

# Inequality in and beyond Friedman

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In *Capitalism and Freedom*, Milton Friedman argues that the distribution of wealth caused by market forces and capitalistic exchanges is both just and desirable. While acknowledging that these mechanisms will cause inequality, he says that this equality is a necessary and acceptable consequences of the types of freedom that capitalism allows, while attempts to solve this inequality “problem” result in even more injustice. However, much of his argument consists of appeals to intuition, unbacked by a thorough treatment of the issues involved, and as a result leave many of the issues open for question.

The particular area I will address in this essay is causes of inequality and their justification. The notion of equality will be expanded to include an equality in means, which I consider essential. The particular view held by Friedman is based on certain assumptions of the nature of the causes of inequality, which I believe to be incomplete.

Inequality among people takes many forms. Inequality may be the differences between people in themselves: their different knowledge, skills, or opinions. However, these inequalities are a direct and necessary consequence of liberty of opinions and pursuit. While one person may find it useful to know the details of justice theories, if another considers his life equally complete without such knowledge, it is no one’s place to legislate that knowledge.

The sort of inequality with which a system of justice must concern itself is inequality in standards of living. This includes levels of comfort, the degree to which one’s capital exceeds ones needs. It must also include more difficult aspects to measure, such as happiness and self-respect. This is not to imply that it is the government’s duty to ensure the happiness of its constituents; rather, the government must ensure that it is possible for individuals to pursue these independently. In other words, the most important equality or inequality is in the range of choices for occupation and education available to someone. I will consider this point more elsewhere.

Inequality is perhaps the most important problem of justice, and this list of “important” inequalities fails to accent the full range and classifications of inequalities, an understanding of which is essential for judging any system of justice. A just society is one in which only “legitimate” equality is found. The question of causes of inequality needs a plan of attack.

In his Metaphysics, Aristotle classifies causality into four types— for every effect, there are four questions which might be asked embedded in the question, “Why?”. An effect has a *material cause*, the necessary substrate out of which the effect is built. The effect’s *formal cause* is the features which characterize the effect. The *efficient cause* is the reductionism process that produces the effect. Finally, the *final cause* is the purpose of the effect or the meaning behind the effect’s happening.

Similarly, the meaningful cause for inequality can have these four forms. First, the material cause for inequality is what inequality is made out of: the distributions of capital, responsibility, and choice. Between a wealthy CEO and a poor laborer, the material cause of their inequalities is the wealthy man’s wealth, or the laborer’s poverty against his needs.

The formal cause of inequality is that different people have different amounts of capital, responsibility, and choice. Specifically, they have these things as a matter of contracts which designate that they have the right to use and reap the rewards of some thing and not others, and the right to do some things and not others. The particular contract that Marx, for example, was interested was that between the laborer and the owner of the means of production, which is designed to increase inequality rather than decrease it.

The efficient cause of inequality is generally accepted to be the freedom among owners of resources to exchange property rights and give gifts. This also includes the gifts of inheritance and genes. In fact, if two things of equal value are exchanged, their owners are as equal after their exchange as before it— it is only the amount by which one gives the other a gift that inequality arises. The difficult here is when lack of information or coercion causes one to give the other a gift that they would not otherwise want to give.

The final cause of inequality is greed, in both its active and passive forms. In its active form, greed is the pursuit of wealth beyond need and to the detriment of others. Passively, greed is the force which causes the well off Robinson Crusoe to refuse to let the others onto his island. In a more general sense, the cause of inequality is any value differences which would cause people to pursue property to different degrees, as with Friedman's examples of tastes in leisure and marketable goods.

In summary, the causes of inequality are property itself, contracts, unequal exchanges and inherited differences, and value differences. Friedman uses a different collection of sources of inequality. Friedman mentions "ability" or "personal endowment", "initial resources" or "inherited wealth", "taste" in pursuits, and "chance" or the "lottery". The first two are part of the efficient causes of inequality, while the third is a final cause of inequality. Random chance, by definition, cannot be explained or be said to come from any other meaningful entity, so it is also most properly called another efficient cause of inequality, rather than material or formal (and it certainly isn't a final cause).

Friedman also addresses the other two causes, though less thoroughly. For the material cause he says only that the concept of property, which is necessary to the capitalist ethic, is considered along with that ethic "even [by] the severest internal critics of capitalism... as ethically fair" (167). As for the formal cause of contracts, Friedman notes that "a universal 'potlatch' would make a civilized world impossible" (165). That is, without contracts, to make expectations between people concrete, people would not be able to effectively work together.

