


348.  
**CAPITALISM  
AND  
FREEDOM**

**MILTON FRIEDMAN**

WITH THE ASSISTANCE OF ROSE D. FRIEDMAN

THE  UNIVERSITY OF CHICAGO PRESS

TO  
**JANET and DAVID**  
AND THEIR CONTEMPORARIES  
WHO MUST CARRY THE TORCH OF LIBERTY  
ON ITS NEXT LAP

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## Preface

**T**HIS BOOK IS A LONG-DELAYED PRODUCT of a series of lectures that I gave in June, 1956 at a conference at Wabash College directed by John Van Sickle and Benjamin Rogge and sponsored by the Volker Foundation. In subsequent years, I have given similar lectures at Volker conferences directed by Arthur Kemp, at Claremont College, directed by Clarence Philbrook, at the University of North Carolina, and directed by Richard Lettwich, at Oklahoma State University. In each case I covered the contents of the first two chapters of this book, dealing with principles, and then applied the principles to a varied set of special problems.

I am indebted to the directors of these conferences not only for inviting me to give the lectures, but even more for their

criticisms and comments on them and for friendly pressure to write them up in tentative form, and to Richard Cornuelle, Kenneth Templeton, and Ivan Bierly of the Volker Foundation who were responsible for arranging the conferences. I am indebted also to the participants who, by their incisive probing and deep interest in the issues, and unquenchable intellectual enthusiasm, forced me to rethink many points and to correct many errors. This series of conferences stands out as among the most stimulating intellectual experiences of my life. Needless to say, there is probably not one of the directors of the conferences or participants in them who agrees with everything in this book. But I trust they will not be unwilling to assume some of the responsibility for it.

I owe the philosophy expressed in this book and much of its detail to many teachers, colleagues, and friends, above all to a distinguished group I have been privileged to be associated with at the University of Chicago: Frank H. Knight, Henry C. Simons, Lloyd W. Mints, Aaron Director, Friedrich A. Hayek, George J. Stigler. I ask their pardon for my failure to acknowledge specifically the many ideas of theirs which they will find expressed in this book. I have learned so much from them and what I have learned has become so much a part of my own thought that I would not know how to select points to footnote.

I dare not try to list the many others to whom I am indebted, lest I do some an injustice by inadvertently omitting their names. But I cannot refrain from mentioning my children, Janet and David, whose willingness to accept nothing on faith has forced me to express technical matters in simple language and thereby improved both my understanding of the points and, hopefully, my exposition. I hasten to add that they too accept only responsibility, not identity of views.

I have drawn freely from material already published. Chapter i is a revision of material published earlier under the title used for this book in Felix Morley (ed.), *Essays in Individuality* (University of Pennsylvania Press, 1958) and in still a different form under the same title in *The New Individualist Review*, Vol. I, No. 1 (April, 1961). Chapter vi is a revision of an article by the same title first published in Robert A. Solo (ed.), *Economics and the Public Interest* (Rutgers University

### Preface

Press, 1955). Bits and pieces of other chapters have been taken from various of my articles and books.

The refrain, "But for my wife, this book would not have been written," has become a commonplace in academic prefaces. In this case, it happens to be the literal truth. She pieced together the scraps of the various lectures, coalesced different versions, translated lectures into something more closely approaching written English, and has throughout been the driving force in getting the book finished. The acknowledgment on the title page is an understatement.

My secretary, Muriel A. Porter, has been an efficient and dependable resource in time of need, and I am very much in her debt. She typed most of the manuscript as well as many earlier drafts of part of it.



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## Introduction

**I**N A MUCH QUOTED PASSAGE in his inaugural address, President Kennedy said, "Ask not what your country can do for you — ask what you can do for your country." It is a striking sign of the temper of our times that the controversy about this passage centered on its origin and not on its content. Neither half of the statement expresses a relation between the citizen and his government that is worthy of the ideals of free men in a free society. The paternalistic "what your country can do for you" implies that government is the patron, the citizen the ward, a view that is at odds with the free man's belief in his own responsibility for his own destiny. The organicist, "what you can do for your country" implies that government is the master or the deity, the citizen, the servant or the votary. To the free man, the country is the collection of individuals who compose it, not something

over and above them. He is proud of a common heritage and loyal to common traditions. But he regards government as a means, an instrumentality, neither a grantor of favors and gifts, nor a master or god to be blindly worshipped and served. He recognizes no national goal except as it is the consensus of the goals that the citizens severally serve. He recognizes no national purpose except as it is the consensus of the purposes for which the citizens severally strive.

