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Milton Friedman on Income Inequality

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There is a certain tension in Milton Friedman's views on the issue of freedom versus equality, which was much more nuanced than is commonly assumed. On the one hand, he argued that economic policy should focus on freedom as a primary value; stressing equality *per se* could lead to economic inefficiency as well as jeopardizing freedom itself. On the other hand, he famously advocated government-sponsored poverty alleviation by way of the negative income tax, a form of income redistribution that is inconsistent with his general theory of the free-market economy. His justification for this policy, however, was not on egalitarian grounds. Rather, his main motivation seems to have been compassion.

Introduction

> A society that puts equality—in the sense of equality of outcome—ahead of freedom will end up with neither equality nor freedom.… On the other hand, a society that puts freedom first will, as a happy by-product, end up with both greater freedom and greater equality.[1]

It seems pretty obvious where libertarians stand on the question of freedom versus equality, and this quotation from Milton Friedman sums it up quite clearly: Libertarians believe that we should be concerned about freedom, and nothing else. If we aim for freedom, we will also get, indirectly, a good measure of equality as part of the bargain, but that is a bonus; if we aim for equality directly, however, we will lose liberty, and we will not get equality anyway.

Whether Friedman was right or not—that is, whether capitalism does in fact result in less inequality, as he claimed—is a question that presumably can be settled by research. The intriguing question, however, is why a libertarian such as Milton Friedman should be concerned with inequality at all. Note the phrasing of our initial quotation. Rhetoric apart, why would both greater freedom and greater equality be a happy byproduct for Friedman, unless he valued equality for its own sake as well as valuing liberty? Of course, we know that he probably valued the latter much more that he did the former, but, still, the phrasing is subtle and suggestive, and his views on this subject might bear a closer reading.

Friedman's Case Against Equality of Outcomes

Friedman's views on income inequality are most clearly stated in *Capitalism and Freedom* (1962) and in *Free to Choose* (1980), his two major popular books. In both works, he starts out by arguing that we should indeed be unconcerned about income inequality in a free-market economy, and he provides three major reasons: (1) Some degree of inequality is actually desirable in any well-functioning economic system; (2) in any case, a certain degree of inequality is unavoidable under an economic system based on free-market principles; and (3) the actual degree of income inequality in observed market economies, such as the United States, is much less than is commonly assumed (especially when compared to income distributions in nonmarket economies).

Regarding the first two points, Friedman expresses the ethical principle behind the distribution of incomes in a market economy: "To each according to what he and the instruments he owns produces."[2] That is, and to use a bit of economic jargon, in such an economy, individuals are rewarded in proportion to how much the factors of production under their control (including their own labor) contribute to total economic output. Incomes, in short, derive from property ownership and/or from work performed, and because individuals will differ in tastes and preferences, including relative preferences for leisure and for risk-taking, the principle of "payment in accordance with product" will necessarily result in inequalities of money incomes. Such differentials, however, are necessary in order to provide incentives for certain types of irksome or tedious labor and for certain types of risky activities that would not be performed otherwise.[3]

Friedman goes on to note, however, that a large part of observed income inequality is not due to these "equalizing differences," as he calls them, but rather to "initial differences in endowment, both of human capacities and of property."[4] Most people do not regard inequalities due to differences in inherited personal talents and capacities as negatively as those arising from inherited wealth, though Friedman argues that the distinction is in fact untenable:

> Much of the moral fervor behind the drive for equality of outcome comes from the widespread belief that it is not fair that some children should have a great advantage over others simply because they happen to have wealthy parents. Of course it is not fair. However, unfairness can take many forms. It can take the form of the inheritance of property—bonds and stocks, houses, factories; it can also take the form of the inheritance of talent—musical ability, strength, mathematical genius. The inheritance of property can be interfered with more readily than the inheritance of talent. But from an ethical point of view, is there any difference between the two? Yet many people resent the inheritance of property but not the inheritance of talent.[5]

