

Translator`s Introduction

for Georgian language edition of

Milton Friedman`s "Capitalism and Freedom"

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Οικονομία - for ancient Greeks meant the management of internal, domestic, in-house affairs. This term later got two different meanings reflected also in the Georgian language. By using the term *economy*, we express anything associated with the management of our economy: production, transportation, financial system and so on. Economy is, with two other elements - state and culture - one of the components of society. One cannot find anything which is not a fraction of one of these three domains or simultaneously of two or all of them. This division is, of course, conditional and is only necessary as an analytical interrogative tool. Society is too complex a body to be reduced to one or three simple elements.

Another implication of this term introduced by ancient Greeks means in our language thrifty, sparing, best possible management of resources, and we call it *economy* though giving it a different implication. [1]

This book we are now introducing to Georgian economists, politicians and interested readers mainly concerns the economy of society, however, every success of an economical system finally depends on rational and sparing spending of resources, non-wasteful use of them. The chief resource is, of course, the human capability to take from nature treasures practically for free, to assimilate them and distribute the outcome judiciously. A society which identifies its resources and distributes them in favor of a viable maximum of its members is a good one. For this and other purposes, society must build up a system of management which strives to accomplish the best possible relations between its members and provides each member with the chance to act and, by this activity, to gain an outcome for itself and for society as a whole. We call the system of such a form of management *state*.

Men always tried to realize and establish the state of being organized in a way providing satisfaction for an utmost number of members of society. The purpose of the effort of governments, kings and even of tyrants was the creation of rules in society allowing to

keep the greater part of the public happy and tranquil, to hold them off from thinking about the changes in the government. In most cases, this idea could not be realized because the governments, kings and tyrants were unable to manage the economy of the country in a way keeping the maximum amount of residents, even the majority satisfied. This is the reason why the history of mankind is a chronicle of bloody revolts, wars, conquests. As they could not manage their own territory, the mighty of this world had often risen and invaded other countries to gain more possessions for themselves and their fellow-men.

History has realized plenty of theories, models and ideologies throughout these wars and quarrels. There were many experiments and most of them were in vain. Society has not found the perfect social order up to this day. Neither West nor East, neither North nor South could yet establish a state structure approaching human ideals. The question about the best possible order for society remains, however, still unanswered. We do not know yet, which way of life is the right way. We do not even know if such a “right way” exists at all. The order of state widespread in modern Western countries is not an old one, this system is no more than about two hundred years old. Ideas of humanistic more or less pervaded Western society only in last two hundred years.

It involves not only the state organization but also economical arrangements in society. The system we specify as *free market economy* was developed in Western Europe of the 19th century and later spread also to other parts of the world, foremost the U.S. I will quote from the well-known English author Carl Polany. He wrote in the forties of the last century: “...free market economy was a system provided by particular structures and, what we often forget, this system never existed until newer times and endured afterwards only partially.”

With these last words, Polany tries to express that the free market economy was no longer surviving in its pure form in any country towards the second half of 20th century. Although this statement evokes some irritation, it is true. The one and only period in the history of mankind in which production, distribution, exchange were really close to the state of freedom from governmental compulsion was the second half of the 19th century. In the 20th century, the intervention of the government in economy achieved an immense degree just everywhere. No country in 20th century was functioning for a sufficient period of time without the imprints of the restrictive hand of the government on its economy.

Economical liberalism is just such a political flow of thought which tries to reduce the interference of the state in the economical affairs to the essential minimum, to avoid the extreme concentration of political and economic power, to stimulate the general benefit

of all members of society by extending their liberty. Liberalism assumes that the state is an unavoidable evil, but this evil is nevertheless better than chaos and anarchy. Liberal opinion explicates the responsibilities and fields where the state has to act.

Let me shortly state these areas. First of all, the responsibility of the state is the preservation of freedom of society and its members from internal and external compulsion. For this purpose, the government, as a part of the state, establishes the police, judicative and administrative institutions. To this sphere of tasks belongs not only the protection from invasion or robbery, but preservation generally, such as the protection of nature or providing the citizens' safety from catastrophes. The second area of the state tasks is the establishment of a system opening the way for individual activity in economical, political or cultural domains. The state elaborates some "laws of the game" and, according to its first task, regulates their performance in its government. If these laws are unacceptable or unsuitable for most members of society this kind of state is not right from the liberal point of view. Another task of the state is the care about such members of society who, for one reason or another, cannot provide for themselves sufficiently by their own effort. Government receives its taxation tools for these and other purposes: it collects money and redistributes it for defense, safety, order, for assistance of the old, children, invalids and the ill. A government must not engage itself directly in economical affairs simultaneously. It is not allowed to act itself as an economic subject, but must manage relations between such. One part of the collected funds ought to be spent for governmental needs, for salaries of its own staff. The inclination for increasing these spendings exists in every society. If society does not protect itself from this trend, the government will swell, thicken and no earnings will be enough for its growing appetite. This is comprehensible, because the government as one of the bodies of society always tries to expand, grow and mollycoddle itself.

