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MANAGEMENT IN A DEVELOPING COUNTRY

Prime Minister's Address to C.I.O.S., Melbourne, 29th  
February, 1960

One whose management of certain national affairs is under daily criticism and is found most inadequate by 49% of the electors may well claim some boldness in addressing you. But I have several good excuses. One is that you invited me, at your own risk. Another is that the business of politics is management. You may perhaps believe that we in politics interfere in your management too much; but if we had no sense of management you would properly condemn us. But my third excuse, the best of the lot, is that we are living in an era in which management has major responsibilities, and in which national success or failure may well depend upon it. Any contribution which any of us can make is therefore desirable.

I am encouraged by remembering that when I was a law student at Melbourne, under that great and good man Professor Harrison Moore, one of my friends in the back row (a place eminently designed for meditation) held his hand up and offered an opinion disguised as a question. Harrison Moore replied blandly, "Your suggestion is wrong, Mr. X, but I beg of you not to be disheartened. All suggestions, from however humble a source, are to be encouraged!"

This is the 12th International Congress of Scientific Management. It is organised by the Australian Institute. It has attracted the attention of eminent men from many countries. It has already focussed, and will continue to focus, the attention of thoughtful people upon what is a vital problem.

The very phrase "scientific management" deserves analysis. For we are all too much disposed to divide up the activities of life into separate compartments. We sometimes think of philosophers as those who engage in thought without experience; of politicians as those who have words without substance; of scientists as those who live strange lives among test tubes and the piercing of the mysteries of natural elements and forces; of business men as practical people who have experience without thought.

All of this is, of course, nonsense. We cannot sensibly subdivide the world in this cynical way. For a man without a philosophy of his own is only part of a man; a politician without substance in his mind is no more than a demagogue; a scientist who fails to see the impact of his work upon humanity is, quite possibly a menace; and a business man who has no comprehensive and orderly, and therefore scientific, thoughts in his mind will contribute little to the development of production and commerce.

My assignment is to speak to you of "Management in a developing country". The very title is a recognition of the basic fact that, like every other element in life, the problems of management change with the years and with the circumstances. When I was first Prime Minister, over 20 years ago, the business of government had only a fraction of the complexity which it possesses today. Wars, depressions, booms, the increasing demands made upon governments, a social revolution, have made their mark. In the course of one normal working week quite recently, to quote an actual example, I found myself trying to understand and do something about Budgetary policy, central banking action and monetary control, the protection and encouragement of industry, social services, the wage structure and its machinery, mineral

development, foreign policy and relations with neighbouring countries, the financial relations between Commonwealth and States, the problems of inflation, and policies relating to civil airlines. A developing country is a complex country. To understand what is going on requires that we should have learned to manage our own minds. This indeed, is the basic truth in all management.

When I undertook this task, it occurred to me that to understand something about current and future development it would be useful to look back 50 years, to see something of the changes that have occurred in Australia in that time. A study of those fascinating volumes, the Year Books, has enabled me to take a few key examples.

I find that 1910 was a year of economic simplicity for governments, though not, of course, for many thousands of private people. Taxes were low. There was no Commonwealth Income Tax: the first world war produced that. The total Commonwealth Revenues were about £20m. Today they are £1400m. Our population was much less than half of what it is now. We had 300,000 employed in factories; today we have well over a million. Our overseas trade was made up of £60m. of imports and £74m. of exports. The exchanges were normal. Nobody had heard of exchange control or dollar shortages, or a two-currency world. The great problem of overseas funds had not arisen. Today our overseas trade has grown to £900m. of imports and over £900m. of exports. Exchanges are controlled, we have been passing through a period of the licensing of imports to protect our balances. We are living in an era of Trade Treaties, the General Agreement on Tariffs and Trade, the European Common Market, and a score of other arrangements of an international kind which have studded what used to be the fairly plain road of trade with a myriad of signposts and prohibitions.

There has been a social revolution. In 1910 there were 65,000 old age pensioners; today there are over 500,000. There was no Invalid Pension; no Child Endowment; no Hospital Benefits; no Repatriation Benefits; no Medical Health Scheme; no Pharmaceutical Benefit Scheme; no Unemployment Insurance. We paid £1,500,000 for Old Age Pensions. Today our Social Services Bill alone is over £300m. Our Defence Bill in 1910 was £3m. Today, with no actual war on, it is £190m.