> Is there any greater ethical justification for the high returns to the individual who inherits from his parents a peculiar voice for which there is a great demand than for the high returns to the individual who inherits property?… A parent who has wealth that he wishes to pass on to his child can do so in different ways. He can use a given sum of money to finance his child's training … or to set him up in business, or to set up a trust fund yielding him a property income. In any of these cases, the child will have a higher income than he otherwise would. But in the first case, [it] will be regarded as coming from human capacities; in the second, from profits; in the third, from inherited wealth. Is there any basis for distinguishing among these categories of receipts on ethical grounds?[6]

As a parting shot, he notes that "it seems illogical to say that a man is entitled to what he has produced by personal capacities or to the produce of the wealth he has accumulated, but that he is not entitled to pass any wealth on to his children; to say that a man may use his income for riotous living but may not give it to his heirs."[7]

These are good points (especially the last one). As an ethical argument, however, most people would probably regard it as rather weak and unconvincing. One reviewer of *Free to Choose*, for instance, had this to say about Friedman's position regarding the distinction between inheritance of property and inheritance of talents:

> The answer to this question is that there is indeed a difference, and moreover a difference that must surely be known to the authors. It is that we do not attach any moral significance to unfairnesses determined by nature, whereas we do attach such significance to those determined by society. No one considers it

> *morally* wrong that one person is handsome and another ugly, but everyone holds it to be morally wrong when two people have incomes which, when compared, offend sensibilities or violate conventions. This is true whether those incomes are equal or not. We are morally outraged when a gangster makes as much as a law-abiding citizen and when a useless citizen has more than a useful one. Thus the moral issue is not that of equality of outcomes at all. It is the character of the arguments that we adduce in favor of, or against, any kind of social determination, be it access to justice, work, income, or whatever.[8]

Friedman himself seems to have been aware of these difficulties. Thus, having made his case, he immediately concedes that it does not amount to a positive *ethical* argument in favor of income inequalities under a capitalist-type system because this requires appeal to some higher value, something beyond economics as such:

> The fact that these arguments against the so-called capitalist ethic are invalid does not of course demonstrate that the capitalist ethic is an acceptable one. I find it difficult to justify either accepting or rejecting it, or to justify any alternative principle. I am led to the view that it cannot in and of itself be regarded as an ethical principle; that it must be regarded as instrumental or a corollary of some other principle such as freedom.[9]

"Payment in accordance with product," as he puts it, is necessary for allocative efficiency in a market economy, but this is not in itself an ethical criterion. It can *explain* income differentials, but it cannot justify them. Freedom, on the other hand, *is* an ethical value in its own right. Acceptance of this value, however, implies acceptance of whatever income inequalities that may arise from voluntary market transactions, as well as inequalities due to intergenerational wealth transfers (because these arise, ultimately, from people's freedom to dispose of their own incomes as they see fit).

Income Inequality Under Capitalism (as Compared to Alternative Systems)

How large are these resulting inequalities, and how do they compare with observed income distributions in noncapitalistic societies? This brings us to Friedman's third main line of argument, and here he treads on firmer ground because this is a factual matter, and the facts appear to bear him out.

Given the observed diversity among human beings—in tastes and preferences, in talents and capacities, as well as in initial endowments—it should come as no surprise that the logic of income distribution under capitalism results in significant inequality of money incomes.[10] However, Friedman points out, "[t]his fact is frequently misinterpreted to mean that capitalism and free enterprise produce wider inequality than alternative systems and, as a corollary, that the extension and development of capitalism has meant increased inequality."[11]

In fact, income distributions in market economies do not compare unfavorably with those of nonmarket economies, even with those of socialist-type systems that are ostensibly predicated on explicitly egalitarian premises. (Not to mention the fact that *absolute* standards of living are much higher in market economies, so the incidence and extent of absolute poverty is correspondingly much lower.) Thus, Friedman argued that income inequality in the Soviet Union was actually greater than in many capitalist countries:

> Russia is a country of two nations: a small privileged upper class of bureaucrats, party officials, technicians; and a great mass of people living little better than their great-grandparents did. The upper class has access to special shops, schools and luxuries of all kind; the masses are condemned to enjoy little more than the basic necessities. We remember asking a tourist guide in Moscow the cost of a large automobile that we saw and being told, "Oh, those aren't for sale; they're only for the Politburo." Several recent books by American journalists document in great detail the contrast between the privileged life of the upper classes and the poverty of the masses.[12]

