

Economical Freedom and the Rule of Law in the Conception of Milton Friedman

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Abstract

For some decades, Milton Friedman's name is associated with economical neo-liberalism and the monetarist theory, his ideas continuing to be the object of debate among theoreticians from the most diversified fields. This article analyzes in its first part the controversies connected to the economical freedom's possibility of ensuring the existence and functioning of individual freedom and political freedom, as he says. The second part discusses the means in which the freedom of choice is influenced by the mechanisms of market economy, by the system of political organization of the society and by the means of intervention of the state in the social economic market. The third part focuses upon the highlights that define the monetary program and the solutions it proposes for the functioning of economy in its entirety.

Keywords: Friedman, economical liberalism, rule of law, individual liberty, monetarist theory.

Introduction

A renowned theoretician in the field of economic science, Milton Friedman has important contributions in highly diversified fields: from the methodology of the economical science to the theoretical and practical aspects of monetarism, from the critique of dirigistic policies to the argumentation of the need of market economy,

from the philosophical issues of economic and political freedom to the theory of consumer sovereignty and the practical measures it involves.

The accurate understanding of his work involves reporting it to the social, political and economical context market by the economic dirigisme promoted by J. M. Keynes, by the ideas of the neo-liberalism theorized by the Economics School of Chicago, by the dynamic of the relations between the State and the economy, but also by the new solutions that involved the analysis of the consumption and the complexity of the policies of economic stability.

By trying the demarcation of these topics, I'll systematize the intellectual course led by M. Friedman from the assumptions of liberalism to the reformulation of the theory on the relation between economic and political freedom, in close connection with its project on consumer sovereignty and the main joints of the monetarist program. In this respect, I'll relate first to the ideas which have made a "career" in economic theory, ideas formulated by the author in the work "Capitalism and freedom".

Why is economic freedom a condition for political freedom?

A first problem discussed by Friedman in the work referred to above is that of the political mechanisms that help maintain dirigisme in American economy, as well as the individual and social consequences of practices associated with dirigisme. As a result of his analyses, the author finds that the persistence of dirigisme is due to a so-called "iron triangle" composed of the pressure groups which require the state's intervention in the economy, the groups of politicians that represent their interests in the power structures and the groups which make up the state bureaucracy, all of these groups constituting themselves in beneficiaries of dirigisme policies.

Contrary to a simplistic approach, he advances the hypothesis that, no matter how well the market economy would operate, this does not eliminate the need of the governing system, complete freedom only being possible in an ideal world. In these conditions, the problem asked by Friedman is structured around the following themes: what are the legitimate functions of the institutions of government, where is the limit of justification for their intervention in economic and social life, which are the grounds that may be invoked in the support of this operation, if there is any connection between economic and political freedom and if

there is, how is it possible that economic freedom contributes to the political freedom.

According to his scale of analysis, the political or individual as he calls it, is a social value that deserves to be promoted, and the economical freedom, whose institutional model is the market economy, is a necessary condition of political freedom. In support of this thesis, the author announces two sets of arguments: a normative and an instrumental one. The normative argument claims that freedom in economic organization is a component of freedom understood in a general sense and that the individual freedom must be regarded in a close relationship with all specific freedoms (economic, political, social etc.). Therefore, if freedom in the general sense represents something valuable, then specific freedoms are the modern carriers of the same values, making them worthy of being promoted by society.

The instrumental argument envisaged that economic freedom is a necessary condition, even if not sufficient, of political freedom, and that a certain level of economic freedom can guarantee a certain political freedom. According to Friedman, "political freedom means that lack of constraint exercised on person by his fellow", and the main threat to freedom "is constituted by the power of coercion, whether this power lies in the hands of a monarch, a dictator, the oligarchy or a temporary majority" (1995, p. 29). This leads to two conditions that must be met so that political freedom can be preserved, both of which being referred to as that general principles of the constitutional system: the first principle enshrines the requirement that the action sphere of the government is strictly limited; the second principle maintains that governmental power should have a certain territorial dispersion.

