



Capitalism and Fiefdom

George M. Frankfurter

Lloyd F. Collette professor Emeritus at Louisiana State University.
(eMail: pitypalaty@cox.net)

Abstract In this paper I am challenge the Friedmanian contention that individual freedoms can exist only in a capitalist social structure. Following the erosion of civil liberties and the dwindling of personal choices that took place in America over the last 30 years, and the emergence of the mega-corporations, I argue that these developments were the direct results of the lopsided allocation of wealth toward the very rich. I also offer some advice to the individual investor how the create a portfolio of assets that may help him to survive in the long term.

JEL Codes B20

Keywords Capitalism, freedom, allocation of wealth, political economics

As for freedom, it will soon cease to exist in any shape or form. Living will depend upon absolute obedience to a strict set of arrangements, which it will no longer be possible to transgress. The air traveller is not free. In the future, life's passengers will be even less so: they will travel through their lives fastened to their (corporate) seats.

— *Cool Memories*, JEAN BAUDRILLARD (French semiologist)

1. Introduction

The two cardinaly defining documents of the United States of America are *The Declaration of Independence* and *The Constitution*. In both documents the synonym of freedom, “liberty,” appears together with the words happiness, and [unalienable] right to a decent life:

We hold these truths to be self evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness,

and

We the People of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquillity, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain to establish this Constitution for the United States of America,

respectively.

The first ten Amendments to the constitution, called the Bill of Rights, and many of the following ones, together with the separation of powers, and the checks and balances built into this separation make the Republic an exemplar of democracy. Although the founding fathers copied the ideas of the Baron de Montesquieu, as expressed in the *Parisian Letters*, and *The Spirit of the Laws*, what evolved turned into a beacon of democracy to many nations during the 230 plus years of existence of the United States of America.

Thus, it is safe to say that democracy, freedom and the right to a decent life (whether we call it “the pursuit of happiness,” or “the general Welfare”) are part and parcel of the form of government under which we supposed to live, and they are inseparable. Perhaps, albeit in a roundabout way, Anatole France put it the best in *The Red Lilly*: “The law, in its majestic equality, forbids rich and poor alike to sleep under bridges, beg in the streets or steal bread.”

There cannot be democracy, or freedom, and very little “equality” if the commonality between the rich and the poor is that either one cannot sleep under bridges, beg in the streets and steal bread. That is to say, that if some (or many) citizens of a country have neither the right nor the chance to a decent life there cannot be either democracy or liberty.

It follows that without this comprehensive understanding of the word, freedom doesn’t mean a thing. It is the same trigger mechanism as the bell to the sound of which Pavlov’s dog learned to salivate. The word is just as valueless as calling French fries “freedom fries,” or as during WWI re-naming sauerkraut to “liberty cabbage.”

2. Ideology

It is widely believed that politics and economics are separate and largely unconnected; that individual freedom is a political problem and material welfare an economic problem; and that any kind of political arrangements can be combined with any kind of economic arrangements.

— *Capitalism and Freedom*, MILTON FREEDMAN, 1962

Capitalism and Freedom was the title of Milton Friedman's (1962) collection of essays/lecture notes in which the most significant cold-war-warrior of neoclassical economics – *laissez faire*, turned his views on the connection between economics and politics into a treatise. Friedman also observed, and a Friedmanian opinion and observation turns very quickly into an axiom (which it later did) that, capitalism is a necessary, but not satisfactory condition for freedom. This is so, because, albeit some might argue that socialism and democracy can go hand in hand: "The thesis [of this chapter] is that such a view is a delusion, that there is an intimate connection between economics and politics, that only certain combinations of political and economic arrangements are possible, and that in particular, a society which is socialist cannot also be democratic, in the sense of guaranteeing individual freedom." (ibid, p. 8)

Friedman then devotes a whole book, an anthology of 11 essays and a concluding part, to show that only capitalism can go together with freedom, and only the total freedom of the individual, where the government's sole role is to guaranty such freedom, can be consistent with the total welfare of society.

