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## **Economics for the Citizen, Part 3**

**by Walter E. Williams**

There are four classes of behavior that can be called economic behavior. They are: production, consumption, exchange, and specialization. The discussion of specialization will be left to the next article.

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. Consumption is simply the reduction of 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 dis-saving.

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

Whenever there's voluntary exchange, the only clear conclusion that a third party can make is that both parties, in their opinion, 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, then how come we hear pronouncements about worker exploitation?

Say you offer me a wage of \$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 seen myself as being better off taking your offer than my next best alternative. 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 disagree with the price. If we equate price disagreement with exploitation, then exploitation is everywhere. For example, I not only disagree with my salary, I also disagree with the prices of Gulfstream private jets.

By no means do I suggest that you purge your vocabulary 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 himself. I'm reminded of charges of exploitation Mrs. Williams used to make early on in our 44-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.

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