



# Capitalism and Freedom

Capitalism

University of Virginia

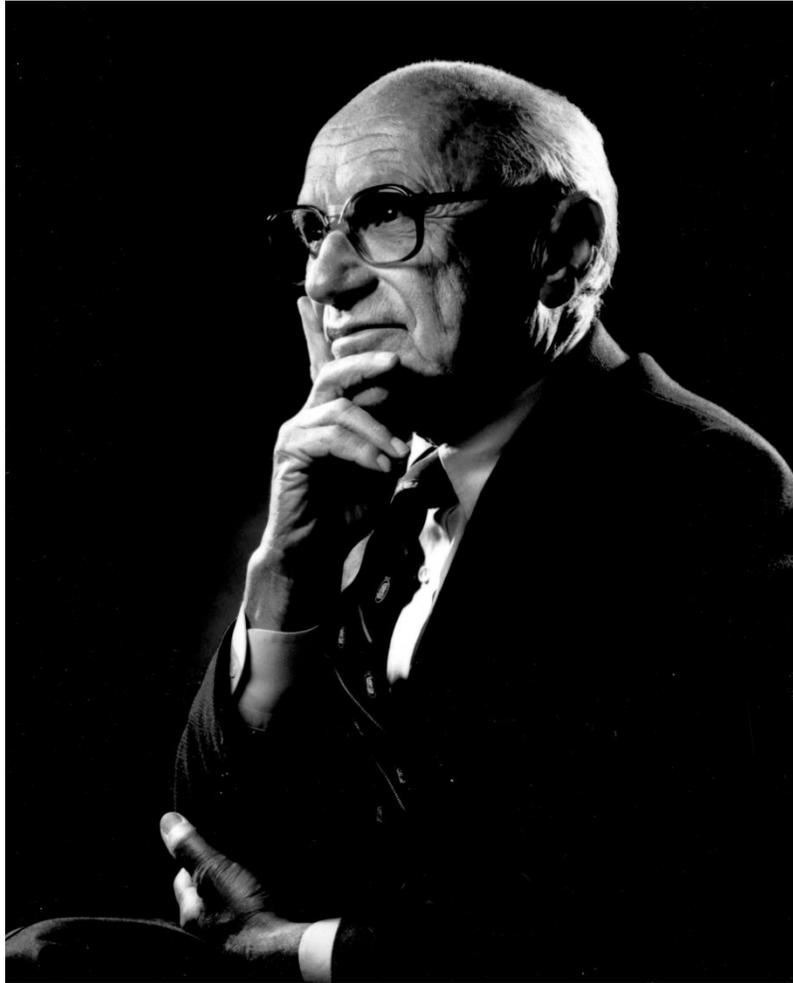
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1. **Friedman: “Capitalism and Freedom”**
2. Friedman’s Two Arguments for Capitalism
3. The Limited State

# Background



**Milton Friedman (1912-2006)**

Nobel price (1976) in economics

Founder of monetarism

Lasting influence on  
conservative economists

# New Themes in Friedman

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- Relationship between economic and political freedom
  - ❑ We have talked about capitalism as an economic system so far—but is capitalism not also a political and cultural system?
- The problem of market imperfections
- Role of the state
  - ❑ The state as mere umpire
  - ❑ Dispersing and limiting power of the state as far as possible

# Friedman's Argument

Q. Does Friedman pursue a consequentialist or a non-consequentialist argument?

A. Both! See:

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. (p. 18)

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# Friedman's Non-Consequentialist Argument

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Friedman's argument takes something like the following form:

- (1) Freedom is \_\_\_\_\_ .
  - (2) Capitalism is \_\_\_\_\_ .
  - (3) Capitalism guarantees freedom.
  - (4) Economic systems which are not capitalism do not guarantee freedom.
  - (5) Justice requires freedom.
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- (6) Justice requires capitalism.

# Friedman's Non-Consequentialist Argument

Q. How does Friedman understand freedom?

Friedman does not give an explicit definition, but there are two main claims:

- (1) “physical coercion of one individual by another” (p. 20) violates freedom, while protection from coercion guarantees freedom (Friedman also sometimes speaks of the absence of “interference”)
- (2) Voluntary cooperation between individuals is compatible with freedom

Q. How does Friedman understand capitalism (that is, the economic system he is defending)?

Friedman focusses on “competitive capitalism” (p. 19), which he calls “a society organized through voluntary exchange”, based on exchange between private enterprises

# Friedman's Non-Consequentialist Argument

We can now fill in the relevant detail:

- (1) Freedom is being protected from coercion by others.
- (2) Capitalism is a society organized through voluntary exchange.
- (3) A society organized through voluntary exchange guarantees being protected from coercion by others.
- (4) Economic systems which are not organized through voluntary exchange do not guarantee being protected from coercion by others.
- (5) Justice requires being protected from coercion by others.

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- (6) Justice requires a society organized through voluntary exchange.

# Problems with the Argument

- (1) Freedom is being protected from coercion by others.
- (2) Capitalism is a society organized through voluntary exchange.
- (3) A society organized through voluntary exchange guarantees being protected from coercion by others.
- (4) Economic systems which are not organized through voluntary exchange do not guarantee being protected from coercion by others.
- (5) Justice requires being protected from coercion by others.
- (6) Justice requires a society organized through voluntary exchange.

Q. Is Friedman's argument convincing—are all the premises plausible?

## Critical Questions

About (1). Is this really a good definition of freedom?

About (3). Why would this be the case? Could there not be other forms of coercion in a market-based society?

About (5). This cannot be totally right—some forms of coercion are surely just.

About (5) and (6). How about other requirements of justice?

About (3) and (4). Can we know these claims without empirical evidence?

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# Friedman's Consequentialist Argument

The argument in a nutshell:

“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.” (p. 16)

# Questions

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- How can Friedman's non-consequentialist argument be reconstructed?
- What are the central empirical claims this argument rests on?
- Are these empirical claims convincing?

# An Attempted Reconstruction

1. A central part of political liberty is the ability to express controversial views.
2. In capitalism, political and economic power are independent. Whether a view is spread successfully depends on its economic viability, not on its support by the powerful.
3. In socialism, political and economic power are intertwined. Whether a view is spread successfully depends on endorsement by the politically powerful.
4. Only capitalism allows one to spread controversial views.

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# The Social Strain Argument (p. 28)

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1. People disagree widely in basic values.
  2. If people with disagreements in basic values are forced to come to an agreement, this strains social cohesion.
  3. Because there can be only one political outcome, politics forces people to come to an agreement on basic values.
  4. Because everyone can exchange as they like, the market mechanism does not force people to come to an agreement on basic values.
  5. We should avoid, as far as we can, straining social cohesion.
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6. We should rely, as far as we can, on market exchange as a method of social organisation.

## “Government as Rule-Maker and Umpire” (p. 29)

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“In summary, the organization of economic activity through voluntary exchange presumes that we have provided, through government, for the maintenance of law and order to prevent coercion of one individual by another, the enforcement of contracts voluntarily entered into, the definition of the meaning of property rights, the interpretation and enforcement of such rights, and the provision of a monetary framework.” (p. 31)



# Summary

- ❖ Friedman, in *Capitalism and Freedom*, offers a classic pro-capitalist argument
- ❖ His non-consequentialist argument is based on freedom as the absence of coercion
- ❖ His consequentialist argument is based on a connection between economic and political freedom
- ❖ We will look closer at the concept of freedom on Tuesday
- ❖ Friedman concedes a limited role for the state in case of market failure