Lesson for the U.K.

WITH the growth of unemployment in rich and poor countries alike, more and more voices are being raised in support of make-work schemes and settling people on small plots of land to grow their own food and build their own homes.

It is an indictment of the current state of the economics profession that some of the most influential academic textbook writers and consultants to the big international agencies such as the World Bank and I.L.O. are endorsing these ideas.

What used to be thought cranky is now almost the conventional wisdom.

Essentially, what these people are urging is a return to the economics of Robinson Crusoe, who certainly had no problem keeping himself fully employed.

But Robinson Crusoe was forever searching for ways to increase his productivity by taking advantage of whatever capital he could find or make, and of entering into a welcome association with Friday to capture the benefits of a division of labour and specialisation.

Crusoe and Friday were not interested in increasing employment, only with increasing their wealth. Employment took care of itself.

Having arrived in Singapore to take up a post at the National University to teach, among other things, development economics, I though I might reflect on the different attitudes towards increased productivity as seen in Britain and Singapore.

Report by ROGER SANDILANDS

IN BRITAIN, over-manning is currently contributing to losses of around £1 million *a day* in each of the following: the steel industry, coal mining, British Rail, British Leyland and British Airways.

A depressing annual round of strikes is called not only in support of higher wages but also to resist the spread of new technology where this may reduce manpower levels.

> The combination of high wage settlements, blocked innovations, over-manning and low labour productivity has meant that for two or three decades, more and more of our industrial competitors have undercut British prices and reduced her share of world markets.

Britain's troubles are not mainly the result of the current world recession; the recession has simply accentuated a long process of relative stagnation and decline.

The primary goal of successive British governments, strongly pressured by the trade unions, has been to achieve full employment. Increasing national income and productivity have been only secondary goals. Consequently, productivity-increasing innovations have been held back.

Where higher wages are nevertheless demanded and conceded, the result has been higher prices and/or escalating government subsidies and/or bankruptcy.

In the five industries mentioned above, subsidies currently total around £2bn a year.

- Revenues to pay this enormous sum are collected through higher taxes on other industries and on individuals.
- This cuts the profits and the growth of the more efficient sectors and reduces the purchasing power of tax-paying citizens.
- Thousands of jobs are preserved for steel-workers, coal miners, railwaymen and car workers at the expense of an at least equal number of jobs destroyed by high prices and reduced purchasing power.

Today there are well over 3 million people out of work in Britain. This has increased, not diminished, the cry of those calling for a slow-down in the introduction of labour-saving methods and for the imposition of protective tariffs.

SINGAPORE has followed a quite different economic strategy. Firms and industries that failed to reduce costs by labour-saving innovations have gone bankrupt. Their capital and labour force have been released to the innovators thirsting for resources. Hundreds of thousands of jobs have been lost in the last 20 years.

But an even greater number of new, higher productivity, better paying jobs have been created in their place.

Singapore has relentlessly seized on the latest capital-intensive technology whenever this has promised to reduce costs, regardless of the micro-economic effect on employment.

Land sales to pay for mass transit

THE COST of Singapore's Mass Rapid Transit system will be more than covered by the sale of 266 hectares of reclaimed land at Marina South.

The MRT will cost about $5bn. but the sale of Marina South by the government's Urban Redevelopment Authority (URA) should fetch $8.4bn,m according to Mr. J. Stephen Howes, a partner of Jones Lang Wootton, a leading firm of real estate agents.

The calculation was based on the URA's 1982 sales, in which 19 sites raised $515.9m.

Mr. Howes made his prediction at a conference organised by *Business Times*, at which he said that land around MRT stations would appreciate in value.

Retail space near the stations would probably go up by 20 per cent. Studies in Hong Kong had shown that commercial space near stations could rise by up to 40 per cent in value.

URBAN REDEVELOPMENT AUTHORITY LAND SALES

	Area of Land (hectares)	No. of Sites	Total Land Cost (millions)	Total Estimated Construction Cost (millions)
1967	13.93	13	$ 29.38	$ 140.50
1968	5.28	14	33.34	209.86
1969	7.62	19	49.04	264.47
1974	6.71	8	28.64	89.32
1976	4.68	6	40.09	83.70
1977	3.75	7	35.54	213.81
1978	22.46	17	294.38	849.34
1979	11.88	22	462.12	610.42
1980	17.66	21	1,168.02	1.216.02
1981	53.63	18	437.91	997.60
1982	11.15	19	515.92	390.00
Total	158.75	164	3,094.38	5,065.04

He cited as an example the costs near the proposed Orchard Boulevard Station. A first-storey prime location shop now rents out at $409 per sq. metre per month. This could rise to $490 after completion of the station.

