# Twenty Myths about Markets

Tom G. Palmer
Senior Fellow
Cato Institute

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When thinking about the merits and the limitations of solving problems of social coordination through market mechanisms, it's useful to clear away some common myths. By myths I mean those statements that simply pass for obviously true, without any need for argument or evidence. They're the kind of thing you hear on the radio, from friends, from politicians – they just seem to be in the air. They are repeated as if they're a kind of deeper wisdom. The danger is that, because they are so widespread, they are not subjected to critical examination. That's what I propose to do here.

Most, but not all, such myths are spread by those who are hostile to free markets. A few are spread in much smaller circles by people who are perhaps too enthusiastic about free markets.

What follows are twenty such myths, grouped into four categories:

- ✓Ethical Criticisms;
- ✓Economic Criticisms;
- ✓Hybrid Ethical-Economic Criticisms; and
- ✓Overly Enthusiastic Defenses.

## Ethical Criticisms

### 1. Markets Are Immoral or Amoral

*Markets make people think only about the calculation of advantage, pure and simple. There's no morality in market exchange, no commitment to what makes us distinct as humans: our ability to think not only about what's advantageous to us, but about what is right and what is wrong, what is moral and what is immoral.*

A more false claim would be hard to imagine. For there to be exchange there has to be respect for justice. People who exchange differ from people who merely take; exchangers show respect for the rightful claims of other people. The reason that people engage in exchange in the first place is that they want what others have but are constrained by morality and law from simply taking it. An exchange is a change from one allocation of resources to another; that means that any exchange is measured against a baseline, such that if no exchange takes place, the parties keep what they already have. The framework for exchange requires a sound foundation in justice. Without such moral and legal foundations, there can be no exchange.

Markets are not merely founded on respect for justice, however. They are also founded on the ability of humans to take into account, not only their own desires, but the desires of others, to put themselves in the places of others. A restaurateur who didn't care what his diners wanted would not be in business long. If the guests are made sick by the food, they won't come back. If the food fails to please them, they won't come back. He will be out of business. Markets provide incentives for participants to put themselves in the position of others, to consider what their desires are, and to try to see things as they see them.

Markets are the alternative to violence. Markets make us social. Markets remind us that other people matter, too.

2. Markets Promote Greed and Selfishness

*People in markets are just trying to find the lowest prices or make the highest profits. As such, they're motivated only by greed and selfishness, not by concern for others.*

Markets neither promote nor dampen selfishness or greed. They make it possible for the most altruistic, as well as the most selfish, to advance their purposes in peace. Those who dedicate their lives to helping others use markets to advance their purposes, no less than those whose goal is to increase their store of wealth. Some of the latter even accumulate wealth for the purpose of increasing their ability to help others. George Soros and Bill Gates are examples of the latter; they earn huge amounts of money, at least partly in order to increase their ability to help others through their vast charitable activities.

A Mother Teresa wants to use the wealth available to her to feed, clothe, and comfort the greatest number of people. Markets allow her to find the lowest prices for blankets, for food, and for medicines to care for those who need her assistance. Markets allow the creation of wealth that can be used to help the unfortunate and facilitate the charitable to maximize their ability to help others. Markets make possible the charity of the charitable.

A common mistake is to identify the purposes of people with their "self-interest," which is then in turn confused with "selfishness." The purposes of people in the market are indeed purposes of selves, but as selves with purposes we are also concerned about the interests and well being of others – our family members, our friends, our neighbors, and even total strangers whom we will never meet. And as noted above, markets help to condition people to consider the needs of others, including total strangers.

As has often been pointed out, the deepest foundation of human society is not love or even friendship. Love and friendship are the fruits of mutual benefit through cooperation, whether in small or in large groups. Without such mutual benefit, society would simply be impossible. Without the possibility of mutual benefit, Tom's good would be June's bad, and vice versa, and they could never be cooperators, never be colleagues, never be friends. Cooperation is tremendously enhanced by markets, which allow cooperation even among those who are not personally known to each other, who don't share the same religion or language, and who may never meet. The existence of potential gains from trade and the facilitation of trade by well-defined and legally secure property rights make possible charity among strangers, and love and friendship across borders.

## Economic Criticisms

### 3. Reliance on Markets Leads to Monopoly

*Without government intervention, reliance on free markets would lead to a few big firms selling everything. Markets naturally create monopolies, as marginal producers are squeezed out by firms that seek nothing but their own profits, whereas governments are motivated to seek the public interest and will act to restrain monopolies.*

Governments can – and all too often do – give monopolies to favored individuals or groups; that is, they prohibit others from entering the market and competing for the custom of customers. That's what a monopoly means. The monopoly may be granted to a government agency itself (as in the monopolized postal services in many countries) or it may be granted to a favored firm, family, or person.

Do free markets promote monopolization? There's little or no good reason to think so and many reasons to think not. Free markets rest on the freedom of persons to enter the market, to exit the market, and to buy from or sell to whomever they please. If firms in markets with freedom of entry make above average profits, those profits attract rivals to compete those profits away. Some of the literature of economics offers descriptions of hypothetical situations in which certain market conditions *could* lead to persistent "rents," that is, income in excess of opportunity cost, defined as what the resources could earn in other uses. But concrete examples are extremely hard to find, other than relatively uninteresting cases such as ownership of unique resources (for example, a painting by Rembrandt). In contrast, the historical record is simply full of examples of governments granting special privileges to their supporters.