The role and indispensability of government originates from the responsibilities mentioned above. If a government cannot accomplish these functions and cannot resolve the problems it is confronted with appropriately, its existence is purposeless, absurd. A liberal assumes that the accomplishment of the appointed tasks is possible and feasible in a way minimally confining the freedom of men and that liberty shall not become a plaything for concentrated power, be it political, economical or of any other kind.

These questions are discussed in this book by Milton Friedman, which since its first publication in 1962 became a manifest of liberalism and its autor a flagman of liberal philosophy.

Milton Friedman was born in New York City to a family of poor Ukrainian immigrants in 1912. He managed to attain a Bachelor of Arts degree at Rutgers University in 1932 and later, at the University of Chicago, a Magister. He worked in the University of Chicago for many years, cooperated with the National Bureau of Economic Research and, in 1946, received his PhD from Columbia, in the same year in which he became a professor of economics in Chicago. He has been an outstanding representative of "Chicago Economical School" for the last 50 years.

Friedman won the Nobel Prize for economics in 1976. In the argumentation for his Nobel Prize it is acknowledged that he receives it "...for his achievements in the field of consumption analysis, monetary history and theory and for his demonstration of the complexity of stabilisation policy." This list demonstrates clearly his contribution to economic science. Some measures which were adopted by the government of the U.S. are also based on Friedman's ideas. I state the reform of the army as a recognized example. Although many of his ideas and proposals, - I am hurrying to add,- very reasonable ones, were never accepted by legislatives or executives, he and his fellow advisors gave many recommendations to governments of specific countries, starting with their own country to all over the world. Milton Friedman is an excellent propagandist of capitalism. His work concerns mainly economy and explains that the order of free enterprise has no practical alternative. Friedman is often opposed to another great economist of the 20th century, to Keynes and to Keynesianism, which assigns more power to government than liberals do.

He has published many books and articles, most of them for economists but some for a broader audience, too, such as *Free to Choose* (1980) and *Tyranny of the Status Quo* (1984). Milton Friedman is a member of many academic institutions and has also been awarded honorary degrees by universities throughout the world. In July 2002 he was 90 years old, still active, and lives with his wife Rose in the U.S.

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The main idea of Milton Friedman's liberal philosophy originates from the simple consideration that the human being is imperfect and that we as human beings all make mistakes sometimes. Governments consist of men. Men make mistakes and we must not give the men in the government too much power, to avoid the harm they might intentionally or unintentionally do to us. The role of the government in a society must be sharply defined and the field of its activity has to be sharply controlled. We must try to establish most relations in society on the ground of free exchange and on a contract basis. Friedman believes in the market and assumes that, one way or another, free market will regulate nearly every relationship in society with only few exceptions, it will find the

right place for every matter. He thinks that the free and unimpeded exchange between free people is a tool to achieve a correct, valuable and suitable social order.

This notion is not completely free of criticism and has got many opponents. One of them, not a dictator or a socialist, but a prominent capitalist contradicts liberal ideas and suggests that even just because of the imperfection of human beings, which are subjects of economical life and are trying to accomplish their selfish possessive interests, economy must be run under strong state control or, - from modern point of view, - under the sharp surveillance of international authorities. This concept is more closely associated with the present international state of affairs where such an amount of power and influence is concentrated in the hands of particular people, that they or other individuals can alter the destiny of millions of people and of whole countries. It is evident, that their decisions are not always proper and delightful for specific countries and people. This criticism comes from George Soros, a well-known financial speculator and celebrated beneficator of development projects in the end of the 20th century. Soros also criticizes Milton Friedman and suggests that Friedman`s model is not appropriate for a human society where people should be truly free in their choice. Some international corporations in modern economy are really owning so much power that they become hazardous to the world. The world`s richest man, Bill Gates, has billions of dollars in his possession. God save us from the day he turns out to be a religious militant like Binladen or simply becomes insane like many of us! Nobody knows the consequence such a transformation would have. For this reason, Western society tries to provide competition even on this level, and to prohibit the monopolization of particular parts of economical life. The achievement of this goal is the reason for strong antitrust laws in Western countries, which are one of the tools against extreme concentration of economic influence. There are plenty of instruments available to avoid concentration of power. Nevertheless, capital rules modern world much more influentially and mightily than in times of Karl Marx.