Residential land values would also rise, said Mr. Howes.

Studies in Frankfurt, Germany, showed how residential values rose by 15 to 20 per cent if they were close to MRT stations. In Sydney, Australia, values rose by 10 to 20 per cent.

The evidence suggested that land within a 500-700 metre radius of stations appreciated in value.

- Since its first sales in 1967, the URA has released 164 plots of land with a total area of 160 hectares to developers.

● **Singapore – on the up and up**

The prize has been one of the most successful macro-economic performances in the world for both output and employment.

The contrast with the performance of most other developing countries (not to mention Britain) is stark.

Disturbingly, there is an apparent failure in the professional literature on development economics to learn the Singaporean lesson. One of the most widely used textbooks on the reading list for students at the National University of Singapore is that of Michael Todaro, *Economic Development in the Third World* (Longman 1981). Noting the abundance of labour and the scarcity of capital in most poor countries, this influential writer urges the now-fashionable view that capital-intensive methods imported from the capital-rich countries destroy jobs, increase urban unemployment and worsen income distribution.

His advice is to develop 'indigenous', labour-intensive technology for agriculture and small-scale rural industries and so restrain the historic process of rural-urban migration.

This is not the path followed by Japan or South Korea or Singapore. Nor is it the path followed by any other country that now calls itself developed.

Countries that have invested their scarce capital in firms and sectors where prospective returns were highest, and in a high capital-intensive form where this paid, are not usually the countries where unemployment is most serious.

One of my students heavily influenced by Todaro's text wrote in an essay: "Statistics show that in spite of high economic growth in the less-developed countries, employment has not increased as much. The reason has been attributed to the increase in labour productivity which is highly undesirable in highly populated nations."

IT WOULD spell stagnation and permanently low wages if employment did increase as fast as output. Economic growth could almost be defined as an increase in output relative to employment.

By the criterion proposed by my misled student, Singapore has one of the most deplorable records of all developing countries because, here, output has risen faster relative to employment than almost anywhere else in the world!

Clearly an increase in labour productivity is not highly undesirable. At the micro-economic level it may, and often does, imply painful adjustments.

At the macro-economic level, it is the recipe for better employment and higher material living standards. It is not something to be feared.

While the pains of adjustment to high productivity are great, so too are the rewards.

Countries which try to avoid these adjustment pains are usually rewarded with more, not less unemployment, and with poorer diets, poorer housing, higher rates of illiteracy and infant mortality.

Those who oppose higher productivity are espousing a modern version of the discredited "wages fund doctrine" of eighteenth century economists.

According to this doctrine, labour is employed by capital and so, with a given capital stock, capital must be spread thinly over the labour force, and wages kept low, if full employment is to be assured. Low wages, by raising profits, make capital accumulation, and hence more employment, possible.

Later economists exploded this theory by pointing out that no advance of capital is usually made to employ labour.

Labour is usually paid in arrears. At the end of the week, the employer pays money wages, but in return, he has accumulated a stock of output. The employer's capital stock is not diminished.

Thus, wages are paid out of the produce of labour. If capital did employ labour, it would be a puzzle how capital itself was produced in the first place.

THE SECRET of successful development is to mobilise land, labour and capital to their most productive ends.

This should not imply that labour has to be 'absorbed' in low-productivity, 'make-work' schemes such as digging ditches or building roads with primitive implements when a bulldozer would help to halve the costs.

The gap between output and human needs is so great, especially in the poorer nations, that there should be no scarcity of useful, profitable work for idle hands. An abundance of labour should be regarded as an opportunity, not a burden.

Though Adam Smith was one of those early economists guilty of the wages fund fallacy, Singapore appears to have taken her text from the famous opening chapter of the *The Wealth of Nations* concerned with specialization, the division of labour and exchange.

Here, the message is that the secret of economic growth lies with increased specialization in all aspects of agriculture, industry, commerce and the services. The division of labour can be carried further where the use of labour-saving machinery is greatest.

By increasing the productivity of labour, technological and organizational innovations expand the size of the market and make further specialization and exchange possible. Thus there are widespread, pervasive, dynamic gains to be had from increasing productivity.

Viewed from this perspective we see that higher productivity is not only the business of the innovating company, it can be good business for all of us.