In Communist China, income inequality was greater than in *most* capitalist countries:

> China, too, is a nation with wide differences in income—between the politically powerful and the rest; between city and countryside; between some workers in the cities and other workers. A perceptive student of China writes that "the inequality between rich and poor regions in China was more acute in 1957 than in any of the larger nations of the world except perhaps Brazil."[13]

Government Measures to Alter the Distribution of Income

Having stated his general case, Friedman then proceeds to analyze several specific government interventions that are often justified on egalitarian grounds. Though these encompass a broad range of disparate government policies, the nature of his critiques usually can be reduced to two main points: (1) These policies tend to distort incentives, resulting in a less efficient allocation of resources (i.e., economic waste); and (2) they do not in fact result in major reductions of income inequality—indeed, they often have, perversely, the opposite effect.

The *progressive income tax*, for instance, has introduced many distortions in the economy, but it has not had a very large impact on the actual distribution of after-tax incomes. Friedman conjectures that this is partly due to increased inequality in the distribution of pretax incomes (thus partially cancelling the equalizing effect of the tax schedule) but mostly to the effect of loopholes that allow for tax avoidance. In practice, these opportunities are usually available only for large incomes (e.g., tax-free municipal bonds), and their net effect is to reduce the effective tax rates far below the nominal rates. This reduction in effective taxation is achieved, however, "at the cost of a great waste of resources, and of the introduction of widespread inequity" because the existence of loopholes "make[s] the incidence of the taxes capricious and unequal. People at the same economic level pay very different taxes depending on the accident of the source of their income and the opportunities they have to evade the tax."[14]

Public housing and *urban renewal* projects are proposed and defended as a poverty-reduction device, though Friedman argues that the net effect has been to actually *increase* inequality. Although some poor people do indeed obtain better housing, others are merely displaced to even worse conditions because more housing is destroyed than is built:

> Far from improving the housing of the poor … public housing has done just the reverse. The number of dwelling units destroyed in the course of erecting public housing projects has been far larger than the number of new dwelling units constructed. But public housing as such has done nothing to reduce the number of persons to be housed. The effect of public housing has therefore been to raise the number of persons per dwelling unit. Some families have probably been better housed than they would otherwise have been—those who were fortunate enough to get occupancy of the publicly built units. But this has only made the problem for the rest all the worse, since the average density of all together went up.[15]

Minimum wage laws also have a perverse effect on poverty and income inequality, and this effect also involves a sort of displacement. Some lucky workers will get higher wages, but others will become unemployed:

> insofar as minimum wage laws have any effect at all, their effect is clearly to increase poverty. The state can legislate a minimum wage rate. It can hardly require employers to hire at that minimum all who were formerly employed at

> wages below the minimum. It is clearly not in the interest of employers to do so. The effect of the minimum wage is therefore to make unemployment higher than it otherwise would be … the people who are rendered unemployed are precisely those who can least afford to give up the income they had been receiving, small as it may appear to the people voting for the minimum wage.[16]

Farm price supports are predicated on the belief that farmers, as a group, have below-average incomes. This may have been true at the time they were first established; it would be hard to make the case nowadays in most developed countries. Even if it were still true, however, Friedman argues that "farm price supports do not accomplish the intended purpose of helping the farmers who need help," because (1) the benefits are received in proportion to the amount sold on the market, so the largest benefits go to the wealthiest farmers; and (2) the benefits that farmers actually receive are smaller than the total amounts spent: "This is clearly true of the amount spent for storage and similar costs which does not go to the farmer at all—indeed the suppliers of storage capacity and facilities may well be the major beneficiaries."[17] This policy, then, amounts to a clear case of welfare-for-the-well-off: tremendous distortions in the price system and an appalling waste of resources in order to provide benefits for people who are not particularly poor.[18]