The efficient cause is the one Friedman is most interested in— the one to which he reduces all of the others. Inequality exists because the individuals who make up society act in certain ways, and for no other reason.

Friedman claims that a deceptively large amount of inequality is the result of random chance. The most obvious cases of random chances are like Friedman's examples of the lottery, Robinson Crusoe, and the \$20 bill on the street. The result of such situations truly can

be absolute misery for one person and lifelong joy for another. Inheritance and innate abilities are also equivalent for their recipient, who was born to one set of parents rather than another by no merit of their own. Friedman also suggests that tastes in risky pursuits and value differences should also be considered the result of inherited starting capital and genetics (“these qualities owe much to the genes he was fortunate (or unfortunate?) enough to inherit” (166)).

In essence, Friedman’s capitalistic ethic is the claim that all injustice is efficiently caused. To explain this statement, I will consider each of the three major tenets of the capitalistic ethic in turn: (A) property rights include entitlement to all the products of that property, (B) payment should be given in accordance with product, (C) inequalities due to starting resources, innate ability, value differences, and random chance are all legitimate.

Friedman describes the capitalist ethic simply as “to each according to what he and the instruments he owns produces” (162). Property rights are absolute and complete. If the instrument is a factory, and he manages to convince workers to work for him for less than their work might otherwise be considered “worth”, the better for the factory owner, and the laborer gets exactly what he deserves. If someone finds himself in possession of something desired by others, he need take no one’s interests but his own into account in deciding what to do with it. He means that each person should be given exactly as much as the contracts he has personally entered decree.

This tenet marks the ethic as fundamentally *external* and *immediate*. The rights of an individual can be determined easily without really any consideration of the individual himself. Nor does it need information of history or subsequent, unless either of these contain injustice (such as property by theft). These are useful, if not necessary, for the discussion of people as efficient causes.

Secondly, Friedman advocates what he calls payment in accordance with product. In other words, owners of property have the right to exchange it for exactly as much as others are willing to pay for it. This mechanism assumes that people can be full owners of capital, and

also full owners of the medium of exchange, which is part of the first tenet. It would be more wrong, argues Friedman, to pay to people of unequal activity toward product-making the same wages, so people should be paid instead on what they make. Payment in accordance with product, according to Friedman, is “equalizing,” allowing men with different levels of risk avoidance and tastes in their ratio of leisure time to work time to get what they deserve.

This further objectifies the ethic such that judgments can be made entirely on the basis of the outputs that come from a black box surrounding each person. Also, consumers are now properly considered as a system whose interaction with the producer takes place only through his products.

Finally, that inequality among people is in the absence of misdealings just “all the way down”. One finds oneself in a initial situation with a certain inheritance of property and of innate abilities, and Friedman says that the question of whether the situation is truly just is mute because “two wrongs do not make a right” (165). In other words, the justice of the initial situation is difficult to determine, and our intuition is not a sufficient guide, but the coercion necessary to “fix” it makes the fix decidedly wrong. This is a natural consequence of the other two tenets. Illegitimacy might still come from the breaking of contracts, trickery, theft, and coercion, but not through the playing out of any contracts people freely choose to enter.

Random chance invariably results in one having undeserved desirable, which can only redistributed by removing them from that one’s possession, which can only (in the general case) be done by using coercion. Coercion might only be in the form of a limiting of options, but it is nonetheless penalizing an individual for the something not his fault.

There have been various responses to this problem, each of which amounts to the further acknowledgment of the range of causes of inequality. Equality of treatment, for example, is the idea that although value differences and random chance are legitimate sources of inequality, starting resources and potentially innate abilities are not. In other words, inequality for which the agents can be considered responsible (due to choices made by value differences)

are the only reasonable sources of inequality. Chance is allowed because it is impossible to disregard in a society where risk and personal choice are possible. However, starting resources (and innate abilities in Rawl's theory), which one might find in one's possession by no fault of one's own, are to be "covered up" as much as possible (through redistribution and law-created incomplete ownership).

This doctrine relies on the idea that value differences are a matter of choice, and as a result are justifiable in a way that chance cannot be. In other words, purely efficient causes (causes that involve no choice) which have beneficent results are unjustified. If inequality is caused purely by efficient causes, the moving around of money, without a final cause to back it up, it is illegitimate.