The free man will ask neither what his country can do for him nor what he can do for his country. He will ask rather "What can I and my compatriots do through government" to help us discharge our individual responsibilities, to achieve our several goals and purposes, and above all, to protect our freedom? And he will accompany this question with another: How can we keep the government we create from becoming a Frankenstein that will destroy the very freedom we establish it to protect? Freedom is a rare and delicate plant. Our minds tell us, and history confirms, that the great threat to freedom is the concentration of power. Government is necessary to preserve our freedom, it is an instrument through which we can exercise freedom; yet by concentrating power in political hands, it is also a threat to freedom. Even though the men who wield this power initially be of good will and even though they be not corrupted by the power they exercise, the power will both attract and form men of a different stamp.

How can we benefit from the promise of government while avoiding the threat to freedom? Two broad principles embodied in our Constitution give an answer that has preserved our freedom so far, though they have been violated repeatedly in practice while proclaimed as precept.

First, the scope of government must be limited. Its major function must be to protect our freedom both from the enemies outside our gates and from our fellow-citizens: to preserve law and order, to enforce private contracts, to foster competitive markets. Beyond this major function, government may enable us at times to accomplish jointly what we would find it more difficult or expensive to accomplish severally. However, any such use of government is fraught with danger. We should not and cannot avoid using government in this way. But there should be a clear

and large balance of advantages before we do. By relying primarily on voluntary co-operation and private enterprise, in both economic and other activities, we can insure that the private sector is a check on the powers of the governmental sector and of effective protection of freedom of speech, of religion, and of thought.

The second broad principle is that government power must be dispersed. If government is to exercise power, better in the country than in the state, better in the state than in Washington. If I do not like what my local community does, be it in sewage disposal, or zoning, or schools, I can move to another local community, and though few may take this step, the mere possibility acts as a check. If I do not like what my state does, I can move to another. If I do not like what Washington imposes, I have few alternatives in this world of jealous nations.

The very difficulty of avoiding the enactments of the federal government is of course the great attraction of centralization to many of its proponents. It will enable them more effectively, they believe, to legislate programs that—as they see it—are in the interest of the public, whether it be the transfer of income from the rich to the poor or from private to governmental purposes. They are in a sense right. But this coin has two sides. The power to do good is also the power to do harm; those who control the power today may not tomorrow; and, more important, what one man regards as good, another may regard as harm. The great tragedy of the drive to centralization, as of the drive to extend the scope of government in general, is that it is mostly led by men of good will who will be the first to rue its consequences.

The preservation of freedom is the protective reason for limiting and decentralizing governmental power. But there is also a constructive reason. The great advances of civilization, whether in architecture or painting, in science or literature, in industry or agriculture, have never come from centralized government. Columbus did not set out to seek a new route to China in response to a majority directive of a parliament, though he was partly financed by an absolute monarch. Newton and Leibnitz; Einstein and Bohr; Shakespeare, Milton, and Pasternak; Whitney, McCormick, Edison, and Ford; Jane Addams, Florence Night-

ingale, and Albert Schweitzer; no one of these opened new frontiers in human knowledge and understanding, in literature, in technical possibilities, or in the relief of human misery in response to governmental directives. Their achievements were the product of individual genius, of strongly held minority views, of a social climate permitting variety and diversity.

Government can never duplicate the variety and diversity of individual action. At any moment in time, by imposing uniform standards in housing, or nutrition, or clothing, government could undoubtedly improve the level of living of many individuals; by imposing uniform standards in schooling, road construction, or sanitation, central government could undoubtedly improve the level of performance in many local areas and perhaps even on the average of all communities. But in the process, government would replace progress by stagnation, it would substitute uniform mediocrity for the variety essential for that experimentation which can bring tomorrow's lagwards above today's mean.

This book discusses some of these great issues. Its major theme is the role of competitive capitalism—the organization of the bulk of economic activity through private enterprise operating in a free market—as a system of economic freedom and a necessary condition for political freedom. Its minor theme is the role that government should play in a society dedicated to freedom and relying primarily on the market to organize economic activity.

The first two chapters deal with these issues on an abstract level, in terms of principles rather than concrete application. The later chapters apply these principles to a variety of particular problems.

An abstract statement can conceivably be complete and exhaustive, though this ideal is certainly far from realized in the two chapters that follow. The application of the principles cannot even conceivably be exhaustive. Each day brings new problems and new circumstances. That is why the role of the state can never be spelled out once and for all in terms of specific functions. It is also why we need from time to time to re-examine

the bearing of what we hope are unchanged principles on the problems of the day. A by-product is inevitably a retesting of the principles and a sharpening of our understanding of them.

It is extremely convenient to have a label for the political and economic viewpoint elaborated in this book. The rightful and proper label is liberalism. Unfortunately, "As a supreme, if unintended compliment, the enemies of the system of private enterprise have thought it wise to appropriate its label",<sup>1</sup> so that liberalism has, in the United States, come to have a very different meaning than it did in the nineteenth century or does today over much of the Continent of Europe.