Freedom to enter the market and freedom to choose from whom to buy promote consumer interests by eroding those temporary rents that the first to offer a good or service may enjoy. In contrast, endowing governments with power to determine who may or may not provide goods and services creates the monopolies – the actual, historically observed monopolies – that are harmful to consumers and that restrain the productive forces of mankind on which human betterment rests. If markets routinely led to monopolies, we would not expect to see so many people going to government to grant them monopolies at the expense of their less powerful competitors and customers. They could get their monopolies through the market, instead.

It's always worth remembering that government itself seeks to exercise a monopoly; it's a classic defining characteristic of a government that it exercises a monopoly on the exercise of force in a given geographic area. Why should we expect such a monopoly to be more friendly to competition than the market itself, which is defined by the freedom to compete?

4. Markets Depend on Perfect Information, Requiring Government Regulation to Make Information Available

*For markets to be efficient, all market participants have to be fully informed of the costs of their actions. If some have more information than others, such asymmetries will lead to inefficient and unjust outcomes. Government has to intervene to provide the information that markets lack and to create outcomes that are both efficient and just.*

Information, like every other thing we want, is always costly, that is, we have to give something up to get more of it. Information is itself a product that is exchanged on markets; for examples, we buy books that contain information because we value the information in the book more than we value what we give up for it. Markets do not require for their operation perfect information, any more than democracies do. The assumption that information is costly to market participants but costless to political participants is unrealistic in extremely destructive ways. Neither politicians nor voters have perfect information. Significantly, politicians and voters have less incentive to acquire the right amount of information than do market participants, because they aren't spending their own money. For example, when spending money from the public purse, politicians don't have the incentive to be as careful or to acquire as much information as people do when they are spending their own money.

A common argument for state intervention rests on the informational asymmetries between consumers and providers of specialized services. Doctors are almost always more knowledgeable about medical matters than are patients, for example; that's why we go to doctors, rather than just curing ourselves. Because of that, it is alleged that consumers have no way of knowing which doctors are more competent, or whether they are getting the right treatment, or whether they are paying too much. Licensing by the state may then be proposed as the answer; by issuing a license, it is sometimes said, people are assured that the doctor will be qualified, competent, and upright. The evidence from studies of licensure, of medicine and of other professions, however, shows quite the opposite. Whereas markets tend to generate gradations of certification, licensing is binary; you are licensed, or you are not. Moreover, it's common in licensed professions that the license is revoked if the licensed professional engages in "unprofessional conduct," which is usually defined as including advertising! But advertising is one of the means that markets have evolved to provide information – about the availability of products and services, about relative qualities, and about prices. Licensure is not the solution to cases of informational asymmetry; it is the cause.

5. Markets Only Work When an Infinite Number of People With Perfect Information Trade Undifferentiated Commodities

*Market efficiency, in which output is maximized and profits are minimized, requires that no one is a price setter, that is, that no buyer or seller, by entering or exiting the market, will affect the price. In a perfectly competitive market, no individual buyer or seller can have any impact on prices. Products are all homogenous and information about products and prices is costless. But real markets are not perfectly competitive, which is why government is required to step in and correct things.*

Abstract models of economic interaction can be useful, but when normatively loaded terms such as "perfect" are added to theoretical abstractions, a great deal of harm can be done. If a certain condition of the market is define as "perfect" competition, then anything else is "imperfect" and needs to be improved, presumably by some agency outside of the market. In fact, "perfect" competition is simply a mental model, from which we can deduce certain interesting facts, such as the role of profits in directing resources (when they're higher than average, competitors will shift resources to increase supply, undercut prices, and reduce profits) and the role of uncertainty in determining the demand to hold cash (since if information were costless, everyone would invest all their money and arrange it to be cashed out just at the moment that they needed to make investments, from which we can conclude that the existence of cash is a feature of a lack of information). "Perfect" competition is no guide to how to improve markets; it's a poorly chosen term for a mental model of market processes that abstracts from real world conditions of competition.

For the state to be the agency that would move markets to such "perfection," we would expect that it, too, would be the product of "perfect" democratic policies, in which infinite numbers of voters and candidates have no individual impact on policies, all policies are homogenous, and information about the costs and benefits of policies is costless. That is manifestly never the case.

The scientific method of choosing among policy options requires that choices be made from among actually available options. Both political choice and market choice are "imperfect" in all the ways specified above, so choice should be made on the basis of a comparison of real – not "perfect" – market processes and political processes.

Real markets generate a plethora of ways of providing information and generating mutually beneficial cooperation among market participants. Markets provide the framework for people to discover information, including forms of cooperation. Advertising, credit bureaus, reputation, commodity exchanges, stock exchanges, certification boards, and many other institutions arise within markets to serve the goal of facilitating mutually beneficial cooperation. Rather than discarding markets because they aren't perfect, we should look for more ways to use the market to improve the imperfect state of human welfare.

Finally, competition is better understood, not as a state of the market, but as a process of rivalrous behavior. When entrepreneurs are free to enter the market to compete with others and customers are free to choose from among producers, the rivalry among producers for the custom of customers leads to behavior favorable to those customers.

