

REVIEWS

CAPITALISM AND FREEDOM. By Milton Friedman. Chicago: University of Chicago Press, 1962. Pp. 202. \$3.95.

THIS book is about liberal principles and their application to problems of government control. The author, a prominent economic libertarian with strongly held and clearly articulated convictions about both civil and economic liberties, attempts in non-technical language to explain his principled convictions, to expose their rationale, and then to apply them in evaluating public institutions and governmental activities. His method consists in the uncompromising application of general principles to particular cases. This is no book about what to compromise for purposes of political expediency.

Friedman's critique is not reserved for new and controversial areas of public control designed in the name of welfare. Longstanding and long-accepted public institutions are subjected to his tests and found wanting. This is not a "conservative" book. The author is a "radical," albeit a philosophical radical. His criteria for evaluating the appropriateness of public versus private decision-making when applied to such institutions as public education, national parks or the post office, will be radical to many a conservative. There are no sacred cows for Friedman. The right-to-work laws fare no better than the old age assistance laws; the medical association gets the same kind of treatment as the labor unions. With respect to tax reforms, compared to Professor Friedman, President Kennedy is a piker! Eliminate the corporate income tax; tax individuals for withheld corporate earnings; treat capital gains as income; abolish progression in income taxes above an exemption level; pay out, as an income tax in reverse, to families with incomes below the exemption level; and use the latter generously enough so as to eliminate other forms of welfare payments.

The scope of government, especially central government, has vastly over-expanded into areas more appropriately left to the competitive market place. Friedman does not contend that the market is always reliable. It is a question of assessing the alternatives. What *should* belong in the public sector and what *should* belong in the private sector depends principally upon whether the activities are market supporting or market supplanting, whether they promote or impede freedom, and whether or not freedom of action competes with or complements other recognized objectives. The conclusion is that a great deal more freedom is both desirable and feasible.

The opposite of freedom is coercion. Coercion is a central problem for Friedman. Political coercion is no less important than economic coercion. Coercion can be public or private; it can be imposed by majorities as well as minorities; and it can have equally dire results when applied soulfully as when applied

with diabolical intent. Friedman, of course, recognizes the need for governmental coercive power. He is no anarchist. The power of government is required not only to preserve freedom but to accomplish other objectives not attainable through voluntary private action. This is not to minimize the very serious threat the author sees in concentrating power—for him unnecessary power—in political hands.

Friedman urges primary reliance on voluntary cooperation and private enterprise in both political and other activities, not solely to achieve such economic ends as efficient organization of production and effective remuneration for productive contribution, although these are important. Equally important is civil liberty: "the private sector is a check on the powers of the governmental sector and an effective protection of freedom of speech, religion and thought."¹ Primacy is placed on the integrity of imperfect individuals and their right to make their own decisions and their own mistakes. Although ethical goals are not explicitly discussed, the very uncertainty of ultimate ethical goals, as Milton Friedman's friend George Stigler has observed, ". . . dictate(s) a wide area of individual self-determination."²

Freedom is foremost among Friedman's values not only because he deems it cardinal, but also because he finds freedom to be much more compatible with other objectives than is usually assumed. Self-determination is not everything. The author's strong opposition to such governmental undertakings as public housing, minimum wage statutes, farm price supports, medical care for particular groups, as well as his opposition to right-to-work laws, does not derive from intellectual myopia or from disdain for humanitarian sentiment. Neither does it derive from crassness towards, or lack of interest in, problems of poverty. In fact, a prescription for the alleviation of poverty is a *welfare* alternative which Friedman suggests as a substitute for the special "market displacing" institutions of which he is so critical. The author's position is that many, if not most, of the current means of aiding the "under-privileged" involve disguised judgments of their personal incompetence. Friedman believes *them* to be more capable than the government in making choices about their own needs, although the freedom of families not to educate their children is a notable exception.

Solving economic problems through a price system is the essence of capitalism. The Friedman position is that the market is a vastly underrated institution. Dollar voting, given adequate monetary and fiscal policy, and a provision for reasonable balloting by the otherwise dollarless, is the central prerequisite of his prescription.

Basically, there are two classes of cases which should call for government action—that is to say, two classes in which private competitive action (under conditions of voluntary exchange) is either impossible or at least too costly to be tolerated. The two general classes calling for exception are (1) technical monopoly, and (2) neighborhood effects.