As it developed in the late eighteenth and early nineteenth centuries, the intellectual movement that went under the name of liberalism emphasized freedom as the ultimate goal and the individual as the ultimate entity in the society. It supported *laissez faire* at home as a means of reducing the role of the state in economic affairs and thereby enlarging the role of the individual; it supported *free trade* abroad as a means of linking the nations of the world together peacefully and democratically. In political matters, it supported the development of representative government and of parliamentary institutions, reduction in the arbitrary power of the state, and protection of the civil freedoms of individuals.

Beginning in the late nineteenth century, and especially after 1930 in the United States, the term liberalism came to be associated with a very different emphasis, particularly in economic policy. It came to be associated with a readiness to rely primarily on the state rather than on private voluntary arrangements to achieve objectives regarded as desirable. The catchwords became welfare and equality rather than freedom. The nineteenth-century liberal regarded an extension of freedom as the most effective way to promote welfare and equality; the twentieth-century liberal regards welfare and equality as either prerequisites of or alternatives to freedom. In the name of welfare and equality, the twentieth-century liberal has come to favor a revival of the very policies of state intervention and paternalism

<sup>1</sup> Joseph Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954) p. 394.



against which classical liberalism fought. In the very act of turning the clock back to seventeenth-century mercantilism, he is fond of castigating true liberals as reactionary!

The change in the meaning attached to the term liberalism is more striking in economic matters than in political. The twentieth-century liberal, like the nineteenth-century liberal, favors parliamentary institutions, representative government, civil rights, and so on. Yet even in political matters, there is a notable difference. Jealous of liberty, and hence fearful of centralized power, whether in governmental or private hands, the nineteenth-century liberal favored political decentralization. Committed to action and confident of the beneficence of power so long as it is in the hands of a government ostensibly controlled by the electorate, the twentieth-century liberal favors centralized government. He will resolve any doubt about where power should be located in favor of the state instead of the city, of the federal government instead of the state, and of a world organization instead of a national government.

Because of the corruption of the term liberalism, the views that formerly went under that name are now often labeled conservatism. But this is not a satisfactory alternative. The nineteenth-century liberal was a radical, both in the etymological sense of going to the root of the matter, and in the political sense of favoring major changes in social institutions. So too must be his modern heir. We do not wish to conserve the state interventions that have interfered so greatly with our freedom, though, of course, we do wish to conserve those that have promoted it. Moreover, in practice, the term conservatism has come to cover so wide a range of views, and views so incompatible with one another, that we shall no doubt see the growth of hyphenated designations, such as libertarian-conservative and aristocratic-conservative.

Partly because of my reluctance to surrender the term to proponents of measures that would destroy liberty, partly because I cannot find a better alternative, I shall resolve these difficulties by using the word liberalism in its original sense—as the doctrines pertaining to a free man.

## Chapter I



### The Relation between Economic Freedom and Political Freedom

**I**T IS WIDELY BELIEVED that politics and economics are separate and largely unconnected; that individual freedom is a political problem and material welfare an economic problem; and that any kind of political arrangements can be combined with any kind of economic arrangements. The chief contemporary manifestation of this idea is the advocacy of "democratic socialism" by many who condemn out of hand the restrictions on individual freedom imposed by "totalitarian socialism" in Russia, and who are persuaded that it is possible for a country to adopt the essential features of Russian economic arrangements and yet to ensure individual freedom through political arrangements. The

thesis of this chapter is that such a view is a delusion, that there is an intimate connection between economics and politics, that only certain combinations of political and economic arrangements are possible, and that in particular, a society which is socialist cannot also be democratic, in the sense of guaranteeing individual freedom.

Economic arrangements play a dual role in the promotion of a free society. On the one hand, freedom in economic arrangements is itself a component of freedom broadly understood, so economic freedom is an end in itself. In the second place, economic freedom is also an indispensable means toward the achievement of political freedom.

The first of these roles of economic freedom needs special emphasis because intellectuals in particular have a strong bias against regarding this aspect of freedom as important. They tend to express contempt for what they regard as material aspects of life, and to regard their own pursuit of allegedly higher values as on a different plane of significance and as deserving of special attention. For most citizens of the country, however, if not for the intellectual, the direct importance of economic freedom is at least comparable in significance to the indirect importance of economic freedom as a means to political freedom.

The citizen of Great Britain, who after World War II was not permitted to spend his vacation in the United States because of exchange control, was being deprived of an essential freedom no less than the citizen of the United States, who was denied the opportunity to spend his vacation in Russia because of his political views. The one was ostensibly an economic limitation on freedom and the other a political limitation, yet there is no essential difference between the two.

