

Chapter 2

Capitalism and Freedom*

Milton Friedman

Introduction

In 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 organic “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, not a master nor 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.

* Excerpts from *Capitalism and Freedom* by Milton Friedman, with Rose D. Friedman, University of Chicago Press, Chicago, 1962.

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 our 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 ensure that the private sector is a check on the powers of the governmental sector and an 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 county 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 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 Nightingale, 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 laggards 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,"¹ 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 enlarged 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 favour a revival of the very policies of state intervention and paternalism 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.

The Relation Between Economic Freedom and Political Freedom

It 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 rounds 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 in 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, czarist 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 Tzars, 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 became the dominant note in democratic countries. Recognizing the implicit threat to individualism, the intellectual descendants of the Philosophical Radicals—Dicey, Mises, Hayek, and Simons, 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 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 colour of tie he wants and get it; he does not have to see what colour 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 economic 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.

NOTES

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

Discussion

Edited by Michael A. Walker

Milton Friedman I am going to make a couple of comments. In reading all of these papers, including our own, we have been impressed with the problems that arise out of confusing ends and means. This is a symposium on three things: economic, political and civil freedoms. Each of those in turn can be viewed either as ends or means. But if you look at them first as ends, they are by no means exclusive, they by no means cover the major ends that have moved people or societies. You would have to include in any such list, today at least, and earlier, egalitarianism or equality, which many people would regard as an ultimate end, with economic, political or civil freedom as means toward that end. You can look at the question of nationalism. Certainly nationalistic sentiment has served a more important role in moving peoples and producing major changes and conflicts than has the search for economic, political or civil freedom! And prosperity or economic growth can be viewed something as an end in itself rather than as a means.

But I was going to limit my comments to the three we have chosen for topics for this session. And for us, each of these separately can be an end or a means, and I thought the papers illustrated that divergence quite well. For Rose and me, civil freedom is the end—a single end—and economic or political freedom are means toward that end. Our position is fundamentally that of the Declaration of Independence: that we hold these truths to be self-evident; that all men are created equal; that they are endowed by their Creator with certain unalienable rights; that among these are life, liberty and the pursuit of happiness (which of course should have been property, as it was in the original source); that to secure these rights governments are instituted among men.

Well and good, but if governments are instituted among men to secure *these* rights, then political freedom or political arrangements can't be an ultimate end; they are a means. Economic arrangements are more complicated, because economic freedom is part and parcel of civil freedom, as we have argued and everybody would agree. But in addition to that, economic arrangements are a means toward the end of civil freedom. They are a means towards the end not only of economic freedom but of all other freedoms. From that point of view, we regard emphasis on market arrangements not as an end in itself but as a means toward a much greater end.

On the other hand, to Gastil and Wright, as I interpret their paper, *political* freedom is the essential component, and they regard civil freedom and economic freedom as means toward political freedom. For example, the freedom to speak is not an ultimate right at all; it is simply a necessary condition for achieving representation in political government, as I interpret their argument. In the same way, in their argument, economic freedom is not part of an ultimate end, it is purely a means. I think these two approaches lead to very different kinds of conclusions and very different ways of analysing the material.

If we take the third, economic freedom, to many people that seems to be an ultimate end in itself. You want growth or prosperity, you want to have a great, wealthy country, or for that matter, prosperous people. Many of the people who live in the United States who are called conservatives belong in this category. They are strong believers in free markets and what is called capitalism, while not being concerned at all with maintaining a large number of other freedoms, particularly civil freedoms, or, for that matter, political freedoms. That draws a sharp line in which Gastil and Wright and we agree—that the issue is not capitalism, whatever that may mean, versus socialism.

Capitalism isn't a guarantee of human freedom. It is only competitive capitalism that serves fundamentally as a means toward human freedom or civil freedom, which we regard as the ultimate objective. That is why in our book, *Capitalism and Freedom*, we almost never refer to capitalism alone—we refer to “competitive capitalism” in order to make the distinction. But again, the Gastil and Wright point of view is very different. From their point of view, the only role of capitalism is as a means to permit sufficient decentralization of power in order to be able to have a political structure under which the leadership can change from time to time.

I am not going to come out anywhere. We were reminded, when we came to this point of thinking about what we would say, about that famous story about the high official who had a speech written for him. He read page after page, and he said, “Now the solution to all these problems is...” and the next page said, “Now you're on your own!” (Laughter)

So now *you* are on *your* own.

Gordon Tullock I want to make two supplementary comments. The first is that that Declaration of Independence, which you read, was written by a man who was a very large-scale slave holder, and a large number of the people who signed it—and perhaps a majority, I don't know—were also large-scale slave holders.

I had the good fortune to attend the Volker Fund Conference at Wabash College where Milton Friedman first presented the lectures which became *Capitalism and Freedom*. I can assure him that these lectures had a major impact on my thought. This impact was reinforced when I later read the book. The book, of course, was a major extension of the lectures, but so close in style and reasoning that I am unable to remember now what it was that I heard and what I only read. Nevertheless, as discussant, it is my duty to criticize.

Fortunately, as the Friedmans will no doubt be happy to hear, my criticisms are the same as for *The Road to Serfdom*, another book which had a major intellectual impact on me. The authors of both of these books, I now think, had cloudy crystal balls. The basic problem with *The Road to Serfdom* was that it offered predictions which turned out to be false. The steady advance of government in places such as Sweden has not led to any loss of non-economic freedoms. This is particularly impressive because I doubt that any government before 1917 had obtained control of anything even close to the 65 percent of GNP now flowing through the Swedish government. I know many Swedes (and also Norse, Danes, Dutch and English) who are very upset with the sacrifice of control over so much of their earnings, but none who regard themselves as unfree in any other sense.

