be more efficient and productive. Direct approach to workers engaged in a myriad of small enterprises will probably not be cost-effective. But by making their employer more successful in business, the NTUC can indirectly improve the working conditions of their workers.

Fourth, many of these small enterprises could improve their efficiency and increase their profits by combining some - not all - of their work in co-operative ventures. The Japanese are particularly adept at this. A group of small machine shop

would jointly own and share an expensive machine tool which none of them could individually afford. The NTUC has extensive experience in setting up co-operatives.

But be under no misconception about the difficulties of these projects. You are dealing with large numbers of rugged individualists, who have survived and even prospered, in an environment that is far from favourable to them. Often they survive by evading regulations and breaking the law when it suits them. The sad thing is that when this happens, it is not always they who are at fault.