The citizen of the United States who is compelled by law to devote something like 10 per cent of his income to the purchase of a particular kind of retirement contract, administered by the government, is being deprived of a corresponding part of his personal freedom. How strongly this deprivation may be felt and its closeness to the deprivation of religious freedom, which all would regard as "civil" or "political" rather than "economic", were dramatized by an episode involving a group of farmers of the Amish sect. On grounds of principle, this group

regarded compulsory federal old age programs as an infringement of their personal individual freedom and refused to pay taxes or accept benefits. As a result, some of their livestock were sold by auction in order to satisfy claims for social security levies. True, the number of citizens who regard compulsory old age insurance as a deprivation of freedom may be few, but the believer in freedom has never counted noses.

A citizen of the United States who under the laws of various states is not free to follow the occupation of his own choosing unless he can get a license for it, is likewise being deprived of an essential part of his freedom. So is the man who would like to exchange some of his goods with, say, a Swiss for a watch but is prevented from doing so by a quota. So also is the Californian who was thrown into jail for selling Alka Seltzer at a price below that set by the manufacturer under so-called "fair trade" laws. So also is the farmer who cannot grow the amount of wheat he wants. And so on. Clearly, economic freedom, in and of itself, is an extremely important part of total freedom.

Viewed as a means to the end of political freedom, economic arrangements are important because of their effect on the concentration or dispersion of power. The kind of economic organization that provides economic freedom directly, namely, competitive capitalism, also promotes political freedom because it separates economic power from political power and in this way enables the one to offset the other.

Historical evidence speaks with a single voice on the relation between political freedom and a free market. I know of no example in time or place of a society that has been marked by a large measure of political freedom, and that has not also used something comparable to a free market to organize the bulk of economic activity.

Because we live in a largely free society, we tend to forget how limited is the span of time and the part of the globe for which there has ever been anything like political freedom: the typical state of mankind is tyranny, servitude, and misery. The nineteenth century and early twentieth century in the Western world stand out as striking exceptions to the general trend of historical development. Political freedom in this instance clearly came along with the free market and the development of capitalist

institutions. So also did political freedom in the golden age of Greece and in the early days of the Roman era.

History suggests only that capitalism is a necessary condition for political freedom. Clearly it is not a sufficient condition. Fascist Italy and Fascist Spain, Germany at various times in the last seventy years, Japan before World Wars I and II, tsarist Russia in the decades before World War I — are all societies that cannot conceivably be described as politically free. Yet, in each, private enterprise was the dominant form of economic organization. It is therefore clearly possible to have economic arrangements that are fundamentally capitalist and political arrangements that are not free.

Even in those societies, the citizenry had a good deal more freedom than citizens of a modern totalitarian state like Russia or Nazi Germany, in which economic totalitarianism is combined with political totalitarianism. Even in Russia under the Tsars, it was possible for some citizens, under some circumstances, to change their jobs without getting permission from political authority because capitalism and the existence of private property provided some check to the centralized power of the state.

The relation between political and economic freedom is complex and by no means unilateral. In the early nineteenth century, Bentham and the Philosophical Radicals were inclined to regard political freedom as a means to economic freedom. They believed that the masses were being hampered by the restrictions that were being imposed upon them, and that if political reform gave the bulk of the people the vote, they would do what was good for them, which was to vote for *laissez faire*. In retrospect, one cannot say that they were wrong. There was a large measure of political reform that was accompanied by economic reform in the direction of a great deal of *laissez faire*. An enormous increase in the well-being of the masses followed this change in economic arrangements.

The triumph of Benthamite liberalism in nineteenth-century England was followed by a reaction toward increasing intervention by government in economic affairs. This tendency to collectivism was greatly accelerated, both in England and elsewhere, by the two World Wars. Welfare rather than freedom be-

came the dominant note in democratic countries. Recognizing the implicit threat to individualism, the intellectual descendants of the Philosophical Radicals — Dicey, Mises, Hayek, and Simmons, to mention only a few — feared that a continued movement toward centralized control of economic activity would prove *The Road to Serfdom*, as Hayek entitled his penetrating analysis of the process. Their emphasis was on economic freedom as a means toward political freedom.

Events since the end of World War II display still a different relation between economic and political freedom. Collectivist economic planning has indeed interfered with individual freedom. At least in some countries, however, the result has not been the suppression of freedom, but the reversal of economic policy. England again provides the most striking example. The turning point was perhaps the "control of engagements" order which, despite great misgivings, the Labour party found it necessary to impose in order to carry out its economic policy. Fully enforced and carried through, the law would have involved centralized allocation of individuals to occupations. This conflicted so sharply with personal liberty that it was enforced in a negligible number of cases, and then repealed after the law had been in effect for only a short period. Its repeal ushered in a decided shift in economic policy, marked by reduced reliance on centralized "plans" and "programs", by the dismantling of many controls, and by increased emphasis on the private market. A similar shift in policy occurred in most other democratic countries.