1. FRIEDMAN, p. 3.

2. STIGLER, FIVE LECTURES ON ECONOMIC PROBLEMS p. 8 (1950).

The first category, technical monopoly, is strictly limited. Included in it are a narrowly proscribed group of activities the market for which is of such size as to support only single enterprises. Here costs decrease over such wide ranges of output that the competitive process, if allowed to operate, would drive out all but the single seller and leave the market susceptible to private exploitation. But government operation or regulation, even here, may create almost as many problems as it solves. Consequently the exception is limited to such extreme cases as local telephone companies or water works. For other cases the market should be allowed to work (or made to work by antitrust remedy) as best it can.

The second category of exceptions, involving neighborhood effects, is more difficult to delineate. Friedman indicates the nature of the problem by a water pollution example and again in a chapter dealing with public education. Both examples show how difficult the evaluative problem is, as will be evidenced in the subsequent resumé of the role of public education. In part this arises from the fact that there seems to be at least a little "neighborhood effect" in everything that is done in society.

Neighborhood effects giving rise to problems of public control involve imposition of substantial effect on others in situations in which the producer of these effects neither bears their costs nor gets the reward for their advantages.

Friedman's reference to the pollution of a stream as an example of a neighborhood effect is: "The man who pollutes the stream is in effect forcing others to exchange good water for bad. These others might be willing to make the exchange at a price. But it is not feasible for them acting individually to make the exchange or to enforce appropriate compensation."³ In this example a large number of people are involved. Therefore the costs of handling the problem through the market or the firm are presumably high. The central social problem, whether resolved by the market or not, is whether the value of the firm's product which is added by the pollution-creating activity is greater than the value of the loss to all of those affected by the pollution. That the market may be a very costly instrument for resolving this problem is not cause for governmental intervention unless such intervention can be expected to allocate the resources at a cost which is not only less than the cost of using the market, but also less than the cost of the harmful effects of doing nothing. Friedman stresses the fallibility and costliness of government administration which operates under political pressures, without any competitive checks. But where to draw the boundary line between private and government regulation remains elusive. As Friedman says:

Our principles offer no hard and fast line . . . we must draw up a balance sheet listing advantages and disadvantages. Our principles tell us what items to put on one side and what items on the other and they give us some basis for attaching importance to the different items.⁴

3. FRIEDMAN, p. 30.

4. FRIEDMAN, p. 32.

Much of the material contained in this book has been presented previously in different forms to rather widely divergent audiences. The reworking of this material into its present structure for popular consumption was done in such fashion as to leave many of the chapters available as useful independent essays on particular topics. This is true of the middle chapters concerning monetary policy, international trade and fiscal policy, as well as the chapter concerning public education and the one on capitalism and discrimination.

Chapter I, *The Relation between Economic Freedom and Political Freedom*, attempts to dispel the generally held belief that the two concepts are separate and largely unconnected. The author views economic liberty as a precondition of effective civil liberty. Appeal to the Fifth Amendment, for example, "would have been a hollow mockery without an alternative to government employment." And, "It is of interest to note that a disproportionately large fraction of the people involved [in our experience with McCarthyism] . . . went into the most competitive sectors of the economy—small business, trade, farming—where the market approaches most clearly the ideal free market."⁵

Chapter II, *The Role of Government in a Free Society*, stresses the need for rules, proportional representation, prohibition of the coercion of individuals, widespread reliance on the market, enforcement of property rights, protection against enemies, and the provision of a monetary framework.

Chapters III, IV, and V, *The Control of Money, International Trade Arrangements, and Fiscal Policy* deal with material upon which Friedman has worked as a professional economist over a number of years and concerning which he has made distinguished contributions. They summarize in very useful fashion (although not always easy going for non-economist readers) the results of research by him and his associates over a long period. Moreover, Friedman has presented these materials in such fashion that there need be no doubt about the consistency of this work with his broader conclusions on capitalism and freedom. Here is a challenging and useful summary for the special as well as the general reader.

Chapter VI, *The Role of Government in Education*, provides substantial contrast to the preceding chapters. Here and in the following Chapter VII, *Capitalism and Discrimination*, is writing which will remind many of a Friedman lecture or a Friedman conversation: brashly challenging, insistently probing, purposely shocking, but always relevant.

Friedman's discussion of public education, as has been indicated, is cast in terms of an analysis of what he calls the neighborhood effect. Since this effect is *the* principal area of exception to Friedman's "market principle" some detail may be in order. The gains derived from education (or the losses from the lack of education) do not accrue only to the student or his family; education confers benefits of a substantial sort on society. Stated differently, lack of education is a social cost. Moreover, here, even more obviously than in the previously mentioned stream-pollution example, the other individuals affected are so numerous

5. FRIEDMAN, p. 21.

and widely scattered that the market mechanism does not provide a means of cost allocation. Consequently some form of government action is recognized as being appropriate. Friedman suggests that having the government as the predominant operator of schools is only one solution to the problem posed and not necessarily the best. He finds government subsidy more justifiable than government operation.

