

IT'S NOT "TRICKLE-DOWN": HOW CAPITALISM BENEFITS THE POOR

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INTRODUCTION

I read the *Guardian* only very occasionally; but it seems that on almost every occasion on which I do read it, there is some reference to the failure of "trickle-down". This "trickle-down" is the expression which *Guardian* writers and readers use to refer to the way in which the greater wealth made possible by a market economy benefits the poorer members of society. Their complaint seems to be that, because of the extent of poverty and inequality, the benefits of prosperity are *not* reaching the poorer sections of society.

However, it seems to me that talk of "trickle-down" signifies a basic ignorance of how a market economy works, and also that the complaints about poverty and inequality are either factually wrong or misplaced. I will explain this in the following brief discussion of markets, prosperity and the division of the spoils.

SPECIALISATION AND EXCHANGE

If each person, family, or tribe tried to be completely self-sufficient, then we would all be doomed to an impoverished existence. Prosperity, the increase in the wealth of humanity, depends upon specialisation and exchange.

Trade, or exchange, takes place because each of the two parties to it values what he/she gets more than what he/she gives for it. Both parties are gainers: each is richer after the exchange than he/she was before it. Exchange increases wealth.

Specialisation allows people to concentrate on doing what they do best. More exactly, it enables them to concentrate their productive time on those activities which are the most valuable contribution that they can make to the wealth of the society. To the extent that each person specialises in that activity which is the most valuable activity that he/she can perform, to that extent

he/she is being as productive as he/she can be. As specialisation increases productivity, it increases wealth.

THE MARKET ECONOMY

Specialisation and exchange are features of every society; but societies differ in the scope and the encouragement that they give for productive specialisation and exchange. That qualification, "productive", is important. I have been talking of people specialising in their most productive activity. Specialisation does not increase wealth if people are specialising in activities which are valueless. Even if people are specialising in activities that *do* produce valuable goods and services that the producers can exchange for other valued goods and services, the total wealth produced is less than it could be, if there are alternative activities which the producers could perform which would yield goods or services of greater value. A free market economy brings about the greatest practically possible productive specialisation and exchange through the following key features.

First, through free trade, it allows the widest *opportunities* for specialisation and exchange. Free trade includes freedom of occupation, which permits each person to find his or her own niche, i.e. to find, by his or her own experimentation, that specialism that he or she can most productively perform.

Second, through the institution of private property it provides *incentives* for specialisation and exchange, because it enables individuals to benefit from their own productive efforts.

Third, the price system in a free market provides the signals through which people can identify their most productive specialism. People's desires for goods and services are expressed in their purchasing decisions, which in turn influence prices, which in turn influence the rewards for productive activity. The

Economic Notes No. 65

ISSN 0267-7164 ISBN 1 85637 303 7

An occasional publication of the Libertarian Alliance
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productive activity that pays you best is also that specialism in which you are most productive, as measured by the value that others place upon your activities. In a free market, you make your greatest contribution to social wealth by finding and working at that occupation that pays you most. In this way, the price system brings about the *co-ordination* of the productive efforts of a vast number of people who are geographically dispersed and who don't know one another from Adam. Oversimplifying, this co-ordination is achieved because increases in demand cause increases in prices which in turn call forth increases in supply: producers respond to the wishes of consumers by heeding prices, and they heed prices because it pays them to do so.

Fourth, through competition, the market provides powerful incentives for innovation, for providing ever better goods and services, and for making the most efficient use of resources. Competition means not only that there are rewards for providing good service and for keeping costs down (i.e. for providing the goods and services that people want and for using resources most efficiently and least wastefully); it also means that there are penalties for not doing so. For an inefficient producer provides an opportunity for competitors to make a profit by producing the goods more cheaply and undercutting his/her prices. Similarly, a producer providing poor quality goods or services offers an opportunity for a competitor to take away his/her business by providing a better package. Competition is a stimulus for finding ever more efficient means of production and for persistently seeking out new and better products to offer to consumers.

In consequence, a market economy provides the means and the encouragement for the greatest practically possible rate of increase in the wealth of humanity.