The proximate explanation of these shifts in policy is the limited success of central planning or its outright failure to achieve stated objectives. However, this failure is itself to be attributed, at least in some measure, to the political implications of central planning and to an unwillingness to follow out its logic when doing so requires trampling rough-shod on treasured private rights. It may well be that the shift is only a temporary interruption in the collectivist trend of this century. Even so, it illustrates the close relation between political freedom and economic arrangements.

Historical evidence by itself can never be convincing. Perhaps it was sheer coincidence that the expansion of freedom occurred

at the same time as the development of capitalist and market institutions. Why should there be a connection? What are the logical links between economic and political freedom? In discussing these questions we shall consider first the market as a direct component of freedom, and then the indirect relation between market arrangements and political freedom. A by-product will be an outline of the ideal economic arrangements for a free society.

As liberals, we take freedom of the individual, or perhaps the family, as our ultimate goal in judging social arrangements. Freedom as a value in this sense has to do with the interrelations among people; it has no meaning whatsoever to a Robinson Crusoe on an isolated island (without his Man Friday). Robinson Crusoe on his island is subject to "constraint," he has limited "power," and he has only a limited number of alternatives, but there is no problem of freedom in the sense that is relevant to our discussion. Similarly, in a society freedom has nothing to say about what an individual does with his freedom; it is not an all-embracing ethic. Indeed, a major aim of the liberal is to leave the ethical problem for the individual to wrestle with. The "really" important ethical problems are those that face an individual in a free society—what he should do with his freedom. There are thus two sets of values that a liberal will emphasize—the values that are relevant to relations among people, which is the context in which he assigns first priority to freedom; and the values that are relevant to the individual in the exercise of his freedom, which is the realm of individual ethics and philosophy.

The liberal conceives of men as imperfect beings. He regards the problem of social organization to be as much a negative problem of preventing "bad" people from doing harm as of enabling "good" people to do good; and, of course, "bad" and "good" people may be the same people, depending on who is judging them.

The basic problem of social organization is how to co-ordinate the economic activities of large numbers of people. Even in relatively backward societies, extensive division of labor and specialization of function is required to make effective use of available resources. In advanced societies, the scale on which co-

ordination is needed, to take full advantage of the opportunities offered by modern science and technology, is enormously greater. Literally millions of people are involved in providing one another with their daily bread, let alone with their yearly automobiles. The challenge to the believer in liberty is to reconcile this widespread interdependence with individual freedom. Fundamentally, there are only two ways of co-ordinating the economic activities of millions. One is central direction involving the use of coercion—the technique of the army and of the modern totalitarian state. The other is voluntary co-operation of individuals—the technique of the market place.

The possibility of co-ordination through voluntary co-operation rests on the elementary—yet frequently denied—proposition that both parties to an economic transaction benefit from it, *provided the transaction is bi-laterally voluntary and informed.*

Exchange can therefore bring about co-ordination without coercion. A working model of a society organized through voluntary exchange is a *free private enterprise economy*—what we have been calling competitive capitalism.

In its simplest form, such a society consists of a number of independent households—a collection of Robinson Crusoes, as it were. Each household uses the resources it controls to produce goods and services that it exchanges for goods and services produced by other households, on terms mutually acceptable to the two parties to the bargain. It is thereby enabled to satisfy its wants indirectly by producing goods and services for others, rather than directly by producing goods for its own immediate use. The incentive for adopting this indirect route is, of course, the increased product made possible by division of labor and specialization of function. Since the household always has the alternative of producing directly for itself, it need not enter into any exchange unless it benefits from it. Hence, no exchange will take place unless both parties do benefit from it. Co-operation is thereby achieved without coercion.

Specialization of function and division of labor would not go far if the ultimate productive unit were the household. In a modern society, we have gone much farther. We have introduced enterprises which are intermediaries between individuals

in their capacities as suppliers of service and as purchasers of goods. And similarly, specialization of function and division of labor could not go very far if we had to continue to rely on the barter of product for product. In consequence, money has been introduced as a means of facilitating exchange, and of enabling the acts of purchase and of sale to be separated into two parts.

Despite the important role of enterprises and of money in our actual economy, and despite the numerous and complex problems they raise, the central characteristic of the market technique of achieving co-ordination is fully displayed in the simple exchange economy that contains neither enterprises nor money. As in that simple model, so in the complex enterprise and money-exchange economy, co-operation is strictly individual and voluntary *provided*: (a) that enterprises are private, so that the ultimate contracting parties are individuals and (b) that individuals are effectively free to enter or not to enter into any particular exchange, so that every transaction is strictly voluntary.