In accordance with the first principle, the basic function of the structures of government must be "protecting our liberties, protecting it from her enemies outside the borders, as well as from appointed citizens: protecting the law and order; the power in the application of contracts private; the creation of competitive markets. Beyond this the major function, says Friedman, in some instances, the government can organize up properly to meet in common what would be more difficult and more expensive to fulfill individually" (1995, p. 16).

By virtue of the second principle, governmental power must be exercised rather at the regional and local level; the argument invoked being the following: while no producer can get to control all of the market of a product, for example, a leader or a political party can get, at

a given moment, to control society as a whole. Friedman concludes that, if economic power will be in other hands than the political power, then the market eliminates the source of coercive power. In addition, not only that: the possibility to choose between the offer the services of "more" competing governments is equivalent to that of an instrument of public control over the activity of governing itself.

Once approved, the government can receive an established system of attributions, the more so as there are a number of desirable things that can be secured on purely economical ways, leading therefore to a need of political decisions. The disadvantage of the political means lies in the fact that they require a confirmation from the all the participants in the social game, and for this reason it is desirable that these ways be used only for solving those problems that do not involve conflicts of values or social coercion.

According to Friedman's criteria, the role of the government in a free society concerns three major directions of action. In the first place, the government is called "to maintain law and order, to define the rights of property and the other rules of the economical game, to settle disputes with respect to the interpretation of rules, to require the execution of the contracts, to promote competition, and to provide a monetary framework...", as well as the specific procedures for the resolution of conflicts arising out of human rights" (1995, p. 50). Secondly, the system of government should mediate the action of the community in cases involving technical monopolies and the effects resulting from the imperfections in the operation of the market economy. Thirdly, the grounds that may justify government intervention refer to a set of measures of the paternalist type designed to protect the family, the children, and the educational system, the social assistance of persons in difficulty and the social protection of the elderly.

Friedman found that one of the political issues faced by contemporary societies is that the governing system creates a much larger share of actions than could be justified by the arguments referred to. So, one of recurring themes in western societies is the belief that the distribution of wealth resulting from the interaction of the agents on the competitive market should be "corrected". Whether it is the fact that building up wealth is the result of chance or favorable circumstance, or the result of natural talents, of personal merits or bequests, the persons who have acquired wealth in this way have moral duty to offer part of it to those less favored by chance. The corollary of this "equalitarian"

feeling consists in the tendency to use the government as a tool to achieve the redistribution of income between the members of society.

The question asked by Friedman is, if it has the legitimacy to act for redistribution in the name of ethical principles, which claim that each person is entitled to obtain in relation to what he produces with means that he possesses. By studying the effects of the measures of redistribution, the author comes to the conclusion that they have led rather to the unequal retributions before the payment of taxes, they have stimulated tax evasion and the emergence of "legal gates" of avoiding taxes, leading even to phenomena of the circumvention of taxation, whose social consequences are not hard to anticipate.

With this last remark I will move on to the discussions on his views of Milton and Rose Friedman regarding the freedom of individuals to manage their community, social, political, economic, etc. relations and the values involved by the freedom to choose.

The freedom to choose and the effects of interventionism

On the line of the arguments presented in the previous section, Friedman states that economic freedom permits people to cooperate without constraints or leadership from the center, where he sees a source of tyranny. He considers that the impulse of economic activities starts from the consumers, through their capacity to choose the merchandise they will buy from the ones offered by the producers. In other words, the market witnesses the sovereignty of the consumer, because his option constitutes an essential signal for the producers. The latter will allocate their resources to satisfy the consumers' option, which permits them to use their resources rationally and to increase their economic efficiency.

After Friedman, the key feature of this mechanism is the prices, whose functions are:

- They transmit information not only from the buyer to the producers and owners of the resources, but also the other way around, in any situation which deforms the free expression of demand and offer.
- They create the motivation to act not only regarding the demand for products, but also for the adoption of production methods which are less costly and which use the available resources for the aims with the highest value.
- They determine the distribution of the income, regarding each of the participants to the given economic process according to the

contribution brought, the physical and intellectual capacities or the choice made for the use of possibilities owned by each of them.

