

The division of labour essay



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Economic system is “ a system for coordinating the actions of all the people in a society in order to decide what to produce, how to produce and for whom to produce” (Waldron, 2003, P1). Thus, to analyse the effectiveness of economic system is actually to study the its resources efficiency, which includes allocative efficiency, decision about what to produce; and productive efficiency, decision about how to produce; as well as its equity, for whom is to produce. Before explaining how “ division of labour” and “ comparative advantages” works on economy efficiency, it’s necessary to have a look into how it affected to Neo and Angie’s dinner last weekend. On last Saturday’s together-dinner, Angie and Neo were two selected cooks to make fried beefsteak and vegetable salads. Neo was good at cooking that can fry approximate 8 pieces of beefsteak or made 16 dishes of salads in an hour while Angie can only offer 4 dishes of fried beefsteak or 10 dishes of salads in one hour’s time.

(See the form below) As it is shown in the table, Neo had absolute advantage in both frying beefsteak and making salads. However, Angie should be considered to have comparative advantage in making salads since her opportunity cost of making one dish of salads was frying $\frac{1}{3}$ piece of beefsteak. Compared with Neo’s opportunity cost which was $\frac{1}{2}$ pieces of beefsteak, Angie forgone less to make salads. Therefore we let Neo concentrate on frying beefsteak and keep Angie making salads, that is to specialise them with their own comparative advantages. By doing this, the total output is higher than other outputs from different methods of specialisation no matter how the demand is. (See “ Neo & Angie’s Production Line (specialised with comparative advantage), Graph 1).

From the two extreme assumed line which shows the specialisation fully with comparative advantage and comparative disadvantage respectively, we see that “ specialisation does not necessarily increase total outputs. Some patterns of specialisation increase outputs, while others decrease them.”

(Carven, 1990, P18) . From the graph it clearly shows that the only pattern to increase productive efficiency and bring out both more fried beefsteak and salads is the one follows comparative advantages. What’s more, if Neo and Angie are two individual producers with self-interest and want to have both two kinds of products. The best way to carry on the process is to be concentrating on the works they are good at then trade with each other.

Since trading will not change the total output, they will both have the increased production and their needs satisfied. In addition, they will know what others want, and how much more they should produce through the process of trading. Therefore this small business achieves the allocative efficiency. Similarly, the resource efficiency of an economic system also depends on the method of division of labour. It’s a good way to show how this rule works by comparing the efficiency of two extreme type of economic system, which are central-planned economic system and free-market system.

The first thing that should be considered is the allocative efficiency of an economic system. A economic system with allocative efficiency is a system that can “ produce the goods and services that people actually want, in the correct quantities”. (Economic System lecture hand out, 2003, P1)In central-command economic system, all the allocative decisions are made by the government. Large and complex bureaucracies are therefore set up to decide what individuals should be producing, such as a company or a

factory. However, it's nearly impossible to achieve allocative efficiency by doing this in practice. Due to the lack of free trading, the price mechanism doesn't work in the planned economy.

Prices of products are set up arbitrarily by the government officials and therefore can't convey any information of people's needs and the scarcity of specific resources. Thus, without knowing the consumer preferences and resource availabilities, the decisions are tend to be made to achieve some specific macro economic goals or political reasons. The actual demand of market is basically neglected and therefore the division of labour will no longer follow individuals comparative advantage, but the government's desires. Let see the China's economy before its 1979-reform as an example. The central-planned system last for about 30 years in China and during this period many economic inefficiencies occurred.

As Chairman Mao claimed in his speech on the third 5-year plan of economy, the division of labour at that time was only centred on the goal of maximize the steel output: "Our former method of planning was basically inherited from the Soviet Union, which is to set up the output of steel first, then use this number to calculate the necessary coal, electricity and transportation resource, and at last we calculate how many labour are required and how much should be spent on the welfare system. The output of steel determines all other things, (if) the output decrease, all other factors decrease accordingly." (Mao, 1964, P12) The Chinese Government was trying to develop the industry as fast as possible at that moment. Therefore, the division of labour was running far away from following the comparative advantage but the requirement for steel-making industry.