The *welfare system*—"a rag-bag of well over one hundred federal programs that have been enacted to help the poor"[19]—is rife with inefficiency, and it creates and perpetuates perverse incentives. In Friedman's view, it is nothing but a "vast bureaucracy … largely devoted to shuffling papers rather than to serving people. Once people get on relief, it is hard to get off"; they have "little incentive to earn income."[20] The amount of sheer waste involved is summarized in one eloquent statistic. Friedman calculated that as of the late 1970s spending on welfare programs in the United States (over and above Social Security) amounted to about \$90 billion per year.[21] At the time, the "poverty line" was defined as \$7,000 per year for a nonfarm family of four, and about 25 million people were estimated to live in families below that income level. Yearly spending on welfare programs therefore amounted to \$3,600 per person below the poverty level—about \$14,400 for a family of four, that is, more than twice the poverty level itself. Thus, he concludes: "If these funds were all going to the 'poor,' there would be no poor left.… Clearly, this money is not going primarily to the poor. Some is siphoned off by administrative expenditures, supporting a massive bureaucracy at attractive pay scales. Some goes to people who by no stretch of the imagination can be regarded as indigent."[22]

This is a poignant list of indictments, and it is a wonder that anyone still takes these policies seriously. (Perhaps no one really does.) As noted above, and notwithstanding his initial statement of unconcern for inequality per se, Friedman's criticisms of these policies are two-pronged: (1) he criticizes them on market grounds, pointing out inefficiencies in resource allocation, and (2) in addition, he makes the point that, though the justifications for these policies often appeal to egalitarian values, in practice they do not deliver: The desired equality is not in fact achieved, and the only real result is costly waste of resources.

Now, this second aspect of his argument might be interpreted as simply a good rhetorical tactic. Appealing to one's opponents' own values in order to defuse their policy proposals is indeed a masterly application of practical dialectics.[23] To apply this tactic effectively, moreover, one need not share one's opponents' values. It is enough merely to show that they are inconsistent *on their own terms*.

This raises the question: Is this what Friedman is doing? Merely poking holes in his opponents' logic? Or did he in fact share their concern with equality as a valid social goal and was simply criticizing their practical implementation of a shared ideal? If he was really as unconcerned with economic inequality as he would have us think, then, having made his case, he could have rested it there. He would have no reason to go further and actually propose an *effective* policy to achieve, in practice, the goals that the piecemeal interventions he criticized failed to achieve.

However, this is what he proceeds to do.

The Negative Income Tax

Friedman proposed his idea of a negative income tax as a poverty-alleviation measure and as an alternative to all other existing government programs. It would require the government to tax family incomes above a certain minimum (B) but to provide cash subsidies (hence the expression *negative tax*) to families with incomes below that minimum, as a supplement to their own earnings, with payments increasing as an inverse function of family income up to a maximum amount of subsidy (G), corresponding to a family with zero earnings. This maximum amount of subsidy could be interpreted then as a floor below which no family's disposable income could fall. Subsidies would decrease with rising family income, falling to zero as earned income approaches B.[24]

One advantage of this scheme is that it would not require any separate administrative apparatus. It could be managed through the existing tax system. Indeed,

> [It] would fit directly into our current income tax system and could be administered along with it. The present tax system covers the bulk of income recipients and the necessity of covering all would have the by-product of improving the operation of the present income tax. More important, if enacted as a substitute for the present rag bag of measures directed at the same end, the total administrative burden would surely be reduced.[25]

This alone would be an improvement. In addition, however, many economists agree that this is indeed a better way to attack poverty (which is just one aspect of income inequality, albeit the one that most people are really most concerned about). It is more effective in meeting the needs of the poor, and much more economically efficient, both in terms of resources (it targets the poor, and them alone) and in terms of incentives (the persons receiving income subsidies have no perverse incentive to forego gainful employment because they keep a portion of any extra income they manage to earn on their own, just like any other taxpayer).[26] Not least, it really does reduce income inequality.

It is all of these things. It is also quite incompatible with the theory of a pure free-market economy because it is clearly a government intervention designed to alter the allocation of resources that would have resulted from voluntary exchanges between individuals acting freely in their own best interests. Like it or not, it is a policy of income redistribution—an effective one, to be sure—that involves taking from some, by force, in order to give to others.