But let me digress to another point. The Friedmans say, “the great advances of civilization, whether architecture or painting, in science or literature, in industry or agriculture, have never come from centralized government.” No one who has ever passed through the Gate of Heavenly Peace will deny that centralized despotism can produce brilliant architecture. There is, of course, the collection of churches in Byzantium, of Mosques in Isfahan and the great hypostyle hall at Karnak as further evidence. Indeed, if you are, as I am, an inveterate tourist, in Europe you will frequently find yourself in architectural gems that were put up by despotic governments.

It isn't only architecture. El Greco lived in the Toledo of the high Inquisition. The French regard the period of Louis XIV as in many ways the high point of their culture. Chinese painting and poetry flourished over 2000 years of centralized despotism. With respect to agriculture, the development of large centralized systems of irrigation supported most of the human race (Europeans were a small minority until recently). These systems either were developed by the government or their masters became the government.

As far as science is concerned, we believe that it began in Babylonia under the control of rather centralized despotic governments, but the early history is still rather poor. The flourishing of Greek science is of course

well known. The later period of Greek science in which it was controlled by the despotic and centralized Ptolemaic state was far from contemptible. Euclid, after all, wrote in Alexandria.

The revival of science after the Middle Ages occurred in Western Europe and originally in rather despotic states, although the trailing off of feudalism meant that they weren't centralized. Galileo did a good deal of his work in Medici Florence, and indeed, the first scientific academy was founded there. Further, with time, France and Spain became highly centralized. It would be extremely difficult to argue that science progressed more rapidly in the rather decentralized environment of England than in the highly centralized French monarchy. Lavoisier, to name but one example, was a subject of Louis XVI who was executed by the Republic.

In general, in the 19th century most of Europe developed fairly strong democratic trends, although not necessarily decentralization, and this was a great scientific period in Europe. The regression to despotic governments in the 20th century, however, did not necessarily change that. Mussolini's Italy retained its high scientific traditions, particularly in physics. Even in Hitler's Germany, the two-thirds of the scientific community who stayed (the ones who were permitted to stay) continued to do distinguished and important work.

I suspect that both Friedman and Hayek have been very much affected by the Communist and Nazi dictatorships. It should be kept in mind, however, that these are extremely bizarre and unusual forms of government. Most of the human race has lived under what can only be described as mild autocracies. (I have just finished a book on autocracies, so I feel authoritative on this subject.¹) These autocracies were far, far from mild with respect to those people who chose to take an active role in politics. For the average citizen, however, the government was neither very oppressive nor very beneficial.

Indeed, the economic policy followed by most of these despots doesn't differ too much from what has been followed by most historic democracies. Athens and Rome, after all, had price control over basic necessities. Indeed, the bread of Rome was largely provided directly by the Roman state. Anyone living today realizes that democracies muddle around a good deal in their economies, just like despots.

Most despots have, to repeat, not done a great deal in their economy, not because they have any theoretical objections to it, but because they are busy with other things, such as their harem. I recently acquired a book² which is a translation of a general guide for local officials under the old Chinese Empire. The official slogan of the Chinese Empire from the time of Mencius was: "The government should own all important industries

and carefully control the rest.” No doubt the author of this book believed in that slogan, but as a matter of fact, in this very thick book he devotes almost no attention to economic control. The only conspicuous example of intervention in the economy was his decision that the wine shops located directly across from the entrance of his Yamen were overcharging their customers. He imposed price control on them.

Mainly, however, he was occupied in holding court, collecting taxes, and performing the many other duties of governing about 100,000 people. Once again, despots, like democracies, when they do engage in government intervention in the economy, tend to be responding to rent-seeking activities of well-organized political groups rather than carrying out anything we would refer to as planning. As far as I know, none of the early despotisms engaged in anywhere near as much detailed economic intervention into their economics as is normal in present day democracies.

As I remarked, the type of dictatorship we tend to think of as totalitarian—Stalin, Hitler, Mao Tse Tung, et cetera—is a very unusual phenomenon historically. So is democracy. It is not surprising then that there are no coincidences. I should say, however, that I doubt that this kind of government could operate with a true democracy, not because it would necessarily be able to strangle the democracy but because the voters would surely throw the rascals out.

Having said that I disagree with *this* aspect of what we may call the Hayek-Friedman argument, there is another sense in which there is no doubt that capitalism and freedom are closely connected. This is a sense which the Friedmans emphasize much more than Hayek. My freedom to spend my income as I wish is surely of great importance to me. It is equally surely a freedom, although many people on the left would deny that. Further, my freedom to move from one government system to another without too much inconvenience is another freedom, and it puts governments into competition with each other.

With respect to the last, I should say that it does not really require democracy. I have recently seen an investigation of the situation in Germany before the unification of that state, and discovered the individual princes, counts, et cetera behaved very much as businessmen do today. They realized they had no monopolistic power because the peasant could move down the road a few miles, and they attempted to maximize profits on their “enterprise” using low production costs and a high level of service in order to attract customers.

One of the arguments for a free economy is false. It doesn’t follow that the free economy is not important or that it does not lead to individual freedom. The freedom that it gives, however, is economic freedom. There

is no reason why we should be ashamed of that, or regard that as in any sense a criticism of the system. Arguments for political freedom are strong, as are the arguments for economic freedom. We needn't make one set of arguments depend on the other.

But the principal problem I wish to talk about is not about economic but political freedom. At the time I read Hayek's book and heard Friedman's lecture, it seemed to me very reasonable that a government which completely dominated the economic system would suppress political freedom. Alas, for those of us who follow another aspect of Friedman's work and believe in empirical testing, in present-day Sweden the government takes control of 63 percent of the GNP. Most of the other North European countries have somewhat similar shares. It is hard to argue that there is any lack of political freedom in any of these countries, nor does there seem to be any evidence that political freedom is declining. This should not be taken as praise of these governments; indeed I think they are very objectionable. But the apparent logical connection between government control of a large part of the economy and the loss of political freedom is only apparent.

