



Friedman's legacy for the contemporary world

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Abstract: The aim of this paper is to analyze thoughts of Milton Friedman that he published in his famous book *Capitalism and Freedom* in 1962 and apply Friedman's theories on the contemporary issues of the modern world. The author has decided to review this book, as there was 60th anniversary of the book in 2022. The author of the paper has chosen topics, which he considers the most crucial and current; consequently, following topics are analyzed in the paper: the relation between economic freedom and political freedom, the role of government in a free society, the control of money, fiscal policy, the role of government in education and discrimination. The author uses the same research method as Milton Friedman did – the use of practical examples. The results of the analysis show that current western society is much more regulated than it was in the past and a level of freedom is significantly lesser than in the 1960s. The ideas of Milton Friedman would be probably encountered with disregard and disbeliefs by current leftist society.

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Introduction

This article will analyze the book *Capitalism and Freedom*, which was written by Milton Friedman. The author has decided to analyze this book as there was 70th anniversary from publishing this book and most ideas are still highly relevant. The article will focus on the content of the book, which will be compared to ideas of other philosophers or economists. The author of the article will also comment and challenge particular opinions, which are stated in the books. He will also try to provide some recent examples as Milton Friedman did in his books, too.

It solves several different issues regarding economics. It differs to other economic literature as the author does not use analytical appliance for his explanations. Instead of analytical tools, he uses many practical examples. I appreciate that approach as this allows people who are not familiar with economics to read the book. For this reason, Friedman managed to sell over half a million copies.

As the book discusses a wide range of topics and the extent of the article is limited, we cannot analyze each theme in detail. The article will mainly deal with topics that the author considers being the most interesting and current.

Capitalism and Freedom

Friedman emphasizes that there are only two ways of coordinating economic activities of millions. One is central direction and the second is voluntary cooperation of individuals. In the free market, no one is pushed to bargain with someone else and exchange with him/her goods or services. Individuals who want to satisfy their desires and needs create this voluntary cooperation naturally.

Friedman emphasizes the role of specialization and division of labor, which is created spontaneously. He describes money as a means to separate acts of purchases and sells. He also claims that it is important to have a proper institutional arrangement – the maintenance of law and order.

Friedman defines a free economy as something what people want instead of what a particular group thinks they ought to want. He does not refuse the role of the government, but its role should be minimized. He asserts that the government should be an umpire who determines the rules of the game.

Friedman gave us an example of how the capitalism works rightly despite some individuals act against a free market. That story happened after the 2WW. It was prohibited in Hollywood to award someone who is a proponent of communism. However, that actually occurred when Dalton Trumbo received an award for the best script. He used a pseudonym when he provided his script. A producer of the movie did not know that Trumbo had been banned to participate in Hollywood movies and the script was so good; thus, he accepted it and hired him. We can see that the free market worked perfectly.

Unfortunately, we can see that there is similar oppression in Hollywood nowadays as there was after the 2WW. We can mention the example when some actors were accused of sexual harassment. The charge came from some no-name persons who want to be famous and who do not have any proof for their accusation. Despite a lack of evidence, these accused actors are not allowed to cast in movies. It is undoubtedly against the free

market. Actors should be hired based on their skills and not based on their personal life, which is entirely irrelevant to their job. We should add that this campaign was not induced by the government but by journalists that published news without evidence.

Another instance of oppression is affirmation action recently established in Hollywood that applies quotas on the Oscar award nomination based on race, sex and sexual orientation of authors and protagonists. For example, one quota says that at least one of the lead actors or significant supporting actors is from an underrepresented racial or ethnic group¹. We can see that almost all racial and ethnic groups are listed as underrepresented except of whites. That is again clear oppression of those who are on average more successful as they are losing the chance to win some awards. It is sad to see these acts in the country, which were considered to have the greatest level of freedom in the past.

The second chapter, which I consider being one of the most valuable, focuses on the idea when it is efficient to leave the area on the market and when it is more efficient that the government will provide the service. In general, Milton Friedman says that most activities should be left on the market and not be decided by a political way.

Friedman claims that the government should have only few main responsibilities. The government should ensure the maintenance of law and order, the enforcement of contracts voluntarily entered into, the definition of property rights, the interpretation and enforcement of rights and the provision of a monetary frame².

In other words, each state should have a functional legal system that ensures that an individual does not need to be afraid to enter into contracts as he or she can be sure that his or her legal rights will be protected. As a result, there are more economic transactions in the system, which boost economic growth.

Friedman clearly refuses that it is possible to have absolute freedom. He considers the idea of anarchy to be seductive; however, it is not feasible in a world of imperfect men³.

A large number of philosophers examined the role of the government. Max Weber, a German historian; sociologist; jurist; and political economist, concludes that a state possesses a monopoly on the legitimate use of physical force. In other words, politicians are those who wield the power and common individuals are not allowed to use violence⁴.

