# PRODUCTIVITY IS VITAL

## H.S. MABIN, EXECUTIVE DIRECTOR, ASSOCIATION OF CHAMBERS OF COMMERCE OF SOUTH AFRICA

The disappointing rise of 3,7 per cent in the real gross domestic product during 1971 meant that in that year, when allowance is made for the growth in population, the average rise in real living standards in South Africa was not much more than 1 per cent. It is true that several unfortunate and unexpected factors, over which South Africa had no control, contributed to the disappointing growth rate. Among them were drought and other agricultural setbacks, and the development of the international monetary crisis. However, the ideal situation is that growth in all sectors of the economy should be so firmly based that, even when unforeseen and uncontrollable reverses of this type occur, there will still be a generally satisfactory rate of growth in the economy as a whole.

That this was not the case emerges, for example, from the well-known fact that in manufacturing industry, in 1971, there was actually a decline of 1 per cent in production per manhour. In retailing, productivity, measured by the average physical volume of sales per employee, increased in 1971 by 1,4 per cent which was substantially less than the productivity growth rate envisaged in the Economic Development Programme. In other words, productivity and growth were disappointing in other sectors of the economy in addition to agriculture, so that agricultural setbacks left the economy exposed to a poor overall rate of growth.

A disappointing overall growth rate usually brings with it a poor current account external balance of payments performance, and this indeed occurred in 1971, when, partly as a result of unimpressive export performance, South Africa experienced a current account external payments deficit of R976 million.

The devaluation of December, 1971, which was the outcome of this situation, and the floating of the rand together with the pound sterling in mid-1972, have presented the South African economy with two alternative courses out of these difficulties. One course, and obviously the more desirable, is a stepping up in our national productivity, so that we can take advantage of the export opportunities offered by devaluation and get back to a better rate of economic growth. The other course — much less desirable — would be to cut back upon our living standards, so that we get our external accounts into balance through a process of tightening our belts.

Obviously the national economic effort must be directed to the first of these alternatives. South Africa must rise to the occasion and take the opportunities that are presented.

But this will not be achieved by any supine policy of merely ensuring that the remuneration of labour and capital is adjusted in accordance with the consumer price index, so that no one suffers any cut-back in his living standards. To rely simply upon a passive course of action such as that would be fatal, in the sense that it would condemn us to the second, and far less desirable alternative of reducing our national living standards in order to balance our external accounts.

Something very much more dynamic than this is needed. What is required is a marked steppingup in productivity per person employed in all sectors of our economy. Only on this basis can wages and salaries rise in a non-inflationary way. And furthermore, it is only when productivity per employee rises that profits will rise — and profits must rise if living standards are going to rise, because profits are the only source of the capital that is so necessary for investment in modernisation, in new equipment, in new processes, in research and development, without which sustained further and rapid advances in productivity cannot be achieved.

The overall South African economic position is epitomized by what has been happening in commerce in recent years. There have been increases in productivity per person employed in retailing, as a result, partly, of new sales techniques, including self-service, self-selection and other innovations. But the productivity increases have not been adequate, although remuneration of employees has outstripped the growth in productivity. The results can be seen in the fact that retail sales per rand of salaries and wages paid in retailing have been virtually static over the past four years, having moved only from R10-23 in 1968 to R10-45 in 1971. So the great bulk, and an increasing proportion, of the income produced in commerce has gone to workers, while profits have been eroded, as is clear from the fact that index numbers reflecting profits as well as labour remuneration have in recent years risen substantially less rapidly than index numbers showing wages and salaries only.

This is in line with trends in the South African economy as a whole. Over the five years up to 1971, profits in the economy as a whole, at current figures, rose by approximately 10 per cent, while remuneration of employees rose by 68 per cent. In real terms, profits declined, while salaries and wages increased by 35 per cent. Total remuneration of employees, expressed as a percentage of the gross domestic product, increased from 56 per cent in 1967 to about 62 per cent in 1971.

Under such circumstances profits have been inadequate to finance adequate investment in industry and commerce, and capital investment in growth and in modernisation has therefore lagged behind desirable rates.

This circle will not be broken, and we shall not get back to sustained, rapid and satisfactory national growth rates, until we step up our productivity per employee very materially.

This puts a heavy and important responsibility upon management.

There are at least three things which management can do about the situation.

Firstly, management can apply fresh enthusiasm to the introduction and modernisation of training schemes throughout business enterprise, both in individual firms and also collectively.

Secondly, management, collectively, can press for better and more modern general and vocational education and training facilities, both for Whites and also for the various Non-White races who must come into industry and commerce to fill the gaps created by the advance of the Whites up the ladder of progress and seniority.

Thirdly, management can cooperate wholeheartedly in the vital work done by the Productivity Council and the National Productivity Institute.

These desiderata are put tersely and briefly here. But there is nothing more important than these steps for the future of the South African economy. If management moves successfully and rapidly along these lines, the future of our economy will indeed be bright and splendid.