Milton Friedman I only want to point out one thing, and that is one of the major reasons why this conference was called and took the approach it did was precisely because of the kind of empirical evidence you end up with—which leads us to the conclusion that our initial belief, that these went together as closely as they did, was wrong. I would cite as my main example Hong Kong rather than Sweden, in the sense that there is almost no doubt that if you had political freedom in Hong Kong you would have much less economic and civil freedom than you do as a result of an authoritarian government.

Raymond Gastil The biggest difference between our approach and Milton's has to do with the difference between emphasis on the individual and emphasis on the group. I will turn to that more in the discussion of our own paper later on.

Specifically, in regard to Milton's discussion today, the first point to be made is that it is quite possible that none of these three should be regarded as the end—neither economic, political nor civil freedoms or rights. I would think the end lies outside those three. I am not going to define what it is, but there are a lot of words around like joy and love and human betterment with which one can go in various directions. But the fact that I do a survey of political and civil rights doesn't mean I think those are ends.

The second point is that I think one should distinguish between absolutes and ends. One could say, for example, that freedom of speech is an absolute. But I don't think freedom of speech should be regarded as an end.

The third point is that it is true that as far as the Survey is concerned, we talk about those civil rights that are supportive of political rights. So, we emphasize one group of civil rights or civil liberties and de-emphasize other kinds of civil liberties because they don't really contribute as directly to the legitimacy of political rights. That doesn't mean we regard them as less important. It just means that for the purpose of the Survey that is what we do, because that seems to make a neat package which goes together nicely. But the other civil liberties might, in fact, be just as important in the general scheme of things.

Assar Lindbeck I would like to follow up on a very strong statement made by Gordon Tullock: "There is an intimate connection between economics and politics, in 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." I don't see any reasons why that should be true, either from an a priori point of view or from empirical experience. I have no difficulty imagining a society where the means of production are owned by the government but you still have elections every year, where state-owned newspapers publish articles on people from different parties, et cetera, provided there were pluralistic political structures in the country from the very beginning. I agree that there may be a low probability of a pluralistic political culture under those circumstances, but I really see no impossibility.

Sweden was mentioned as an example where 65 percent of the GNP goes through the government budget, half with transfer payments and the other half in public spending on goods and services, and we are going to discuss that another day. Austria is another example where some 40 percent of the manufacturing sector is owned by the public sector. I could imagine that even if 95 percent or one hundred percent were owned by government, you could still have civil liberties, elections and freedom of speech.

A crucial point is control over or the ownership of mass media and newspapers. It is very tempting for a ruling party to control mass media, as it tried to do with television in France, for instance. If the government owns all mass media, then civil liberties and freedom of speech might go down considerably. But if you make an exception and let private individu-

als, organizations and political parties own mass media, I think you could very well have a democratic society.

Voice Where would they get their paper from?

Assar Lindbeck That is an open question. I agree with you that there are larger risks for authoritarian regimes if government owns the mass media. But I don't see it as logically impossible. That's my only point.

What I see as threatened by government ownership is, first of all, pluralism. You could have freedom of speech, but a pluralistic political culture might be difficult because people would be afraid to use freedom of speech if there were only one career in society, that is, through the government. You could have non-pluralistic democracies with elections every four years and freedom of speech, but they would not be very vital political cultures. Mexico might be such an example, where everybody has to make a career through the same political party. If one party completely dominates, political democracy might not be very vital, but I think it could still exist.

In my opinion, where a very big government really intrudes on individual freedom—that is really what Gordon Tullock said—is through its impact on disposable income. If you pay tax at 90 percent of your income, you cannot influence your own economic situation by your own effort. Or, if government rations goods and services, you don't have much freedom of choice. If there are government monopolies, you cannot choose different types of services; you have to rely on government services. So it is really pluralism and freedom of choice rather than civil liberties that are threatened.

Tibor Machan One of the points raised by Milton Friedman and Raymond Gastil has to do with ends versus means. I think only individual persons can have ends. They may get together with others in their pursuit of ends. But individuals have ends, and thus social and political institutions are means for individuals to pursue certain ends of theirs.

The other thing upon which I want to comment is whether a society that has socialist or statist laws must thwart freedom in all areas. Let me take the analogy of a zoo. There are zoos with very small cages where the animals can't do anything, and there are zoos like the San Diego Wild Animal Park which is practically not a zoo. Nevertheless there are certain limits; both are zoos.

In Hungary, for example, there is officially a Soviet-style socialism, but most bureaucrats don't bother to implement it. So people go to Hungary

and come away and say, “See, the thawing of socialism.” It has nothing to do with the thawing of socialism; there is practically no socialism going on in many parts of Hungary. I don’t think that the fact they give lip service to socialist ideology should be taken seriously in our discussion of the practical effects of political and economic institutions.

Walter Block I would like to approach the original Friedman thesis from a different perspective, although I think Tibor’s points are very well taken. I would like to attempt to make a serious bifurcation between economic and civil freedom on the one hand and political freedom on the other hand. I claim that the former two are legitimate forms of freedom but that the latter is not. I would go so far as to say that political freedom is an oxymoron or a contradiction in terms.

By freedom, what I mean is the absence of initiatory coercion, or that there is no violation of personal legitimate property rights. Now, economic freedom under this rubric is easy to understand; it defends the right to trade or to engage in any consensual activity of an economic sort. Civil freedom would mandate that there be no laws against pornography, prostitution, drugs, religion, free speech, et cetera.

But political freedom is very different. Economic and civil freedom are just capitalist acts or non-capitalist acts between consenting adults. Now, if politics is, as I contend, just a futures market in stolen goods, then political freedom is only a right to get in on this ganglike behaviour. If we do not have it, all we are kept away from is the right to control other people’s lives—and that, improperly. If there are no elections, and we have no government, or we have a benevolent government that doesn’t violate economic or civil freedoms, then we are free.

