

GOVERNMENTS cannot repeal the law of comparative advantage, nor can an Australian government do much to prevent the changing patterns of world trade from redistributing it.

Advantage may depend on climate, proximity to a market, access to cheap labour, access to capital, know-how, land, or whatever, but as soon as some other nation or industry or company produces a cheaper or a better substitute product, it is lost.

Within a national economy, the advantage of an individual company will be lost when other companies manage better to satisfy the customer's wish to use his limited supply of dollars.

The company which has gained advantage is then able to bid limited stocks of labour and capital away from the losing company which suffers a cost/price squeeze.

The presence of unemployed workers becomes a mere red herring if by law the workers are forbidden from taking employment at a wage the squeezed firm can afford.

Structural change is the permanent change industries undergo to take advantage of, or avoid, the disadvantage of, changing comparative advantage.

When the Government keeps its fingers out, the mechanism is beautiful and automatic, allocating people's resources to those activities which people most want.

It can ensure that horse-drawn cabs make way for cars, that Australia produces most of the world's wool, that Britain does not grow pineapples, that poor nations produce labour-intensive goods, that rich nations produce capital-intensive goods, and so on.

By reflecting individual people's wishes it maximises individual welfare and national wealth.

These principles have been understood ever since Adam Smith and David Ricardo.

If it were not that they were so often denied, repetition of them would be an inexcusable instruction to grandmother in the art of egg sucking.

Structural change is inevitable in countries engaged in international trade.

Although governments cannot prevent it, they can alter its incidence so that it falls upon one industry rather than another.

Since change is in the short run costly to established interests which may be forced to make way for the up and coming, the established interests often encourage governments to prevent change, for them at least.

# Facing up to structural change

By JOHN HYDE, MP

Clearly there is need to balance the interests of those adversely and beneficially affected by change.

Public confidence in addressing future change would be enhanced by the knowledge that governments were more fully and systematically informed about the impact of changes in the trading environment and by the knowledge that government policy would ultimately reflect information rather than threats made by competing lobbyists.

I see no single means by which public understanding and confidence in fair play may be assessed but there are several possibilities, each of which would help.

The Prime Minister, Mr Fraser, when Leader of the Opposition, advocated a committee of the House of Representatives to consider IAC reports.

His proposal would remove the specific issues as each arises out of way of special pleading in private into the public domain.

THE ACTU and the industry organisations, whatever the short-term interests of some of their members, do have an identifiable interest in economic growth.

They also in the long term service of their membership should seek to educate them on the need for structural adjustment; the means by which they can benefit from it or live with it, with least pain.

Underlying the whole of our poor growth and lost opportunity is fear of the unknown reinforced by misinformation.

The various interests need to be more fairly balanced, and the system by which competing interests are balanced needs to be open and trusted.

While in practice and in theory any advantage gained by one group is at the expense of others, the established vested interest has a very unfair advantage over new interests in the business of leaning on the Government.

What is more, Australian economic growth has been so poor that within only 25 years we have slipped from the sixth to the 16th wealthiest nation in the OECD group, so poor that the standard of living in Japan measured by gross product per head is now higher than in Australia.

This unfortunate circumstance must be because we have been using our exceptionally bountiful resources wastefully.

The textile clothing footwear and motor car industries employ only about 2 per cent of the workforce, but, at the expense of the other 98 per cent, those well organised interests have managed to induce the Government to grant them immunity from those changes which would properly reflect their com-

"FINANCIAL REVIEW"

19 November, 1982

DRYSIDE 9

parative disadvantage