6. Markets Cannot Possibly Produce Public (Collective) Goods

*If I eat an apple, you can't; consumption of an apple is purely rivalrous. If I show a movie and don't want other people to see it, I have to spend money to build walls to keep out non-payers. Some goods, those for which consumption is non-rival and exclusion is costly, cannot be produced on markets, as everyone has an incentive to wait for others to produce them. If you produce a unit, I can just consume it, so I have no incentive to produce it. The same goes for you. The publicness of such goods requires state provision, as the only means to provide them. Such goods include not only defense and provision of a legal system, but also education, transportation, health care, and many other such goods. Markets can never be relied on to produce such goods, because non-payers would free-ride off of those who pay, and since everyone would want to be a free-rider, nobody would pay. Thus, only government can produce such goods.*

The public goods justification for the state is one of the most commonly misapplied of economic arguments. Whether goods are rivalrous in consumption or not is often not an inherent feature of the good, but a feature of the size of the consuming group: a swimming pool may be non-rivalrous for two people, but quite rivalrous for two hundred people. And costs of exclusion are applicable to all goods, public or private: if I want to keep you from eating my apples, I may have to take some action to protect them, such as building a fence. Many goods that are non-rivalrous in consumption, such as a professional football game (if you see it, it doesn't mean that I can't see it, too), are produced only because entrepreneurs invest in means to exclude non-payers.

Besides not being an inherent feature of the goods per se, the alleged publicness of many goods is a feature of the political decision to make the goods available on a non-exclusive and even non-priced basis. If the state produces "freeways," it's hard to see how private enterprise could produce "freeways," that is, zero-priced transportation, that could compete. But notice that the "freeway" isn't really free, since it's financed through taxes (which have a particularly harsh form of exclusion from enjoyment, known as jail), and also that the lack of pricing is the primary reason for inefficient use patterns, such as traffic jams, which reflect a lack of any mechanism to allocate scarce resources (space in traffic) to their most highly valued uses. Indeed, the trend around the world has been toward pricing of roads, which deeply undercuts the public goods argument for state provision of roads.

Many goods that are allegedly impossible to provide on markets have been, or are at present, provided through market mechanisms – from lighthouses to education to policing to transportation, which suggests that the common invocation of alleged publicness is unjustified, or at least overstated.

A common form of the argument that certain goods are allegedly only producible through state action is that there are "externalities" that are not contracted for through the price mechanism. Thus, widespread education generates public benefits beyond the benefits to the persons who are educated, allegedly justifying state provision and financing through general tax revenues. But despite the benefits to others, which may be great or small, the benefits to the persons educated are so great for them that they induce sufficient investment in education. Public benefits don't always generate the defection of free-riders. In fact, as a wealth of research is demonstrating today, when states monopolize education they often fail to produce it for the poorest of the poor, who nonetheless perceive the benefits to them of education and invest substantial percentages of their meager incomes to educate their children. Whatever externalities may be generated by their children's education does not stop them from paying their own money to procure education for their children.

Finally, it should be remembered that virtually every argument alleging the impossibility of efficient production of public goods through the market applies at least equally strongly – and in many cases much more strongly – to the likelihood that the state will produce public goods. The existence and operation of a just and law-governed state is itself a public good, that is, the consumption of its benefits is non-rivalrous (at least among the citizenry) and it would be costly to exclude non-contributors to its maintenance (such as informed voters) from the enjoyment of its benefits. The incentives for politicians and voters to produce just and efficient government are not very impressive, certainly when placed next to the incentives that entrepreneurs and consumers have to procure public goods through cooperation in the marketplace. That does not mean that the state should never have any role in producing public goods, but it should make citizens less willing to cede to the state additional responsibilities for providing goods and services. In fact, the more responsibilities are given to the state, the less likely it is to be able to produce those public goods, such as defense of the rights of its citizens from aggression, at which it might enjoy special advantages.

## 7. Markets Don't Work (or Are Inefficient) When There Are Negative or Positive Externalities

*Markets only work when all of the effects of action are born by those who make the decisions. If people receive benefits without contributing to their production, markets will fail to produce the right amount. Similarly, if people receive "negative benefits," that is, if they are harmed and those costs are not taken into account in the decision to produce the goods, markets will benefit some at the expense of others, as the benefits of the action go to one set of parties and the costs are borne by another.*

The mere existence of an externality is no argument for having the state take over some activity or displace private choices. Fashionable clothes and good grooming generate plenty of positive externalities, as others admire those who are well clothed or groomed, but that's no reason to turn choice of or provision of clothing and grooming over to the state. Gardening, architecture, and many other activities generate positive externalities on others, but people undertake to beautify their gardens and their buildings just the same. In all those cases, the benefits to the producers alone – including the approbation of those on whom the positive externalities are showered – are sufficient to induce them to produce the goods. In other cases, such as the provision of television and radio broadcasts, the public good is "tied" to the provision of other goods, such as advertising for firms; the variety of mechanisms to produce public goods is as great as the ingenuity of the entrepreneurs who produce them.

More commonly, however, it's the existence of *negative* externalities that leads people to question the efficacy or justice of market mechanisms. Pollution is the most commonly cited example. If a producer can produce products profitably because he imposes the costs of production on others who have not consented to be a part of the production process, say, by throwing huge amounts of smoke into the air or chemicals into a river, he will probably do so. Those who breathe the polluted air or drink the toxic water will bear the costs of producing the product, while the producer will get the benefits from the sale of the product. The problem in such cases, however, is not that markets have failed, but that they are absent. Markets rest on property and cannot function when property rights are not defined or enforced. Cases of pollution are precisely cases, not of market failure, but of government failure to define and defend the property rights of others, such as those who breathe polluted air or drink polluted water. When people downwind or downstream have the right to defend their rights, they can assert their rights and stop the polluters from polluting. The producer can install at his own expense equipment or technology to eliminate the pollution (or reduce it to tolerable and non-harmful levels), or offer to pay the people downwind or downstream for the rights to use their resources (perhaps offering them a better place to live), or he must stop producing the product, because he is harming the rights of others who will not accept his offers, showing that the total costs exceed the benefits. It's property rights that make such calculations possible and that induce people to take into account the effects of their actions on others. And it's markets, that is, the opportunity to engage in free exchange of rights, that allow all of the various parties to calculate the costs of actions.