It is far easier to state these provisos in general terms than to spell them out in detail, or to specify precisely the institutional arrangements most conducive to their maintenance. Indeed, much of technical economic literature is concerned with precisely these questions. The basic requisite is the maintenance of law and order to prevent physical coercion of one individual by another and to enforce contracts voluntarily entered into, thus giving substance to "private". Aside from this, perhaps the most difficult problems arise from monopoly—which inhibits effective freedom by denying individuals alternatives to the particular exchange—and from "neighborhood effects"—effects on third parties for which it is not feasible to charge or recompense them. These problems will be discussed in more detail in the following chapter.

So long as effective freedom of exchange is maintained, the central feature of the market organization of economic activity is that it prevents one person from interfering with another in respect of most of his activities. The consumer is protected from coercion by the seller because of the presence of other sellers with whom he can deal. The seller is protected from coercion by the consumer because of other consumers to whom he can sell. The employee is protected from coercion by the employer because of

other employers for whom he can work, and so on. And the market does this impersonally and without centralized authority.

Indeed, a major source of objection to a free economy is precisely that it does this task so well. It gives people what they want instead of what a particular group thinks they ought to want. Underlying most arguments against the free market is a lack of belief in freedom itself.

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 "rules of the game" and as an umpire to interpret and enforce the rules decided on. What the market does is to reduce greatly the range of issues that must be decided through political means, and thereby to minimize the extent to which government need participate directly in the game. The characteristic feature of action through political channels is that it tends to require or enforce substantial conformity. The great advantage of the market, on the other hand, is that it permits wide diversity. It 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.

It is this feature of the market that we refer to when we say that the market provides economic freedom. But this characteristic also has implications that go far beyond the narrowly economic. Political freedom means the absence of coercion of a man by his fellow men. The fundamental threat to freedom is power to coerce, be it in the hands of a monarch, a dictator, an oligarchy, or a momentary majority. The preservation of freedom requires the elimination of such concentration of power to the fullest possible extent and the dispersal and distribution of whatever power cannot be eliminated—a system of checks and balances. By removing the organization of economic activity from the control of political authority, the market eliminates this source of coercive power. It enables economic strength to be a check to political power rather than a reinforcement.

Economic power can be widely dispersed. There is no law of conservation which forces the growth of new centers of eco-

nomie strength to be at the expense of existing centers. Political power, on the other hand, is more difficult to decentralize. There can be numerous small independent governments. But it is far more difficult to maintain numerous equipotent small centers of political power in a single large government than it is to have numerous centers of economic strength in a single large economy. There can be many millionaires in one large economy. But can there be more than one really outstanding leader, one person on whom the energies and enthusiasms of his countrymen are centered? If the central government gains power, it is likely to be at the expense of local governments. There seems to be something like a fixed total of political power to be distributed. Consequently, if economic power is joined to political power, concentration seems almost inevitable. On the other hand, if economic power is kept in separate hands from political power, it can serve as a check and a counter to political power.

The force of this abstract argument can perhaps best be demonstrated by example. Let us consider first, a hypothetical example that may help to bring out the principles involved, and then some actual examples from recent experience that illustrate the way in which the market works to preserve political freedom.

One feature of a free society is surely the freedom of individuals to advocate and propagandize openly for a radical change in the structure of the society—so long as the advocacy is restricted to persuasion and does not include force or other forms of coercion. It is a mark of the political freedom of a capitalist society that men can openly advocate and work for socialism. Equally, political freedom in a socialist society would require that men be free to advocate the introduction of capitalism. How could the freedom to advocate capitalism be preserved and protected in a socialist society?

In order for men to advocate anything, they must in the first place be able to earn a living. This already raises a problem in a socialist society, since all jobs are under the direct control of political authorities. It would take an act of self-denial whose difficulty is underlined by experience in the United States after World War II with the problem of "security" among Federal

employees, for a socialist government to permit its employees to advocate policies directly contrary to official doctrine.

But let us suppose this act of self-denial to be achieved. For advocacy of capitalism to mean anything, the proponents must be able to finance their cause—to hold public meetings, publish pamphlets, buy radio time, issue newspapers and magazines, and so on. How could they raise the funds? There might and probably would be men in the socialist society with large incomes, perhaps even large capital sums in the form of government bonds and the like, but these would of necessity be high public officials. It is possible to conceive of a minor socialist official retaining his job although openly advocating capitalism. It strains credulity to imagine the socialist top brass financing such "subversive" activities.

The only recourse for funds would be to raise small amounts from a large number of minor officials. But this is no real answer. To tap these sources, many people would already have to be persuaded, and our whole problem is how to initiate and finance a campaign to do so. Radical movements in capitalist societies have never been financed this way. They have typically been supported by a few wealthy individuals who have become persuaded—by a Frederick Vanderbilt Field, or an Anita McCormick Blaine, or a Corliss Lamont, to mention a few names recently prominent, or by a Friedrich Engels, to go farther back. This is a role of inequality of wealth in preserving political freedom that is seldom noted—the role of the patron.