DISTRIBUTION OF THE GAINS FROM TRADE

But how is this wealth distributed? Roughly, each person gets what he/she is worth, where worth is measured by what other people are prepared to pay for his/her services.¹ Through specialisation and exchange in a market economy (in which prices signify relative scarcities), each person is able to seek out and concentrate on those activities that others find most valuable, and he/she can trade the products of this activity to earn more than he/she could get by doing anything else (whether the "anything else" be some other specialised activity or an attempt at self-sufficiency). Everyone is better off with specialisation and exchange in a market economy than they would be without it. But it is not the case that everyone is equally well-off.

Consider two people, Alf and Bette. Anything Alf can do, Bette can do better. Does it follow that Alf will not be able to make a living? Not at all. Let us suppose that Alf is the world champion at tiddlywinks (Bette used to slaughter him at tiddlywinks, and she still could, but she just doesn't find the time to play nowadays). Let us also suppose that Alf is a third-rate accountant. Nevertheless, as a full-time tiddlywinks player, Alf could not make even half of what he makes as a full-time accountant, which is why accountancy is his occupation (it is, we shall suppose, his most productive activity). Bette, as it happens, is a first-rate accountant: her services in this regard are far more valuable than Alf's, which is why she used to make so much more money at it than he does. However, nowadays Bette is employed as a (second-rate) management consultant, because her services in that field are worth even more than her services as an accountant. Different levels of ability, whether inherited or acquired, imply different levels of income. However, while Bette earns more than Alf, both earn more than they could do if the institutions of the market were suppressed; because without free trade, private property and the price system, people would have neither the opportunity nor the incentive nor the knowledge to channel their labours into those activities that are the

most valuable contribution that they can make to the wealth of humanity.

Relative to Bette, Alf is one of the poorer members of society, but he is better off with capitalism than without it, because it enables him to identify and choose that activity through which he will make his greatest contribution to social wealth, and thereby, by selling his products or services, also make the greatest contribution to his own wealth. He has the freedom to exploit whatever natural talent he thinks might best earn him a buck. In this way, Alf is richer in capitalism than out of it; but he is so *through his own efforts*. There ain't no "trickle down" here!

INNOVATION

Consider now the occurrence of innovation (or, what comes to the same thing, competition). Alf is a regular consumer of widgets. However, widget consumers are now offered a much cheaper widget by a new producer. It doesn't take long before consumers switch to the new product and old-style widget production ceases. Who are the winners and losers here?

Clearly the widget consumers are better off: they are now getting their widgets much more cheaply than they were before. The producer of the new product will also be doing very nicely, having taken business away from the old producers. These old producers, however, will suffer a loss, since what was their most productive activity is now worth little by comparison, and they will move instead into some other line of business which yields them a lower income than before. These losses will be partly reduced to the extent that these old producers are also widget consumers, since they will share in the benefits to consumers of the new product. Also, with the old producers moving their resources into other lines of business, the consumers of the products of those lines of business will benefit from the lower prices caused by the increased supply. Overall there is an increase in wealth; but it is not the case that everyone's wealth increases.

Alf, our relatively poor member of society, obtained an increase in wealth through this innovation; but he got it by taking the better-value options that competition made available to the market. There ain't no "trickle down" here!

Note that the new widget producer was only doing the same kind of thing that Alf and Bette did, namely, finding and performing that activity (producing the new, cheaper widget) which would yield him/her the highest income. Widget consumers benefited from this, which is why they bought the new product and conferred on the new producer his/her reward.

Spare a thought for the old widget producers in this situation of innovation. They may have changed from being relatively rich to being relatively poor members of society. They have definitely taken a turn for the worse. Of course, their position as producers will improve if they are able to spot and exploit new opportunities for the exercise of their productive talents. However, even if there is no upturn in their position as producers, they will still gain as consumers from the multifarious innovations in all lines of business that a market economy encourages. In the long term they too will be gainers, despite their temporary setback.²

EQUALITY

So far I have been describing the ways in which capitalism benefits everyone but without benefiting everyone equally. One might put this point by saying that we have a choice between poverty *or* inequality. This, though, would be misleading because alternatives to capitalism yield poverty *and* inequality. The choice is rather one of poverty or capitalism; and you get inequality either way.

