December 1982
Published by CEES
Center for Economic and Social Studies
Guatemala

The Sardine and the Shark

The shark eats the sardine, a biological act that satisfies an immediate need. The shark doesn't corral sardines into a cave to fatten them up and eat them in a few days, when they're bigger. For the shark, there is no long term; not even mid-term.

The shark does not accumulate work (savings) for when he gets old, or in order to leave something for his baby sharks when he dies.

The shark does not benefit from cooperating with the sardine; he can't even consider this. He's better off eating the sardine when he finds it. He certainly won't wait for it to get fatter. It won't occur to the shark to abstain from satisfying an immediate need in exchange for future satisfaction.

But Man is different. Man compares, chooses, deliberates. In short, he reasons.

Because of this, if he wants more clothes, he can buy them instead of making them himself. Indirect exchange (that can exist only if *money* exists) provides infinite opportunities to persons, opportunities that they perceive and take advantage of, each according to his capacity, priorities of the moment, and opportunity costs.

Of course, opportunities will be different for a person born in the year 1540 and one born in 2000. They will be different if he was born the child of a frugal father or of a spendthrift; if he was born in India or in Philadelphia; if he comes from a family of means or a poor family. But the fact is, whatever the circumstances in which a person finds himself, however unfortunate they may be, he will always be able to benefit someone else and himself through voluntary exchanges.

When people have the possibility to buy and sell, they stop trying to satisfy their own needs directly. They better satisfy them by purchasing goods and services with the money received in exchange for *their work = from their contribution toward the well-being of others*.

For example, if a society wishes to obtain the largest possible amount of corn, planting cotton may make more sense. The reason is very simple; with the income from the sale of the cotton, more corn can be purchased than would have been produced on that same piece of land.

Clearly, it is to everyone's benefit that others be well-off because when someone is better-off, his "opportunity cost" is less, and thus he can pay more. Here is an example: A barber in Escuintla [Guatemala] receives less payment for the same work as a barber in Philadelphia. Why? Because, it "costs" the locals in Philadelphia less to pay him more because they have more.

Someone from Philadelphia can pay $5.00 and someone from Escuintla, $0.50. But the Philadelphian earns the $5.00 in less than an hour, and our man in Escuintla earns $0.50 in one hour and 15 minutes. The barber from Philadelphia earns more because it costs the local Philadelphian less.

However, it seems no one questions the idea that the big fish always eats the little fish, because it is considered irrefutable.

And no doubt, there are big fish that eat little fish. Other species of animals aside from fish also eat the weakest. However, some small animals eat big ones: ants, bees, barracudas, etc.

Man has dominated the behavior of the animal kingdom: tigers, lions, whales, and elephants. His intelligence (capacity to reason) has allowed him to overcome scarcity and to place science at his service to master air, space, disease, inhospitable climate, etc. Small nations with poor resources and small populations have surpassed large, resource-rich nations, economically and even in battle. Sufficient evidence exists in the diverse order of things to demonstrate that, although it is true that many big fish eat little ones, this does not constitute a universal law, much less one that is applicable to humankind.

However, the criterion that the big one eats the little one is so deeply rooted that conceiving the opposite is very difficult. It seems an indisputable truth that in terms of size or power, men and fish behave the same.

Here, we will analyze the phenomenon that takes place among human beings which is precisely what differentiates them from the rest of the animal kingdom.

This is an extremely interesting phenomenon that applies as much to individual human beings as it does to competing businesses or rival countries. It explains to us *why* the strong have a vested interest in the prosperity of the weak. We will also comment further ahead on the differences between biological competition and catalectic competition.

To begin, it would be useful to look at some examples of the "strong" cooperating with the "weak."

A doctor does not "displace" nurses, despite his greater ability to treat the sick. The doctor delegates responsibility to a nurse, so he can concentrate on what he can do better, comparatively, than the nurse.

The largest company in the world, General Motors, purchases a large amount of components from small businesses to produce its automobiles. Because no one is under obligation to supply that enormous company, "the big fish," obviously no supplier would sell to GM unless it obtained a benefit. Neither would GM buy from its suppliers if it were not in its benefit to do so. Evidently, they do business together because they both benefit.

Anyone can easily recognize that, even in one's own line of business, some people do it better. But the fact that abilities are unequal, I repeat, does not displace everyone else. Rather, this disparity is what makes multiple types of contractual and business relations possible. It is where trade and business relations arise. Such relations would not exist if they did not benefit everyone involved.

Allow me to present a simple numerical example: suppose two individuals, Juan and Pedro, need only clothing and bread.

Would it be feasible for there to be an association ("society") between Pedro and Juan, even if one of them, say Pedro, is superior in everything with relation to Juan?

