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## **Economics for the Citizen, Part 4**

**by Walter E. Williams**

In the last lecture, we discussed three of four kinds of behavior that can be called economic behavior: production, consumption, and exchange. We'll turn our attention to the fourth — specialization.

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. Californian 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 the kind of resource endowment of land, labor, capital, and entrepreneurial talent whereby it can produce certain things more cheaply than 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, and its land is 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.

In order 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. That's why trade opportunities are necessary in order for people to take advantage of specialization.

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, thus allowing American lens producers to charge monopoly prices and American consumers to suffer higher prices? Put another way, is it a smart response for the U.S. government to harm American consumers because Japan harmed its consumers?

Specialization and trade make people dependent upon 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, getting paid, 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. By the way, those who call for independence individually, regionally, or nationally are 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 members of the U.S. Congress who trade 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 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 it 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 article will focus on one of the most important economic concepts — costs.

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