On the other hand, we can have all the political freedom we want, and if the majority votes for rent control, as it does in the People’s Republic of Santa Monica or New York City, then we have “political freedom,” which is a misnomer. What we have really is a warlike activity where people gang up on other people and determine what they can or cannot do with their own property. This is not political freedom; this is just licence. This is allowing people to control other people unjustly. Economic and civil freedom are legitimate freedoms, political freedom is not.

Ingemar Stahl If I remember my history, most of the constitutions and political systems we call democratic were instituted to control a despot or a king with a very limited size of the public sector. We are now using exactly the same system to run economies where 65 percent of the economy is channelled through the public sector. So, of course, it would be remarkable if political freedom in the sense of controlling a despot would apply to the situation of controlling 65 percent of GNP.

While Tullock made a plug for public choice, I want to make a plug for Wicksell. This is the 90-year anniversary of the publishing of his text wherein he proposed the unanimity rule as the basic rule for government. We must remember that political freedom in everyday talk, even including the Friedmans' paper, is a kind of acceptance of a democratic system where the majority rules. But I think we could sharpen the conditions and say that we should also include protection of minorities, for example, by qualified majorities, or that there should be some restrictions on the competence of government. It is a little bit dangerous here—and I will take that up later when we come to the Gastil/Wright paper—to put an equals sign between democratic institutions where the majority rules and political freedom.

I think we should be more interested, as economists, in looking at the unanimity principle as the basic principle of democracy, which can then be compromised by accepting a qualified majority or certain restrictions on all government behaviour. Majority rule has created 40 percent ownership of industry in Austria. Majority rule has created 65 percent channelled through the public sector and most of the services and transfers in Sweden. There is a lot of coercion included in the majority rule concept, even though we find it somewhat difficult to accept the strong statement of the point in the form that Walter Block, for example, is inclined to make it. If we say lack of coercion is the most basic political freedom, we are back to having to advance the unanimity principle.

Milton Friedman I just wanted to clarify that in *Capitalism and Freedom* we explicitly take the position you just took. We take the position that the only real principle is unanimity. The majority rule is an expedient, and various forms of qualified majorities are various forms of expedients. So there is absolutely no difference between your view and the one we expressed in *Capitalism and Freedom*.

Peter Bauer Autocracy is compatible limited government. I should like to refer to two sayings, one from the 18th century, the other contemporary. Dr. Johnson said, in the 18th century, "Public affairs vex no man." He meant two things by that. First, that when people complain about the government they more often than not project their own private unhappiness in various ways. But it was also an apt comment in the middle of the 18th century, because government was so limited in its impact on people that this statement had much greater validity then than now. Second, it used to be said before the war in British Malaya that the Chinese there did not mind who owned the cow as long as they could milk it.

This last statement reflects the familiar misconception, namely that wealth is extracted not created. The Chinese on Malaya had created their wealth; they didn't take it from the Malays. But the saying also embodies the important truth, namely that when a country is relatively lightly governed, people are not so desperately anxious who has the government. The Chinese in today's Malaysia would not say that they did not mind who had the government. We should remember this vital distinction between elected government or non-elected government on the one hand and limited and unlimited government on the other.

Second, I think Gordon reminded us of a very important consideration which we are apt to overlook, namely that much of the world's greatest art was created in autocracies of various kinds.

There is an asymmetry between the size of the public sector and government control of the economy. A large public sector implies government control over much of the economy. But the converse doesn't apply. Even if public spending is small, the government can still control the economy closely by licensing, ethnic quotas, price and wage regulation and the like.

The last point is the question of how fundamental is freedom of speech or freedom of expression of ideas. Academics habitually insist on the freedom of ideas and their expression. Simultaneously they often insist on the need for government control of the production and distribution of other goods and services. Some years ago Coase published a very informative article on this dichotomy titled "The Market for Goods and the Market for Ideas."

Brian Kantor I wouldn't want to abandon the links between economic and political freedoms. I come from a country where democracy, that is, political freedoms, are greatly feared because of the economic outcomes that are expected from it. In other words, the popular government is feared because of the great power that government would have and exercise. There is thus a violent competition to control economic outcomes through government. Clearly, unless you can get people to agree to limit those powers, you won't get democracy, political freedoms or civil freedoms either. So, I think the links are extremely important, although some of the evidence, as Gordon has pointed out, seems rather unclear.

I suggest trying to save the hypothesis that there are these links between economic and political freedom by looking at the realities again, and governments may be very important in that their share of the economy may be very large, especially if the amount of transfer payments they indulge in are included. Yet, despite this, the economic outcomes may not be terribly much affected by it. For example, you may have a very high level of taxation, but when you look at the benefits of government expenditure, how

are they distributed? Aren't the people who proportionately pay much of the taxation, in fact, actually getting a lot of the benefits? We know that educational expenditure goes largely to the middle class. So, the reality is rather different than what it may appear as. That is, even though governments are big, maybe they don't affect the economic outcomes very much, especially when people are free to move their capital and are free to migrate.

Douglass North I guess I am going to be supporting Gordon a lot. This goes against my grain, but, truth will out.

I do think there is confusion, as I hear it around the table, about really what you mean by institutions and freedoms or the outcome of institutions, which is part of what we are talking about. It seems to me what we are always interested in is not the institutions *per se*; we are interested in the outcomes. That is, we are interested in the set of choices that follow from this. One of the things that I have been at pains over the years in learning about institutions is that it isn't just rules, it isn't just enforcement characteristics, it is also this illusive thing that I call "norms of behaviour."

Restraints on behaviour by individuals in society really exist, and they exist above and beyond rules and enforcement characteristics. We don't know a lot about them, but they make a lot of difference in the outcomes we get. That means that the same rules imposed on different societies produce very different results. What would be a rule that would deny freedoms in one society wouldn't be exercised in that way at all in another society.

