

EMBARGOED UNTIL AFTER DELIVERY  
PLEASE CHECK AGAINST DELIVERY

Address by Dr Goh Keng Swee, Deputy Prime Minister and Minister of Defence at the Pre-Seminar dinner on Thursday, 28 October 76 at the Singapore Conference Hall held in connection with the NTUC Seminar on Maximising the Benefits of Productivity

Most people are aware that this year is the bi-centenary of the Declaration of American Independence. Few are aware that the year 1776 witnessed another important event which was to have profound effect on the history of mankind. This was the publication of Adam Smith's book "The Wealth of Nations".

Adam Smith was the first, and in some respects, the greatest of economists. I would like to say a few words this evening on what Adam Smith had to say about productivity.

When I was first asked to speak on this occasion, I decided to bring myself up to date on the subject of productivity. I asked for books on the subject from the NTUC Research Library which kindly forwarded me twelve books. However I found these of limited value because they fall under three categories. The first group deals with index numbers. These are used in comparing productivity at different times or between different countries. The second is concerned with proving the obvious, that is increasing productivity is good for economic growth and economic growth is good for a country. The third are technical studies of what productivity means and how it can be measured in a firm or factory. This last group is most relevant, but we can leave this to the experts who have to devise productivity schemes in firms.

What we need to discuss are basic ideas and first principles. It is far from certain that these are widely understood in Singapore. When one is unsure where to look to for basic principles, one can find no better starting point than Adam Smith. If the developing countries, who are today suffering from dire economic troubles, had taken the trouble to learn from Adam Smith's "Wealth of Nations" instead of trying to apply sophisticated planning techniques based on Keynesian economics, they would be in far healthier shape. They would have avoided the mistake of neglecting their agriculture in their hot pursuit of industrial growth.

Let us see what Adam Smith has to say about productivity. Productivity is increased by division of labour and this increase occurs in three ways. First division of labour results in workers performing specialised tasks. This enables output to increase as workers improve their skills.

Second, as a person does one job throughout his working time, instead of moving from one job to another, there is a saving in time. To quote Smith "When he first begins his new work he is seldom very keen and hearty ..... for some time he rather trifles than applies to good purpose. Rural workmen obliged to change work and tool every half hour develop slothful and lazy habits".

The third way division of labour increases productivity is that it allows more use of machinery. To quote Smith again "The productive powers of the same number of labourers cannot be increased, but in consequence either of some addition

and improvement to those machines and instruments which facilitate and abridge labour. In either case an additional capital is almost always required. It is by means of additional capital only, that the undertaker of any work can either provide his workmen with better machinery, or make a proper distribution of employment among them".

Adam Smith notes that the output of workers, whether the humblest ones such as slaves, or the most exalted ones, such as university professors, depends on whether there is a direct relationship between what they produce and what they are paid. For instance he believes that slave labour, though cheapest in cost is in effect the most expensive because of low productivity. To quote Smith again: "The experience of all ages and nations, I believe, demonstrates that the work done by slaves, though it appears to cost only their maintenance, is in the end the dearest of any. A person who can acquire no property, can have no other interest but to eat as much, and to labour as little as possible. Whatever work he does beyond what is sufficient to purchase his own maintenance, can be squeezed out of him by violence only, and not by any interest of his own".

Regarding university professors, what he said about British universities 200 years ago sounds refreshingly topical when we look at our own universities today. "It is the interest of every man to live as much at ease as he can; and if his emoluments are to be precisely the same, whether he does or does not perform some varied laborious duties, it is certainly his interest .... either to neglect it altogether or, if he is

subject to some authority which will not suffer him to do this, perform it in as careless and slovenly a manner as that authority will permit".

"If the authority to which he is subject resides in the body corporate, the college, or university, of which he himself is a member, and in which the greater part of other members are, like himself, persons who either are, or ought to be teachers; they are likely to make common cause, to be all very indulgent to one another, and every man to consent that his neighbour may neglect his duty, provided he himself is allowed to neglect his own. In the University of Oxford, the greater part of the public professors have, for these many years, given up altogether even the pretense of teaching". Adam Smith was teaching at the University of Glasgow.

To summarise what Adam Smith was saying, it is that productivity increases will be encouraged if the worker gets more pay for better performance. While the principle is simple, its application to modern enterprises is complex. How does one measure productivity of sales girls, bar maids, bus drivers, army cooks, petrol station attendants and what have you. Even in the manufacturing industry where the application of productivity incentive schemes is most common, output is the result of combined team effort. Further the work of several teams doing different things is involved in production, not merely workers on the assembly lines. These are the technical matters with which the third group of books I referred to earlier are concerned. They are specialist subjects but I get

the impression that expertise on this subject is rather limited in Singapore because of apparently wide spread obscurantist attitudes toward it.

