

On the Laws of Absolute and Comparative Advantage: A Commentary

Alex A. A. Bruce

Department of Business Administration, Gombe State University, Nigeria

*Corresponding Author

Alex A. A. Bruce, PhD

Email: brucealex46@gmail.com

Abstract: I try to make a brief comment and to draw attention to the Laws of Absolute and Comparative Advantage and their obsolescence in today's economic theory because of the age-long damage they have impacted on many economies via economic advisers and the contending problems developing nations are currently battling to surmount. It is unnecessary for a country to skew its expertise towards a particular or few production areas because it want to gain absolute advantage over other countries in that area and so neglect other potential areas (that could have made up for subsistence needs) by deploying all resources to the absolute advantage area thereby facing a long-run in-balance in meeting demands of other sectors. I suggest in this commentary that, the only way to develop productive sectors is to go by the Law of General or Near-Self-reliance Advantage.

Keywords: Laws of absolute and comparative advantage, Law of general advantage, Developing economies, Productive sectors, Productive resources.

INTRODUCTION

The contemporary world no longer faces the lapses of age long problems of productive resource utilization capabilities compared to when the law of absolute advantage [1] or law of comparative advantage [2], (hereafter, LAA and LCA, respectively) emerged. Instead, every development today depends on commitment, expertise, and determination hence I view the theory as having devastating loop-holes, which has submerged so many economies into mess owing to an intent drive for specialization in the production process of economies.¹ This is factual upon the grounds that a law of General Advantage or Near Self-Reliance (subsequently, LGA) should be preferred to absolute or comparative advantage because the LAA and the LCA produces epilepsies such as:

- a) Great abandonment of several productive sectors ;
- b) Gradual and complete neglect of vital produce/ service that could have been hitherto harnessed;
- c) Misuse of human resources which in real sense are divergent;
- d) Breeds long-run unemployment; and

- e) Results into economy, skewed to one angle of inference.

The argument here is that, if economies strive to harness every aspect of resources utilization within their disposal by diversifying in a large proportion, there is certainly going to be achieved what I regard here as the Law of Self Reliance (hereafter, LSR). Remember, if we only pool almost all resources including human capital, materials, money and otherwise toward the production of what we assume to be best at producing, we automatically and unconsciously neglect other productive areas and as such we will have to rely on other nations that produces those produce that we have neglected and could not produce- the postulations the LAA proffers. Note however that, what you could not produce must be paid for and possibly could be more expensive than what you are best at. The end result is that, you will have little or nothing (unfavourable balance of trade and payments) to save to counter future uncertainties.

The [1] LAA believes that if a country produces for instance, X, Y and Z products and thereby realizes that it is at best in the production of Z at the very minimum cost with maximum output, then the law stipulates that the country should concentrate by deploying more efforts of resources into the production of product Z to attain absolute advantage over other products. Then by extension, the LCA of [2] has the opinion on specialization among countries so that trade will occur according to the relative opportunity costs of

¹ Principles and laws must revolve and undergo alterations and changes that put realities in their true positions otherwise the entire world will keep rotating on fantasies of old and ancient solutions in a technologically advanced society.

production of goods/services in each country as measured in terms of alternative production given up for another tradable good/service. This is theoretically feasible and beautifully embracing as at the period of the proposition but not in this contemporary world of advanced technology, knowledge, skills, new resource extraction from other resources, and pursuit for wealth domination.

We must first acknowledge that human capital is a combination of diverse talents, initiatives, and expertise, hence each component of a people has what they are best at, so that, a skew to a particular production concentration to attain absolute or comparative advantage will render other human capital redundant and neglected especially when their expertise does not synchronize with the product/service of absolute or comparative advantage. Secondly, the material resources meant for the production of other

products may be bastardized and abandoned from being harnessed because all concentrations have been skewed to the product of absolute or comparative advantage; which means that a time will come when such materials will completely disappear and be economically inactive having been forsaken for nothing in the face of a contending economy.