Friedman has both a weak and a strong argument against the equality of treatment. The weak one is that inheritance and innate abilities are ethically identical, so a system which distinguishes between them does so without foundation. Our intuition might be tempted to believe that the person born with an talent for music should be able to take full advantage of that talent, while one who was born to rich parents has no inherent right to the wealth in which he finds himself. Even if these two cannot be distinguished, equality of treatment remains reasonable in the sense developed by Rawls. Friedman's stronger claim is that all of the sources of inequality are largely unjustified and based on randomness. Even a person's tastes and their risk avoidance is a function of their origin, both the economic conditions of their upbringing and their genetic tendencies. Given that, no distinction can be made to support an equality of treatment system. This argument requires Friedman's claim that all causes of inequality are efficient.

Marxism is another response which places the fault of inequality on the either the formal cause or the material cause: the making of contracts to exchange property. If property is not something attached to an individual, such that he does not have the right in the first place to give it to someone else or be coerced out of it, the problem of inequality can be solved systemically.

Friedman's remarks against Marxism appear unconsidered. Friedman complains that Marx's argument against the exploitation of labor is based on capitalistic assumptions. However, the argument can be made on either grounds. Labor fails to get what it deserves under capitalism if one reasons that the production of marketable goods by a laborer for a owner of means, by the payment by product principle, should decrease inequality between the two if the owner of means does nothing. (Note, Friedman would disagree with this, by tenet (A) of his ideas, but the statement stands on the grounds of its ethical appeal.) Also, despite Friedman's belittling comment of the fuzziness of the definition of need, it is not an naturally confusing concept. If a laborer is getting to little food to be well-nourished, inadequate shelter, or dirty living conditions, his needs are not being met. This is the Marxist assumption, and it also fails in far too many cases to be satisfied in a capitalist society.

The question one can then pose to Friedman is, is inequality from efficient causes complete and legitimate? That is, can it be said to be legitimate or illegitimate only on efficient grounds?

First, is inequality from random chance alone legitimate? Say that two people freely decide to bet \$20 on the flipping of a coin, such that one gets the money on the coin landing heads, the other for tails. The coin is flipped; it lands heads up. The first person takes the money. The second person is sad. However, the second person *cannot* say that it is wrong for the first to get the \$20. The distribution that results is neither equal nor fair, but is just.

Consider, this time, that a third party has decided that the two will enter into this lottery. Ten dollars is removed from each through coercion, then all twenty given to one of them. This can only be considered just by intellectuals trying to artificially justify capitalism (and rarely even by them). In this case, the injustice is done by the coercer, for taking the property of another.

The problem is in the case where there is no one to blame— no unjust action was done to create the unequal result. This is true in Friedman's examples of the four Robinson Crusoe's and the discovered \$20, as well as in cases like inheritance of wealth and innate abilities,

where coercion can not be attributed to any of the parents involved. Inheritance and genes are like gifts, and even in a society which has no concept of property, the parents have a naturally and unredistributable ability to gift their children with innate endowments like their own.

Take an example where something which innate abilities are universally needed, such as if it found that the blood of those people who are immune to AIDS could be used to cure others. It inconveniences those with the blood only marginally, while saving the lives of others. By utilitarian principles, coercing them into giving blood is the right action– but this does not mean that it is the just action. Yet, can it be called just that one person die in pain and suffering while another undergo no suffering, where the choice of which was to suffer was made randomly?

These intuitions are based on a concept of responsibility which is missing in Friedman. Responsibility for inequality is the final cause of inequality. It also allows inequality to be “deserved” (in contrast to random chance). There is a reason why any given person has the inequality that he has. Those reasons can be unjust, but they cannot be unjustified. In as much as they are unjustified, they are like random chance. Every transaction of equality includes both deserved and undeserved aspects: reasonable aspects and random aspects.

Milton Friedman’s rejection of Equality of Treatment leaves unresolved the relationship between inequality and justice. The capitalist ethic, which claims that all self-motivated sources of inequality are legitimate, only acknowledges certain sources of inequality, specifically those which are efficient causes. However, this understanding leaves out the choice which is essential to human affairs and justice as a whole. Until a theory of justice considers all of the classes of sources of inequality, it cannot be complete.