I have selected these few examples because the Social Revolution has involved enormous increases in company and individual Taxation, new indirect taxes, and a host of governmental rules and regulations, all of which directly affect business and therefore management. For in a complex world, with growing burdens, the pressure on management is greater, and the need for managerial skill more imperative.

Side by side with these things, there has been a vast development in the power and significance of the Trades Unions. In 1910 there were rather less than 360,000 members of Unions. Today there must be very nearly 2,000,000. But the matter does not end there. To meet the particular nature of the Commonwealth's industrial powers, there has been a great development of inter-state, i.e. nationally organised unions. Their weight, both politically and industrially, is substantial. The percentage of unionists to the total of wage and salary earners has risen to a preponderating degree.

It follows from all this that business management has been learning to accommodate itself to the pressure of organisations; to recognise their value; to study their relationship to problems of management; to secure better human relations and man-management.

But such problems cannot be solved by governments

alone. They call for good management and good work all round. We in Australia pride ourselves on our independence and a degree of irreverence about established persons or institutions. This is very good, for otherwise pomposity could well become the endemic disease of politics. But this spirited attitude does not prevent us from taking most of our problems to "the government", as if that magnificent abstraction was all-powerful (which, fortunately, it is not) and all-wise, which will be admitted by nobody here tonight except myself. The sober truth is that community problems cannot be solved except by community effort.

At a time like this, when we are not dealing with a crisis, but are called upon to take sensible steps to prevent one from arising, no good citizen can hope to escape from his own responsibilities. Employees have well-understood ambitions for better pay and conditions, and security of employment, and a full opportunity for their children. But they must, and I am sure many thousands of them do, realise that if wage increases outstrip increased productivity the effect will be that demand will exceed supply, prices will rise, and the value of money will fall. Employees, therefore, have a vested interest in increased efficiency and production. It is by these means that real and effective wages will rise and family interests be served.

On his side, the employer who simply passes on wage increases into higher prices is contributing to the inflationary spiral; rendering inevitable the next wage increase and cost increase, and price increase. Vast numbers of ordinary citizens will suffer in the process, the export industries will be penalised, and the national finances will be disorganised. The task of the employer, who is for this purpose the manager, is therefore to meet each upward movement of labour cost first, by absorbing it as far as possible, not regarding the current rate of profit as sacrosanct, and second (or should it be first) so improving the efficiency of his operations as to reduce, or at least stabilise, his unit costs of production. The growing availability of power, the rapid development of what we now call automation, the rising levels of education and skill, should pay their own dividends to ordinary men and women. If, therefore, there is on the face of it a conflict between the profits of investment and the upward pressure on wages, that conflict must be seen as a challenge to increased efficiency on both sides. In short, the present period of our national development can produce a damaging inflation if we are to pass the labours of contributing ingenuity to others and adopt as our motto "Each for himself, and the devil take the hindmost". But if we see the problem and are prepared to understand and deal with it, we can make the decade of the 60's in Australia even more dynamic and productive than the last 10 years.

Because I believe that, I assert that the most important Australians today are the managers. It is upon their skill, imagination, and enterprise that the national future will depend. Against this background, political managers and business managers confront what is, properly speaking, a common task.

It may perhaps induce a proper feeling of brotherhood if I say to you that we both suffer from common forms of temptation. You are tempted, and I hope you will not deny it, to regard politicians as verbose fellows who don't understand business and ought to keep their meddling fingers out of it. That sturdy attitude of mind persists until it becomes necessary to ask a government for a tariff, or a bounty, or a trade promotion organisation, or an immigration programme.

We in politics are tempted to regard business men as politically ill-informed, and as failing to see the forest of national economic policy for the trees of individual profit or

loss. But there is another form of temptation which is more important. You are tempted to take short views; so are we. The raising of prices, in a non-exporting and protected industry, seems in the short run to be calculated to protect this year's trading account. In the long run, such a policy may involve the business in decline and loss.