The social cost of too little education forces the author to call for coercion. Mere provision against poverty is not sufficient. Parents have to be compelled to provide at least minimum general education for their children, not only because of the interests of the children, but because:

A stable and democratic society is impossible without a minimum degree of literacy and knowledge on the part of most of the citizens and without widespread acceptance of a common set of values.⁶

In assessing the relative advantages of government-operated schools and private schools, Friedman places greater emphasis on the means of appraisal than upon the "correctness" of his own conclusion. He stresses the distinction between education and schooling; he suggests that neighborhood effects are likely to be greater for lower than for higher education; and he warns against appraising technical or professional education as general education for citizenship.

The conclusion is that there should be much wider opportunity and support for private education. Friedman believes that public education at the primary and secondary level may be justified, and that one way to find out is to prescribe minimum standards (licensing) for private schools in order to see if families prefer them. Those preferring private schooling would be reimbursed for the estimated cost of comparable public education. It is recognized that there are disadvantages as well as advantages in this recommendation. Cost considerations involved in providing alternative forms of schooling may be very high in sparsely settled areas (technical monopoly); of more general relevance, the reasonableness of the minimum standards provided for acceptable private education, as well as the cost of providing it, deserves careful consideration.

Among the advantages Friedman notes to support private schooling are: provision for wider choice to meet individual preferences, a competitive stimulus for a better product, remuneration for teaching more closely related to teaching accomplishment, allocation of non-educational schooling costs (such as basketweaving) to those who are willing to pay for them, and, not least important, provision for a voluntary desegregation of neighborhood classes in schools without relocation of families. Under the author's analysis, these advantages *seem* to outweigh the disadvantages for primary and secondary education, especially in urban centers. For higher education, and for technical and professional education, his case for private over public education is clearly much stronger.

6. FRIEDMAN, p. 86.

Monopoly and Social Responsibility is Chapter VIII. As to monopoly problems, Friedman says that he is lacking special or technical competence and that consequently ". . . this chapter is limited to a fairly cursory survey of some of the broader issues: the extent of monopoly, the sources of monopoly, the appropriate government policy, and the social responsibility of business and labor."⁷ He then proceeds in the course of fifteen short pages to present the essence of the monopoly problem in so cogent a manner as to make his disclaimer seem disingenuous. At least it is more applicable to 98 per cent of the "experts" in the field than it is to Friedman. When one is as competent a theorist as is this author, especially when such capable students of monopoly as Stigler and Director are close colleagues, disclaimers may safely be ignored.

Occupational Licensure, Chapter IX, deals with problems which parallel those involved in the medieval guilds. The examples in this section lean heavily on the work of Reuben Kessel and that of Walter Gellhorn. Their materials provide interesting examples for the application of Friedman's "market principle." Considerable attention is given to the American Medical Association and the restraining effects this association exerts on entry into the profession. A comparative review of how well the medical problem is actually handled under Britain's public health system would have provided an interesting contrast, not only to the American system as it exists, but also to Friedman's speculations about the usefulness of medical teams operating through clinics. For example, are tolerance, diversity, experimentation, as well as the rationing of scarce medical skills deteriorating in Britain? The author's thesis would seem to forecast such a result.

The last three chapters of the book prior to the conclusion deal with distribution of income, social welfare measures, and the alleviation of poverty. These "welfare" chapters involve problems where a balancing process is required. Inevitably, as he makes clear, this sort of task reflects the author's preferences because recognized goals of governmental action such as revenue, incentives for productive effort, efficient allocation of productive resources, and provision against poverty may be conflicting. In Friedman's prescription, provision against poverty financed by tax reform makes undesirable such social welfare measures as public housing, farm supports and old age survivors insurance.

As must be eminently clear, this little book covers a wide range of problems. Although the exposition is uneven—different chapters seem appropriate for different readers—the work is uniformly challenging. There is material here which is reminiscent of Hayek's *Road to Serfdom*, or Simons' *Economic Policy for a Free Society*. *Capitalism and Freedom* complements the work in that tradition. The author's convictions have been described as strong. But they are never disguised, nor are they diluted to make them palatable. The tone of the work is perhaps somewhat evangelical. What of that? There is scarcely cause for alarm in this day and age from a plethora of total-immersion libertarians.

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7. FRIEDMAN, p. 121.

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