Negative externalities such as air and water pollution are not a sign of market failure, but of government's failure to define and defend the property rights on which markets rest.

## 8. The More Complex a Social Order Is, the Less It Can Rely on Markets and the More It Needs Government Direction

*Reliance on markets worked fine when society was less complicated, but with the tremendous growth of economic and social connections, government is necessary to direct and coordinate the actions of so many people.*

If anything, the opposite is true. A simple social order, such as a band of hunters or gatherers, might be coordinated effectively by a leader with the power to compel obedience. But as social relations become more complex, reliance on voluntary market exchange becomes more – not less – important. A complex social order requires the coordination of more information than any mind or group of minds could master. Markets have evolved mechanisms to transmit information in a relatively low cost manner; prices encapsulate information about supply and demand in the form of units that are comparable among different goods and services, in ways that voluminous reports by government bureaucracies cannot. Moreover, prices translate across languages, social mores, and ethnic and religious divides and allow people to take advantage of the knowledge possessed by unknown persons thousands of miles away, with whom they will never have any other kind of relationship. The more complex an economy and society, the more important reliance on market mechanisms becomes.

## 9. Markets Don't Work in Developing Countries

*Markets work well in countries with well developed infrastructures and legal systems, but in their absence developing countries simply cannot afford recourse to markets. In such cases, state direction is necessary, at least until a highly developed infrastructure and legal system is developed that could allow room for markets to function.*

In general, infrastructure development is a feature of the wealth accumulated through markets, not a condition for markets to exist, and the failure of a legal system is a reason why markets are underdeveloped, but that failure is a powerful reason to reform the legal system so it could provide the foundation for the development of markets, not to postpone legal reform and market development. The only way to achieve the wealth of developed countries is to create the legal and institutional foundations for markets so that entrepreneurs, consumers, investors, and workers can freely cooperate to create wealth.

All currently wealthy countries were once very poor, some within living memory. What needs explanation is not poverty, which is the natural state of mankind, but wealth. Wealth has to be created and the best way to ensure that wealth is created is to generate the incentives for people to do so. No system better than the free market, based on well defined and legally secure property rights and legal institutions to facilitate exchange, has ever been discovered for generating incentives for wealth creation. There is one path out of poverty, and that is the path of wealth creation through the free market.

The term "developing nation" is frequently misapplied when it is applied to nations whose governments have rejected markets in favor of central planning, state ownership, mercantilism, protectionism, and special privileges. Such nations are not, in fact, developing at all. The nations that are developing, whether starting from relatively wealthy or relatively impoverished positions, are those that have created legal institutions of property and contract, freed markets, and limited the powers, the budget, and the reach of the state power.

## 10. Markets Lead to Disastrous Economic Cycles, Such as the Great Depression

*Reliance on market forces leads to cycles of "boom and bust," as investor overconfidence feeds on itself, leading to massive booms in investment that are inevitably followed by contractions of production, unemployment, and a generally worsening economic condition.*

Economic cycles of "boom and bust" are sometimes blamed on reliance on markets. The evidence, however, is that generalized overproduction is not a feature of markets; when more goods and services are produced, prices adjust and the result is general affluence, not a "bust." When this or that industry expands beyond the ability of the market to sustain profitability, a process of self-correction sets in and profit signals lead resources to be redirected to other fields of activity. There is no reason inherent in markets for such correction to apply to all industries; indeed, it is self-contradictory (for if investment is being taken away from all and redirected to all, then it's not being taken away from all in the first place).

Nonetheless, prolonged periods of general unemployment are possible when governments distort price systems through foolish manipulation of monetary systems, a policy error that is often combined with subsidies to industries that should be contracting and wage and price controls that keep the market from adjusting, thus prolonging the unemployment. Such was the case of the Great Depression that lasted from 1929 to the end of World War II, which economists (such as Nobel Prize winner Milton Friedman) showed was caused by a massive and sudden contraction in the money supply by the U.S. Federal Reserve system, which was pursuing politically set goals. The general contraction was then deepened by the rise in protectionism, which extended the suffering worldwide, and prolonged greatly by such programs as the National Recovery Act, programs to keep farm prices high (by destroying huge quantities of agricultural products and restricting supply), and other "New Deal" programs that were aimed at keeping market forces from correcting the disastrous effects of the government's policy errors. More recent crashes, such as the Asian financial crisis of 1997, have been caused by imprudent monetary and exchange rate policies that distorted the signals to investors. Market forces corrected the policy failures of governments, but the process was not without hardship; the cause of the hardship was not the medicine that cured the disease, but the bad monetary and exchange rate policies of governments that caused it in the first place.

With the adoption of more prudent monetary policies by governmental monetary authorities, such cycles have tended to even out. When combined with greater reliance on market adjustment processes, the result has been a reduction in the frequency and severity of economic cycles and long-term and sustained improvement in those countries that have followed policies of freedom of trade, budgetary restraint, and the rule of law.

