

[28] Friedman Conversation—5-31-05

From: Milton Friedman
To: Gordon Brown
Subject: Re: The Conversation -- My Closing Summary and Conclusions
Date: Tuesday, May 31, 2005 2:07 PM

Dear Claudia and Gordon:

My apologies for having been so slow to reply to your earlier missive. I am now replying to your latest one of May 26. I appreciate the tone of that missive as of the others and am impressed that you have done an excellent job of summarizing the state of our conversations. Let me comment on it point by point.

Start with your first point, "Collectivism." I do not agree that collectivism is based on a philosophy of knowable truth. In those terms it is rather based on known truth, known to at least one group. Alternatively, it could be said to be based on a philosophy of might makes right where might may be achieved in some cases by persuading a major part of a population that the holders of power know the truth.

One could equally say that individualism is based on a philosophy of knowable but unknown truth. The crucial distinction seems to me to be known versus unknown rather than knowable versus unknowable. Indeed, I have a little difficulty knowing what an unknowable truth would be. Similarly with causality. *Post hoc ergo propter hoc* ["after this, therefore because of this"—the fallacy of arguing from temporal sequence to a causal relation] is a fallacy but that does not mean that there is no such thing as causation. Just as I have difficulty in knowing what an unknowable truth would be, I have difficulty in knowing what an uncaused event is.

The fact that some people have more knowledge than others does not logically imply that some people should be given control of other people. It does not logically imply collectivism. The reason is because the person who has more knowledge does not have complete knowledge. He may still not have a particular bit of knowledge possessed by the person who has less knowledge. The real problem of social organization is to enable all the knowledge to be used in order to enable men to cooperate most effectively. The virtue of a market system is precisely that it enables the bits of knowledge that people separately have to be combined presumably in an optimal way.

This point is best developed in a famous paper by Friedrich Hayek, "The Use of Knowledge in Society" (American Economic Review, September, 1945). Finally, the individualist bottom line could be stated from a "knowable external truth perspective." It could be seen to follow that a free market economy is the only way in which the bits of knowledge of knowable external truth possessed by various people can be combined in

order to produce the most effective cooperation among the people, some of whom have knowledge that others do not.

I have great difficulty with your Part A. Causation is a very tricky concept and I have always tried in my writings to steer away from it if I could, to avoid it, but I cannot conceive of a world without causation. In almost every act we take, however trivial, we are relying on some concept of cause and effect. You decide through an act of free will to turn the faucet to get a glass of water to drink. You do so because you believe that turning the faucet will cause water to flow. That is a very superficial and proximate description. The cause of the water flowing is connected with the existence of a tank, with the plumbing and so on that brings the water from the tank to your faucet. There are many levels of causation starting from the proximate level to deeper levels. I do not know how to combine logically a belief in causation on the one hand and a belief that it does not apply to every event, that there is free will, and determination is not an acceptable hypothesis.

With respect to your Point B of the third point, that is a misunderstanding. I do not and never have believed that economic interest is the whole of self-interest. I have repeatedly emphasized in what I have written that self-interest is much broader than pecuniary self-interest, that Mother Theresa was serving her own self-interest just as much as a businessman who seeks to maximize his pecuniary profit. What is often the case is that it is easier to see the implications of pecuniary interest than it is to see the implications of other items of self-interest. The one lends itself to precise calculation in a way that other kinds of self-interest do not.

With respect to your Point C, Adam Smith's invisible hand, the invisible hand is competition which leads to coordination. The problem for every society is how to get different people to coordinate their activities and work together. It is not obvious what is the best way to do that: the way of the army from the top down or the way of the market from the bottom up. The market mechanism of competition is under special circumstances the best way to achieve such cooperation but not always. There are market failures. I think Smith would have viewed his invisible hand statement as a scientific discovery, as having learned the way the world works.

In conclusion, I have enjoyed this discourse but I do believe it is time to bring it to an end.

Sincerely yours,

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