According to me, the greatest explanation of the role of the government gave us an English philosopher Thomas Hobbes arguing that without the government, there would be a "war of all against all"⁵. In case that people can kill each other without any punishment, everyone would take the opportunity to murder people who he or she does not like. Thus, the existence of the government is fundamental for society.

A psychologist Steven Pinker also empirically tested the relationship between the rate of violence and the existence of the government. He concluded that society with the government has a significantly lower rate of violence⁶.

Friedman says that the government should only perform the activities, which the market is not able to do for itself⁷. A similar point of view had a British economist John Maynard Keynes, who published his persuasion that the government should provide merely actions, which cannot be delivered by the private sector⁸.

To sum up, if we simplify the thoughts of philosophers who we mentioned, we can state that the thinkers reached a similar conclusion: the existence of government is necessary to ensure a functional legal system without violence. I agree with that opinion. In my view, the idea of anarchy is a utopia. If there was no institution which could enforce the law, there would be a bloody bath. People would murder each other if they knew that no one could punish them.

However, Milton Friedman adds one more role which should be performed by the government and which other authors did not mention. He says that the government should provide a monetary frame. He discussed that in detail in his study "*The Quantity Theory of Money: A restatement*"⁹. Friedman recommended a golden rule of monetary growth. That means regular and stable growth of the money supply. He specified that growth of the money supply should be around 3-5 % annually¹⁰.

In my opinion, stable growth of money supply is necessary for any economy, as there is an increase in the number of transactions that are settled among economic agents every year. Thus, a higher amount of money is needed. In general, in the short run, growth of money is equal to the sum of economic growth, inflation growth and velocity of money¹¹.

Therefore, a Friedman's conclusion that the government should be responsible for the provision of a monetary frame seems to be correct. Nevertheless, that conclusion might be questioned by the existence of cryptocurrencies. The main purpose of cryptocurrencies is to establish an independent currency whose value cannot be influenced by any central bank or by government. For example, Bitcoin, which is the most popular cryptocurrency, is issued on a regular basis and its amount cannot be influenced by anyone. Of course, there are some issues relating to cryptocurrencies, such as safety; however, that new element may bring some new perspective into economic theories. That would be also interesting to know the opinion of Milton Friedman. He did not examine cryptocurrencies in his books and articles since that phenomenon is very recent.

⁶ Steven Pinker, *The Better Angels of Our Nature: Why Violence Has Declined*, Illustrated edition (New York Toronto London: Penguin Books, 2012).

⁷ Friedman, *Capitalism and Freedom*.

⁸ John Maynard Keynes, "The End of Laissez-Faire," in *Essays in Persuasion*, ed. John Maynard Keynes (London: Palgrave Macmillan UK, 1926), 272–94, https://doi.org/10.1007/978-1-349-59072-8_21.

⁹ Milton Friedman, "The Quantity Theory of Money -- A Restatement -- Items -- Collected Works of Milton Friedman," 1956, <https://miltonfriedman.hoover.org/objects/58154/the-quantity-theory-of-money--a-restatement>.

¹⁰ Friedman.

¹¹ John Maynard Keynes, "The General Theory of Employment, Interest, and Money," 1935, 263.

¹ OSCARS, "ACADEMY ESTABLISHES REPRESENTATION AND INCLUSION STANDARDS FOR OSCARS® ELIGIBILITY," Oscars.org | Academy of Motion Picture Arts and Sciences, September 8, 2020, <https://www.oscars.org/news/academy-establishes-representation-and-inclusion-standards-oscars-eligibility>.

² Milton Friedman, *Capitalism and Freedom*, 40th anniversary ed. (University of Chicago Press, 2002).

³ Friedman.

⁴ Max Weber, *Politics as a Vocation* (Philadelphia: Fortress Press, 1919).

⁵ Thomas Hobbes, "Leviathan," Digital Book, 1651, <https://library.si.edu/digital-library/book/leviathan00hobba>.

Friedman also examined alternative ways to ensure a sufficient money supply. He discussed pros and cons of a commodity standard. Although a gold or silver standard can provide a stable monetary framework without the danger of the irresponsible exercise of monetary powers, Friedman did not support this concept because a commodity standard requires a large use of real resources to add to the stock of money¹².

Friedman also strongly criticized discretionary monetary policies. His main argument is that monetary authorities are lured by the power to influence the money supply in their own interest. Moreover, monetary authorities often make an incorrect judgment; accordingly, their decisions may often cause more harm than good.

For the reasons mentioned above, he recommended a monetary policy set by predetermined rules. However, he refused rules in terms of final objectives, such as inflation targeting. He argued that monetary authorities cannot directly influence this aim, and therefore that leaves authorities too much leeway¹³. As we discussed before, Friedman suggested targeting the money supply.