## 11. Too Much Reliance on Markets Is As Silly as Too Much Reliance on Socialism: the Best is the Mixed Economy.

*Most people understand that it's unwise to put all your eggs in one basket. Prudent investors diversify their portfolios and it's just as reasonable to have a diversified "policy portfolio," as well, meaning a mix of socialism and markets.*

Prudent investors who don't have inside information do indeed diversify their portfolios against risk. If one stock goes down, another may go up, thus evening out the loss with a gain. Over the long run, a properly diversified portfolio will grow. But policies aren't like that. Some have been demonstrated time and time gain to fail, while others have been demonstrated to succeed. It would make no sense to have a "diversified investment portfolio" made up of stocks in firms that are known to be failing and stocks in firms that are known to be succeeding; the reason for diversification is that one doesn't have any special knowledge of which firms are more likely to be profitable or unprofitable.

Studies of decades of economic data carried out annually by the Fraser Institute of Canada and a world wide network of research institutes have shown consistently that greater reliance on market forces leads to higher per capita incomes, faster economic growth, lower unemployment, longer life spans, lower infant mortality, falling rates of child labor, greater access to clean water, health care, and other amenities of modern life, including cleaner environments, and improved governance, such as lower rates of official corruption and more democratic accountability. Free markets generate good results.

Moreover, there is no "well balanced" middle of the road. State interventions into the market typically lead to distortions and even crises, which then are used as excuses for yet more interventions, thus driving policy one direction or another. For example, a "policy portfolio" that included imprudent monetary policy, which increases the supply of money faster than the economy is growing, will lead to rising prices. History has shown repeatedly that politicians tend to respond, not by blaming their own imprudent policies, but by blaming an "overheated economy" or "unpatriotic speculators" and imposing controls on prices. When prices are not allowed to be corrected by supply and demand (in this case, the increased supply of money, which tends to cause the price of money, as expressed in terms of commodities, to fall), the result is shortages of goods and services, as more people seek to buy limited supplies of goods at the below-market price than producers are willing to supply at that price. In addition, the lack of free markets leads people to shift to black markets, under-the-table-bribes of officials, and other departures from the rule of law. The resulting mixture of shortage and corruption then typically induces yet greater tendencies toward authoritarian assertions of power. The effect of creating a "policy portfolio" that includes such proven bad policies is to undermine the economy, to create corruption, and even to undermine constitutional democracy.

## Hybrid Ethical/Economic Criticisms

### 12. Markets Lead to More Inequality than Non-Market Processes

*By definition, markets reward ability to satisfy consumer preferences and as abilities differ, so incomes will differ. Moreover, by definition, socialism is a state of equality, so every step toward socialism is a step toward equality.*

If we want to understand the relationships between policies and outcomes, it should be kept in mind that property is a legal concept; wealth is an economic concept. The two are often confused, but they should be kept distinct. Market processes regularly redistribute wealth on a massive scale. In contrast, unwilling redistribution of property (when undertaken by individual citizens, it's known as "theft") is prohibited under the rules that govern free markets, which require that property be well defined and legally secure. Markets can redistribute wealth, even when property titles remain in the same hands. Every time the value of an asset (in which an owner has a property right) changes, the wealth of the asset owner changes. An asset that was worth 600 Euros yesterday may today be worth only 400 Euros. That's a redistribution of 200 Euros of wealth through the market, although there has been no redistribution of property. So markets regularly redistribute wealth and in the process give owners of assets incentives to maximize their value or to shift their assets to those who will. That regular redistribution, based on incentives to maximize total value, represents transfers of wealth on a scale unthinkable for most politicians. In contrast, while market processes redistribute wealth, political processes redistribute property, by taking it from some and giving it to others; in the process, by making property less secure, such redistribution tends to make property in general less valuable, that is, to destroy wealth. The more unpredictable the redistribution, the greater the loss of wealth caused by the threat of redistribution of property.

Equality is a characteristic that can be realized along a number of different dimensions, but generally not across all. For example, people can all be equal before the law, but if that is the case, it is unlikely that they will have exactly equal influence over politics, for some who exercise their equal rights to freedom of speech will be more eloquent or energetic than others, and thus more influential. Similarly, equal rights to offer goods and services on free markets may not lead to exactly equal incomes, for some may work harder or longer (because they prefer income to leisure) than others, or have special skills for which others will pay extra. On the flip side, the attempt to achieve through coercion equality of influence or equality of incomes will entail that some exercise more authority or political power than others, that is, the power necessary to bring about such outcomes. In order to bring about a particular pattern of outcomes, someone or some group must have the "God's Eye" view of outcomes necessary to redistribute, to see a lack here and a surplus there and thus to take from here and move to there. As powers to create equal outcomes are concentrated in the hands of those entrusted with them, as was the case in the officially egalitarian Soviet Union, those with unequal political and legal powers find themselves tempted to use those powers to attain unequal incomes or access to resources. Both logic and experience show that conscious attempts to attain equal or "fair" incomes, or some other pattern other than what the spontaneous order of the market generates, are generally self-defeating, for the simple reason that those who hold the power to redistribute property use it to benefit themselves, thus converting inequality of political power into other sorts of inequality, whether honors, wealth, or something else. Such was certainly the experience of the officially communist nations and such is the path currently being taken by other nations, such as Venezuela, in which total power is being accumulated in the hands of one man, Hugo Chavez, who demands such massively unequal power, ostensibly in order to create equality of wealth among citizens.

According to the data in the 2006 *Economic Freedom of the World Report*, reliance on free markets is weakly correlated to income inequality (from the least free to the most free economies the world over, divided into quartiles, the percentage of income received by the poorest ten percent varies from an average of 2.2% to an average of 2.5%), but it is very strongly correlated to the levels of income of the poorest ten percent (from the least free to the most free economies the world over, divided into quartiles, the average levels of income received by the poorest ten percent are $826, $1,186, $2,322, and $6,519). Greater reliance on markets seems to have little impact on income distributions, but it does substantially raise the incomes of the poor and it is likely that many of the poor would certainly consider that a good thing.

