Milton Friedman and Liberty

BY ROBERT L. HETZEL

Liberty was a fundamental ethical value for Milton Friedman, the Nobel Prize-winning economist who died late last year. Unlike some other classical liberals, however, he did not defend liberty as an absolute right. Rather, he viewed it as a necessary condition for a peaceful and prosperous social order. Central to the functioning of such a society were free markets and limited government.

In 1946, when Friedman began teaching at the University of Chicago, the prevailing intellectual consensus was strongly opposed to markets. For Friedman, free markets depended upon property rights broadly construed: Everyone should have the ability to bring his physical and human capital into competition with anyone else. As Friedman explained, markets decentralize the allocation of resources through the information and incentives provided by the price system. The self-interest of producers assures that the market provides the goods that individuals choose to consume and also that resources are allocated efficiently across competing uses.

Critics of a market-based economy argued that it cannot create a caring society. Such a society depends upon individual acts of kindness and the caring of voluntarily formed groups — family, fraternal, and religious organizations. It would appear logical to add government to this list by placing economic activity under the control of a benevolent government. Surely, replacing the selfish motives of market actors with the selfless motives of government employees would create a more compassionate society.

Friedman followed F.A. Hayek in challenging this logic. The price system economizes on the information needed by individual actors to make decisions optimal for the entire economy. Because the central planner cannot possess all the knowledge required to make a complex economy function, only a free-market economy can create wealth. Moreover, government, by its very nature, is not voluntary; it is coercive. Invariably, supposedly benevolent, egalitarian governments institute policies that primarily benefit those who exercise power, not the masses, as promised. Friedman compared as "controlled experiments" East Germany with West Germany and North Korea with South Korea. In Friedman's view, government needed to wield some coercive power to carry out basic tasks such as national defense, but that power should be held sharply in check.

Free markets were also criticized for not exhibiting the competition necessary for their survival. A decade of high unemployment during the Great Depression followed by high employment during wartime led to the widespread belief that the price system had failed and that only government could provide a remedy. For the public, free enterprise crashed when the banks crashed in the Depression.

Friedman challenged this view on two levels. First, he and Anna Schwartz explained the Great Depression as a failure of monetary policy, not the market system. Second, Friedman spent his life illustrating the usefulness of the competitive market model for understanding economic phenomena — both in the classroom and through books, magazine columns, and television appearances aimed at the general public.

Friedman demonstrated that government intervention in the marketplace frequently produced unintended and counterproductive results. For example, he criticized the wage and price controls imposed by President Nixon on Aug. 15, 1971, predicting correctly that they would lead to shortages. Friedman also relentlessly demonstrated the relationship between high money growth and inflation, arguing that "inflation is always and everywhere a monetary phenomenon." As a result, when monetary policy became inflationary again toward the end of the 1970s, the public no longer believed that private greed created inflation. Fed Chairman Paul Volcker then had the public and political support necessary to implement a policy of disinflation. Without Friedman's continual advocacy of policies to restrain money growth, the United States might have continued to suffer from periodic bouts of inflation and controls that would have destabilized the economy and eroded limitations on government power.

When I was an undergraduate at the University of Chicago in 1964, I heard a speech by a famous political scientist, Hans Morgenthau, who argued that because modern economies are so complicated they require extensive government planning and control. Many years later, I recounted this story to Friedman, who laughed and replied that Morgenthau had accused him of fighting the wars of the 19th century. Friedman willingly accepted the comparison to the 19th century English economists who had defended free trade during the Corn Law debates.

Friedman can rightly be compared to the Enlightenment philosophers of the 18th century, such as Jefferson and Voltaire, as well. He believed that individuals could identify common ground and through reasoned discourse come to agreement — and spent his life engaged in such discussions. If the 21st century is to be an age of human progress rather than conflict between people with different religious and ideological views, it will be because of efforts made by individuals such as Milton Friedman who believed that the world can be a place of reason and prosperity rather than conflict and hardship. **RF**

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