This is most noticeable among some employers who object to productivity schemes because they believe that these will result in having to pay higher wages and salaries. Of course they will, but this is no reason for opposing them. Wages and salaries will go up in Singapore so long as our GNP increases as prosperity must be shared by everyone who contributed to it. It must surely be in the interest of employers to ensure that when they pay higher wages, they get higher output in return. This is what productivity schemes are about.

Let me now discuss the wider implications of productivity increases on the economy, especially on workers. There are four scenarios, two happy and two unhappy.

First, consider the case when our economy expands very rapidly. More output is required as our products are in great demand the world over. Even with productivity increases, more workers need to be employed and trained as existing industries expand and new ones are established. This is happy scenario No. 1.

The second scenario arises in industries where demand increases at more or less the same pace as increases in productivity. Greater output is produced by the same number of workers. These enjoy pay increases, but there is no increase in employment. This is happy scenario No. 2. The Port of Singapore is the best example here. Between 1965 and

1974, cargo throughput increased from 5.4 million tonnes a year to 17.0 million tonnes, while the workforce remained about the same. The result was much higher pay coupled with shorter working hours.

Unhappy scenario No. 1 goes like this. There is no economic growth in a particular sector or industry. At the same time, there is an increase in productivity. The same output can be produced by less workers. Some therefore will have to be retrenched. Those remain can receive pay increases.

Unhappy scenario No. 2 comes about when demand for the product or services of a firm or industry declines. Workers have to be retrenched. In the extreme case, the firm goes bankrupt and closes down. Everybody loses his job. In such a situation, we get bogus trade union leaders such as Tan Wah Piow pretending to champion the cause of laid off workers, not because he cares for them but because he wants to make a name for himself.

In most years of the last decade, our experience in Singapore has been <sup>with</sup> very happy scenarios. This is because our GNP was growing at between 11% to 15% a year most of the time. During the recession years of 1974-75, we had some experience of unhappy situations, but the number of laid off workers fortunately did not reach serious proportions when the recovery began towards the end of last year.

It was not always like this. In the 1950s and part of the 60s, retrenchment often resulted in confrontation between employer and union. This was because jobs were scarce during those years and laid off workers faced genuine prospects of a long period of hardship.

When the economy is expanding briskly, this is not the case as laid off workers quickly move to other jobs. When in 1968 the British decided to close down their military bases, 40,000 civilian jobs were imperilled. Many thought a major crisis of unemployment would befall the republic. In the event, this did not happen. Instead, there was a smooth transfer of laid off workers to other jobs because of the exceptionally fast rate of economic growth we achieved. It is therefore vital in Singapore to sustain a good rate of economic growth. The trade union movement must remember that they should not resist the laying-off of workers in industries which are not competitive or whose overseas markets have declined. Even when retrenchment results from the installation of new equipment, this must be accepted by trade unions because this makes our industry more competitive and it enables wages of those who remain to increase faster.

Only in this way can Singapore's economy adjust quickly and efficiently to changing patterns of world demand for her products. So long as economic growth takes place, laid-off workers can be absorbed into new and expanding industries as happened to former British base employees. And only in this way can we reduce cost, increase productivity and remain competitive with countries such as Taiwan and South Korea where wages are lower than in Singapore and people no less hard-working.

When trade unions are strong, they can pressure governments to act contrary to this policy. This happened to a number of countries with disastrous consequences, especially

upon the workers themselves. In order to save jobs, government subsidizes unprofitable industries. Once a start is made, it is amazing how many industries can claim to be unprofitable and therefore deserving of large government cash handouts.

Even when a progressive management installs expensive new equipment to reduce cost by increasing productivity, trade unions obstruct this purpose by insisting that no workers should be declared redundant. Naturally, when this happens, the industries concerned become uncompetitive.

According to Professor P T Bauer in a recent article in Fortune Magazine, this is exactly what had been happening in Britain in the last decade or two. The desire to help the poor, the weak and the disadvantaged is a noble one, But when it becomes the prime object of government policy and is carried out without regard to the harsh realities of international business competition, the outcome is predictable. And in Britain today,  $1\frac{1}{2}$  million workers are unemployed, the inflation rate runs at 15% a year, economic growth is negligible and the pound sterling staggers from one crisis to another.

Let us not forget that Britain is technologically a very advanced country, endowed with abundant natural resources as well as a talented and creative people. If they can get into this kind of trouble because of wrong economic policies, how much more quickly will Singapore be ruined if we were foolish enough to emulate their example. Fortunately for Singapore the trade union movement under the leadership of the National Trade Union Congress is fully awake to the

special position of Singapore, an over-populated island with no natural resources and no indigenous technology worth speaking about. It is our unhappy lot to have to slog it the hard way and so long as we understand this we shall continue to survive and even to prosper when times are good.