

[The difference between this capitalism and this free market stuff](#) [1]

Written by [Tim Worstall](#) [2] | Tuesday 13 August 2013

I've a long piece elsewhere looking at the effect of WalMart on the US economy. The basic contention is that the consumer surplus of the company (and possibly Big Box stores in general) is vastly larger than the amount that the owners of the original company have managed to keep [for themselves](#) [3]:

The entrepreneurs end up with a lot less of the wealth created than the consumers do. 30 years worth of \$300 billion a year in consumer savings is some \$9 trillion. In return the (inheritors of) the original entrepreneur has got \$100 billion. And yes, to make the point again, that capital value of \$100 billion is the net present value of all of the profits they'll make far off into that future.

Now where I come from (so different that we call it maths not math) our math system tells us that \$9 trillion is a rather larger number than \$100 billion.

The more sophisticated point that I want to make here is that this is a good example of the different effects that can come from capitalism and from free markets.

In a purely capitalist system, one that did not allow competition, there could still be that same value created: but the distribution of it would be very different indeed. Without any competition at all it would all accrue to the entrepreneurs (although we might possibly expect some goodly portion to leak through to the production labour dependent upon the level of unionisation). With competition however we find that others note the new technology (and yes, WalMart is really just a new technology for retailing) and copy it as best they can. This leads to this very different split of the benefits: the vast majority now accrues to the consumer. For the various people using this new technology must continually cut their prices as the others using this same new technology do so.

Which is, of course, where we want the benefit to be accruing, to the man and woman in the street, this is the point and purpose of the economy. To make the average person as rich as we possibly can.

Which gives us our subtle point. Capitalism might well be a useful way of harnessing greed to encourage people to invest, to produce and roll out new technologies. But it is those free markets that spread that added value throughout the society. Markets, if you prefer, ameliorate the effects of capitalism: which is why they are so damn important, obviously.

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