I remember, Alan, when we had that conference on immigration that you gave a paper at, and I commented on. A critical question at this conference was this bill that was before Congress which was going to have everybody having an identification card, and it was immediately raised, and properly so, that this sounded like the Soviet Union. In fact, what you would be having was people being done the same way. But it is not clear that in the United States it would produce that result at all, or that in a lot of other countries it would produce that result. You cannot make simple, facile statements in which you shift and talk about the consequences of a rule in one place and another place without thinking about the fact that they are also constrained both by enforcement characteristics and the norms of behaviour in different societies.

Raymond Gastil The discussion has gone in many different directions since I originally raised my hand, but let me make a few points on what has been going on. The first point is that very clear majorities can be very coercive, and what they do may ruin society. For example, one man one

vote could ruin South Africa, no doubt about it. Nevertheless, in most situations there is very little alternative, (1), to having governments and, (2), if you accept certain principles about equality, to having majority rule, in spite of some of the results that may accrue from that.

It seems to me that majority government, as oppressive, coercive, and so on as it may be and in spite of all the theory that one might have that unanimity or something else is a possibility or would be nicer, is really for most situations the only available solution to the problem of power. From that perspective, I find the remarks by Walter, for example, reminiscent more than anything of listening to Marx speak about the terrible things that were going on in the world. It is utopianism to say that something that has never been anywhere on any scale—and probably because of the nature of people will *not* be anywhere on any scale—is the way in which we should organize our relationships.

The second point is just a thought in regard to Tibor's point that only individuals really have ends. That may be true in some philosophical sense, nevertheless, in a practical sense, if we think about the fact that we as Americans are very interested in the survival of certain values over the future centuries that stretch out in front of us, it isn't as appropriate to think of those in terms of our individual wants and desires as to think of those in terms of group wants and desires. I don't think it is we as separate individuals that are really interested in that long-range future, but we as members of a collectivity.

The point that I was really going to talk about when I raised my hand was Assar's point having to do with the media. Let me just point to National Public Radio in the United States, which is the closest thing to a government-owned and controlled media we have in this country, and yet is the most consistently critical of the United States government.

Voice Republican government!

Ramon Diaz Assar Lindbeck said that he didn't find it difficult to think of a regime where all property was social and yet political and civil liberties remained. I think that is perfectly right, as a logical point of view. If we think of society as made up of so many chessmen, we can arrange them in a logical way in that sense. But I doubt that this is a very relevant statement.

Actually, what we are talking about here has to do with the rule of law and with competitive capitalism, and this is a very unique circumstance. As the Friedmans say in their paper, the typical state of mankind is tyranny, servitude and misery. We are in a very, very special circumstance. I

think it is inconceivable that we could have come to this special and privileged historical circumstance if the society had been made up of civil servants. Civil servants will *not* produce a society that upholds freedom. We have a character in this great play that is enacted in Western society, and this hero of our play is a property owner. Therefore, I think that we have to focus on the very special characteristics that have prevailed in the West which have produced a particular individual who thinks of himself as a separate private individual with property rights and not as an employee of the government.

Michael Parkin I would like to go back to the sentence that begins the thesis of this chapter and which several people have picked up on. It seems to me that if we think about what is being said there in just a slightly different way from the precise words that are used, we see that the statement really has a lot of strength. Milton and Rose distinguish between socialism and capitalism, but they always—or almost always (as Milton has said)—qualify the word “capitalism” with the word “competitive.” It seems to me to be useful to think about a two-fold classification—competitive and noncompetitive arrangements; and capitalistic and socialistic arrangements—and then ask ourselves, which is the key dimension?

We know that scarcity means that every situation has to be fundamentally competitive, but using the word in the more limited sense, to talk about how we explicitly organize our social institutions, I wonder whether it is the competitive rather than the socialist/capitalist dimension that makes the difference? Think about competitive as being a situation in which there is freedom of entry and exit. That is what makes competition different from other arrangements. There might be only one (producer, government or whatever), but the fact that that one got there through a process that could have resulted in any one, or more than one, being there, doing whatever it is, makes the situation different from a situation in which there is one and only one there because others are excluded by explicit rules and procedures.

If we think of things in this way, I think we see that Assar is wrong in the inferences he draws from Sweden. Sweden is an example of *competitive* socialism. It is competitive in the sense that it competes on the world market to sell its output. We wouldn’t want to say that IBM is in some sense a socialist country, but Sweden is a big organization, a big corporation, like IBM, that produces goods and services by means that do not use the market very extensively, internally, but that sell the output competitively on the world market.

I don't know the fraction of Swedish GNP that is traded internationally, but it must be pretty high. That puts a discipline on the Swedish economy that would not be there if this were a closed economic system.

Secondly, a feature of the freedom of entry and exit view was touched on by Brian Kantor, that is, individuals who don't want to put up with the arrangements that are in place in Sweden are, in fact, pretty reasonably free to take their human and physical capital and locate it somewhere else. That also makes it a competitive environment in the same sense as before.

I will summarize very quickly just by saying that if we think about the words "competitive" and "noncompetitive" as being more important for this particular point than the words "socialist" and "capitalist," we make more sense of the original thesis and it emerges as a much more powerful thesis.

Svetozar Pejovich I have three points. The absence of private ownership is what I understand to be socialism. In that sense, Sweden is not a socialist state and, in that sense, Hungary is. If I have a car that belongs to the state, I cannot sell it. And for that reason there is no market for capital goods.

On the second point, I want to ask Mr. Friedman. What I observe is that people trade freedom for other things, like security, marriage, the priesthood, and if this is so, then there must be diminishing marginal returns to the freedom that people enjoy. If so, then a perfectly free society will be an inefficient society. To me, what is important seems to be the ease of exit, the cost of exit.