## 13. Markets Can Not Meet Human Needs, Such as Health, Housing, Education, and Food

*Goods should be distributed according to principles appropriate to their nature. Markets distribute goods according to ability to pay, but health, housing, education, food, and other basic human needs, precisely because they are needs, should be distributed according to need, not ability to pay.*

If markets do a better job of meeting human needs than other principles, that is, if more people enjoy higher standards of living under markets than under socialism, it seems that the allocation mechanism under markets does a better job of meeting the criterion of need, as well. As noted above, the incomes of the poorest tend to rise rapidly with the degree of market freedom, meaning that the poor have more resources with which to satisfy their needs. (Naturally, not all needs are directly related to income; true friendship and love certainly are not. But there is no reason to think that those are more "equitably" distributed by coercive mechanisms, either, or even that they can be distributed by such mechanisms.)

Moreover, while assertions of "need" tend to be rather rubbery claims, as are assertions of "ability," willingness to pay is easier to measure. When people bid with their own money for goods and services, they are telling us how much they value those goods and services relative to other goods and services. Food, certainly a more basic need than education or health care, is provided quite effectively through markets. In fact, in those countries where private property was abolished and state allocation substituted for market allocation, the results were famine and even cannibalism. Markets meet human needs for most goods, including those that respond to basic human needs, better than do other mechanisms.

Satisfaction of needs requires the use of scarce resources, meaning that choices have to be made about their allocation. Where markets are not allowed to operate, other systems and criteria for rationing scarce resources are used, such as bureaucratic allocation, political pull, membership in a ruling party, relationship to the president or the main holders of power, or bribery and other forms of corruption. It is hardly obvious that such criteria are better than the criteria evolved by markets, nor that they generate more equality; the experience is rather the opposite.

## 14. Markets Rest on the Principle of the Survival of the Fittest

*Just like the law of the jungle, red in tooth and claw, the law of the market means survival of the fittest. Those who cannot produce to market standards fall by the wayside and are trampled underfoot.*

Invocations of evolutionary principles such as "survival of the fittest" in the study of living systems and in the study of human social interaction lead to confusion unless they identify what it is in each case that survives. In the case of biology, it is the individual animal and its ability to reproduce itself. A rabbit that is eaten by a cat because it's too slow to escape isn't going to have any more offspring. The fastest rabbits will be the ones to reproduce. When applied to social evolution, however, the unit of survival is quite different; it's not the individual human being, but the form of social interaction, such as a custom, an institution, or a firm, that is "selected" in the evolutionary struggle. When a business firm goes out of business, it "dies," that is to say, that particular form of social cooperation "dies," but that certainly doesn't mean that the human beings who made up the firm – as investors, owners, managers, employees, and so on – die, as well. A less efficient form of cooperation is replaced by a more efficient form. Market competition is decidedly unlike the competition of the jungle. In the jungle animals compete to eat each other, or to displace each other. In the market, entrepreneurs and firms compete with each other for the right to cooperate with consumers and with other entrepreneurs and firms. Market competition is not competition for the opportunity to live; it is competition for the opportunity to cooperate.

## <u>15. Markets Debase Culture and Art</u>

*Art and culture are responses to the higher elements of the human soul and, as such, cannot be bought and sold like tomatoes or shirt buttons. Leaving art to the market is like leaving religion to the market, a betrayal of the inherent dignity of art, as of religion. Moreover, as art and culture are opened more and more to competition on international markets, the result is their debasement, as traditional forms are abandoned in the pursuit of the almighty dollar or euro.*

Most art has been and is produced for the market. Indeed, the history of art is largely the history of innovation through the market in response to new technologies, new philosophies, new tastes, and new forms of spirituality. Art, culture, and the market have been intimately connected for many centuries. Musicians charge fees for people to attend their concerts, just as vegetable mongers charge for tomatoes or tailors charge to replace buttons on suits. In fact, the creation of wider markets for music, film, and other forms of art by the creation of records, cassettes, CDs, DVDs, and now iTunes and mp3 files allows more and more people to be exposed to more and more varied art, and for artists to create more artistic experiences, to create more hybrid forms of art, and to earn more income. Unsurprisingly, most of the art produced in any given year won't stand the test of time; that creates a false perspective on the part of those who condemn contemporary art as "trashy," in comparison to the great works of the past; what they are comparing are the best works winnowed out from hundreds of years of production to the mass of works produced in the past year. Had they included all of the works that did not stand the test of time and were not remembered, the comparison would probably look quite different. What accounts for the survival of the best is precisely the competitive process of markets for art.

Comparing the entirety of contemporary artistic production with the very best of the best from past centuries is not the only error people make when evaluating markets for art. Another error common to observers from wealthy societies who visit poor societies is the confusion of the poverty of poor societies with their cultures. When wealthy visitors see people in countries that are poor-but-growing-economically using cell phones and flipping open laptops, they complain that their visit is not as “authentic” as the last one. As people become richer through market interactions made possible by increasing liberalization or globalization, such as the introduction of cell telephony, anti-globalization activists from rich countries complain that the poor are being “robbed” of their culture. But why equate culture with poverty? The Japanese went from poverty to wealth and it would be hard to argue that they are any less Japanese as a result. In fact, their greater wealth has made possible the spread of awareness of Japanese culture around the world. In India, as incomes are rising, the fashion industry is responding by turning to traditional forms of attire, such as the sari, and adapting, updating, and applying to it aesthetic criteria of beauty and form. The very small country of Iceland has managed to maintain a high literary culture and their own theater and movie industry because per capita incomes are quite high, allowing them to dedicate their wealth to perpetuating and developing their culture.