Can such a policy be justified under Friedman's logic of individual liberty, the logic of free-market capitalism? I do not think it can, but he does propose it, and ardently. This means, however, that he must appeal to some other value, apart from individual liberty. As a fundamental value, liberty alone will not suffice.

It could be that, by proposing a more efficient alternative to the existing welfare system, Friedman was merely making a concession to political reality. In a welfare state, redistributionist policies *will* be implemented, one way or another, so we might as well design such policies efficiently. Was it just this, however? Was it merely a case of good applied economics? Why then go out of his way to not only recommend an efficient policy but to actually *justify* it on normative grounds?

Friedman's Justification for Government-Sponsored Poverty Alleviation

His justification for poverty alleviation, as a government policy, is by analogy with the more general argument for government intervention based on the existence of so-called public goods and the associated free-rider problem. He starts out by stating that things would (of course) be better if the problem of poverty could be resolved entirely through private charity. However, he notes:

> It can be argued that private charity is insufficient because the benefits from it accrue to people other than those who make the gifts—again, a neighborhood effect.[27] 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. *Suppose one accepts, as I do, this line of reasoning as justifying governmental action to alleviate poverty.…* There remain the questions, how much and how. I see no way of deciding "how much" except in terms of the amount of taxes we … are willing to impose on ourselves for the purpose.[28]

The how is of course the negative income tax, which is a better way to alleviate poverty than through the existing welfare apparatus (or by way of minimum wages, farm price supports, public housing, and so forth). What is significant about this passage, however, is not the how but the why. Clearly, Friedman thought that government-financed poverty alleviation was a worthy objective in its own right. His justification, however, was not on egalitarian grounds of equality as an end in itself. For Friedman, the libertarian, this motivation had no appeal. What did appeal to him, apparently, was compassion.[29]

Conclusion

To a hard-core libertarian, there is nothing problematic about income distribution in a market economy. The market's distribution of income is what it is, and that is all there is to it. Whether such a distribution is equal or unequal is neither here nor there. Friedman liked to pose as a hard-core libertarian, and yet he was also quite willing to allow for government intervention to reduce poverty. This creates some tension in his writings on the subject of economic inequality. Friedman was aware of this tension and was even somewhat apologetic about it. Thus, he writes:

> The liberal will therefore distinguish sharply between equality of rights and equality of opportunity, on the one hand, and material equality or equality of outcome on the other.[30] He may welcome the fact that a free society in fact tends toward greater material equality than any other yet tried. But he will regard this as a desirable by-product of a free society, not its major justification.… He will regard private charity directed at helping the less fortunate as an example of the proper use of freedom. *And he may approve state action toward ameliorating poverty* as a more effective way in which the great bulk of the community can achieve a common objective. *He will do so with regret, however, at having to substitute compulsory for voluntary action.*[31]

Is this compatible with his avowed libertarianism? Some noted libertarians thought that it was not. For instance, Murray Rothbard—a hard-core libertarian if there ever was one—argued that "it is difficult to consider [Friedman] a free-market economist at all," and a prominent item on his bill of particulars was precisely the negative income tax idea.[32] If we assume there is only one way to be a libertarian, then Rothbard was probably right. It seems a bit extreme, however, because Friedman certainly *was* a libertarian and a free-market economist by almost anyone else's definition. He just was not a *hardcore* libertarian.

Perhaps he was a *compassionate* libertarian. James Buchanan has argued that such a designation is an oxymoron.[33] Milton Friedman, however, may well be the exception that proves Buchanan wrong. Indeed, he may have been the original compassionate libertarian. At least, I like to think so.

I like him the better for it.