Assar Lindbeck I think we all agree that there are very important links between political and economic systems. We are trying to discover the character of those links. What I tried to say is that those links are much more complex than earlier thought by Hayek and the Friedmans in their expositions. Moreover, they are not deterministic, but they are highly probabilistic. I think Milton should include chance and risk in these considerations as well.

There is not a monotonic relation between the size of the public sector and individual freedom. If you go to a society where public ownership is 10 percent and increase it to 40, 50, 60 or 70 percent, you could not predict what would happen to civil liberties in that society. If public spending increased to 65 percent of GNP in Sweden, I couldn't say that there are fewer civil liberties now than when the sector was 20 percent or in countries where it is presently 20 percent.

As the size of the public sector grows, freedom of choice—the possibility for an individual to change his own life situation by his own effort—decreases. But I think that is very different from civil liberties. By civil liberties I mean that you have elections, you have freedom of speech, you have a competitive political system—you can feel free to criticize the government as much as you like. That is different from the fact that it is difficult to change your own disposable income by your own effort. I am not saying that the latter is less important, only that it is different. We should make distinctions between those different aspects of freedom—freedom of choice versus civil liberties.

Lastly, in Sweden there is no big risk in criticizing the government, with some exceptions. Research institutes, for instance, that live on government funds, might think for awhile before they criticize government. There could be some limitations there. What is more important is that people hesitate much more to criticize labour unions, because labour unions can influence the career of a person in the sense of affecting promotions. Labour unions do not have a truly competitive political system for choosing their leaders. You can get a new government after two or three years, but it is very difficult to get a new political party to rule the labour union. That is ruled by the same group of people decade after decade. So there is a private organization besides the state which I think is much more detrimental to freedom of speech in my country than is the government because of the lack of a competitive political system between the unions.

Finally, it is very misleading to call Sweden a socialist state. I think 7 percent of manufacturing is owned by the government—less than in practically any country in the world. It is a transfer state rather than a socialist state.

Gordon Tullock I think we have three different things: economic freedom, which is the right to work, et cetera; civil freedom or personal freedom, which is a large collection of things which, really on traditional grounds we think are important, like the right to speak, and so forth; and then finally there is the use of the voting system in some variant. I spend most of my time trying to think of ways to make it work better, so I say “some variant.” I agree with Block, that the use of freedom for the third kind of freedoms is a somewhat odd use of language. It doesn’t follow from that that I don’t think it is important. I do think it is important, but I don’t think, strictly speaking, that freedom is the correct term to use with it.

If you go back to the 19th century you will find the opposite of what I am calling here the Friedman/Hayek position. You find people saying that if you want a free economy you have to have democracy. This point of

view vanished in the 1920s and '30s for rather obvious reasons. There has been an effort to simply reverse it. I don't see any strong reasoning for doing so. In fact, in the 19th century I think it was essentially an accidental coincidence that economic freedom and democracy coexisted. I also think it is essentially an accidental coincidence now.

We can be in favour of all of these freedoms without feeling that we have to allege that they come out of each other. Some of the personal freedoms come out of the use of some kind of voting system, because you can't do it unless you have freedom of speech and things like that. That is part of the voting system. But other than that, they seem to be three different things—all of which are desirable—and I don't see any strong reason for arguing that they are correlated.

Alan Walters I think the sort of distinction which Milton makes in his book somewhere between totalitarianism and despotism is a very important one. Hong Kong is ruled by a despot, by the governor, but it is completely opposite to a totalitarian society. I think that distinction tends to be lost sometimes.

I would like to go back and support a point that Gordon made in a positive sense, and that is, it isn't just that great art comes from these despots. It is also true that those despots, to a very large extent, had competitive art systems supplying them.

The second point I think is very important too. For all of their many successes, America and Britain in their capitalist heydays have been pretty much an artistic desert. It is tragic and it is something we cannot easily explain. There is no good art, no good music produced during these long periods.

Raymond Gastil I made most of my points before, but let me just add that there is a great difference between different contexts as to what are the important and significant issues of freedom. As you move from capitalist to socialist, from government control to private control and so forth, you have different problems arising. One thing that we have not spent enough time on is that if you don't have government controls that limit freedom, you very often find that the controls come from other sources. They might come from unions, from religion, or from business.

Walter Block Gordon agrees with me that we should put economic and civil liberties on the one side and political freedom on the other, and even that political freedom is sort of a misnomer. But he insists that it is important, nonetheless. I would urge that it is not quite so important. Certainly

the Hong Kong example of the despotism not ruining economic liberty is one example. Another example would be British colonial rule over Africa and India, which was despotic in many ways but which was very beneficial in terms of economics.

Second, I don't regard unions as private enterprises. I regard them as bits of government or "overmighty subjects," as Peter has called them. I regard them as bands of criminals who compete with the government gangs. Somehow they have wrested some legitimacy and some ability to initiate coercion from the government. But, just like government, they do provide some legitimate services. So they are neither fish nor fowl. But to call them private institutions is a misnomer.

Third, about Sweden being like IBM. I am very reluctant to accept this analogy. I see a vast difference between a voluntary organization such as IBM, which receives its capital from the voluntary choices of investors, and Sweden, which obtains its revenue from the involuntary taxation system.

My last point is with regard to utopians. I accept happily the notion that I am a utopian, if, by utopian you mean all that is good and pure! And I do mean it just that way, at least in one sense: a utopian is someone who does not care much whether something is or is not politically feasible. A utopian says what is right and what is not right is much more important than what is politically feasible. Certainly, a free enterprise system now is not really politically feasible, but I think that is really unimportant. My concerns are for what is right and just and not for what is likely to occur in the next couple of years.

Milton Friedman There are so many things here I don't know quite what to react to. But I want to start by making a few comments in connection with Assar Lindbeck's various comments.