Since Pedro is superior in everything, will he displace Juan in the production of clothing and bread? Will Juan, because of his inferiority in everything, be condemned to inactivity? Would this benefit Pedro? Let's find out.

Let's compare Pedro's superiority over Juan according to the amount of bread and pieces of clothing that each one can make in 12 hours.

PEDRO

12 hours	**12 hours**
12 pieces of bread	8 pieces of clothing

JUAN

12 hours	**12 hours**
6 pieces of bread	2 pieces of clothing

If each works on his own a total of 24 hours, then in total (48 hours of work) they produce: *18 pieces of bread and 10 pieces of clothing.*

Can Pedro and Juan obtain any benefit by dividing the work so there can be an exchange later? This will happen only if, upon comparing what each produces separately, they both realize that they will end up with more by dividing the work and trading later.

By looking at the convenience of the association that necessarily arises between Juan and Pedro, we can see that "the big fish" doesn't eat "the little fish." It's simply not in his best interest! What's more, if the two end up benefiting from the exchange each will have a vested interest in increasing the benefit of the other and, thus, they will become mutually dependent, voluntarily.

Let's take the following "division" of labor as an example. Because Juan is at a greater disadvantage in making clothes, he will use all his time making bread. Pedro will produce both items. To each person, we assign 24 hours to produce bread and/or clothing.

PEDRO

9 hours	**15 hours**
9 pieces of bread	10 pieces of clothing

JUAN

24 hours	**0 hours**
12 pieces of bread	0 pieces of clothing

Combined total production: *21 pieces of bread and 10 pieces of clothing.*

Without increasing each individual's per-hour production or the amount of work time, the production is now greater than when they worked separately and only produced 18 pieces of bread and 10 pieces of clothing.

What's the explanation?
Note that Pedro's superiority with relation to Juan is not the same when making bread as when making clothes. In bread making, Pedro's superiority is 2:1; whereas it is 4:1 when making clothes. In the second example, Pedro was assigned more time to make clothes, since his degree of superiority is greater in making clothes than in making bread.

Juan was assigned zero hours to makes clothes because it is what he does to an inferior degree. Therefore, it is better for him to make only bread for the 24 work hours, since his degree of inferiority is lower in bread making.

The result is that that both have been liberated to a degree. Pedro has been liberated from working three hours in the area where he has less advantage, and Juan from working at something where his disadvantage is greater. In this way, the combined production increased by 3 pieces of bread. The fact that the division of labor resulted in greater total production is proof that this creates *opportunity* for mutually beneficial trade.

Now, it is one thing to illustrate the opportunity for exchange to take place and a very different thing for the exchange to be carried out. I reiterate: if an exchange does not benefit both parties, it will not take place. No one will trade if he does not profit (benefit) to some degree. Both have to gain; if either one does not profit, he will not participate in the exchange.

Let's illustrate an example of a possible trade: Pedro offers to deliver 2 pieces of clothing to Juan in exchange for 5 pieces of bread. The final result is:

PEDRO

Bread	**Clothing**
9 + 5 = 14	10 – 2 = 8

JUAN

Bread	**Clothing**
12 - 5 = 7	0 + 2 = 2

Pedro gained 2 pieces of bread and Juan, 1. Both have exactly the same amount of clothing as before, when they produced separately.

Who gained more? In pieces of bread, Pedro did. But both gained an equal amount of hours. Of course, this "deal" is simply an example.

The profit can also be observed if we take into account the cost of each man. The "cost of the exchange" is what he refrained from doing (sacrificed) in order to produce what he delivered. This is the true cost, called "opportunity cost" by economists. For Pedro, the 2 pieces of clothing he gave Juan represent 3 hours of work, in which he could have made 3 pieces of bread. Instead, he received 5 pieces of bread. This is the same as saying he sacrificed 3 pieces of bread in exchange for 5 pieces. Therefore, he gained 2 extra pieces of bread by not producing bread.

For Juan, the 5 pieces of bread he delivered represent 10 hours of work, in which he could have produced 1 1/3 pieces of clothing. In essence, he sacrifices 1 1/3 pieces of clothing to obtain 2 pieces of clothing. As in Pedro's case, abstaining from producing one of the two products represented a profit for Juan.

It is the inequality in "opportunity cost" between Pedro and Juan that makes it possible for them to profit from the division of labor, so both come out ahead from a trade.

We see these inequalities in the case of Pedro and Juan by comparing the time each one needs to make bread compared to clothing. Their productivity ratio in producing the two items is different.

In other words, Pedro has a ratio of 12 breads to 8 clothes (or 1.33:1). Juan's ratio is 6 to 2 (3:1). Pedro's superiority is 2:1 in bread and 4:1 in clothing. *It is those differences* that make possible the mutual convenience of interdependence.