In a capitalist society, it is only necessary to convince a few wealthy people to get funds to launch any idea, however strange, and there are many such persons, many independent foci of support. And, indeed, it is not even necessary to persuade people or financial institutions with available funds of the soundness of the ideas to be propagated. It is only necessary to persuade them that the propagation can be financially successful; that the newspaper or magazine or book or other venture will be profitable. 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.

In this way, the market breaks the vicious circle and makes it possible ultimately to finance such ventures by small amounts from many people without first persuading them. There are no such possibilities in the socialist society; there is only the all-powerful state.

Let us stretch our imagination and suppose that a socialist government is aware of this problem and is composed of people anxious to preserve freedom. Could it provide the funds? Perhaps, but it is difficult to see how. It could establish a bureau for subsidizing subversive propaganda. But how could it choose whom to support? If it gave to all who asked, it would shortly find itself out of funds, for socialism cannot repeal the elementary economic law that a sufficiently high price will call forth a large supply. Make the advocacy of radical causes sufficiently remunerative, and the supply of advocates will be unlimited.

Moreover, freedom to advocate unpopular causes does not require that such advocacy be without cost. On the contrary, no society could be stable if advocacy of radical change were costless, much less subsidized. It is entirely appropriate that men make sacrifices to advocate causes in which they deeply believe. Indeed, it is important to preserve freedom only for people who are willing to practice self-denial, for otherwise freedom degenerates into license and irresponsibility. What is essential is that the cost of advocating unpopular causes be tolerable and not prohibitive.

But we are not yet through. In a free market society, it is enough to have the funds. The suppliers of paper are as willing to sell it to the *Daily Worker* as to the *Wall Street Journal*. In a socialist society, it would not be enough to have the funds. The hypothetical supporter of capitalism would have to persuade a government factory making paper to sell to him, the government printing press to print his pamphlets, a government post office to distribute them among the people, a government agency to rent him a hall in which to talk, and so on.

Perhaps there is some way in which one could overcome these difficulties and preserve freedom in a socialist society. One cannot say it is utterly impossible. What is clear, however, is that there are very real difficulties in establishing institutions that

will effectively preserve the possibility of dissent. So far as I know, none of the people who have been in favor of socialism and also in favor of freedom have really faced up to this issue, or made even a respectable start at developing the institutional arrangements that would permit freedom under socialism. By contrast, it is clear how a free market capitalist society fosters freedom.

A striking practical example of these abstract principles is the experience of Winston Churchill. From 1933 to the outbreak of World War II, Churchill was not permitted to talk over the British radio, which was, of course, a government monopoly administered by the British Broadcasting Corporation. Here was a leading citizen of his country, a Member of Parliament, a former cabinet minister, a man who was desperately trying by every device possible to persuade his countrymen to take steps to ward off the menace of Hitler's Germany. He was not permitted to talk over the radio to the British people because the BBC was a government monopoly and his position was too "controversial".

Another striking example, reported in the January 26, 1959 issue of *Time*, has to do with the "Blacklist Fadeout". Says the *Time* story,

The Oscar-awarding ritual is Hollywood's biggest pitch for dignity, but two years ago dignity suffered. When one Robert Rich was announced as top writer for the *The Brave One*, he never stepped forward. Robert Rich was a pseudonym, masking one of about 150 writers . . . blacklisted by the industry since 1947 as suspected Communists or fellow travelers. The case was particularly embarrassing because the Motion Picture Academy had barred any Communist or Fifth Amendment pleader from Oscar competition. Last week both the Communist rule and the mystery of Rich's identity were suddenly rescinded.

Rich turned out to be Dalton (*Johnny Got His Gun*) Trumbo, one of the original "Hollywood Ten" writers who refused to testify at the 1947 hearings on Communism in the movie industry. Said producer Frank King, who had stoutly insisted that Robert Rich was "a young guy in Spain with a beard": "We have an obligation to our stockholders to buy the best script we can. Trumbo brought us *The Brave One* and we bought it". . . .

In effect it was the formal end of the Hollywood black list. For barred writers, the informal end came long ago. At least 15% of cur-



rent Hollywood films are reportedly written by blacklist members. Said Producer King, "There are more ghosts in Hollywood than in Forest Lawn. Every company in town has used the work of blacklisted people. We're just the first to confirm what everybody knows."

One may believe, as I do, that communism would destroy all of our freedoms, one may be opposed to it as firmly and as strongly as possible, and yet, at the same time, also believe that in a free society it is intolerable for a man to be prevented from making voluntary arrangements with others that are mutually attractive because he believes in or is trying to promote communism. His freedom includes his freedom to promote communism. Freedom also, of course, includes the freedom of others not to deal with him under those circumstances. The Hollywood blacklist was an unfree act that destroys freedom because it was a collusive arrangement that used coercive means to prevent voluntary exchanges. It didn't work precisely because the market made it costly for people to preserve the blacklist. The commercial emphasis, the fact that people who are running enterprises have an incentive to make as much money as they can, protected the freedom of the individuals who were blacklisted by providing them with an alternative form of employment, and by giving people an incentive to employ them.

