

[12] Friedman Conversation 9-20-04

From: Milton Friedman
To: Gordon Brown
Subject: Re: Step #3 Update--9-16-04
Date: Monday, September 20, 2004 10:23 AM

Claudia and Gordon: Herewith a few comments in bold print [red highlight].

Professor Friedman,

Here is my Step #3: Implications Regarding My Preference for “Correlation” over “Causation.”

For me, the idea of “causation” becomes a slippery slope, and I intend to avoid using the concept in my deliberations. In its place, I will rely on the concept of correlation. As I see it, this enables me to avoid both the bias toward determinism and the mysticism associated with the notion of causation.

However, there are three concepts frequently employed by free-market economists that seem to be tied to causation and, as I see it, therefore indirectly linked to determinism: (1) the primacy of democracy; (2) doing what you do best; and (3) invoking the invisible hand. Although my approach will not be relying on them, the purpose of this particular update is to share with you my concerns with these three concepts (with slightly modified headings) and the reasons for their exclusion.

1. Individualism, and Not Democracy, is the Fundamental Principle

With individualism, the goal is to maximize individual freedom. Democracy, on the other hand, is simply one of many tools which can be used to implement and maintain a policy of individualism. As a tool, democratic procedures can be used to maximize individual freedom by: (a) providing a means for establishing those policies thought to maximize individual freedom; and (b) creating a hurdle for those in government who would use their office to suppress individual liberty (I am thinking of the “public-good” and compulsory-union advocates). The point is that democracy unyoked from individualism can be ruinous; while democracy, subordinately yoked to individualism, can be one constructive approach for establishing and preserving individual freedom. This focus on the individual brings us to the next point.

We very much agree though my way of putting it is somewhat different. The ideal political principle for a free society is unanimity. Democracy, generally interpreted as majority rule, is an expedient, as are super- or sub-majority rules. An expedient is needed because of the costliness of getting unanimity.

2. “Let Every Country Do What It Does Best”—A Possible Problem

If interpreted at the national level, there seems to be little room for individual decision making. Once a government decides what its country could do best, there would be considerable pressure for each citizen to support the national interest.

The law of comparative advantage is a scientific conclusion of what will happen under free trade among individuals seeking their own interest who are well informed. It has nothing to do with government decision of what a country can do best. It has precisely the same relation to the issue of free will and determinism that the law of gravity does.

If interpreted at the individual level, surely, the actions of others will significantly impact on one's choice of action. Even if, at some point in time, every individual were free to choose, eventually a system of “what the country is best suited to do” would emerge, and this determination would exert considerable pressure upon individual decision making. And, most significantly, there is that sticky problem of determining the basis on which an individual decides what he/she can do best. Is that determined? This brings us to the third point.

3. “Invisible Hand of Self Interest”—Does It Do the Job?

At issue is the basis for establishing self interest. What is it that gives rise to the self interest? If able to do anything you want, what is it that gives rise to your wants?

Here is Smith's invisible hand quote:

“...every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good.”

The invisible hand is the market; self-interest is the fuel as it were.

As for Adam Smith and others, the answer is to postulate an “invisible hand of self interest.” As I understand this point of view, it is believed that if everyone were free to act in their own self interest, and did so, the “Hand” would invisibly guide the self-interest choices of every individual to form a most productive society. Said another way, it is as if each individual were programmed to be compatible to a master program which would

maximize material benefits. This appears to be a formula for “feeling free” without “being free”; and, as such, is simply another variation of determinism. What we have is a concept of a domineering government being replaced by a domineering system of “self interest” residing within each individual. The distinguishing characteristic is that the guiding force is to be found by looking “inward” rather than “outward.” As for looking inward, the notion of “wants” guided by an “invisible hand” can be seen as similar to: (a) Skinner’s description (*Beyond Freedom and Dignity*) of individual behavior being guided by the [invisible] laws of reinforcement; (b) the ancient prescription “to thy own self be true”; and (c) the contention that “the invisible hand of self interest” is what some people would call “the invisible hand of God.” For me, all of these invisible—yet controlling—forces tilt the scales toward determinism rather than free will and individualism.

In order to take individualism seriously, the *sine qua non* appears to be that of describing an intelligible concept of free will. This is the challenge and, in about three weeks, I will share with you how I have approached the task of addressing the notion of free will in a way that embraces free-market thinking.

I will be interested in that.

As always, please feel free to make or not make comments; whatever suits you.

Sincerely,

Gordon