On this experience, one would affirm that the liberal model of society has run out, its time has expired and it is no longer useful to human society, at last to a modern one. This statement is far from the truth. Never and nowhere in the world of the last centuries existed a society based completely on a liberal fundament. The social model of Milton Friedman is unrealized as yet. It must be said, too, that, in our world, the social order in the U.S. of the second half of 20th century comes closest to this model. One need not to wonder about it, because liberty is the most highly priced issue for an American citizen. Even though Americans have always had a strong governmental control, one cannot compare this with the European state of affairs, where the range of social orders begins with “crawling in” socialism in Germany and ends with “near to the U.S.” in Great Britain - not to mention “wild capitalism” in Russia and many more other curiosities.

Friedman's liberal model is yet unrealized because of many rivals. On one hand, there are communists and socialists of different breed representing interests of losers in a free competition and, on the other, the mighty transnational monopolies – the winners. They both have the same interest: concentration of power in their hands. The former want to achieve it starting the political way and gaining influence on economy, the latter through economy and afterwards gaining influence on politics. We said before that Friedman's liberal model is against both, it is against the concentration of political and economical power in general, and this is often the problem. Many of the critics do not want to understand this point. They think that liberalism prefers economy and is for a weak state and therefore for a weak government. This is not true. Liberalism argues against overwhelming, uncontrolled and unlimited government *and* against overwhelming, uncontrolled and unlimited monopoly in economical arrangements.

One more point, especially for our understanding of Friedman's book is that it makes fade away many illusions we have. The historical period discussed in the book belongs mostly to the first half of 20th century, especially from the twenties to the fifties. This is the period of Stalin in our country, where the government crudely interfered with every single aspect of our lives, be it a passport regime, repression of a private property or private possession of gold and prohibition of trade with foreign currencies. Because of the information vacuum we imagined that there, over the ocean in a prosperous land America everything ran faultlessly. We did not believe when "Pravda" and "Communist" told us that not everything in the U.S. was as we anticipated it. Milton Friedman criticizes U.S. governmental politics and on this background one thing is clear: this America is not the one we thought. One can consider such points as prohibition of gold trade, rigid fixed currency exchange rates (chapter 4), segregation of schools (chapter 7), laws on Trade Unions (chapter 8), licensing (chapter 9) or other governmental lapses. We can assume: the United States came to today's life by trial and error like many other countries, however, we must admit that the U.S. have achieved most in this direction compared to every other country. The U.S. were moving in the right direction which distincts them from many others, some of them familiar to us, moving even now in the opposite course.

In short, we can say that the significance of this book as well as of a whole philosophy of Milton Friedman is: as few government as possible and as much liberty as viable, which field of our lives it may concern. Of course, in Western society where the liberty of religious beliefs, press, ownership and many other kinds of freedom are considered as granted, Friedman concentrates on economical arrangements. He assumes that the liberty of economical arrangements is one of the most important requirements for human freedom and members of society deserve to retain this freedom. Men are producing, selling, buying, are doing something for each other due to their economical freedom. Optimally, proper and right order of society is achievable through this freedom.

Milton Friedman believes that free exchange is an axis around which the wheel of the economic universe turns. The necessity of government did not arise from coercive activity of the government; where this the case we could hardly distinguish the government from the mafia. The idea of government and the justification for the state as such is to protect the freedom of citizens and not to destroy it, not to be a bloodsucking worm for free men. Government ought to protect the freedom when it is endangered by any hazard to be cut, destructed, ignored. On one hand, when we let economy act without control monopolies, trusts and other corporations would arise which by their economic power would enforce human beings to obey and would turn freely born men into slaves. On the other hand, when society establishes a government for protecting its own freedom this government might transform itself to monopoly and cut the men's freedom. At this point, I recall a tale by Evgeny Shwarts, where a hero kills a dragon which disturbs a countryside, but then in a very short time the hero himself converts to a new dragon and starts to trouble the countrymen even more than a previous dragon.