Civilization would not have come about in a world where everyone has exactly the same relative productivity. Without the differences, a significant increase in group productivity is not possible.

The previous example is based on barter, but exactly the same applies when money exists and prices are expressed in money.

Money came about precisely to facilitate indirect, fractional exchanges and those that occur over time.

A price in absolute units means nothing. It is the list of all prices (the "price structure") that establishes *relative prices* among all things. This is what allows us to compare and to establish the "terms of exchange" as to how many pieces of bread equal one piece of clothing; how many cigarettes equal one phone call; how many motorcycles equal a trip around the world.

These infinite price relationships (not value) come about as a result of the actions of everyone. Effectively, within narrow limits, we all confront the same *price structure* everywhere at a given moment. But each participant, due to his particular circumstances, appraises things according to *different relative value.* This can be as much at odds with the relationships revealed by the price structure as it is with the relative value scale of other people.

The reason for this generalized discrepancy in relative values is that we are all in a different situation from moment to moment. There are differences in age, sex, number of relatives, culture, physical ability, tastes, religion, possessions, health, location, ad infinitum—all factors that change from one moment to the next.

As long as each person perceives the surrounding world a bit differently from the way others perceive it, *discrepancies* will exist between the value we attribute to cost as opposed to the benefit of each opportunity.

The "price system" is precisely what transmits information to people about accessible opportunities, opportunities to employ time and resources in the short term, and what the probabilities are for the long term.

Any future is necessarily speculative; nothing is for sure. But we always have to decide to do something (even if it means staying the same or abstaining from change). Even the best information will never be perfect, since with each action we are changing what exists. There is no "neutral" action in the world, because each action, no matter by whom, changes everything else to some degree.

A relevant observation . . . We see that people make decisions according to the *relationships* of prices among things. In this way, they decide what they can offer to others and what they can obtain in exchange for what they offer: that is, what they can "demand" in exchange for what they can "supply" indirectly. Therefore, the price structure is the mechanism that communicates all the pertinent information at a given moment (reduced ultimately to one common denominator: the monetary price).

It is important to remember that it is *the relations* among the diverse monetary prices themselves that allow communication to take place not each price in and of itself. It is the "cost-benefit" comparisons—unconscious or deliberate—that guide us to establish which desires we will satisfy first and which we will sacrifice or postpone, so that each of us can achieve the greatest well-being possible within the limits established by the value others assign to *our* contribution.

When you take into account these considerations, you can appreciate in full measure the great service that the price system provides us. Just imagine if someone had the power to modify arbitrarily all those price relations! Everyone would change their productive activities, the resources they are using, and their short- and long-term priorities. In other words, no one would ever act according to reality, but rather according to the "information" (adulterated reality) that he currently perceives.

That is why the distortion of relative prices is actually a system of misinformation that causes waste and poverty. By taking this fact into account, one can appreciate how important it is that the tax system ideally should not modify the relations of prices. This is to say it must be as neutral as possible.

Nevertheless, the fact that deliberate distortions are so very common (for example, a customs tariff with multiple rates or numerous taxes on a single activity or thing, all different from each other) does not change the argument. Through cooperation with others, everyone will be better off than if each person only produces for himself. It is distortions that cause a net social loss.

The weak benefit from the strong, and the strong from the weak. Everyone competes with everyone. Everyone is a rival competing for the favors of everyone else.

It is the purchasers who induce the seller to change what he is doing or producing when they don't buy from him, not the competitor who "devours" his rival. Buyers (consumers) go about assigning each person a place in the productive structure (division of labor) according to the ability/talent of each to satisfy him.

This rivalry among producers to win the favor of the consumer does not involve violence or threats. It is like a contest in which the same rules apply to everyone, and where the judge is everyone else: "society." Such peaceful and open competition is *catalectic* competition; and it is very different from *biological* competition in which the shark eats the sardine.

Catalectic competition is the system of continuous reassignment of tasks. It is constantly in flux, encouraging man's innate ingenuity and initiative. It is forever changing the positions of the competitors: the one in third place moves to fifth, and the one in tenth place to second, etc.

What we see is a re-accommodation to changing circumstances, such as new inventions, access to more distant resources, changes in population, etc. It is this competition that spurs progress.

In a free society, everyone collaborates to increase the size of the pie; there is more for everyone, although not in equal amounts. It is not a "zero-sum game" like the lottery where the winner keeps what others lost.

In such a world, when people are free, the big fish will always have an interest in the little fish's well-being.

"This division of labor, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another." **Adam Smith**, *The Wealth of Nations*.

Translated from the original Spanish
Ayau, Manuel F. "La sardina y el tiburón". Serie *Tópicos de Actualidad*. Año 23, n.º 524. Guatemala: Centro de Estudios Económico-Sociales (CEES), 15 de diciembre de 1982.