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Individual liberty, limited government, and free markets in Wichita and Kansas

Myth: Markets only benefit the rich and talented

by Guest Author *on May 8, 2012*

When thinking about the difference between government action and action taken by free people trading voluntarily in markets, we find that many myths abound. Tom G. Palmer, who is Vice President for International Programs at the Atlas Economic Research Foundation, General Director of the Atlas Global Initiative for Free Trade, Peace, and Prosperity, a Senior Fellow at the Cato Institute, and Director ofCato University, has written an important paper that confronts these myths about markets. The sixteenth myth — Markets Only Benefit the Rich and Talented — and Palmer's refutation is below. The complete series of myths and responses is at Twenty Myths about Markets.

Palmer is editor of the recent book *The Morality of Capitalism*. He will be in Overland Park and Wichita in May speaking on the moral case for capitalism. For more information and to register for these events seeThe Morality of Capitalism. An eleven minute podcast of Palmer speaking on this topic is at The Morality of Capitalism.

Myth: Markets Only Benefit the Rich and Talented

Myth: The rich get richer and the poor get poorer. If you want to make a lot of money, you have to start out with a lot. In the race of the market for profits, those who start out ahead reach the finish line first.

Tom G. Palmer: Market processes aren't races, which have winners and losers. When two parties voluntarily agree to exchange, they do so because they both expect to benefit, not because they hope they will win and the other will lose. Unlike in a race, in an exchange, if one person wins, it doesn't mean that the other has to lose. Both parties gain. The point is not to "beat" the other, but to gain through voluntary cooperative exchange; in order to induce the other person to exchange, you have to offer a benefit to him or her, as well.

Being born to wealth may certainly be a good thing, something the citizens of wealthy countries probably do not appreciate as much as do those who seek to emigrate from poor countries to rich countries; the latter usually understand the benefits of living in a wealthy society better than those who are born to it. But within a free market, with freedom of entry and equal rights for all buyers and sellers, those who were good at meeting market demands yesterday may not be the same as those who will be good at meeting market demand tomorrow. Sociologists refer to the "circulation of elites" that characterizes free societies; rather than static elites that rest on military power, caste membership, or tribal or family connection, the elites of free societies — including artistic elites, cultural elites, scientific elites, and economic elites — are open to new members and rarely pass on membership to the children of members, many of whom move from the upper classes to the middle classes.

Wealthy societies are full of successful people who left behind countries where markets are severely restricted or hampered by special favors for the powerful, by protectionism, and by mercantilistic monopolies and controls, where opportunities for advancement in the market are limited. They left those societies with little or nothing and found success in more open and market-oriented societies, such as the USA, the United Kingdom, and Canada. What was the difference between the societies they left and those they joined?: freedom to compete in the market. How sad for poor countries it is that the mercantilism and restrictions in their home countries drive them abroad, so they can not stay at home and enrich their neighbors and friends by putting their entrepreneurial drive to work.

Generally, in countries with freer markets, the greatest fortunes are made, not by satisfying the desires of the rich, but by satisfying the desires of the more modest classes. From Ford Motors to Sony to Wal-mart, great companies that generate great fortunes tend to be those that cater, not to the tastes of the richest, but to the lower and middle classes.

Free markets tend to be characterized by a "circulation of elites," with no one guaranteed a place or kept from entering by accident of birth. The phrase "the rich get richer and the poor gets poorer" applies, not to free markets, but to mercantilism and political cronyism, that is, to systems in which proximity to power determines wealth. Under markets, the more common experience is that the rich do well (but may not stay "rich" by the standards of their society) and the poor get a lot richer, with many moving into the middle and upper classes. At any given moment, by definition 20% of the population will be in the lowest quintile of income and 20% will be in the highest quintile. But it does not follow either that those quintiles will measure the same amount of income (as incomes of all income groups rise in expanding economies) or that the income categories will be filled by the same people. The categories are rather like rooms in a hotel or seats on a bus; they are filled by someone, but not always by the same people. When income distributions in market-oriented societies are studied over time, a great deal of income mobility is revealed, with remarkable numbers of people moving up and down in the income distributions. What is most important, however, is that prosperous market economies see all incomes rise, from the lowest to the highest.