

The Cold War between state-sponsored Soviet socialism and the Western world's capitalism led to a conclusive victory for the Western world's capitalism. As communism fell, politicians and scholars of all stripes came up with a similar conclusion that liberal-democratic capitalism was the only game in town. "There is no alternative", this was the famous quote by Margaret Thatcher.

This is an insight that has been continuously challenged for a decade since the financial crash that happened in 2008. In the United States, the self-declared "democratic socialist" called Bernie Sanders is part of the leaders to guide the Democratic party into the 2020 presidential election. Books that consists of the title like Communism are the bestselling books on Amazon. The notion that the state can and has a duty to play a role in the economic world of our societies is now in vogue.

All that would have troubled Milton Friedman who is one of the twentieth-century economists and is closely related to the dispute that economic freedom is the only guarantor of political liberty. As he viewed it, the road to hell is really smooth and it has good purposes. What starts out as an assurance to address market imbalances ends up supporting monopolies, damaging standards of living and unexpectedly increasing inequality.

Both economic and political freedoms are reliant on a small, decentralized government.

Mostly in schools, economics and politics are taught separately. We usually learn that economics is all about material well-being, whereas politics is about individual freedom. Follow that method to its rational conclusion and you will soon end up with the notion that any political system can be joined with any economic system.

However, that is a mistake. In reality, you can't combine the state-led socialist economy of the Soviet Union and the individual political freedoms of the US to form a kind of "democratic socialist" society. Why can't you do this? This is because economic and political freedoms are really interdependent and if you limit the former, the latter also limits.

Just think about a hypothetical British holidaymaker in the repercussion of the Second World War set on having a vacation in the US. As he goes to book his travel, he noticed he can't afford the trip due to the government's capital controls which means that sterling is undervalued compared to the dollar.

Now, relate that to the case of an American citizen who isn't permitted to visit the Soviet Union because she holds pro-capitalist opinions. In both cases, restraints on both economic and political freedoms have the same effect as they hinder individuals freely chasing their own dreams and destinies.

This means that you require a system that assures both the economic and political freedoms we need to succeed. That system is known as free-market capitalism. Let's take a closer look at how this works in practice.

The key thing is that the government's duty in this ideal society is strictly limited. Its aim is to assure basic law and order instead of overstepping upon our individual freedoms. Think of it as creating rules of the game. Buying and selling is a basic economic freedom and we have the right to use it how we want. On the other hand, the government only has one duty which is to impose individuals' property rights and protect them from theft and extortion.

When governments limit themselves to this role, the free market can be in charge of how people want to live their lives, what they want to buy, sell and most importantly, who they want to be.

Increasing government spending doesn't lead to economic development and expansion.

You are likely to have heard politicians arguing that the governments have to intercede in the economy in order for it to function well. Also, you might have come across the idea that free-market capitalism is naturally unstable and it leads to financial predicaments when it is left to its own methods. Both notions are common among advocates of big government, however, they are deep-rooted in bad economics.

In order to understand why this is so, we have to consider where they came from. In the consequence of the Great Depression, a new agreement arose. Economists started arguing that increasing government spending with an eye to fixing market contradictions was the best approach of supporting stability. This goes down to a theory that was supported by John Maynard Keynes a British economist that for each dollar the government spends, it creates another dollar of increased wealth for private individuals.

This is known as the Keynesian balancing wheel of government spending. There is just an issue with this; it doesn't work in the way it's supposed to work. When private spending reduces, the followers of Keynes' claim that the government needs to intervene and do their own spending to sustain economic balance. However, in reality, these programs unavoidably take a long time to roll out which results in different types of unintended results.

For instance, using such programs regularly takes just as much time as it did to get them to start functioning. This means that they are still in place even after the economy has recovered and people are being taxed to cover an irrelevant policy that sucks value out of the economy.

That is a typical example of the ability of Keynesian economics to tackle problems in theory which they can't solve in the real world. The theory isn't just capable of forming the circumstances for its own success. Using the argument that government spending increases individuals' spending. The behavior of large groups of people is so complicated that it is impossible to precisely predict their actions. It was suggested by the Evidence from the Great Depression that a lot of people reacted to such policies by saving instead of spending money!