I believe that Assar neglected to read the whole of the sentence which he criticized, because it says, "A society which is socialist cannot also be democratic, *in the sense of guaranteeing individual freedom*" (italics added). And the next sentence goes on, "Economic arrangements play a dual role...On the one hand, freedom in economic arrangements is itself a component of freedom broadly understood." So when Assar says that socialism is not compatible with freedom of choice, he is agreeing with us that it is not possible to have a democratic socialism which guarantees individual freedom. Because in our view economic choice is an extremely important component of economic freedom, and not simply a means toward another end.

I agree thoroughly with Ingemar that government spending as a fraction of income is an imperfect measure of the role of government and is not necessarily closely related to most of the other things that we talk about. But government influence, in the sense of controlling the activities of individuals, including redistribution of income, does severely interfere with freedom of individuals as such. Therefore, I am not going to retreat from believing that that sentence is basically a correct sentence.

I also will agree with him, and with Michael, that what is really relevant is pluralism and competitiveness, and that is why in an earlier page on this little document we got out we said that “The second broad principle is that government power must be dispersed...If I do not like what my local community does...I can move to another local community.” I have no doubt that a world of small, dispersed governments—even if governments in that case owned all the means of production—could be, in principle, competitive as among the different governments and could, in principle, produce exactly the same results as what we call a free enterprise, private enterprise, situation.

With respect to Raymond’s various comments, I want to separate myself completely from the notion of group values. Again, if I may just go back to show that I am not making this up anew. If we say, *he*—and by that I mean a liberal in my sense of the term liberal—“recognizes no national goal except as it is the consensus of the goals that the citizens severally serve.” I believe there *are* such things, very important things, as consensus about values, agreement about values, but I think the notion of group values is a dangerous notion that inevitably leads to an organismic concept of society and in a direction I don’t think Raymond would want to go.

As to some of the other comments, I will make one more comment only. I have no doubt that the best of all forms of government is benevolent dictatorship. I am not going to quarrel with that at all, and we have had some examples in history of good, benevolent dictatorships, as in Hong Kong, in Singapore with Lee Kuan Yew—he’s been a benevolent dictator. The problem with benevolent dictators is that they don’t stay benevolent, which goes to Herbert’s point of what is the time period. They don’t stay benevolent, and they tend to be replaced by people who aren’t so benevolent, and the benevolent people tend to get corrupted as well.

On to Gordon’s point about the notions contained in Hayek’s *Road to Serfdom* and our *Capitalism and Freedom*. The key feature of Hayek’s *Road to Serfdom*, as I see it, is the chapter which says the worst rise to the top. In that respect I believe that he has been completely right. I don’t believe you can say he has been wrong. He was wrong in predicting that the increase in the size of government measured by government spending

would lead to dictatorship and totalitarianism, but what happened in the course of the next 20 years is that the character of government expenditures and control changed. It started out in the direction of nationalization and then it changed into redistribution. And there is no doubt that—and this is a point Assar has been making—the effect on the tendency toward dictatorship is quite different as between these two modes of government expenditure.

Douglass North I want to pick up on Milton’s point about competitiveness. Actually, it relates to something Michael said earlier. It seems to me that what is crucial about competitiveness is two aspects of it that make institutions have greater viability. One is that competition maximizes the chance to make mistakes and, therefore, perhaps the chance of finding successful ways to do things. Since we don’t know which ways work, we want to maximize those opportunities. Certainly, the kind of institutions that do that are very crucial.

Secondly, competitiveness eliminates the losers, and that is equally important. If you let the losers continue and persist in the society, then you build into it structural weaknesses. I have a term that is not original, “adaptive efficiency,” which is very different I think from allocative efficiency as we use it in economics. But it is related to institutions that do maximize both the choice set that is available to people and the competitiveness, so that you wipe out losing sets of institutions.

The Northwest Ordinance, which I talk about in my paper, is a marvelous illustration of it. It provided for some very simple things like fee simple ownership of land, easy transferability of title, inheritance laws that were clear and simple. The result was that while downstream in U.S. history we made terrible ways of distributing land, it didn’t make much difference because with these institutions in place we could transfer land, as we did, to more efficient uses and ones that solved our problems better. So the competitiveness is something that has a precise meaning in the way I want to think about it that relates to your point and to Milton’s.

Arnold Harberger As I have been listening through the discussion this morning and also from the very beginning, looking at the title of the conference, I felt that this was a topic that could easily fall prey to semantics and definitions, to creating categories and arguing between them. Now, there is nothing wrong with all of that, but I think we should recognize, for the efficiency of *our* discussion, that it is a trap that we could easily fall into.

I would like to try to help the discussion get a bit more concrete by speaking a little from my own experience. I float around in Latin America

a lot, and I also try to study economic growth around the world a fair amount. There is a question that really gets me sometimes, especially in ideological discussions in Latin America. They keep pounding me. They say, in effect, that the kind of economics I am selling is okay, but it is only dictatorial, autocratic governments that can really do it.

It has been bothersome to me to have to agree with this view to some extent. The problem is that we all like all the freedoms. If we only liked one, it would be easy. I look at the actual historical record of Hong Kong, Singapore, Korea, Indonesia, Taiwan, Spain in the latter decade of Franco, Portugal, Brazil, in each case, its economic miracle took place under an autocratic government. Chile has had two spates (of which it is currently in one) where it has outperformed its neighbours, largely as a consequence of this type of policy. While not many seem to be aware of the fact, Guatemala and Nicaragua, starting around 1950, had very good growth under autocratic government. The reality is that these governments have had better than average economic performance under that kind of rule.

My first response is, we are economists, we know that other freedoms are a part of our value system; we have to be willing to pay a price. And that is really where I sit when I have to. But at the same time I wonder what is the secret there? Why are these essentially autocratic regimes seemingly more successful than other regimes?

