



## Economics for the Citizen—Part II

BY WALTER E. WILLIAMS

There are four classes of behavior that can be called economic behavior: production, consumption, exchange, and specialization.

*Production* is any behavior that creates utility, that is, raises the want-satisfying capacity of something. When a mill smelts iron ore, it raises the want-satisfying capacity of the material by changing its form. The metal's want-satisfying capacity is raised further when it's made into steel, and the steel into rails, girders, and the like. Production also includes changing the spatial characteristics of a good. Navel oranges have no want-satisfying capacity for Philadelphians if the oranges are in California. The person sometimes called the middleman, or wholesaler, changes the spatial characteristics of the oranges by moving them from California to Philadelphia, thereby raising their want-satisfying capacity to Philadelphians.

*Consumption* is easy. It is simply the reduction of utility, the want-satisfying capacity, of something. When I eat a hamburger, I reduce its want-satisfying capacity. When I drive my car, I reduce its capacity to satisfy wants. By the way, if production is greater than consumption, the result is called saving. If it's the opposite, we call it dissaving.

*Exchange* is a bit more complicated; misunderstanding it leads to considerable confusion and mischief. The essence of exchange is the transfer of property rights. Here's what happens when I buy a gallon of milk from my grocer. I tell him that I hold property rights to these three dollars and he holds property rights to the gallon of milk. Then I say, "If you transfer your property rights to that gallon of milk, I will transfer my property rights to these three dollars."

Whenever there's voluntary exchange the only clear

conclusion that an observer can reach is that both parties, in their opinion, not yours or someone else's, perceived themselves as better off as a result of the exchange; otherwise, they wouldn't have exchanged. I was free to keep my three dollars, and the grocer was free to keep his milk.

If you think it's obvious that both parties benefit from voluntary exchange, why do we hear pronouncements about worker exploitation? Say you offer me a wage of

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\$2 an hour. I'm free to either accept or reject your offer. So what can be concluded if I'm seen working for you at \$2 an hour? One clear conclusion is that I must have expected to benefit more by taking your offer rather than by taking my next best alternative. I must have perceived that all other alternatives were less valuable, or else why would I have accepted the \$2 offer? How appropriate is it to say that you're exploiting me when you've given me my best offer? Rather than using the term *exploitation*, you might say you wish I had

more desirable alternatives.

While people might characterize \$2 an hour as exploitation, they wouldn't say the same about \$50 an hour. Therefore, for the most part, when people use the term *exploitation* in reference to voluntary exchange, they simply disapprove of the price. If we equate price disapproval with exploitation, then exploitation is rife. For example, I not only disapprove of my salary, I also disapprove of the price of Gulfstream private jets.

By no means do I suggest that one purge his vocab-

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ularity of the term *exploitation*. It's an emotionally valuable term to use to trick others, but in the process of tricking others one need not trick oneself. I'm reminded of charges of exploitation Mrs. Williams used to make early on in our 45-year marriage. She'd charge, "Walter, you're using me!" I'd respond by saying, "Honey, sure I'm using you. If I had no use for you, I wouldn't have married you in the first place." How many of us would marry a person for whom we had no use? As a matter of fact, the problem of the lonely hearts among us is that they can't find someone to use them.

*Specialization* is said to occur when people produce more of a commodity than they consume or plan to consume. Specialization can occur on an individual, regional, or national basis. Here are examples of each. Detroit assembly-line workers produce more crankshafts than they consume or plan to consume. California citrus growers produce more navel oranges than they consume or plan to consume. Brazilian coffee growers produce more coffee than they consume or plan to consume.

There are two requirements for specialization. There must be an unequal endowment of resources and trade opportunities. The unequal-endowment part means that an individual has the skills or a region or nation has land, labor, capital, and entrepreneurial talent whereby he or it can produce certain things more cheaply than can another individual, region, or nation. For example, while it's possible to grow wheat and corn in Japan, it would be an expensive proposition. Why? Because crops like wheat and corn use a lot of land and Japan is relatively land poor. That means Japanese land is relatively expensive. By contrast the United States is land rich, hence grain production is relatively cheap. Therefore, it makes sense for the United States to take advantage of what it can do more cheaply—specialize in grain production—and for Japan to specialize in what it might produce more cheaply—say, camera lenses.

For specialization to occur there must be trade opportunities. It wouldn't make sense for U.S. farmers to produce more grain than they consume or plan to consume if they couldn't trade it. Neither would it make sense for Japanese producers to produce more camera lenses than they consume or plan to consume if they couldn't trade.

Imagine that the Japanese government imposed trade restrictions on U.S. grain imports. Japanese farmers could charge monopoly prices and enjoy higher income, and Japanese consumers would pay higher prices. Would you deem it an intelligent response for the U.S. government to retaliate against Japan's trade restrictions by imposing trade restrictions on Japanese camera lenses, allowing American lens producers to charge monopoly prices and American consumers to suffer higher prices? Put another way, is it smart for the U.S. government to harm American consumers because Japan harmed its consumers?

### Making People Dependent

Specialization and trade make people dependent on one another for their everyday wants. How many of us make our own eyeglasses, cars, houses, clothing, and food? We get all those goods by specializing in what we do well and trading with others for what they do well. Through specialization and trade, we might call it "outsourcing," we enjoy goods as if we actually produced them. In fact, specialization is an alternative method of production. By the way, anyone calling for independence individually, regionally, or nationally is asking us to be poorer. It makes no difference whether they're calling for energy independence, clothing independence, or coffee independence.

Let's look at just a few misleading statements about international trade. The United States trades with Japan. Does anyone really think that it is the U.S. Congress that trades with their counterparts in the Japanese Diet? It's really individual Americans trading with individual Japanese through intermediaries. What about fair trade? If you purchase a Japanese-made camera lens on voluntary and mutually agreeable terms, you'd probably conclude that it was a fair trade, or else you would have kept your money. An American camera-lens producer might call that trade unfair because he couldn't sell you his lens at a higher price. Economic theory can't answer a subjective question like whether it would be fairer if you had to pay a higher price; it can say that a higher price would result in your having fewer dollars for other things.

The next installment of this series will focus on one of the most important economic concepts—costs. 