Further, the open competition of a market economy is an equalising force in that if, e.g., plumbers are earning far more than bricklayers, this provides an incentive for people to become plumbers rather than bricklayers. As more plumbers, and relatively less bricklayers, come on to the market, the pay differentials between these two trades will tend to be reduced (though, of course, the good plumbers or bricklayers will still earn more than their less able counterparts).

This indicates, incidentally, the importance of pay differentials (price signals) in moving labour from lower-valued to higher-valued uses, and in giving people the incentives to develop their skills and to move into more productive activities. By the same token, it also indicates the stupidity of well-intentioned state interference with market pay rates, as well as the stupidity of the very idea of setting pay rates according to some “objective” or “scientific” analytical method of job evaluation.

CHARITY

I have described the main ways in which capitalism benefits the poor, namely, by enabling them, and everyone else, to seek out and pursue their most profitable activities so that innovation is encouraged, social wealth is increased, and each reaps the value of his/her productive endeavours. The emphasis is on giving people the scope to better themselves; on permitting and rewarding initiative, achievement and service to others. Through this, everyone benefits in the long term; the standard of living of the poorest in society rises; many who start out as relatively poor become relatively well-off, and some of them become rich; and people achieve their material gains through their own efforts. Describing this process, through which the poor achieve material advancement, as “trickle down” is not only inapt, it is plainly insulting.³

Every society has its richer and its poorer people, and it is only natural that the relatively affluent should wish to help those who are suffering comparative hardship. This they will do in one or another form of charity. Of course, it is sensible, in doing this, to distinguish between the deserving and the undeserving poor. Some people are poor because they are wasters or idlers; or because, while being neither of those things, they have neglected to develop more productive talents which are within their reach, if only they made the effort; or even because, though talented, they exhibit uncivilised attitudes or behaviour which make them unfitted for co-operation with others in production and exchange. Such people, unless they reform, are undeserving of charitable assistance (though one might still offer them charity, in some circumstances, out of pity). On the other hand, other people may be poor because they have fallen on hard times (the relatively well-off can become poor), or because they are of such limited ability that their best efforts are not worth very much to their fellow human beings (so they cannot *earn* much of a living), or because they are children who happen to have been born into a poor family.⁴

Rich, or richer, people giving alms to those who are suffering hardship, or even to those who are just relatively less-well-off, could certainly be described as “trickle down”; though it seems to me that this would be a belittling way of describing what is essentially a noble act.

However, quite apart from the offensiveness of the expression, it is perversely inappropriate to talk of “trickle down”, with its implication of charity, when referring to the characteristic way in which capitalism benefits the poor, for at least the following three reasons.

First, charity will be found in any human society: it is not peculiar to capitalism. True, it is hard to imagine the party officials in a socialist society being charitable — partly, but only partly, because it would be an admission of their own failure — but charitable actions would be found among the general

population (despite, or perhaps because of, hardship being so widespread). *Second*, the material benefits of charity (wealth transfers) are insignificant beside the material benefits for people in general, and for the poor in particular, that are generated by the greater productivity arising out of exchange, specialisation, and innovation in a free market economy (wealth creation). *Third*, a salient feature of capitalism is that it does not make the poor dependent on charity, but instead permits and encourages them to better themselves and, in some cases, to become rich.

MARXIST DELUSION

Given the sheer ineptitude of talk of “trickle down”, we are faced with the question of how on earth it arises. My conjecture is as follows. Talk of “trickle-down” seems to be a hang-over from a kind of Marxist delusion according to which, in a market economy, all increases in wealth benefit the rich directly, and the only way the poor get anything out of it is by the rich throwing them some charitable crumbs. *Guardian*-style talk of “trickle down” seems, then, to evince a basic ignorance of how a market economy works.