Friedman dealt with a fiscal policy as well. He is in favor of the idea that government expenditure and tax rates should be planned. The aim is to avoid year-to-year changes, which lead to economic instability¹⁴. I share this opinion as frequent and unforeseen changes result in unstable economic environment. Eventually, no economic subject can make profit from that. Nevertheless, there is no straightforward solution for this issue. Fiscal authorities, which are usually governments, are being changed in regular cycles. Whereas leftist parties typically support higher taxes and more public expenditure, right - wing parties naturally encourage lower taxes and less public expenditure. That would certainly lead to significant changes in fiscal instruments. The resolution might be to deprive the power to adjust tax rates and public expenditure of the government. There would be a set of given rules that could be possibly changed merely in a situation of some sudden catastrophe, such as an earthquake, flood, or war.

Friedman also made several interesting points regarding the role of government in education. He distinguished between general education, schooling at college and university and vocational and professional schooling. Friedman acknowledged that some minimum degree of literacy and knowledge is necessary for a stable and democratic society; thus, he admitted that some government subsidy may be justified in specific occasions. However, he is strongly against subsidizing vocational training. He considered that training to be a private investment in human capital which will provide yields in future for a particular individual. He did not see a difference between investments in human capital and physical capital. Conversely, he mentioned that investments in human capital brings higher yields on average.

A similar view was provided other representants of Chicago school who examined the theory of human capital and the role of government in education¹⁵. In my opinion, education, in general,

should not be considered being public goods. An individual who invests in its own training should bear all related costs since he or she also gains all benefits of the training for himself or herself. I would only make an exception for the first level of elementary school because it is desirable for the economy to have literate society. Therefore, I basically agree with representants of Chicago school.

Another topic that is analyzed in the book is discrimination. Friedman is against any kind of affirmation action. According to Friedman, discrimination means "taste". He explained that on particular examples. An individual prefers one singer to another because he or she likes opera and the latter sings opera. In other words, that represents his or her taste. No one would call that discrimination. However, people usually regard as discrimination when an individual prefers to have services rendered by a white man to a black man. In reality, there is no difference between these two situations. In both cases, individuals only express their taste¹⁶.

Friedman added few comments regarding fair employment practices legislation. He provided an example of a grocery store situated in the area with a strong aversion against black people. He let us suppose the store is obliged to hire a black man as a clerk because of the law. Since people in the area have an aversion against black people, they would not purchase goods from the store and therefore, the store makes losses. As we can see, the only person who is harmed by the law is the owner of the store. Friedman considered fair employment legislation being equal to the Hitler Nuremberg laws and the laws in the Southern states imposing some disabilities upon black people¹⁷.

A recent development of the situation regarding anti - discrimination laws is very concerning. We can see a large number of laws, which without any reason, support some in-group. Such positive discrimination is mainly based on race, gender, and sexual orientation. I would mention examples of these affirmation actions. The first one is the law established by the EU that public companies operating their business in the EU are required to have 40% of women in their boards of directors¹⁸ regardless their ability to perform the job. The second example is the obligation for Brazilian schools to accept a given percentage of black people despite they reached poorer results during entrance examination than white candidates¹⁹. Another example might be establishment of a political movement Black Lives Matters (BLM). The movement was set up after several black people were murdered during their criminal activities. It is important to say that it is common practice that the US police murder criminals in order to prevent them continuing in committing a crime. It does not matter which color of skin a criminal has. In spite of that, black people reached several advantages due to the movement BLM.

<https://www.nber.org/books-and-chapters/employment-and-compensation-education>.

¹⁶ Friedman, *Capitalism and Freedom*.

¹⁷ Friedman.

¹⁸ Monika Leszczyńska, "Mandatory Quotas for Women on Boards of Directors in the European Union: Harmful to or Good for Company Performance?," *European Business Organization Law Review* 19, no. 1 (March 1, 2018): 35–61, <https://doi.org/10.1007/s40804-017-0095-x>; European Parliament, "Legislative Train Schedule," European Parliament, 2016, <https://www.europarl.europa.eu/legislative-train>.

¹⁹ Luisa Farah Schwartzman, "Who Are the Blacks? . The Question of Racial Classification in Brazilian Affirmative Action Policies in Higher Education," *Cahiers de La Recherche Sur l'éducation et Les Savoirs*, no. 7 (October 1, 2008): 27–47.

¹² Friedman, *Capitalism and Freedom*.

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¹⁴ Friedman.

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Conclusion

The article discussed an excellent and important work of Milton Friedman. Attention has been paid to these topics: the relation between economic freedom and political freedom, the role of government in a free society, the control of money, fiscal policy, the role of government in education and discrimination.

There are even more topics discussed in the book; however, the aim of the article was not to cover all themes and analyze them only superficially but rather discuss some crucial topics in detail. In general, the book represents a valuable contribution to economics.

The author of the article must especially appreciate the way how the book was written as it allows non-economists to read it without severe issues. The author of the article has also felt nostalgia during reading the book due to a recent sharp shift from a relatively free society to an overregulated society.

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