The government should perform a much more restricted role in monetary policy than it does presently.

This isn't the only approach of the governments intervening in markets, there is also monetary policy. However, the result is still the same, the more the governments intervene in economic life, the worse the outcome.

Consider the Great Depression. The severity of the disaster was intensified by the government's mismanagement of the money supply by the Federal Reserve which is the US central bank. Between July 1929 and March 1933, the money supply reduced by a third. The Federal Reserve had control in making policy but they decided not to do anything. That mistake changed what would have been a minor contraction into a huge crisis.

Hence, what should the Federal Reserve have done? If it had stuck to a more narrowly defined and certain role of simply maintaining the money supply, the Depression wouldn't have been very extreme. Rather incomes and prices dropped by over 30% during 1929 and 1933.

This means that it is essential to restrict the Federal Reserve's duty in the future in order to avoid the repetition of such crises. Instead of giving a small number of bureaucrats the power to regulate monetary policy as they want, the central government's duty in economic life should be restricted to broaden the monetary supply by a fixed and predictable amount every year.

This would hinder governmental meddling in markets and restrict state lending as well as an investment; hence eradicating the instability caused by the government's interference in the economy. A realistic target would be a 3 -5% increase annually, although it is small but the positive amount should be permanently fixed.

Even though the government must have a part in education, it should be restricted.

The majority of the people approve that governments play a genuine role in education. Although this is true that state education offers society an effective labor force and governments should limit their concentration to "K-12" schooling which is education from Kindergarten to twelfth grade.

Why is this so? This is where the neighborhood effect comes to play. This is the method of explaining how individual behaviors affect the other person irrespective of whether or not they have consented which can be either positive or negative. In this situation of K-12 schooling, the neighborhood effect is clear: a society that is educated profits everyone to a much greater

degree than living in the society that is uneducated. If people couldn't read, write or solve basic calculations, social life would crumble.

However, once you develop beyond the last year of high school, education becomes much more niche and the neighborhood effect doesn't work anymore. At this point, the government should stop playing an active role in education. For instance, let's say someone received a Ph.D. in a subject like a particle physics, we can no longer determine if such a subject profits the society the same way that basic literacy does. As a matter of fact, it essentially assists individuals with a degree. It's difficult to explain why the government should tax everyone to fund such educational programs.

With that being said, the government also needs to change the way they cover the costs of K-12 schooling. Presently, children are forced to go to local schools that are run by funds from direct taxation. A better approach to doing things would be to establish a voucher system where every family gets an allocated amount of money per child which they could use to pay for a school they like.

This would enforce schools to compete with one another in the market place instead of depending on government subsidies. This will not only improve efficiency and reduce cost; it will also create an improved curriculum. Presently, governments decide what children learn, however, there is still a lot of consensus about what young kids should be learning and it isn't really clear what teenagers should be studying.

In a market system, this would be determined by the community's needs. Schools with the best curricula would gain more students and hence set a new market standard in which other schools would follow.

Government intervention mostly leads to irrelevant monopolies.

Monopolies happen when companies have so much control over a particular product or service that they can conclude the price it's being sold for instead of the free market. This makes monopolies the crucial enemy of economic liberty. Therefore, how does this emerge?

The cause of the problem is the lack of competition in markets. However, let us define the concepts here. In a free-market capitalist economy, "competition" isn't about mindless rivalry which is the longing to win opponents or chase them out of the market. Instead, it is about the number of options in economic life. A healthy, competitive economy is one where individuals have various options about what goods and services they wish to willingly exchange.

Now that we understand what we mean by competition, let us look at monopolies. They commonly emerge in one of the two approaches.

First of all, there are monopolies that emerge as a result of technical limitations. This covers circumstances in which having various companies in one sector is simply impractical. For instance, imagine water or electricity services, it isn't practicable for competing companies to lay their own pipes or cables in every city.

These monopolies may be unavoidable, however, it doesn't mean that they should be controlled by the government. As a matter of fact, it is better when they are controlled by unregulated, private sector companies. This is due to the fact that government monopolies are much less accountable when they don't follow the rules. This is the reason they are supported by state power.