If Hollywood and the movie industry had been government enterprises or if in England it had been a question of employment by the British Broadcasting Corporation it is difficult to believe that the "Hollywood Ten" or their equivalent would have found employment. Equally, it is difficult to believe that under those circumstances, strong proponents of individualism and private enterprise—or indeed strong proponents of any view other than the status quo—would be able to get employment.

Another example of the role of the market in preserving political freedom, was revealed in our experience with McCarthyism. Entirely aside from the substantive issues involved, and the merits of the charges made, what protection did individuals, and in particular government employees, have against irresponsible accusations and probings into matters that it went against their conscience to reveal? Their appeal to the Fifth Amendment

would have been a hollow mockery without an alternative to government employment.

Their fundamental protection was the existence of a private-market economy in which they could earn a living. Here again, the protection was not absolute. Many potential private employers were, rightly or wrongly, averse to hiring those pilloried. It may well be that there was far less justification for the costs imposed on many of the people involved than for the costs generally imposed on people who advocate unpopular causes. But the important point is that the costs were limited and not prohibitive, as they would have been if government employment had been the only possibility.

It is of interest to note that a disproportionately large fraction of the people involved apparently went into the most competitive sectors of the economy—small business, trade, farming—where the market approaches most closely the ideal free market. No one who buys bread knows whether the wheat from which it is made was grown by a Communist or a Republican, by a constitutionalist or a Fascist, or, for that matter, by a Negro or a white. This illustrates how an impersonal market separates economic activities from political views and protects men from being discriminated against in their economic activities for reasons that are irrelevant to their productivity—whether these reasons are associated with their views or their color.

As this example suggests, the groups in our society that have the most at stake in the preservation and strengthening of competitive capitalism are those minority groups which can most easily become the object of the distrust and enmity of the majority—the Negroes, the Jews, the foreign-born, to mention only the most obvious. Yet, paradoxically enough, the enemies of the free market—the Socialists and Communists—have been recruited in disproportionate measure from these groups. Instead of recognizing that the existence of the market has protected them from the attitudes of their fellow countrymen, they mistakenly attribute the residual discrimination to the market.



## Chapter II



### The Role of Government in a Free Society

A COMMON OBJECTION to totalitarian societies is that they regard the end as justifying the means. Taken literally, this objection is clearly illogical. If the end does not justify the means, what does? But this easy answer does not dispose of the objection; it simply shows that the objection is not well put. To deny that the end justifies the means is indirectly to assert that the end in question is not the ultimate end, that the ultimate end is itself the use of the proper means. Desirable or not, any end that can be attained only by the use of bad means must give way to the more basic end of the use of acceptable means.

To the liberal, the appropriate means are free discussion and voluntary co-operation, which implies that any form of coercion is inappropriate. The ideal is unanimity among responsible indi-

viduals achieved on the basis of free and full discussion. This is another way of expressing the goal of freedom emphasized in the preceding chapter.

From this standpoint, the role of the market, as already noted, is that it permits unanimity without conformity; that it is a system of effectively proportional representation. On the other hand, the characteristic feature of action through explicitly political channels is that it tends to require or to enforce substantial conformity. The typical issue must be decided "yes" or "no"; at most, provision can be made for a fairly limited number of alternatives. Even the use of proportional representation in its explicitly political form does not alter this conclusion. The number of separate groups that can in fact be represented is narrowly limited, enormously so by comparison with the proportional representation of the market. More important, the fact that the final outcome generally must be a law applicable to all groups, rather than separate legislative enactments for each "party" represented, means that proportional representation in its political version, far from permitting unanimity without conformity, tends toward ineffectiveness and fragmentation. It thereby operates to destroy any consensus on which unanimity with conformity can rest.

There are clearly some matters with respect to which effective proportional representation is impossible. I cannot get the amount of national defense I want and you, a different amount. With respect to such indivisible matters we can discuss, and argue, and vote. But having decided, we must conform. It is precisely the existence of such indivisible matters—protection of the individual and the nation from coercion are clearly the most basic—that prevents exclusive reliance on individual action through the market. If we are to use some of our resources for such indivisible items, we must employ political channels to reconcile differences.

The use of political channels, while inevitable, tends to strain the social cohesion essential for a stable society. The strain is least if agreement for joint action need be reached only on a limited range of issues on which people in any event have common views. Every extension of the range of issues for which explicit agreement is sought strains further the delicate threads that hold