And this finally led to the allocative inefficiency. On the other side where Adam Smith's "Invisible Hand" is given full scope to, the free-market economic system tends to earn allocative efficiency more easily. Since "Specialisation based on comparative advantage is the basis for economic exchange" (Frank & Bernanke, 2001, P68) and the price mechanism which leads to allocative efficiency will only work on the basis of free economic exchange (trade), the free-market system in which the division of labour is generally following the comparative advantage has the superiority in achieving allocative efficiency. Another important factor that consists of the economy's efficiency is the productive efficiency. Like Neo and Angie's success in producing more beefsteaks and salads, an economic system also tries to increase its economic output.

As it was proved, the key to increase output is also to have the division of labour with comparative advantage. One good example in increasing productive efficiency by specialisation with comparative advantage is the economic co-operation between Hong Kong and the PRD (Pearl River Delta). Before the 1980s, a large factor of Hong Kong's economy that consisted of secondary industry such as toys making or garment processing industry. Owing to the world standard manufacturing technology and the great amount of experienced workers, high productivity was found in Hong Kong's manufacturing industry. On the other hand, because of the poor development of the former central-command economy in mainland, nothing more can be found than the cheaper labour in (PRD).

However, disregarding the existing absolute advantage and the high relocating cost, as soon as the reform that changed the PRD's economic

system from central-planned to free-market took place, Hong Kong moved most of its manufacturing industry into the PRD and then spend most of its resource on developing its tertiary industry such as financial and service industry. Like Neo, Hong Kong can develop both better secondary and tertiary industry than the newly reform PRD. However, as it was indicated by Robert Frank that “ at the national level, comparative advantage may derive from differences in natural resources or from differences in society or culture”(Frank & Bernanke, 2001, p54), Hong Kong’s comparative advantage was in its tertiary industry. The sufficiency of professional, the convertible currency as well as the advanced institute were Hong Kong’s “ born gift” that may help it develop the service industry more efficiently. Consequently, though PRD was right at the starting point of free-market economy when both of its productivities in secondary and tertiary industry’s were low, without Hong Kong’s unique “ born gifts”, PRD still had an comparative advantage in the processing industry.

In fact, the HK-PRD’s economy today fully proves the decision made 20 years ago was exactly right and far-sighted. By exploiting the efficiency of regional specialisation with comparative advantage, Hong Kong became the twelfth largest banking centre in the world, eighth largest stock market and seventh largest financial centre. (Source: Financial Services and the Treasury Hong Kong, 2003). On the other hand, from a rural area which only had per capita GDP of \$103 in 1979, PRD became the riches part of mainland China with per capita GDP of \$2935.

(Source: Guangdong Statistical Year Book, 1998). When looking at the Hong Kong-PRD’s total output, it would be glad to see that “ The combined GDP of <https://assignbuster.com/the-division-of-labour-essay/>

Hong Kong and the PRD, at about US\$ 265 billion in 2001, was greater than that of any other region in the Chinese mainland, and equivalent to that of Switzerland.”(Hong Kong TDC, 2003). All of those above testified that the division of labour with comparative advantage can definitely increase the economic productive efficiency.

Moreover, its influences to equity shouldn't be ignored though which is not as obvious as it is in the resource efficiency. In principle, a central-command system has the advantage in increasing the equity since its special controllable structure. However, the lower equity is always found in practice. That's because when the specialisation doesn't follow individuals' comparative advantage, the wills of the officials with the power will tend to lead to the corruption.

For example, produce of goods such as luxuries which will benefit the hierarch may be encourage artificially and finally led to economic inequity. To conclude, the division of labour determines both the allocative efficiency and productive efficiency. And the resource efficiency of an economic system will increase only when the division of labour is following the comparative advantage. Specialisation under comparative advantage does not necessarily decrease the economic equity while other methods of specialisation may probably do so. Therefore, we say that division of labour with comparative advantage determines the raise of an economic system's effectiveness.