POVERTY AND INEQUALITY

Whenever *Guardian*-heads speak of “trickle down”, it is always, so it seems, to claim that “trickle down” does not work. We can only interpret this as a claim that capitalism does not benefit the poor. The reason given for this claim is the existence in Britain (and Western societies generally) of poverty and inequality.

However, it is absurd to say that there is any real problem of poverty in Britain today. The so-called poor of this country are *well-off* by the standard of most other countries, and even by the standard of this country only a few decades ago. They eat food which comes from all over the world, including convenience foods and take-away meals; they live in furnished, lighted and heated accommodation with hot and cold running water; they have televisions, hi-fi systems, video recorders and tapes, refrigerators and even washing machines; they and their kids walk about in designer trainers and other fashion clothes; and so on and so forth.

When this is pointed out, the *Guardian*-heads do not deny it. They say instead that what they are talking about is *relative* poverty. However, this is an unhappy response for at least four reasons. *First*, “relative poverty” is just another term for inequality, so their talk of poverty *and* inequality is disingenuous. *Second*, the existence of inequality in capitalism is irrelevant to the question of whether capitalism benefits the poor. *Third*, inequality exists in every society (and probably to a greater extent in non-capitalist societies). *Fourth*, there is nothing wrong with inequality, unless human rights are denied. The inequality of non-capitalist societies is objectionable precisely because it depends on the denial of human rights. However, in general, inequality is just *difference*; and on the whole, difference should be celebrated not decried. (I suspect that “inequality” picks up its pejorative overtones from the fact that *inequality of civil rights* is execrable.)

WHO ARE “THE POOR”?

Talk of “the poor” is misleading in two ways, as should be clear from the discussion so far. First, if we are using this expression to talk about people in Britain, then the phrase is elliptical for “the relatively poor”. Second, even this latter expression can mislead us into thinking of the (relatively) poor as a class defined by its membership, rather than as a class defined by an attribute which is possessed by different people at different times. The (relatively) poor are, in this respect, like the inhabitants of London: some people start out living in Lon-

don, but then move elsewhere; some people come to London from elsewhere; some people are born in London and never leave; and some move out of London only to come back at a later stage.

Changes in one's relative affluence are not only a function of social mobility. For we each go through a life-cycle and typically experience different levels of income and wealth at different stages of our lives. There was an article in *The Economist* some years ago which described a very egalitarian society in which everyone went to university (on a grant), everyone retired at the same age (on a state pension), there was no unemployment, and there was only a small differential in income between maximum and minimum earners at the same stage of their lives. Nevertheless, it was shown that, because a person's income and acquired wealth would differ at different stages of his/her life, it would still turn out to be the case that around 10-15% of the population owned around 60-70% of the wealth (I cannot remember who these "fat cats" were, but they must have been the pre-retirement grey-hairs).⁵

MOTIVATIONS

Why do *Guardian*-heads persist in describing difference pejoratively as "inequality", and in misrepresenting inequality as poverty? I think there are a number of different reasons, some of which apply to some people and others to others.

First, as I suggested above, some are still subject to lingering Marxist delusions which blind them to reality (some, indeed, are still Marxists!).

Second, many of them work in the poverty industry. These are the salaried "professionals" who are paid for from taxation — or, in some cases, from a mixture of taxation and charity funds — and whose job it is to "alleviate poverty" in one way or another. Some of them work for pressure groups or "charities" (I use the quotation marks because so-called charities nowadays often receive substantial support from the taxpayer), but most work in central and local government and in quangos, in the fields of social services, housing, planning, education, social security, health, and so on. These people obviously have a vested interest in finding poverty everywhere (indeed, if they were to discover that there really is no poverty, they would be out of a job). They produce a never-ending stream of reports, replete with statistical chicanery and other *non sequiturs*, intended to paint a bleak picture of impoverishment which, of course, helps them in lobbying for more taxpayers' money to fund their self-serving activities. As you would expect, because their livelihood depends upon it, these poverty professionals rarely miss an opportunity to identify and campaign about some new form of "poverty". For example, in response to the recent imposition of VAT on fuel, a new expression has been introduced into the language: "fuel-poverty"! Honestly, they actually use this expression! The irony is that, because their activities constitute interference with, or partial suppression of, the market, they actually make the relatively poor worse off (certainly in the long run, but often in the short run too).

