



Competition makes winners in trade and sport



The Modest Member
Scott Ryan

We are in the midst of the Olympics once again. As with all sporting competitions, spectators and athletes rightly expect fairness; clear rules applied by independent judges, with reward based on effort, training and the natural gifts and talents of the athletes.

The contest that is the Olympics do indeed have some comparisons with economics and trade.

Economic prosperity is built upon individuals, firms and nations producing goods and services in which they have a comparative advantage, as well as constant efforts to improve efficiency and quality. The pressure of competition forces athletes and firms to higher standards and achievements in both sport and the economy.

But it is where the link between so-called “fair” competition in sport and alleged “unfair” competition in trade is drawn that the analogy breaks down.

Some argue that lower wages paid to manufacturing workers in one country provide those firms with an unfair advantage over manufacturers in another. But athletes are remunerated very differently as well.

A professional athlete can train more intensely than one who must work to support themselves, and is thereby likely to perform at a higher level come the Olympics. We don’t consider that unfair.

There is the constant damage caused by subsidies, particularly in agriculture. But the resources supporting athletes in some nations are substantially greater than those from poorer ones. We do not say that the swimming team from a nation without the resources of the Australian Institute of Sport faces

unfair competition from us.

Just as nations have differing comparative advantages that give them the opportunity to produce certain goods or services more efficiently than others, some nations will have an advantage at some sports because of their environment, culture or history.

Australia wins more medals for swimming than skiing, while Switzerland does the opposite. We also outperform the Swiss in mining and agriculture, while they have a comparative advantage in manufacturing expensive watches.

We do not propose a handicapping system to somehow redress these imbalances and create a “fairer” competition. Nor should we. Creating a “fairer” competition would only result in a lower standard of competition overall.

Then there is the constant and very real issue of access to markets around the world. As has been particularly obvious to Australian farmers for well over a century, this is clearly not equal.

Some like to point to this inequitable access as proof that while sports may be fair, economics and trade are not.

This is used to support the perennial complaint that Australia reducing its trade barriers without other nations doing so disadvantages us.

It is incontrovertible that all are better off when tariffs and other trade barriers are removed. Individuals and firms may then direct resources to their most productive use.

Nations with cheap labour will undertake more labour-intensive manufacturing than those with expensive labour. Advanced economies will focus to a greater extent on services, capital-intensive operations and those areas in which they have a comparative advantage.

In Australia, this includes mining and agriculture, among others.

The real debate arises over whether reductions in protection

should be unilateral or conditional upon one’s trading partners doing the same. The latter approach makes as little sense in economics as it does seen through the prism of sport.

Unilaterally cutting protection ensures that, regardless of what our competitors do, at least we ensure our resources are utilised as efficiently as possible.

Unilateral reductions in protection are the economic equivalent of training harder in the lead-up to the Olympics. While the economic competition overall would be stronger if all did this, our competitors’ refusal to do so doesn’t mean that we should deny ourselves the benefits of open markets.

It makes no sense to refuse to train because our sporting competitors refuse to, just as it makes no sense to misdirect economic resources because our economic competitors insist on doing so.

The very flexibility and economic strength that has seen Australia come through recent global economic troubles is primarily due to our “training” as a result of deregulation and protection reduction that we have undertaken for two decades.

The nations struggling in the current economic climate have a common problem: the subsidies and sclerotic policies of protection hold them back from competing against the emerging economies

The lesson from every Olympics is that training hard matters.

The lesson from the ongoing economic Olympics is that nations that attempt to avoid competition suffer in the long run.

■ *Senator Scott Ryan is the shadow parliamentary secretary for small business and fair competition.*

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