According to his reasoning, economic freedom means the possibility to use the income, that is “how much we spend for ourselves and what; how much we save and under what form, how much we give and to whom” (2009, p.53), the freedom to use the chances we have according to our own value criteria, as well as the freedom of property.

Friedman associates market economy with private property and its judicial affirmation in the legislative system of the country, but also with the state’s un-intervention in the price mechanism and the existence of a stable monetary system.

Although he accepts some forms of intervention of the state especially at the macro-economical level, he is against the budgetary subventions given to the industry and agriculture, the increase of taxes on wealth and the budgetary deficiencies, as well as against what one calls “the state of general welfare” (Welfare State).

In the analysis done to the "welfare state," Friedman notes that, despite its humanitarian objectives, the proposed programs for this purpose have not been met. "At the beginning of the new era, he writes, all seemed perfect. The beneficiaries were fewer; taxpayers that were to finance them were many - so each had to pay a small sum sufficient for the few that still needed it. As the welfare programs have expanded, the balance has changed. Nowadays, all of us take out of a pocket to put into another, money - or something that can be achieved with money" (2009, p.94).

In order to support his ideas, Friedman uses the diagram below, in which four possibilities to spend one's own money and those of the taxpayers are brought together.

Whose money?	To whose use?	
	One’s own	Someone else’s
One’s own money	I	II
Someone else’s	III	IV

According to this scheme, Class I refers to the situation of spending their own money, which assumes that there is every reason to save money and obtain the highest value possible for every dollar spent. Category II suggests the situation where their money is spent for the benefit of others, in which there is reason to make savings, but not

necessarily to get the best merchandise from the recipient's point of view. Category III refers to the situation where someone else's money is spent in oneself, in which there is every reason to buy the best things money. Finally, the fourth category refers to the fact that one's money is spent for the benefit of a third party, in which there is no reason for saving, but rather the temptation of the waste and corrupting those involved.

Friedman's conclusion is that, the idea of "welfare state" contains major errors; for their elimination he called for "the reformation of the current system by replacing its numerous assistance programs with a comprehensive program of extra income in cash - a negative income tax charge related to the positive tax on income" (2009, p.98).

The central idea that preoccupies Friedman is expressed in the following terms: "Waste is painful, but it is the least of the evils of paterniste programs that have developed to such a great extent. The greatest evil is the effect that it has on the structure of our society. They weaken the family, reduce the work motivation, the savings and the innovation, they reduce the capital accumulation, they reduce our freedom" (2009. p. 103).

In his work, Friedman brings a series of correctives to the macroeconomic analysis and the function of the global consumption theorized by Keynes, introducing the concept of "permanent income". The thesis he starts from is that the people's options for usage are always influenced by two elements: the level and dynamics of the present income, the permanent income or estimates of the individuals regarding the sustainable income that they expect on the long term. On this basis, he pursued the cycle of the consumption and savings functions, noting important differences in the behavior of different groups or social categories.

The monetarist program as a theory and economic proetics

Friedman's fundamental contribution concerns the development of the monetary theory and the study of the complexity of the policies of economic stability for which he was awarded the Nobel Prize in 1976. In his argument, the author used the quantitative theory of money and prices and from the equation of transactions formulated by Irving Frisher (1907), which has the form $MV = PY$, where M is the nominal quantity of money, P is the general price level, Y is the volume of

transactions that occur in a given period, V is the speed of rotation of money, MV is the money supply, and PY the demand for money.

In the case where V tends to remain constant on the short term, then $M = PY$ and $Y = M / P$, which means that the purchasing power of money is directly proportional to the monetary mass and inversely proportional to the price level. Friedman advances the thesis that a change in the money supply is followed by a variety in the same sense of the producer prices and incomes. The conclusion reached is that the fluctuations in the global demand will be determined only by mass changes and/or by the rotation speed of the money, and the fluctuations in the money supply will be correlated with the relative flexibility of wages and prices.

Considering the particular area from the market economy as relatively stable, namely, that the speed of rotation of money is stable, Friedman theorizes the idea that the fluctuations in the nominal value of GNP is due mainly to the change in the volume of money (money supply) as a result of monetary policy and other exogenous factors such as: fluctuations in the gold-exchange standard, the changes in the financial policy, the cycle of political life etc.