Similarly, in politics, we are tempted to take the popular measure of the moment - "the electors will be pleased!" - forgetting that great economic policies seldom bear fruit in a month or two, and may be bitterly unpopular before they achieve a recognised success. In the long run, the short view may involve the nation in decline and loss.

In both fields, therefore, clear intelligent, imaginative, and brave management is of the essence. Above all, if people like you and me are to work together intelligently and successfully for the nation, we must get, not only wisdom but understanding. I will take one contentious matter - the licensing of imports. A restriction of imports by means other than customs tariffs is, under modern treaty and practice, permissible only to protect our overseas balances. We could find ourselves greatly embarrassed under GATT, and other international monetary arrangements, if we failed to realise this.

Time after time, my colleagues and I have warned industry that import licensing is not a measure designed to protect Australian industry, but one designed to protect our overseas funds. Yet in a real sense, this has been a counsel of perfection. If certain imports are, over a period of years, excluded or limited in quantity, not by tariff but by licensing, many people will begin or extend import-replacing industries in those fields, hoping that what is, by declaration, temporary will turn out to be in practice, permanent. Yet, when the economic foundation of import licensing begins to disappear, and licensing with it, it will be hard for many to understand that the days of competition have returned; that tariffs, though important, are not the whole answer, and that management will have to carry the main burden.

In my philosophy, that is no bad thing. I believe in free enterprise. That does not mean protected and monopoly enterprise, sheltered from competition; but competitive free enterprise, adequately protected by tariff against a cheap labour or unfair competition, but not given an exclusive access to the local market, irrespective of structure or efficiency.

Let me turn to another general observation. The current cant of C A P I T A L and L A B O U R is a great and misleading oversimplification. It conjures up a picture of fat capitalists and hungry workers, engaged in a war to the knife. This picture is out of date. Like so many conceptions which are thought to be radical and progressive, it is unreal and reactionary.

The growing task is that of M A N A G E M E N T, which has to see that capital is put to the best use, and that labour is most productively applied. To do the latter, management must regard the welfare of the employee and his human problems as of growing importance. Human leadership is the greatest element in productive management. There was a time when the capitalist was the employer direct. Psychologies arose which, as I have indicated, have persisted and are played up. But in great modern enterprises, the "capitalists" are many and unseen. A little of their money may form part of the great pool which supplies the enterprise. But the employers in substance are the managers, employees themselves, who marry the money to the machine to the man.

So true is this that I have no hesitation in saying that the development of Australia in the future will depend more upon competent management, whether of farms or factories or mines or governments or Trade Unions, than upon any other factor.

Pressure groups will not ensure or even aid progress, for they seek power without responsibility. People with money and nothing more will not ensure it, for they are passive. A badly managed factory worker will not ensure it, for he will fail to identify himself and his work with the end in view. The vital people are the managers, the leaders who plan for that end and see how to attain it.

I now turn to some of the problems of true national development.

What are the principal characteristics of rapid development in Australia? If we answer that question we will have a better idea of the nature of the tasks of management and of the difficulties which it will confront.

The greatest characteristics, as I see them, are these.

We have a quickly increasing population, nearly half of the increase being the direct result of governmental immigration policies. This increase, while it stimulates optimism in business circles, provides additional stores of productive manpower, and adds to our national security, also creates its problems. There is a greater capital demand for factories and schools and houses and services, which in the short run is inflationary. In many large factories which I have visited, the co-presence of hundreds of workers of different nationalities and languages has presented problems of organization and management, the handling of which excites my admiration.

But, taking all these things into account, I think that the outstanding effect of a fast growing population is its psychological effect upon enterprise. The retailer plans and buys for an increasing number of customers. He is perhaps, less willing to be "taken over", or more willing to "take over". Retail trade is optimistic and increasing. Manufacturing expands. The building industry is active. The great basic industries are hard pressed to cope with demand.

This atmosphere of optimism is admirable, and indeed essential to growth. It is, indeed one of the acute problems of political judgment to preserve and encourage optimism while doing what can be done to avoid excesses which may lead some day to pessimism and unhappy results. For inflation is a common danger; a flat rate tax upon the money of the poor as well as of the rich; the enemy of thrift; the basic injustice against which we must all fight.