The Issues and the Law of General Advantage

I believe countries should strive to produce all they could, simultaneously, irrespective of absolute or comparative advantage because they are likely to eliminate the high cost of labour and other material costs as they systematically improve overtime and gradually smoothen cost to the minimum in the long-run. Take for instance, a country that initially produces basic products/services in the areas of agricultural produce, natural minerals and labour expertise as shown on table 1.

Table 1: Hypothetical Productive Contributions of Sectors to GDP

Major Production Areas	Types of Produce	Cost of Labour/ other Resources	Contribution to GDP
Agricultural Produce	Cocoa, Cotton, Grains, and Animals	300	1/4 of GDP
Natural Minerals	Petroleum, Gas, Gold, Iron Ore, Coal and Diamond	200	2/4 of GDP
Labour Expertise	Teachers/Lecturers, Medical Doctors, Engineers, Architects	300	1/4 of GDP
Total			1

According to the LAA and LCA, this country should strive to deploy all available energy and resources to the production of natural minerals since it has absolute advantage over the rest of the production areas and could do better above other countries so it can help her to produce more than enough above what it could produce now which could place her over her counterpart countries. However, in this commentary, I postulate that, such practice could be very devastating and incredible and could destroy in totality the other areas that could have sustained the economy in a subsistence level such as the agricultural produce and labour expertise instead of having to import these same products/services from other countries. This is because, once attention is skewed to the production of natural minerals, the likelihood is that, those areas of less advantage will gradually be faced out by receiving less attention and so will not even be able to meet subsistence (domestic) needs hence the proceeds of the absolute and comparative advantage product must be used to acquire those products and services again from elsewhere which presumably may be costlier than the proceeds obtained from the absolute advantage product/service. This is where neither Smith nor Ricardo gave thought. You could have advantage over the other country and so concentrate because it cost you less but how are you sure that the long-run cost for

purchasing the forgone will not be costlier than the proceeds you get from that your best? Knowing fully that economic variability is eminent.

In table 1, by smoothing, I believe the inadequate expertise and concentration could be the reason for the high cost, hence the gradual specialisation will come when a job manned by 2 persons could be manned by 1 person and the resultant cost may reduce to 150 (i.e., $300/2$) or even less while other new productive avenues will absorb the excess of labour and resources so that resources are maximally utilized.²

This invariably could be the reason for the finance commentators' advocate for portfolio diversification to hedge investments against unforeseen risks on assets' investments by been risk takers in most cases. For an economy to thrive, it must not at any

² Expertise grows and does not give respect to who is endowed but the ability to concentrate on achievement gradually graduates into professionalism and self confidence. This is why most organizations that have become multinationals began at one time as a mere cottage business or shop.

chance consider any production area as disadvantageous but instead strive to improve and grow in all areas for the purpose of self reliance to a very high degree and attain general advantage over others. Israel is a typical example of this sort. The Israeli land has never being good for agriculture until they decided to transform it by all technicalities to achieve agricultural self reliance. Today, Israel export agricultural produce to nations that have good agricultural lands along with other technologically produced equipment, construction, industrialization, security and the likes.

Of course, there are products/services that may be produced not for export but for subsistence use, so that the local populace are at best satisfied with its price and affordability as government progressively encourage and support its production. This reduces and gradually eliminates the burdens on the government such that the proceeds from products of exports are precociously used to develop the basic areas of the economy instead of using them for repurchase of goods/services that hitherto could have been produced locally at a cheaper cost with very little support.

The LGA or Partial self-reliance gives room for (1) continuous improvement in the production of all products/services which a country is good at and not best at; (2) adequate and conscious use of all scarce resources in the country; (3) improvement in the savings from proceeds of the product of absolute advantage; (4) higher multiplier effect on development in other need-requirement sectors; (5) less reliance on other nations; and (6) high economic security.