In light of this view, he considers that the inflation is a monetary phenomenon occurred due to the fact that the issuing bank launched more money than is necessary on the market based on production volume and price, determined to do this by the practice of the budgetary deficits that characterize the dirigiste policy. M. Friedman believes that the main danger for the determining of economy is the increase in the inflation, for which reason he supports the need for the macroeconomic monetary policy, where he sees a balancing and stimulating factor of efficiency and economic growth.

It is important to note that Friedman's policy and the followers of monetarism represents controlling the inflation and ensuring price stability, appreciating unemployment not only justified, but also economically useful. In relation to this final point, Friedman proposes the concept of "natural rate of unemployment" in the sense that, up to a certain point, unemployment is the natural consequence of the functioning of market economy, with very positive influence upon it. In order to prevent the discretionary measures of the state in the field of political economy, Friedman and other theorists of monetarism are concerned with upholding the generally valid rule to increase the annual money supply at a fixed rate of 3-5% since this would be

approximately, the annual growth rate of the GNP. In supporting this option, two principle ideas are presented:

- By its nature, the market economy based on private property is stable even without government intervention, and the shocks that may occur within it can be quickly corrected through the relative flexibility of prices and wages.

- The state's economic policy measures are taken in its own interest, and not in the general interest, thus leading to economic crises and cycles, phenomena to whose amplification can also contribute and changes in the monetary policy of the state.

Other ideas regarding the content of the monetarist program content could be summarized in the following statements:

- The money offer is an independent measure as opposed to production, the volume of the monetary mass and the evolution of the money supply, being determined by the monetary authorities. Increasing the money supply is the sole source of funding the extra government spending and the programs of full use of the workforce market.

- The inflation occurs when the monetary mass increases faster than the output (the goods and services offered for sale) and the more rapid the growth of monetary mass per unit of output is, the higher the inflation rate is.

- While the output (the production and supply of goods and services) are limited by the physical and human resources available, as well as by the improvements to the processes of knowledge and skills to use them, the amount of money may increase at any rate, which strengthens the assertion according to which the inflation is primarily a monetary phenomenon.

- There is no necessary relationship between the evolution of money and prices on the one hand and the unemployment rate on the other. In the conditions of the increasing rate of monetary expansion, unemployment can be reduced temporarily, but the inflation increases permanently. The only cure for inflation is a lower growth rate of the increase of the monetary mass.

- By applying a sound monetary policy, public authorities can ensure the normal functioning of the economy. But the state and its financial institutions must control only the total weight of money in the economy, the correlations being left solely to the market mechanisms.

- Increasing the money supply in circulation at an annual rate of 3-5% in the short and long term 2-3% should be correlated with the

likely trends in production, population dynamics and labor, as with forecasts prices.

The idea that Friedman supports is that both in the monetary field and in other areas of the economic activity, the state must allow the free action of the market that adjusts by itself, and not take advantage of the privilege of issuing money to start a fictional policy of economical revival.

Conclusions

From the aspects above we can notice that, although Friedman criticizes government intervention in the economy, as it leads to privileges, favors corruption and contain threats to freedom, he is still less hostile towards Keynesianism, formulating even a new perspective on the role of the contemporary state. He considers, on the one hand, the fact that the economic policy can no longer be regarded as a set of measures decided by the government to regulate the economy, but it must be understood as a complex game between the economic and social actors based on relations of a contractual type. On the other hand, the state can no longer be seen as a substitute for the market, to intervene only in the cases of its failures or imperfections. Due to the fact that the market itself has become a powerful institution, its functioning presupposes the existence of an impartial force, such as the liberal state, which can guarantee the possibility that this institution called the market, could function efficiently.

Attached to the values of contemporary liberalism, the solutions proposed by Milton Friedman have generated the most controversial debates in the political, economical and social philosophy. Beyond these differences in ideas, his message is that, to identify the situations that endanger freedom and to seek ways in which these situations can be avoided are not meaningless steps enterprises, even if we are convinced that proposed solutions are neither final nor infallible.

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