A severe and unchecked inflation would be nationally disastrous. I think it necessary to say something plain, but not extravagant, on this point.

If costs rise (as they are now rising) and prices rise in consequence we have what we call a "cost-inflation". But if the cost rises are primarily related to wage increases, the increase in purchasing power soon produces a "demand-inflation". We need not, therefore, distinguish unduly between the two aspects of what is one common problem.

Can costs go on rising, without national injury? Already, one or two of the smaller, but not insignificant export industries are in trouble. Even the greatest, like wool and wheat, must have occasional apprehensions.

But there is another aspect of inflation which cannot be ignored. As our population grows, so will our demand for goods and services. That, as our economic history proves, will be not merely a demand capable of being satisfied by local production. It will include a large demand for imports. In other words, as Australia develops she will become increasingly a great international trader, drawing upon the skills and products of other lands. To pay for such things she will need increasing exports. If she is to achieve the necessary volume and, in terms of price, not be unduly vulnerable to changes in the price of wool, she must add to the diversity of her exports. She must be able to manufacture for export, and compete in the markets, particularly of the politically "new world".

There may be some who despair of such a result, though I think that they will concede that without such a result there will be a sharp limit to true Australian development.

So there is our problem. In a rapidly developing country there will inevitably be inflationary pressures. Population will be increasing; capital demands will be not only large but urgent; there will be an atmosphere of growth and prosperity; standards of living will rise; luxuries will become necessities; wages will rise; greater profits will be sought and frequently achieved; there will be international investment; public works programmes will grow.

Yet, if we yield to the inflationary pressures, and say that their results do no great harm, we will check fixed-interest investment; we will be forced to carry more and more capital works on revenue; we will do grave injustice to those who live on fixed incomes; we will upset Government Budgets and move towards chronic deficit finance, thus adding inflation to inflation; and, except to the extent that heavily protected industries can live on the local market, price ourselves out of the world.

Under such circumstances, what action can we take, not only as government but as people, to secure and confirm the enormous advantages of expansion and growth while at the same time maintaining that stability and security which always seems to be the pre-condition of the attraction of men, money, and skill?

The appropriate policies need not be sensational; there is no occasion for extravagance in our thinking. We can learn a great deal from our own experience and that of much greater countries, most or all of which have encountered these problems. Indeed, I should, to avoid sensationalism, make it clear that our current problem in Australia is much less acute than that which followed the Korean War.

I would now like to state quite briefly the nature of some appropriate policies as we see them.

Our objective must be to check rises in costs, by all means in our power, and to counteract growing monetary demand, negatively by banking and monetary controls, positively by increasing the supply of goods and services. The supply will be increased by active and growing manufacturing industries, and by imports on a scale that our exports will permit us to pay for. We must preserve stability of employment, unemployment is nationally wasteful; so is over-full employment, which inflation is apt to create in the first instance. So far as possible we should encourage savings so that there is adequate investment out of true savings, in loans for developmental public works and in capital for private enterprise. We must attract investment, not speculation, from overseas. But above all, and this is where John Citizen comes in, whether employer or employee or self-employed, we must increase our productivity per head. And, if we

desire the stimulus which would follow a reduction of, or a less steep increase in, government expenditure, we can moderate our demands upon Governments. Don't overlook that last observation. In Australia we are apt to want the best of everything "at once, if not sooner".

Getting our costs down does not mean cutting wages. It means getting better value for wages by increasing production, improving processes and skills, and attaining a realisation all round that wages and salaries are worth only what they will buy. We estimate that the two decisions made last year, in the Basic Wage and Margins cases, will add something of the order of £165m. to the annual wages bill. Does anybody suppose that employees in Australia will be £165m. better off? If rises in costs and prices continue at their recent rate, and tend to grow, employees may in the long run be no better off at all. What we need, for everybody's sake, is a period of quiet on the wages front, so that these increases may be digested, and so that industry generally can, by improved efficiency, avert their impact upon prices. It would be fatal to accept the folie circulaire of the wage-prices spiral as inevitable.

On the side of government, there are two tasks to perform, each of which has a bearing upon the other.