Most developing countries are continuously suffocating to develop, partly because of the LAA and LCA which they whole-heartedly embraced aside from other endemic factors. They could have managed their developmental process but because of several years they abandoned those so-called less advantageous areas of production and took to concentrate on the absolute advantage areas, they are today crawling with their development process since they have to in most cases, borrow from International Monetary Fund (IMF) and other international financial institutions to carry-out their developmental projects. In fact, most of the sectors neglected are becoming too difficult to revitalize as the proceeds from the advantage products can no longer meet the contending demands for development. For example, when Nigeria discovered petroleum in the late 1950s, it gradually abandoned and neglected agriculture and other productive sectors such as mineral resources mining, and education (all fields including technology) and concentrated on fuel which today has resulted into absolute dependence on the sector and while it struggles to meet the over pressing developmental needs of the

economy, the struggle to revitalize other age-long neglected areas seems to be a mirage.

Boyo H [3] reports the complaints of Nigerian Governors over the non-payment of their monthly allocations from the oil proceeds by the Nigeria National Petroleum Corporation (NNPC) into the federation account which so far amounts to ₦2.3 trillion as at October 14, 2013. This cry-out is predicated upon the fact that the Nigerian federation has depended on the LAA and LCA for several decades which has invariably crushed or almost crushed every other productive sector such as agriculture, other natural minerals, professionalism and expertise in technology and other areas. In a recent decision by the House of Representatives of Nigeria on high cost of importation of cars instead of promoting home companies, Nnodim O [4] reports the concern of the house that, having recognised the strategic and catalytic effects of the automotive industry in industrialisation, job creation and wealth formation, among others, Nigeria tends to abandon this all important subsector. He further stress that, emerging economies like Brazil, China, Malaysia, India, Iran, Indonesia, Thailand and South Africa took deliberate steps to develop their automotive industry between the 1960s and the 1980s while Nigeria started about the same time in the 1970s but these countries have, however, developed well-advanced automotive industries now, in contrast to Nigeria. Owing to these and other unmentioned reasons, earnings seem very weak so any default from the oil sector is tantamount to shutting-down the economies of the federating states. This is one evil of the LAA and LCA on developing nations who embraced the theories decades ago.

Clearly put, it is an abysmal decision when nations resort to the LAA and LCA instead of the LGA which makes it almost impossible to revive back the less advantage areas after ages of abandonment. In a recent press conference, [5] points out that, the low-income countries need to continue to implement policies to protect themselves from any potential fallout from global economic outlook. Furthermore, she stressed that, the Euro area that is finally climbing out of the recession need to break-down barriers that are still an obstacle to growth and job creation, particularly in the products and service market while the group of Arab transition countries must continue to steer a path toward more inclusive economies that actually create jobs. It is not very incorrect to comment here that, these assertions by [5] cannot be possible if nations subject themselves to the LAA and LCA in their quest for developing their productive sectors. The pursuit to improve on and develop all areas of economic production is pertinent in this contemporary world via the LGA which will utilize all scarce resources, create

jobs and increase productivity of all kinds to further improve standards of living of nations.

CONCLUSION

The Law of General Advantage or near-self-reliant is a contemporary approach to development and partial self-reliance even though it may be very demanding and non-cost efficient in the short-run but the long-run smoothening process brings about mean reversing feedback. The principle of absolute advantage and the law of comparative advantage are almost out of place and have anti-developmental mechanism and strict risk-averse tendencies that seldom pave way for ideal industrialization and near-self-reliance hence nations must manoeuvre out of the webs. .

REFERENCES

1. Smith A; The Wealth of Nations, 1776.
2. Ricardo D; On the Principles of Political Economy and Taxation, 1817.
3. Boyo H; Where exactly is our Money? the Punch Newspaper, 2013. Available from: www.punchng.com/opinion/viewpoint/where_exactly_is_our_money/.
4. Nnodim O; Reps endorse tariff increase on imported cars, The Punch Newspaper, 2013. Available from: <http://www.punchng.com/business/business-economy/reps-endorse-tariff-increase-on-imported-cars/>
5. Lagarde C; Transcript of a Press Conference of the Managing Director, Washington D.C. 2013. Available from: www.imf.org/external/np/tr/2013/tr101013.htm