The government is like this: its function is to kill a dragon which endangers the freedom and life of people. But as a matter of fact, most governments of the 20th century (like many of earlier centuries) turned out to be the parasites themselves more or less in every part of the earth and almost under every social order. The most prominent examples are the totalitarian regimes where the government plays a role of boundless monopoly and often acts not for benefit of the population but according to a perverse will of a bunch of crazy stubborn men. Under such a kind of social order people have no liberties at all.

The other extreme are the transnational corporations and their tyranny which prescribe to countries and governments what to do and enslave people. In this case, the formal freedom of choice, of activity and of spoken and written word is maintained but I set accent on *formal*: the freedom has its particular limits. An attempt to prevail over these limits will be punished. If in communist, fascist or other authoritarian societies the activity of population is controlled by the government, similar oppressive institutions in capitalist societies are the transnational corporative centres. Much power is concentrated in their hands. When someone begins to endanger real interests of transnational corporations they will start to use every thinkable weapon to silence such an opponent: beginning with simple advertisement, negotiation, court, bribe, blackmail even up to murder. If someone tries to tell the truth, to attack their interests he first gets a bone, then a punch and a bullet in the end. This situation reminds me of the long forgotten communist principle of "democratic centralism": you can articulate as much as you like, the decision will be taken somewhere up there, above.

Modern "capitalist dictatorship" differs from the former Stalinian regime in this respect in a way that the main performers are not a citizen and the state as they were in the

former USSR, but a corporation and the person. Both coercive structures are unacceptable to Friedman. Somehow people think that the liberal philosophy opposes only the governmental coercion and argues for total economical dictatorship. This belief is merely a half-true. Liberalism argues against *all* kind of limiting our freedom, be it governmental or economic limitation. It does not matter to a liberal which monopoly endangers the freedom of men: one of corporative or of governmental sort. Corporative monopoly is as evil as the monopoly by the state. A transnational monopoly is the same dangerous enterprise for human freedom as every other union of persons founded for oppression of another group of people. Some 150 years ago, Karl Marx, analyzing this situation and searching for a modest form among these evils, came to the assumption that a proletarian dictatorship ought to be the proper one. Experience did not prove this idea: proletarian dictatorship turned out to be bloody, rough and coercive like any other dictatorship. It gave less to working class than to bureaucrats and governmental clerks. This problem, as history has shown, cannot be reduced to the struggle of classes as Marx and former socialists as well as later communists thought. It does not matter which group of men takes the power. If the power itself is concentrated in a group of people we must presume that this power will be misused.

The Friedmanian way out of this dilemma or, if we take it generally, for liberal choice, is renunciation of every kind of concentrated power in society. “No Tsar, no God and no Hero” will rescue men if they themselves do not take over and try to preserve their freedom. The one and only way to achieve a right order is our individual but joint effort for preserving our liberty. We must try to avoid every kind of concentration of power with law and order. The result will not be a society of social justice. There will be very poor, poor, middle income, rich and very rich people. But nobody will have the opportunity to get more from society than he or she deserves. Only the contribution of each will be the measure of the income for each, and nothing else. Friedman assumes that such a kind of upheaval is an essential condition for a right order and will lead to broad justice at last.

Personal abilities are important on this path. Men will earn according to their shown and accomplished abilities. Therefore it is senseless to associate the liberal model of society with “Darwinian Capitalism”. Though a liberal thinks of government as of an evil, because it is a mechanism of limitation of freedom, he, nevertheless, assumes that we ought to have such an instrument, if a very well controlled and strongly limited one. We must try to achieve that government acts not everywhere, not in every single part of our lives, but only where it has its responsibility: in the field of preserving our life, liberty and free activity.

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References

- [1] Georgian language uses two different words: „*economica*“ for the system, order and „*economia*“ for non-wasteful handling of resources.
- [2] See: Norbert Elias; *Studien über die Deutschen. Machtkämpfe und Habitusentwicklung im 19. und 20. Jahrhundert.* Frankfurt/M. 1990., P. 322
- [3] Karl Polanyi, *The Great Transformation.* Europa Verlag, Wien, 1977, P. 38.
- [4]see my article in “Dilis Gazeti” from 21 Dec. 2000
- [5] George Soros, *Open Society. Reforming Global Capitalism.* Little, Brown and Co., London, 2000.
- [6] Georgian communist newspaper
- [7] Words from Soviet hymn