Finally, although religious belief is not “for sale,” free societies do leave religion to the same principles – equal rights and freedom of choice – as those at the foundation of the free market. Churches, mosques, synagogues, and temples compete with each other for adherents and for support. Unsurprisingly, those European countries that provide official state support of churches tend to have very low church participation, whereas countries without state support of religion tend to have higher levels of church participation. The reason is not so hard to understand: churches that have to compete for membership and support have to provide services – sacramental, spiritual, and communal – to members, and that greater attention to the needs of the membership tends to create more religiosity and participation. Indeed, that’s why the official established state church of Sweden lobbied to be disestablished in the year 2000; as an unresponsive part of the state bureaucracy, the church was losing connection with its members and potential members and was, in effect, dying.

There is no contradiction between the market and art and culture. Market exchange is not the same as artistic experience or cultural enrichment, but it is a helpful vehicle for advancing both.

## 16. Markets Only Benefit the Rich and Talented

*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.*

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.

## 17. When Prices are Liberalized and Subject to Market Forces, They Just Go Up

*The fact is that when prices are left to market forces, without government controls, they just go up, meaning that people can afford less and less. Free-market pricing is just another name for high prices.*

Prices that are controlled at below market levels do tend to rise, at least over the short time, when they are freed. But there is much more to the story than that. For one thing, some controlled prices are kept above the market level, so that when they are freed, they tend to fall. Moreover, when looking at money prices that are controlled by state power, it's important to remember that the money that changes hands over the table is not usually the only price paid by those who successfully purchase the goods. If the goods are rationed by queuing, then the time spent waiting in line is a part of what people have to spend to get the goods. (Notably, however, that waiting time represents pure waste, since it's not time that is somehow transferred to producers to induce them to make more of the goods to satisfy the unmet demand.) If corrupt officials have their hands open, there are also the payments under the table that have to be added to the payment that is made over the table. The sum of the legal payment, the illegal bribes, and the time spent waiting in lines when maximum prices are imposed by the state on goods and services is quite often higher than the price that people would agree on through the market. Moreover, the money spent on bribes and the time spent on waiting are wasted – they are spent by consumers but not received by producers, so they provide no incentive for producers to produce more and thereby alleviate the shortage caused by price controls.

While money prices may go up in the short time when prices are freed, the result is to increase production and diminish wasteful rationing and corruption, with the result that total real prices – expressed in terms of a basic commodity, human labor time – goes down. The amount of time that a person had to spend laboring to earn a loaf of bread in 1800 was a serious fraction of his or her laboring day; as wages have gone up and up and up and up, the amount of working time necessary to buy a loaf of bread has fallen to just a few minutes in wealthy countries. Measured in terms of labor, the prices of all other goods have fallen dramatically, with one exception: labor itself. As labor productivity and wages rise, hiring human labor becomes more expensive, which is why modestly well off people in poor countries commonly have servants, whereas even very wealthy people in rich countries find it much cheaper to buy machines to wash their clothes and dishes. The result of free markets is a fall in the price of everything else in terms of labor, and a rise in the price of labor in terms of everything else.

18. Privatizaton and Marketization in Post-Communist Societies Were Corrupt, Which Shows that Markets Are Corrupting

*Privatization campaigns are almost always rigged. It's a game that just awards the best state assets to the most ruthless and corrupt opportunists. The whole game of privatization and marketization is dirty and represents nothing more than theft from the people.*

A variety of formerly socialist states that have created privatization campaigns have had quite varied outcomes. Some have generated very successful market orders. Others have slipped back toward authoritarianism and have seen the "privatization" processes result in new elites gaining control of both the state and private businesses, as in the emerging "Siloviki" system of Russia. The dirtiness of the dirty hands that profited from rigged privatization schemes was a result of the preexisting lack of market institutions, notably the rule of law that is the foundation for the market. Creating those institutions is no easy task and there is no well known generally applicable technique that works in all cases. But the failure in some cases to fully realize the institutions of the rule of law is no reason not to try; even in the case of Russia, the deeply flawed privatization schemes that were instituted were an improvement over the one-party tyranny that preceded them and that collapsed from its own injustice and inefficiency.

Mere "privatization" in the absence of a functioning legal system is not the same as creating a market. Markets rest on a foundation of law; failed privatizations are not failures of the market, but failures of the state to create the legal foundations for markets.

## Overly Enthusiastic Defenses

19. All Relations Among Humans Can Be Reduced to Market Relations

*All actions are taken because the actors are maximizing their own utility. Even helping other people is getting a benefit for yourself, or you wouldn't do it. Friendship and love represent exchanges of services for mutual benefit, no less than exchanges involving sacks of potatoes. Moreover, all forms of human interaction can be understood in terms of markets, including politics, in which votes are exchanged for promises of benefits, and even crime, in which criminals and victims exchange, in the well known example, "your money or your life."*

Attempting to reduce all actions to a single motivation falsifies human experience. Parents don't think about the benefits to themselves when they sacrifice for their children or rush to their rescue when they're in danger. When people pray for salvation or spiritual enlightenment, their motivations are not quite the same as when they are shopping for clothes. What they do have in common is that their actions are purposeful, that they are undertaken to achieve their purposes. But it does not follow logically from that that the purposes they are striving to achieve are all reducible to commensurable units of the same substance. Our purposes and motivations may be varied; when we go to the market to buy a hammer, when we enter an art museum, and when we cradle a newborn baby, we are realizing very different purposes, not all of which are well expressed in terms of buying and selling in markets.

