

# *Friedman on Capitalism and Freedom*

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## *The Relationship Between Economic Freedom and Political Freedom*

Many people believe that “any kind of **political arrangements** can be combined with any kind of **economic arrangements.**”

Friedman disagrees.

**Thesis:** Only certain combinations of political and economic arrangements are possible.<sup>1</sup>

Economic freedom is both *constitutive* and a *cause* of political freedom (broadly understood).

### *Economic Freedom as an End*

Friedman points out that the economic freedom afforded by free-market capitalism — the freedom to trade, buy, sell, etc., whatever you want to whomever — is itself an important component of freedom.

[The market] is, in political terms, a system of proportional representation. Each man can vote, as it were, for the color of tie he wants and get it; he does not have to see what color the majority wants and then, if he is in the minority, submit.<sup>2</sup>

According to Friedman, the free-market is the best way to ensure that people get what they want instead of what a particular group thinks they ought to want.

**The Idea:** To restrict the free-market is to already infringe upon people’s freedom.

### *Economic Freedom is Necessary For Political Freedom*

Not only does restricting the free-market infringe upon people’s freedom *directly*, it also does so *indirectly*.

**Political Freedom** =<sub>df</sub> The absence of coercion of a man by his fellow man.

“By removing the organization of economic activity from the control of political authority, the market eliminates this source of coercive power.” How so? By eliminating and distributing concentrations of power.

ADVOCATING AND PROPAGANDIZING FOR RADICAL CHANGE is, according to Friedman, an essential component of political freedom.

An example: *advocacy for Democratic Socialism.*

<sup>1</sup> In particular: a *socialist* economic scheme is incompatible with *democracy*.

<sup>2</sup> pg 15

In order to do so, Friedman argues, something like a free-market must be in place.

### Freedom of Speech and Economic Freedom Argument

- P1** A society is politically free only if its citizenry is able to effectively disseminate (potentially unpopular and radical) ideas.
- P2** The effective dissemination of (potentially unpopular and radical) ideas depends on whatever motivates those who control the press.
- P3** In a free-market, and only in a free-market, what motivates those who control the press is financial success.<sup>3</sup>
- P4** The content of a (potentially unpopular and radical) idea is independent of the prospects of the financial success of disseminating it.
- P5** The citizenry are ensured the ability to effectively disseminate (potentially unpopular and radical) ideas only if the content of those ideas is independent of what motivates those who control the press.

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**C** A society is politically free only if there is a free-market.

**The Idea:** “[A]n impersonal market separates economic activities from political views and protects men from being discriminated against in their economic [or political] activities for reasons that are irrelevant to their productivity.” [pg 21]

### *The Role of Government in a Free Society*

Restricting the free-market, according to Friedman, also restricts political freedom. Does that mean that there is no economic role for the government in a free society? Friedman says: **No**.<sup>4</sup>

There are some area that cannot be handled effectively, or at all, through the free-market. In these cases, government intervention may be necessary or preferable. What are some of these cases?

#### 1. GOVERNMENT AS RULE-MAKER AND UMPIRE

- (a) Maintain law and order
- (b) Define property rights
- (c) Allow for the modification of laws, rights, and rules
- (d) Enforce contracts
- (e) Promote competition
- (f) Establish a monetary system

Remember:

An **argument** is a list of claims, all but the last which are labelled as *premises*, and the last of which is labelled as a *conclusion*.

An argument is **valid** if and only if it is impossible for all its premises to be true and its conclusion false.

An argument is **sound** if and only if it is valid and all its premises are true.

<sup>3</sup> “The competitive publisher, for example, cannot afford to publish only writing with which he personally agrees; his touchstone must be the likelihood that the market will be large enough to yield a satisfactory return on his investment.”

From **P3** and **P4** it follows that only in a free-market is it guaranteed that the prospects of publishing an idea is independent of the content of the idea.

Because the press is so important in disseminating ideas, from this and **P2** it follows that the only way to disseminate an idea effectively is via the press.

From **P1** and **P5** it follows that the only way for a society to be politically free is for the content of unpopular and radical ideas to be independent of whether it can be published. From all this it follows that the free-market is the only guarantee of political freedom.

<sup>4</sup> “The consistent liberal is not an anarchist.” pg 34

These roles are essential. If the government doesn't do these things, nothing will. The free-market cannot function without them.

2. ACTION THROUGH GOVERNMENT ON GROUNDS OF TECHNICAL MONOPOLY AND NEIGHBORHOOD EFFECTS

- (a) Breakup private monopolies to facilitate voluntary exchange
- (b) Control “Neighborhood Effects” affecting third parties (i.e., compensate for externalities)

These services can, in some cases, help the free-market to run more efficiently. But the benefits of intervention on these matters must be weighed against the costs.

3. ACTION THROUGH GOVERNMENT ON PATERNALISTIC GROUNDS

- (a) Provide care for those who are unable to care for themselves (The “Madmen” Example)
- (b) Protecting the rights of those unable to do so for themselves (The Children Example)

Are there any roles that have been left off the list? What is the ultimate motivation for government intervention, according to Friedman?

*The Control of Money*

Here is a dilemma:

- o The government must have some responsibility for monetary matters.<sup>5</sup>
- o Control over money is a “potent tool” for controlling the economy.

<sup>5</sup> See: GOVERNMENT AS RULE-MAKER AND UMPIRE, above.

“The problem is to establish institutional arrangements that will enable government to *exercise responsibility for money*, yet at the same time *limit the power thereby given to government* and prevent this power from being used in ways that will tend to weaken rather than strengthen a free society.” [pg 39]

One Solution: **Commodity Standard**<sup>6</sup>

- Pro** No need for government interference.
- Con** Requires real resources to add to the stock of money.

<sup>6</sup> Examples: gold, silver, cigarettes, brass, tin, etc.

Another Solution: **Federal Reserve System.**<sup>7</sup>

- Pro** Helps prevent collapse caused by bank-runs.
- Con** Gives unchecked power to too few; too vulnerable to mistakes.

<sup>7</sup> (1) Has the power to create more cash; (2) Has the means to make cash available to banks.

What does Friedman think should be done?

[T]ry to achieve a government of law instead of men by *legislating rules* for the conduct of monetary policy that will have the effect of enabling the public to exercise control over monetary policy through its political authorities, while at the same time it will prevent monetary policy from being subject to the day-by-day whim of political authorities.<sup>8</sup>

<sup>8</sup> pg 51

What kind of rule does Friedman have in mind? A rule that instructs the monetary authority to achieve a specified *rate of growth* in the *stock of money*.