Notes

1. Milton and Rose D. Friedman, *Free to Choose* (New York: Harcourt Brace Jovanovich, 1980), 148.
2. Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), 161–62.
3. Ibid., 162–63.
4. Ibid., 163–64.
5. M. Friedman and R. Friedman, *Free to Choose*, 136.
6. M. Friedman, *Capitalism and Freedom*, 164.
7. Ibid.
8. Robert Heilbroner, "The Road to Selfdom," *New York Review of Books* 27 (April 17, 1980): 8. Oddly enough, some extreme egalitarians (the philosopher John Rawls, for instance) *do* agree with Friedman regarding the untenability of the distinction between inherited property and inherited talents, but they derive the exact opposite conclusion. Friedman thinks there is no difference between rewards derived from inherited wealth and rewards derived from inherited talents and capacities and therefore concludes that they are equally legitimate. Rawls, too, thinks there is no difference between these two types of rewards, but the conclusion he draws is that *both* are therefore illegitimate. For a discussion and critique of Rawls's position, see Charles Harris, "Capitalism and Social Justice," *Intercollegiate Review* 20 (Spring/Summer 1984): 35–49.
9. M. Friedman, *Capitalism and Freedom*, 164–65.
10. "A capitalist system involving payment in accordance with product can be, and in practice is, characterized by considerable inequality of income and wealth" (ibid., 168).
11. Ibid.
12. M. Friedman and R. Friedman, *Free to Choose*, 146–47. Friedman, ever the cautious scholar and scientist, was reluctant to make a categorical statement in *Capitalism and Freedom* regarding income distribution in communist economies due to "paucity and unreliability of evidence" at the time that book was written. His appraisal of the known facts as of 1962 was therefore somewhat guarded: "But if inequality is measured by differences in levels of living between the privileged and other classes, such inequality may well be decidedly less in capitalist than in communist countries" (p. 169). By the time *Free to Choose* was published in 1980, much more information was available on living conditions in the Soviet Union, though the evidence he

cites there is still rather anecdotal and based largely on journalistic accounts and his own travels. A few years after *Free to Choose* was first published, Abram Bergson, a leading expert on the Soviet economy, published a well-documented survey of the available empirical evidence on income distribution in the Soviet Union: "Income Inequality Under Soviet Socialism," *Journal of Economic Literature* 22 (September 1984): 1052–99. Bergson's numerical data confirmed Friedman's qualitative observations and conjectures regarding income inequality in the Soviet economy. (Today, of course, we *all* know about the abysmal living conditions in Russia under communism, so harping on that fact seems like beating the proverbial dead horse. We also know that income inequalities there increased even further during the chaotic postcommunist transition period. What is still not as well known, however, is the degree of economic inequality that prevailed there *during* the Soviet era.)

13. M. Friedman and R. Friedman, *Free to Choose*, 147. Friedman also quoted the following statement from this same "perceptive student": "In China … income distribution seems *very roughly* to have been the same since 1953" (quoted on p. 318n4). Friedman was citing from Nick Eberstadt, who in 1979 published two major articles on the Chinese economy in the *New York Review of Books*: "Has China Failed?" (April 5) and "China: How Much Success?" (May 3). To appreciate the full import of Eberstadt's statements, consider the following fact: from 1953 to 1980, the same period during which income distribution remained essentially unchanged in Mainland China, the Taiwanese economy achieved both a spectacular rise in the *level* of per capita income, and an equally impressive *decline* in income inequality (see, for instance, Ramon H. Myers, "The Economic Development of the Republic of China on Taiwan, 1965–81," in *Models of Development: A Comparative Study of Economic Growth in South Korea and Taiwan*, ed. Laurence J. Lau [San Francisco: International Center for Economic Growth, 1990], 17–63, especially Figure 2.6 on p. 26). It is well-known, of course, that since about 1980 economic policy changed course in Communist China and moved increasingly toward a free-market economic model. Income per capita has risen spectacularly since then, and poverty, though certainly not eliminated, has been greatly reduced. Indeed, given China's huge population, the reduction in poverty there has been so great that it alone accounts for a large share of the reduction in the *worldwide* poverty rate over the past two decades (see, for instance, Shaohua Chen and Martin Ravallion, "How Have the World's Poorest Fared since the Early 1980s?" *World Bank Research Observer* 19 [Fall 2004]: 141–69).