First of all, let me note that most of these autocracies seem to turn into technocracies. They tend to acquire a higher proportion of technocrats, and this transition seems in some way to be important for the growth process. The reason appears to be that the technocracy in turn imposes a discipline and self-restraint on government. It keeps government small when a lot of populist and other pressures are trying to make it bigger. Autocratic government seems to be able to impose self-restraint and to avoid doing a lot of things that it would be pressured to do in a more open political system. Moreover, and perhaps more importantly, autocratic governments often bring discipline, restraint and predictability to the economic scene, which before had been chaotic. It is this transition that is the common thread in these various success stories.

But, I can also think of three cases of democratic governments which have been successful in the growth encouraging game—Switzerland, Japan, and Panama. Switzerland is an old democracy but very self-restrictive by the nature of its constitution; nothing can happen in Switzerland, hardly. Japan in the modern world is a democracy, but they have a lot of built-in self-restraint by their culture. Panama had built-in restraint by having the dollar as a circulating medium and having a prohibition against having a central bank. But during the 1960s, when it led the Western Hemisphere in the rate of growth, it didn't have the tendency to populism

that later infected and ultimately overwhelmed it in the late 1970s and early 1980s.

So, here are three cases where democracy has worked to produce high rates of growth, in all of which the elements of discipline and restraint, and in a certain sense predictability, have been present.

Raymond Gastil I think insofar as that is true, I would have some questions about the democracies in each case, and particularly in the case of Panama. But perhaps we don't wish to get into that at the moment.

Alvin Rabushka First of all, I don't have a dictionary with me, but I think the word "despotic" conveys some norms and modes of behaviour. Hong Kong is *not* despotic; please stop calling it despotic. Call it regulated, call it night watchman, call it authoritarian, call it unrepresentative, call it administrative no-party state, but stop calling it despotic.

The second thing is precisely the point that Arnold was making—this notion about semantics and language and what these words mean. Words have meanings, and we have to talk about them in some way or we can't talk about the subject. I think we all have a sense about what civil liberties are, and I'd buy the Freedom House list intact. I think we have some pretty good senses of what economic freedoms are, and in my own paper I basically enumerate the Friedman bill of rights and add three or four more, which I think he might be willing to buy as well. So I think we can get around that.

Now we get to the political problem, and Block is right. But I think we can amend that a little bit. The way I would like to talk about it is to talk about political freedoms having imbedded within them, shall we say, some kind of constitutional, written or unwritten custom limitations on the abilities of those majorities to take away the rights of individuals and minorities. If we can do something like that, I think we would get a better handle on what we mean by political freedom that won't bother us all that much.

But the last point is this whole question of running around the world looking at other countries, and Latin America is one of the few places I haven't gone to look at. One thing I did do at a prior Liberty Fund Symposium and in some other papers was take a hundred countries in the developing world in the post-war period and then take the Freedom House data and look at their scores on civil liberties and look at their scores on political rights, and I discovered the following.

First of all, civil liberties and political freedoms come out reasonably similar when you simply do a cross classification against some economic factors (I will tell you what those are in a minute), which means there is a very high internal overlap between the presence of political rights and civil liberties as measured in the Freedom House scores. And that is very encouraging. It means that if you are going to have political rights, you can have civil liberties, and vice versa. You don't have to choose one over the other. So you don't have to worry about the majorities tyrannizing civil liberties out of existence.

Now, in terms of what these economic variables were, I used two: one was per capita income, and the other was rates of growth over the last 20 years, that is, per capita rates of growth in income. The results come out reasonably the same; that is, countries that have had very high rates of economic growth for 20 years now have a reasonably high per capita income. Countries that have had very low growth rates don't. The results came out reasonably similar, and they are as follows.

Where there is zero or low growth—I mean negative growth up to 1 or 2 percent—and per capita incomes are \$400 and under, there are almost no civil liberties and political rights. In countries that have high rates of economic growth and per capita incomes over a thousand, or seven hundred and up, there is a fifty-fifty mix, between countries that have high civil liberties and not and countries that have high political rights and not. So stagnation and poverty are just iron-clad guarantees of not having any freedoms. Prosperity gives you some chance of getting some of the liberties.

In this context, I think what Arnold has described as a cross-sectional phenomenon also is exhibited longitudinally. What is clearly happening in Taiwan and in Korea—for that matter, mainland China and some other places—is there is a gradual emerging of civil liberties and political rights that didn't exist in the first instance. So affluence is a kind of nice breeding ground in many of these countries for a much looser society, a much less restricted, a much less controlled society. On the basis of the evidence, I am willing to go on the line and simply say that if one can impose the kinds of growth-oriented policies that work, one will get—down the road a generation later, in those places where it has had a chance to work—probably many more rights and freedoms than there were in the beginning or than there are in other countries which are similar except for the growth experience.

Gordon Tullock I would deduce from these numbers that you have given that a country that has a per capita income of about \$150 a year could never have freedom. I am, of course, referring to the United States in

1776. But going on from that, actually what I wanted to talk about is that we observe that a dictatorship sometimes is successful economically and democracy sometimes is successful economically. As a result of the fact that a lot of democracies in the great 19th century were leading countries, both in economy and politics, a lot of them are still pretty wealthy. I am sure that is the reason the United States is still pretty wealthy. Although we had the advantage that the 19th century, in our case, lasted right through to the 1930s. So we left the 19th century somewhat later than anyone else.

There is another possible explanatory variable, an unpopular one. Again, this is found in pre-World War II or even pre-World War I literature. The anthropologists divide the European culture up into three main groups, by language, actually: Slavic, Latin and Teutonic. There is an overwhelming correlation between being members of that Teutonic group and being both prosperous and democratic, and also, I should say, being protestant. It may be that we are simply talking about a characteristic of one particular subculture within the European collection. I sincerely hope not.

NOTES

1. *Autocracy*, Kluner, Hingham, Mass. 1987.
2. *A Complete Book Concerning Happiness and Benevolence*. Huang Liu-Hung. Translated and edited by Djang Chu. University of Arizona Press, Tucson, 1984.