CAPITALISM, FREEDOM & PHILANTHROPY

MILTON FRIEDMAN (1912-2006)

BY ALLEN R. SANDERSON

Next year will mark the 100th anniversary of Milton Friedman's birth. Awarded the Nobel Prize in 1976, the 200th anniversary of the publication of Adam Smith's *Wealth of Nations*, he will share, with John Maynard Keynes, the title as the most influential economist of the 20th century. 2012 will also be the 50th anniversary of the publication of *Capitalism and Freedom*, the volume for which Friedman is perhaps best known. (Disclosure: I was a student of Friedman's at Chicago in the 1970s, and we stayed in touch over the years. I regard it as an honor to have gotten to know and learn from him.)

Although Friedman's contributions were of great importance, such as his writing on monetary theory and advocacy of flexible international exchange rates, others were also controversial—privatizing some governmental activities, a push for a flat-rate income tax, and the area in which he devoted much of his energy late in life: vouchers in education.

But for some, it is a 1970 *New York Times Magazine* piece entitled "The Social Responsibility of Business is to Increase its Profits" that was perhaps most galling. In that article, Friedman argued that the CEO does not have the right to spend stockholders' money on anything that does not augment the worth of their investment (which would include, I suppose, expensive office artwork or hiring low-productivity relatives). He ended that column with a quotation from *Capitalism and Freedom* that the corporate executive should pursue "activities designed to increase profits so long as it ...engages in open and free competition without deception or fraud."

(This *Times* essay spawned lively discussions over the years, including rejoinders in the *Harvard Business Review* and a famous roundtable debate in 2005 with Friedman, Whole Foods founder and devout libertarian John Mackey, and Cypress Semiconductor's T.J. Rodgers in *Reason* magazine.)

But Friedman also wrote in *Capitalism and Freedom* that: "I am distressed by the sight of poverty; I am benefited by its alleviation; but I am benefited equally whether I or someone else pays for its alleviation; the benefits of other people's charity therefore partly accrue to me. To put it differently, we might all of us be willing to contribute to the relief of poverty, provided everyone else did. We might not be willing to contribute the same amount without such assurance. In small communities, public pressure can suffice to realize the proviso even with private charity. In the large impersonal communities that are increasingly coming to dominate our society, it is much more difficult for it to do so."

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It is this important "free-rider" aspect that creates, even for Friedman, a legitimate role of government when it comes to coercion and income redistribution. The principle of free-riding is also the reason that the retorts against Warren Buffett and other capitalists who advocate that they and other rich folks ought to be paying more taxes—"Ok, then let them write their checks to the IRS if they want to pay more taxes and leave me alone!"—ring hollow and are disingenuous: because the rest of us could free-ride off their generosity. (It is also one reason that the Pentagon budget is so large—NATO nations have figured out how to free-ride on security. Ditto for other nations and U.S. medical research. And don't get me started on China!)

But it is equally important that government at least follow the Hippocratic Oath and engage in ethical behavior and do no harm. For example, as many scholars and practitioners have noted, our tax codes currently provide deductions for charitable contributions, yet that is implicitly a much greater subvention for the rich than for lower-income givers. One can craft an argument for subsidizing gift-giving to cultural or educational institutions—and to churches and charities—but not by income level!

One private-market contribution economists can make, as in research by my colleague John List, is to determine what incentives in the form of matching—1-to-1 v. 2-to-1, for example—will tease out the most in contributions (1-to-1 works just fine and is less costly) and how to start the giving-ball rolling in the first place (personal solicitations by friends and co-workers).

By harnessing our creative energies into finding ways to "do good" while at the same time to "feel good" about our compassion and personal actions, we can better assist those in need and bolster institutions that enrich our lives and our society. And Milton would certainly concur. ❑