

Friedman, Milton – Capitalism and Freedom

The University of Chicago Press, 1962, [Economics] Grade ★★★★★

In the post-Lehman world Milton Friedman has regained his 1970's role as someone to scare children with. In reality the writing of a Friedman, or for that matter a Keynes, is much more nuanced and diverse than their adversaries would probably want it to be. The monetarist Friedman is the second most influential economist of the 20th century. His ideas on privatizations, taxation, deregulations and monetary policy have had huge global impact the last 30 years. This is a book on economic and political freedom that has been translated to 18 languages and sold in over 500.000 copies. It was written in 1962 at the height of the hegemony of Keynesian thought.

I read this book due to a promise I made. I've never before read anything by Friedman as I try to stay clear of economics literature to instead focus on business and investing. But in fact this is more a text on political philosophy than economics. It's a book in the same genre as Friedrich von Hayek's *The Road to Serfdom* (Hayek is mentioned three times in the multiple forewords) or dare I say John Stuart Mill's *On Liberty*. In the text Friedman tries to define what the state's role should be from a liberal point of view (in the original sense of the word, not the current US use). Friedman is hardly the libertarian anarchist you might expect. In fact there is a rather long list of tasks he assigns to the state – although not as long as the politicians have assigned to it. Some of the things the author writes are of course exactly what his antagonists would expect, for example that the business of business is business. However, the reason that Friedman does not want companies to have social goals is not that he thinks the issues lack importance, it's rather that they relate to policy issues that should be decided by the democratic state. *"The existence of a free market does not of course eliminate the need for government. On the contrary, government is essential both as a forum for determining the "rule of the game" and as an umpire to interpret and enforce the rules decided on."* On top of that, if companies have too many goals, they will fail to reach them all. Other things in the text are

probably quite different from expectations. Friedman for example suggests negative income tax for those with the lowest income to ensure a minimum level. Yet other things written might actually be different from what fellow liberals expect, such as his opinion that the core unit of the society is the family, not the individual.

One interesting passage is where the author discusses the federal system called old age and survivor's insurance (OASI), very much like the pay as you go pension schemes of most western countries. Friedman sees the system as consisting of three separate parts - a) the obligatory to purchase annuities to provision for old age, b) the requirement that they should be bought from the state and c) a redistribution of income insofar that the value a specific person is entitled to is not the same as what he is paying for. *"Clearly there is no necessity for these elements to be combined."*

After reading this book you are struck by the fact that Friedman seems to have been a very nice person – how come then, he's so disliked? This quote might provide a clue - *"Competitive capitalism promotes political freedom because it separates economic power from political power and in this way enables the one to offset the other."* This is probably why capitalism and its proponents are so disliked by the political intelligentsia. They don't want to share power. Friedman is an über-academic and the book is written 60 years ago, it's not always an easy read. At the same time there are plenty of highlights and the book supplies ample memorable quotations.

Friedman notes that it's only after a crisis that real changes occur and when they do, the ideas that are available at the time and are not contaminated by the crisis will be picked up pretty much regardless of their merits. So the obvious question is what ideas will surface this time? I'm afraid Friedman wouldn't approve of all the possible answers. This is an old book that will give you fresh perspectives on current events.

Mats Larsson, January 19, 2013