The first is to slow down the massive upward movement of government expenditure, which in the case of the Commonwealth, has been rising of late at the rate of something like £100m. a year.

The second is to do all in our power to avoid further deficit finance.

How to do these things will be our greatest Budget task later this year. And let nobody think that it will be easy. It is difficult because management is the most important and the most difficult element of all.

Thus it is that the problem of inflation presents perhaps the greatest challenge to management. Take national management first. The Industrial Tribunals, which exercise a great, and in its nature uncontrolled and uncontrollable power over the national economy, have been known to express a view that if there is any inflationary consequence of any decision, "the government" has power to deal with them. This is, I fear, not correct. Indeed, it is one of the facts of life that the two most significant economic instruments, the Arbitration Commission and the Tariff Board, are, in the first case absolutely and in the second case for all practical purposes, independent bodies. I think it a very good thing that this should be the case. The nation has good reason to appreciate the work that they have done. But clearly the Commonwealth's anti-inflationary powers are severely restricted in consequence. True, if we think that there is a demand inflation, we can increase taxes, which I know would give all of you great satisfaction! Interest rates, so far as they fall within the Banking power or the authority of the Loan Council, can be varied. The Reserve Bank may call Trading Bank funds to Reserve Deposits. Subject to the state of the overseas funds, more imports may be admitted. Educational campaigns can be carried on. The costs of government may be reduced; this is quite a fashionable remedy, though, in the case of the Commonwealth, the costs of administration amount to no more than 5% of the total Budget.

Hire-purchase seems to be substantially beyond our control.

But the fact is that one of the great obstacles to counter-inflationary action is that there are many people who

think a bit of inflation is a very good thing; that a cost and prices rise of 3 or 5 per cent per annum makes for greater purchasing power, buoyancy of business, and of course, if I may so so impertinently, a decline in the burden of overdrafts and of fixed indebtedness. Such a view pays little heed to the position of those on fixed incomes; and no heed whatever to the continuing and growing need to finance, by public borrowings at fixed rates of interest, a great programme of public works, the completion of which is absolutely vital, through transport and water and power and housing and schools and universities, to the expansion of industry and commerce and the maintenance of employment.

Before I conclude, I would like to say a little more about import licensing, the impending winding-up of which has recently been announced, with, naturally, a mixed reception.

A restriction of imports by licensing, if it reduces the actual quantity of goods available for local purchase, is inflationary up to the time at which local production replaces the deficiency, if it ever does. But in an inflationary period, as we have seen in the past, boom conditions tend to develop, and with them over-full employment, a bidding up for labour, a rapid turnover of labour, and a loss of efficiency which still further adds to rising costs. One way of counteracting this is not to restrict imports, but to permit them, so that demand does not overwhelm supply.

But no remedy is simple, particularly in Australia, where the balance of our international trade can change quite quickly and drastically. Thus, the year 1953/54 was a thriving year, with employment and production rising and a tolerably good export income - £812m. Early in the following year, 1954/55, however, the familiar signs of inflation appeared. Labour shortages became rather acute, prices began to rise fairly rapidly and, with local productive capacity fully taxed, the rising demand for goods spilt over into demand for imports.

Unfortunately, it happened that our exports fell away in that year, and our overseas reserves began to decline rapidly. They had been £571m. at the beginning of the year. By the end of the year they had fallen to £428m. and were obviously destined to go a good deal lower. Therefore, instead of being able to meet the additional demand for imports we actually had to restrict imports - as in fact we did in April 1955 and again in October 1955.

I mention this piece of history because it illustrates how constant and complicated the problems of management can be. Our recent decision in respect of import licensing, made against the background of buoyant overseas reserves, will impose fresh tasks of management and increased tariff-making activity. This is not because licensing was a protective measure; we always made it clear that it was not; but because in the nature of things the exclusion of imports by non-tariff means tended to give a feeling of security to a variety of import-replacing industries in Australia. Some of these industries will now set about justifying a tariff protection. All of them will meet the challenge of competition, which is the great challenge to management.

I wish your conference well. Mine has been a small and inadequate contribution. But the subject is so vast and significant that all thought about it is to the good.

29th February, 1960.