It is true that intellectual constructs and tools can be used to understand and illuminate a variety of different kinds of interaction. The concepts of economics, for example, which are used to understand exchanges on markets, can also be used to understand political science and even religion. Political choices may have calculable costs and benefits, just like business choices; political parties or mafia cartels may be compared to firms in the market. But it does not follow from such applications of concepts that the two choice situations are morally or legally equivalent. A criminal who offers you a choice between keeping your money and keeping your life is not relevantly like an entrepreneur who offers you a choice between keeping your money and using it to buy a commodity, for the simple reason that the criminal forces you to choose between two things to both of which you have a moral and legal entitlement, whereas the entrepreneur offers you a choice between two things, to one of which he has an entitlement and to one of which you have an entitlement. In both cases you make a choice and act purposively, but in the former case the criminal has forced you to choose, whereas in the latter case the entrepreneur has offered you a choice; the former lessens your entitlements and the latter offers to increase them, by offering you something you don't have but may value more for something you do have but may value less. Not all human relationships are reducible to the same terms as markets; at the very least, those that involve involuntary "exchanges" are radically different, because they represent losses of opportunity and value, rather than opportunities to gain value.

## 20. Markets Can Solve All Problems without Government at All

*Government is so incompetent that it can't do anything right. The main lesson of the market is that we should always weaken government, because government is simply the opposite of the market. The less government you have, the more market you have.*

Those who recognize the benefits of markets should recognize that in much of the world, perhaps all of it, the basic problem is not only that governments do too much, but also that they do too little. The former category – things that governments should not do, includes A) activities that should not be done by anyone at all, such as "ethnic cleansing," theft of land, and creating special legal privileges for elites, and B) things that could and should be done through the voluntary interaction of firms and entrepreneurs in markets, such as manufacturing automobiles, publishing newspapers, and running restaurants. Governments should stop doing all of those things. But as they cease doing what they ought not to do, governments should start doing some of the things that would in fact increase justice and create the foundation for voluntary interaction to solve problems. In fact, there is a relation between the two: governments that spend their resources running car factories or publishing newspapers, or worse – confiscating property and creating legal privileges for the few – both undercut and diminish their abilities to provide truly valuable services that governments are able to provide. For example, governments in poorer nations rarely do a good job of providing clear legal title, not to mention securing property from takings. Legal systems are frequently inefficient, cumbersome, and lack the independence and impartiality that are necessary to facilitate voluntary transactions.

For markets to be able to provide the framework for social coordination, property and contract must be well established in law. Governments that fail to provide those public benefits keep markets from emerging. Government can serve the public interest by exercising authority to create law and justice, not by being weak, but by being legally authoritative and at the same time limited in its powers. A weak government is not the same as a limited government. Weak unlimited governments can be tremendously dangerous because they do things that ought not to be done but do not have the authority to enforce the rules of just conduct and provide the security of life, liberty, and estate that are necessary for freedom and free market exchanges. Free markets are not the same as the sheer absence of government. Not all anarchies are attractive, after all. Free markets are made possible by efficiently administered limited governments that clearly define and impartially enforce rules of just conduct.

It is also important to remember that there are plenty of problems that have to be solved through conscious action; it's not enough to insist that impersonal market processes will solve all problems. In fact, as Nobel Prize winning economist Ronald Coase explained in his important work on the market and the firm, firms typically rely on conscious planning and coordination to achieve common aims, rather than on constant recourse to market exchanges, because going to the market is costly. Each contract arranged is costly to negotiate, for example, so long-term contracts are used instead to reduce contracting costs. In firms, long-term contracts substitute for spot-exchanges and include labor relations involving teamwork and conscious direction, rather than constant bidding for particular services. Firms – little islands of teamwork and planning – are able to succeed because they navigate within a wider ocean of spontaneous order through market exchanges. (The great error of the socialists was to try to manage the entire economy like one great firm; it would be a similar error not to recognize the limited role of conscious direction and teamwork within the wider spontaneous order of the market.) To the extent that markets can provide the framework of creation and enforcement of rules of just conduct, advocates of free markets should promote just that. Private security firms are often better than state police (and less violent, if for no other reason than that the cost of violence are not easily shifted to third parties, except by the state); voluntary arbitration often works far better than state courts. But recognizing that entails recognizing the central role of rules in creating markets and, thus, favoring efficient and just rules, whether provided by government or by the market, rather than merely being "anti-government."

Finally, it should be remembered that property and market exchange may not, by themselves, solve all problems. For example, if global warming is in fact a threat to the entire planet's ability to sustain life, or if the ozone layer is being degraded in ways that will be harmful to life, coordinated government solutions may be the best, or perhaps the only, way to avoid disaster. Naturally, that does not mean that markets would play no role at all; markets for rights to carbon dioxide emissions might, for example, help to smooth adjustments, but those markets would first have to be established by coordination among governments. What is important to remember, however, is that deciding that a tool is not adequate and appropriate for all conceivable problems does not entail that it is not adequate and appropriate for any problems. The tool many work very well for some or even most problems. Property and markets solve many problems and should be relied on to do so; if they do not solve all, that is no reason to reject them for problems for which they do offer efficient and just solutions.

Free markets may not solve every conceivable problem humanity might face, but they can and do produce freedom and prosperity, and there is something to be said for that.