

MARKETS AS A JUSTIFICATION FOR MILTON FRIEDMAN'S NEW LIBERALISM

I've put up several weedy posts explaining my view of the terms Market and Market Economy. In this post I pull back to see how this all fits in with neoliberalism. The basic idea of 19th Century liberalism was stated by Milton Friedman in this essay:

This development, which was a reaction against the authoritarian elements in the prior society, 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 avoiding interfering with 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

... Whereas 19th century liberalism emphasized freedom, 20th century liberalism tended to emphasize welfare. I would say welfare instead of freedom though the 20th century liberal would no doubt say welfare in addition to freedom. The 20th century liberal puts his reliance primarily upon the state rather than on private voluntary arrangements.

Friedman prefers 19th Century liberalism, or as

he calls it “new liberalism”, which focuses on the freedom of capital, and the economic liberty of the rich. Friedman takes up the misery of the working class and the poor in 19th C. England, and the solutions of Bentham.

The relation between political and economic freedom is complex and by no means unilateral. In the early 19th century, Bentham and the Philosophical Radicals were inclined to regard political freedom as a means to economic freedom. Their view was that the masses were being hampered by the restrictions that were being imposed upon them, 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, it is hard to 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. And an enormous increase in the well-being of the masses followed this change in economic arrangements.

Perhaps this quote is unfair; this is just a short paper. However a quick review of the google on this issue shows absolutely nothing of the sort. Here’s a typical example of what Bentham thought of the Poor Laws of 1834. Since the greatest good would be produced by the lowest taxes, this author says Bentham supported cutting poor relief to the bone.

Nevertheless, this quote seems to capture a central difference between Friedman’s new liberalism, and 20th Century liberalism, characterized by a willingness to use government to solve problems and rejecting the use of “private voluntary agreements” as solutions. Given the takeover of the mainstream Democratic Party by a version of Friedman’s new liberalism, (maybe changing, huh Rahm?) the current version of that view is largely the province of progressives, by which I mean those who question

the prevailing economic discourse of neoliberalism.

Friedman tells us that neoliberalism values freedom, which he says has two parts, economic and political freedom. He claims that economic freedom supports political freedom by establishing a counterweight to the strength of government.

It is important to emphasize that 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 to a believer in freedom. In the second place, economic freedom is also an indispensable means toward the achievement of political freedom.

Nobody doubts that economic freedom benefits the rich. The harder problem for Friedman is to explain how economic freedom for the rich benefits the rest of us. At the same time, most of us can see that political freedom can be a tool to make our lives better. We benefit from a well-run government that provides a common infrastructure on which we can build our lives: physical infrastructure like water and sewer services, roads, bridges, and health services; intellectual infrastructure like schools and colleges, research and development, and record-keeping and statistics; and security, in the form of police, fire, EMTs and military. The harder part is to explain how these benefit the very rich, who think they are exempt from such mundane needs; at least, they don't want to pay for them.

To explain how the 99% benefit from economic freedom, Friedman and his neoliberal colleagues say that the market benefits all of us by allowing us to maximize our personal individual utility in exchanges of various kinds. They claim that the market will always maximize the

utility of the individual, and will do a fabulous job of allocating scarce resources. This argument rests on neoclassical economic analysis from the likes of William Stanley Jevons. I think that argument is facially wrong, in part for the reasons I discuss here. There are no competitive markets in the sense Jevons uses the term. The idea that individual benefit at each point in time is the correct measure of utility is silly. It ignores the free rider problem, the problem of the tragedy of the commons, and the simple fact that most of us value our friends and family and neighbors, and want them to have good lives too. I'll discuss various measures of utility in another post, I hope.

Deeper than this, there is a conflict at the heart of Friedman's analysis. He claims to favor political freedom, but he argues that it must not be used to infringe on economic freedom. For example, he says:

The citizen of the United States who is compelled by law to devote something like 10% 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 own personal freedom.

There isn't any question that Social Security has worked well to provide minimal support for all of us and our families and the disabled. When Friedman says that it abridges freedom, he is asserting that the only interest of any person is their personal utility at a given moment, which is to pay no taxes. He ignores, as Jevons does not, the personal utility for me in providing for the future, and for taking care of other people today. He is saying that if you disagree with this assessment of utility, you are being damaged by being forced to participate in the system, and that's a denial of freedom. It's obviously not political freedom, because Social Security is a valid law. It must be a

violation of economic freedom. Or maybe it doesn't matter.

The essence of political freedom is the absence of coercion of one man by his fellow men. The fundamental danger to political freedom is the concentration of power. *The existence of a large measure of power in the hands of a relatively few individuals enables them to use it to coerce their fellow man.* Preservation of freedom requires either the elimination of power where that is possible, or its dispersal where it cannot be eliminated.

Again, I'm citing a short paper by Friedman, and perhaps he has a more sophisticated argument, but this is patently absurd. The whole point of government is mutual coercion of all of us not to do things that damage us or the things we share in common, like air and water and safety, and to do things together that we cannot do by ourselves in the exercise of our maximum economic freedom. Friedman is arguing that preventing people from dumping nasty chemicals into rivers from which we drink is an abridgment of personal freedom; and that letting our neighbors die poor and sick is fine as long as we don't coerce anyone to do anything.

Perhaps the danger of concentrated wealth in the hands of a few thousand people wasn't paramount in Friedman's mind, and if he were writing today he might rethink the italicized sentence in that quote. But the plain fact is that one of the best parts of democracy is our ability to protect ourselves from the power of a few rich people. As examples, Elizabeth Warren, Chuy Garcia, and Net Neutrality. Doing so requires a new way of thinking about the economy, because this one isn't working for anyone except the rich. The first step on that road is knocking down the existing framework of discourse about the economy. And that is the goal of this series of posts.