14. M. Friedman, *Capitalism and Freedom*, 172–73.

15. Ibid., 179. In *Free to Choose*, Friedman reiterates this displacement effect, and adds a clincher: The main beneficiaries of public housing are the nonpoor; namely, owners of property purchased for renewal projects, and people who make money building them, such as contractors, bankers, labor unions, and suppliers of building materials (111–12).

16. M. Friedman, *Capitalism and Freedom*, 180–81.
17. Ibid., 181.
18. Note, in passing, that the nonfarm public gets hit by a double whammy: They pay the taxes that finance the policy, and for their pains they get the privilege of paying higher market prices for farm products. The poor are especially hard hit because they spend a larger share of their incomes on food.
19. M. Friedman and R. Friedman, *Free to Choose*, 108.
20. Ibid., 107.
21. Ibid., 108. Spending on Social Security amounted to about $130 billion. Friedman had some pretty harsh things to say about Social Security as well (102–7).
22. Ibid., 108. I have taken the liberty of correcting a minor numerical mistake in Friedman's calculation.
23. As Paul Samuelson once observed (in a discussion of Friedman, no less, though in a quite different context): "The art of jujitsu is to direct your opponent's strength against himself" ("Theory and Realism: A Reply," *American Economic Review*, 54 [September 1964]: 736).
24. This is not the place for a full description of the negative income tax and its technicalities. Friedman tried to explain the idea in very simple terms (*Capitalism and Freedom*, 191–94; *Free to Choose*, 120–23), though his discussion is actually rather hard to follow on a first reading. The best short treatment that I have seen is by Harold W. Watts, "Negative Income Tax," in *The New Palgrave: A Dictionary of Economics*, et al. ed. John Eatwell (London: Macmillan, 1987), 3:622–24.
25. M. Friedman, *Capitalism and Freedom*, 192–93 (see also M. Friedman and R. Friedman, *Free to Choose*, 122–23). Friedman may have underestimated some of the practical issues of implementation. For a discussion of practical aspects (and a rather negative assessment overall) see Jodie T. Allen, "Negative Income Tax," in *The Fortune Encyclopedia of Economics*, ed. David R. Henderson (New York: Warner Books, 1993), 333–37.
26. Though the effect on work incentives for subsidy recipients is clear, some economists think that the overall effect on total labor supply is ambiguous. It is possible that some workers not previously on welfare might decide to work less, given the option of an income subsidy under a negative income tax scheme. The total number of people receiving subsidies might therefore be larger than under a conventional welfare system. A large literature has accumulated on the negative income tax and its effect on work incentives. A good up-to-date review is that by Robert A. Moffitt, "The Negative Income Tax and the Evolution of U.S. Welfare Policy," *Journal of Economic Perspectives*, 17 (Summer 2003): 119–40.

27. In *Capitalism and Freedom*, Friedman often used the expression "neighborhood effect" to refer to what nowadays are usually described as externalities.

28. M. Friedman, *Capitalism and Freedom*, 191 (italics added).

29. My colleague, Dr. Andrés Marroquín, has pointed out that in Friedman's case *empathy* might be a better word than mere compassion. Indeed, Friedman knew what it was like to be poor because he had experienced poverty first-hand during his childhood and early life. Moreover, he had received help, in the form of scholarships, which enabled him to complete his education. On Friedman's early years, see his memoirs (co-authored with his wife Rose), *Two Lucky People: Memoirs* (Chicago: University of Chicago Press, 1998).

30. Needless to say, Friedman here does not use the term *liberal* in its contemporary, American meaning but in the original nineteenth-century sense of "classical liberalism."

31. M. Friedman, *Capitalism and Freedom*, 195 (italics added).

32. Murray N. Rothbard, "Milton Friedman Unraveled," *Journal of Libertarian Studies*, 16 (Fall 2002): 52. (This article was originally published in *The Individualist*, 3 [February 1971]: 3–7).

33. James M. Buchanan, *Why I, Too, Am Not a Conservative: The Normative Vision of Classical Liberalism* (Cheltenham, U.K.: Edward Elgar, 2005), 8. The actual expression that Buchanan uses is "compassionate classical liberal."