Economics for the Citizen

BY WALTER E. WILLIAMS

For the first time in 37 years, last fall semester I didn't teach. No, I haven't retired. It was my semester-off reward for two terms as department chairman at George Mason University. A break is well deserved after a chairmanship—a job not unlike that of herding cats.

During fall semesters I typically teach our first-year Ph.D. microeconomics theory course. Out of a love for teaching, I decided not to completely take off, but deliver a few lectures on basic economic principles to readers. We'll name the series "Economics for the Citizen."

The first lesson in economic theory is that we live in a world of scarcity. Scarcity is a situation whereby human wants exceed the means to satisfy those wants. Human wants are assumed to be limitless, or at least they don't frequently reveal their bounds. People always want more of something, be it more cars, more food, more love, more happiness, more peace, more health care, more clean air, or more charity. Our ability and resources to satisfy all human wants are indeed limited. There's only a finite amount of land, iron, workers, and years in a lifetime.

Scarcity produces several economic problems: What's to be produced, who's going to get it, how's it to be produced, and when is it to be produced? For example, many Americans, and foreigners too, would love to have a home or vacation home along the thousand miles of California, Oregon, and Washington coastline. Shipping companies would like to use some of it as ports. The U.S. Defense Department would like to use it for military installations. There's simply not enough coastline to meet all the competing wants and uses. That means there's conflict over coastline ownership and its uses. If human wants were not unlimited, or the resources to satisfy those wants were limitless, there would be no economic problem and hence no conflict.

Whenever there is conflict, there must be a means to resolve it. Several methods of conflict resolution exist. First, there's the market mechanism. In our land-use example, the highest bidder would be the one who owns the land and decides how it will be used. Then there's government fiat, where the government dictates who has rights to use the land for what purpose. Gifts might be the way in which an owner arbitrarily chooses a recipient. Finally, violence is a way to resolve the question of who has the use rights to the coastline—let people get weapons and physically fight it out.

At this juncture, some might piously say, "Violence is no way to resolve conflict!" The heck it isn't. The decision of who had the right to use most of the Earth's surface was settled through violence (wars). Who has the right to the income I earn is partially settled through the threats of violence; that is, our government, through the tax code, decides that farmers, businesses, and poor people have rights to my income. In fact, violence is such an effective means of resolving conflict that most governments want a monopoly on its use.

Which is the best method to resolve conflict arising out of the questions of what's to be produced, how and when it's produced, and who's going to get it? Is it the market mechanism, government fiat, gifts, or violence?

The answer is that economic theory can't answer normative questions. Normative questions are those that deal with what is better or worse. No theory can answer better-or-worse questions. Try asking a physics teacher which is the better or worse state: a solid, gas, liquid, or plasma state. He'll probably look at you as if you're crazy; it's a nonsense question. On the other hand, if you ask your physics teacher which is the cheapest state for pounding a nail into a board, he'd probably answer that it's the solid state. It's the same

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with economic theory. That is, if you asked most economists which method of conflict resolution produces the greater overall wealth, they'd probably answer that the market mechanism does.

The bottom line is that economic theory is objective or non-normative and cannot make value judgments. Economic theory deals with what was, what is, and what will be. By contrast economic policy questions are normative or subjective and do make value judgments—questions such as: Should we fight unemployment or inflation? Should we spend more money on education? And should the capital gains tax be 15 percent or 20 percent? Someone once said that if we took all the economists in the world and lined them up end-to-end, they would never reach a single conclusion. Economists are just like anyone else and as such have opinions and values. Thus much of the disagreement among economists has to do with value judgments. By contrast, there's widespread agreement on core theory.

Facts and Standards

Keeping the distinction between non-normative and normative in mind is important, so let me elaborate a bit. Take the statement "The dimensions of this room are 30 feet by 40 feet." That's an objective statement. Why? If there's any disagreement, there are empirical facts and commonly agreed-to standards to which we can appeal to settle the disagreement, namely, getting out a measuring instrument. Compare that statement to "The dimensions of this room should be 20 feet by 80 feet." Say another person disagrees and argues that it should be 50 feet by 50 feet. There are no facts and commonly agreed to standards to resolve such disagreement. Similarly, there are no facts and commonly agreed-to standards to which we can appeal to resolve a disagreement over whether the capital-gains tax should be 15 percent or 20 percent, or whether it's more important to fight inflation or unemployment.

The importance of knowing whether a statement is non-normative or normative is that in the former there are facts to settle any dispute, but in the latter there are none. It's just a matter of opinion, and one person's opinion is just as good as another. A good clue to telling whether a statement is normative is whether it contains the words "should" and "ought."

At the beginning of each semester, I tell students that my economic-theory course will deal with positive, non-normative economic theory. I also tell them that if they hear me making a normative statement without first saying, "In my opinion," they are to raise their hands and say, "Professor Williams, we didn't take this class to be indoctrinated with your personal opinions passed off as economic theory; that's academic dishonesty." I also tell them that as soon as they hear me say, "In my opinion," they can stop taking notes because my opinion is irrelevant to the subject of the class—economic theory.

I conclude this part of my first lecture by telling the students that by no means do I suggest that they purge their vocabulary of normative or subjective statements. Such statements are useful tools for tricking people, but in the process one needn't trick oneself. You tell your father that you absolutely need a cell phone and he should buy you one. There's no evidence whatsoever that you need a cell phone. After all, George Washington managed to lead our nation to defeat Great Britain, the mightiest nation on earth at the time, without owning a cell phone.

I personally believe that economics is fun and valuable. More than anything else, economics is a way of thinking. People who say they found economics a nightmare in college just didn't have a good teacher-professor. I became a good teacher-professor as a result of tenacious mentors during my graduate study at UCLA. Professor Armen Alchian, a very distinguished economist, used to give me a hard time in class. But one day, we were having a friendly chat during our department's weekly faculty/graduate student coffee hour, and he said, "Williams, the true test of whether someone understands his subject is whether he can explain it to someone who doesn't know a darn thing about it." That's a challenge I love: making economics fun and understandable.

The next discussion in the "Economics for the Citizen" series will be a bit more interesting. We'll talk about what kinds of behavior can be called economic behavior.