Third, some just believe what they read in the *Guardian*, which always gives a lot of publicity to the tendentious reports of the poverty professionals. However, I do not think there can be many people who would be taken in by this unless they were already predisposed to believe it; which brings me to my fourth reason.

Fourth, it seems to me that there are many people who really need to believe that there is widespread hardship and suffering; and they need to believe this, not because they are poverty professionals whose livelihood depends upon it (because many or most of them aren't), but for deep psychological reasons. Perhaps they had a puritanical upbringing which makes them feel guilty about their own relative good fortune (they are normally

nice middle-class people); their belief in poverty then being needed to rationalise their guilt-feelings. Whatever the explanation is, they seem to have a real need to believe that there is abject poverty in their midst, and this makes them susceptible to the Marxist delusion mentioned earlier, and it makes them into dupes for the poverty professionals (most of whom, I would like to think, are themselves deluded rather than cynical).

CONCLUSION

Free market capitalism enables and encourages the greatest practically possible increase in the wealth of humanity. It makes everyone richer; and everyone, including the relatively poor, gets richer through innovation, specialisation and exchange. To describe this dynamic of wealth creation as "trickle down" reveals a complete failure to understand how a market economy works.

Charitable giving by the relatively rich to the relatively poor is a praiseworthy act (at least when the relatively poor are deserving), and it is offensive to belittle this by describing it as "trickle down". It is also insulting to the relatively poor to suggest, as the use of the term "trickle down" does, that their greater prosperity under capitalism, which they have secured by their own efforts, has been dependent upon charitable donations.

Guardian-head talk of "the failure of trickle down" may arise for a number of reasons, among which will be ignorance, the lingering influence of Marxism, the lobbying of the poverty industry, and an irrational need to believe in the existence of "the poor". However, in Britain there are only *relatively* poor people, and there will always, in every society, be relatively poor people. Further, in a market economy, people who happen at one time to be relatively poor can become relatively rich by identifying and exploiting opportunities for the use of their talents; and even those who remain relatively poor will fare better in a market economy than they would otherwise.

NOTES

1. This is rough because it takes no account of gifts, bequests or lotteries through which even quite worthless people can acquire wealth that they would never have been able to earn.
2. Notice that the new producer was perfectly within his rights to act as he did: he spotted an opportunity for increasing his wealth by moving into a more productive activity (thereby also increasing total social wealth), he purchased resource inputs legally, using his own money (or money borrowed from others on which he pays interest), he offered his output to the market to the benefit of consumers who willingly paid for his produce. All of this was perfectly within his rights and violated the rights of no-one. Yet he certainly harmed the old widget producers: they had to move into less profitable lines of business because of what he did. Since he had the right to do what he did, he had the right to harm those old producers. Since he violated no-one's rights, he harmed those old producers without violating their rights. We have the right to harm others *in certain ways*. But in which ways do we *not* have the right to harm others? In ways which violate their rights.
3. Throughout this paper I am talking only of the ways in which capitalism benefits the poor — and others — materially, but it should be clear from the current paragraph that there are spiritual benefits too, in that free market capitalism encourages moral virtues like individual responsibility, independence, honesty, consideration for others, self-discipline, prudence, and others. I must emphasise that I am talking about *free market* capitalism, because the welfare state *undermines* all of these virtues.
4. I have to list this last sub-category of the deserving poor since I have myself benefited from this kind of charity: when I was a boy, my annual holiday on the South coast was paid for by a charity which was set up to provide such holidays for the children of (relatively) poor families living in the Notting Hill 'slums' (since demolished). Incidentally, the sub-categories of the deserving and the undeserving poor given in the text are not meant to be exhaustive.
5. I am unable to supply a full reference for this article. My description of the egalitarian society is done from memory, hence the vagueness of the percentage figures given.