Distortionary government aid like tariffs can also lead to the occurrence of monopolies. Consider steel tariffs. If a government sets a tariff on foreign steel imports, it removes competition in the steel industry as a whole. This can establish the perfect circumstances for monopolies to occur. The absence of competition leads to private collusion as various providers combine forces to set the price of goods and services.

If the US implemented tariffs on foreign steel, US steel manufacturers would only have to scheme with one another instead of their worldwide counterparts. This would significantly reduce the bar on monopolistic behavior.

Income inequality is an important part of society.

In past societies, people were born into a class or status that determined the type of work they could do. This meant that it was almost impossible to earn huge amounts of money. However, capitalist society is different. Anyone can do whatever job they like. Due to this, people have access to much more higher incomes. This forms the circumstances for social mobility and a wealth of opportunities which are characteristics that are exceptional to capitalist societies.

However, if people are really free to choose their work and destinies, the government has to stop policing and redistributing income. There is a good motive for why some occupations are more compensated than the others. People who work in hard and unpleasant jobs deserve more payments than those in comfortable positions. When the government regulates incomes, fewer people will want to do these hard jobs which then leads to labor shortages in different economic sectors.

Hence, what is the alternative to such intervention? A good start would be to eliminate progressive income taxation and change it with a flat rate system. The redistribution of wealth through progressive taxes is created to decrease income inequality and unequal standards of living. However, here is the issue, it is built on a misunderstanding of "equality."

Income redistribution only affects equality of outcome meaning the size of your salary. A sincerely free society, by contrast, lay emphasis on the equal opportunity or on our equal capability to make something of ourselves by hard work. Redistribution favors one social group, in this situation, the less well off are more favored which causes inequality of opportunity. The other outcome of such a policy is that it disincentivizes individuals who work in complex, well-paid jobs; hence, damaging innovation.

A flat-rate system would always avoid these problems. Every individual would pay a fixed amount of their income to the government. That wouldn't just address inequalities of opportunity alone; it would also improve the government revenues as it would remove the complex system of loopholes typical of progressive income tax codes.

Inefficient social welfare programs should be changed with strategies such as a negative income tax.

Social welfare programs regularly claim to decrease inequality. But constantly, they have failed to succeed in their stated aims and they end up making the society less egalitarian.

Consider public housing as an example which is controlled by an ineffective bureaucracy, instead of effectively maximizing market houses; public housing programs do not only decrease the overall supply of housing, it also restrains poor people to a small number of unsafe neighborhoods.

However, that is not even the worst of it. Social security policies that force individuals to pay for old-age insurance all through their lives are even more destructive. Why is this so? Two important reasons can be used to explain this. Firstly, it's mainly a redistributive tax, since rich individuals will pay more during the course of their lives. Secondly, it is very paternalistic in its assumption that individuals can't be trusted to save enough money on their own for when they retire.

Both of these reasons make such policies inappropriate for freedom-loving capitalists. Rational adults shouldn't be treated like children who can't care for their own welfares!

This means that its time for the governments to remove these ineffective, taxpayer-funded welfare programs. Such programs should be changed with a negative income tax to help decrease the burden on the poor people of the society.

This is how it would work. All government welfare systems would be terminated. Anybody who fails to make a minimum level of income would get a direct cash payment from the government. This would relieve poverty in the most effective approach because it would restructure the government and stop the high budget bureaucratic departments to oversee welfare programs. However, taxpayers won't be required to pay much of their income into the system and this will increase the productive circulation of money in the economy.

Also, it is essential to remember that putting the state back wouldn't leave a void and there are charities and philanthropists. As a matter of fact, charities that are run privately are liable to market pressures and are frequently more effective and active in giving assistance than slow and ineffective government departments.

Essentially, letting people decide how they spend their excess income would reserve their individual liberty which is something egalitarian, progressive income taxation systems cannot do.

Capitalism and Freedom By Milton Friedman Book Review

Milton Friedman's classic words on economic and political liberty are based on the notion that society has become keen on egalitarianism and this has sabotaged liberty.

Expensive and huge governmental endeavors to intercede in the economy and redistribute resources are not just exceptionally wasteful. But, it also creates different types of unintended results. Friedman concluded that preventing the state and giving people more choices will lead to best results such as economic stability, individual freedom, and protection for the least well-off.

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