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## **A Real Free Market Benefits Workers** **by Sheldon Richman**

Hands are wringing over bleak reports that despite increased productivity, workers are falling behind: real median income — adjusted for government-caused inflation — is said to be falling. Meanwhile, corporate profits are skyrocketing, and the wealthiest are doing fine.

In other words, the benefits of economic growth are said to be distributed unfairly.

As the Economic Policy Institute (EPI), an organization that favors government activism, puts it, “After 2001, there has been basically no wage improvement for typical workers regardless of significant gains in productivity.”

EPI blames “increased global trade, less union membership, and more low-skilled and high-skilled immigration.” Its remedy? Strengthened unions, a higher minimum wage, and a “truly tight labor market.”

For EPI the system isn’t working fairly. But what system is that? EPI would probably say “capitalism.”

Among people who favor capitalism, the response to EPI-type studies is always the same. Last week the *Wall Street Journal* and various pro-capitalist blogs brought out counter-statistics to show that workers’ compensation has increased. They faulted the naysayers by pointing out methodological flaws (such as comparing *average* productivity growth to *median* income) and omissions (such as noncash employee benefits, though EPI says it accounts for these). The statistical snowball fight goes on without end.

This debate is unsatisfying. It seems to be about whether capitalism is fair or not. People inclined to dislike capitalism embrace the bleak reports. People inclined to favor capitalism find other data, which isn’t hard to do. Any economic situation is complex — there are statistics and time series to support any predilection. Data are like scriptures or the Constitution: you can always find what you’re looking for.

I suggest a new tack. If we don’t get the question right, we can hardly expect to get the answer right.

Leaving ambiguous labels like “capitalism” aside, what do the data presume to depict? Considering that for a couple hundred years local, state, and federal governments in America have intervened in the economy largely on behalf of business interests, we can say that whatever we call it, it is not a *free* market. If the outcome in recent years has been unfair, then the blame is on government intervention.

In an unmolested market economy — one where all dealings are by consent — the “allocation” of wealth and income is the result of transactions. There is no storehouse from which a custodian distributes wealth according to some arbitrary standard. Wealth comes from production and exchange between willing buyers and sellers. If someone efficiently produces a good that many people trade their money for, he becomes wealthy. His success results not from a *distribution* of money but rather from many discrete voluntary transactions.

When government undertakes to regulate a market-based system, it (1) compels exchanges (for example, through eminent domain and tax transfers) and (2) forcibly interferes with voluntary exchanges. When government taxes us to provide subsidies to business, our preferences are overthrown in favor of someone else’s. When it imposes import quotas, tariffs, and patents, the choices and prices of clothing, sugar, and many other things are distorted because inexpensive foreign goods are kept out of the market. When government imposes taxes and regulations, it favors large incumbent firms over small and yet-to-be-started firms. When it expands the money supply, inflation robs working people of purchasing power.

There is only one test for whether an arrangement of wealth and income is fair or not: is it the result of voluntary transactions? If so, there is no role for public policy, because that would mean forcible interference with people’s peaceful exchanges. If not, then the proper remedy is abolition of privilege.

Whatever the actual trend in living standards for average workers, we know they’d be better off in a free economy. It is intervention, not the free market, that is biased against workers, because intervention inhibits the emergence of alternative opportunities, including self-employment options. What makes workers wealthier is rising productivity *plus* uninhibited competition for their services.

The corporate state, by design, inhibits competition, making workers worse off than they’d otherwise be. The truly free market is the worker’s best friend.

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