Friedman's contentions and arguments have no historical precedence. Quite the contrary, it would take a volume to cite all the examples in which to show how his theory doesn't work. I, however, cannot help but remind the reader of Katrina's disaster to have a perfect illustration of how a purposefully ineffectual government, seized by ideologues who carried some of Friedman's ideas into stark reality can cause irreparable damage to hundreds of thousands citizens, indeed, to an historical landmark treasured by a whole nation.

There is one part of the Friedmanian thesis I cited earlier with which I totally agree. In fact, the idea of the one-on-one connection between economics and politics is the starting point of my essay: "The Theory of Fair Markets" (Frankfurter 2006). With all fairness to Friedman, however, perhaps the kind of capitalism we have is not the strain Friedman's utopia is all about. But, to paraphrase a past German Chancellor, "this is all the capitalism we have." And, as far as the weakening of government with respect to economic security and cushion to its citizens goes, it is a government that does everything to rob us from our civil rights and freedoms to which we were accustomed through more than two centuries of evolution.

Strangely, however, this early thesis of Friedman, the connection of politics and economics, has never found its place in the theories financial economics promoted and, later, were called modern finance. To underscore my point a fairly detailed laundry-list is the following:

1. Markowitz's Portfolio Selection Model (Markowitz 1952, 1959)
2. The Modigliani-Miller (Modigliani and Miller 1958), and Miller-Modi-

- gliani (Miller and Modigliani 1961) indifference theory,
3. The Capital Asset Pricing Model of (Sharpe 1964, Lintner 1965, Black et al. 1972, Black 1972) and others
 4. The Efficient Markets Hypothesis (EMH) of Fama (Fama 1965, Fama 1970),
 5. Arbitrage Pricing Theory (APT)
 6. Option pricing and contingent claims models (Black and Scholes 1973, Merton 1973),
 7. Agency Theory (Jensen and Meckling 1976), and perhaps
 8. Signaling (Bhattacharya 1979, 1980)¹

Not a single one of these models/theories conjures up any connection whatsoever between their economic rationality and politics. Neither has modern finance any models that would take into account, much less predict, nefarious activities by any market participant. On the contrary, the market supposed to be the avatar of god, that with the greatest justice bestowed on earth to any entity, whether real or imaginary, fixes things in a Pareto optimal way, if one just has the patience to wait for it, or perhaps survive the material loss one had to incur until and when the market finally fixes things.

In the following, I will argue that the loss of personal freedoms of choice and the concentration of power in the hand of the executive branch of government under capitalism we know is a logical and perfectly consistent development of the allocation of wealth, both private and corporate. This has strong consequences for us, as well as for other generations to come. I will hazard, also, some predictions how this process if not curtailed or aborted, will affect individual and institutional investors, and what would be the reasonable course such investors should follow.

3. Allocation of Wealth

Propaganda, defined as that branch of the art of lying which consists in very nearly deceiving your friends without quite deceiving your enemies.

— *Microcosmographia Academica*, F. M. CORNFORD, 1908

Economics, at the end of the day, is about the allocation of wealth. Politics is nothing more or less, but to put a socially acceptable face to the way

¹ I say perhaps, because signalling was more a fashionable way to call certain things management does or doesn't do than a realistic theory that would stand up to empirical testing.

wealth is allocated. Perhaps better put the other way around: politics is about the allocation of wealth, and economics is the gauge by which this allocation can be measured.

If one accepts either one of the two formulations, then one cannot take issue with the following:

- Taxation cannot be looked at independently. Taxation goes hand-in-hand with fiscal policy.
- If one says that taxes are too high, then one means to say that one doesn't get back enough in return. That is, the objection is not the tax per se, but who gets what back from the taxes paid.
- The richer one is the less one gets back of taxes one paid. This would be true, even if taxation were not progressive.
- The less even is the allocation process the more wealth is accumulated at the hands of the very rich, which is then translated to political power.
- The process is never at a final or steady state. The more wealth is accumulated in the hands of a few, to more will accrue to these few in the future. Consequently, the same goes for power.
- Taxes can be three types: progressive, neutral, or regressive. Which one of the three types a particular tax is depends on how it affects one's income.
- Although some regressive taxes are negligible,² only an income tax and some wealth taxes can be truly progressive.
- A sales tax or an excise tax can never be progressive. When one looks at the effect of these taxes on free income (income that is left after paying all obligation and numeraire needs for civilized living, also called the poverty line), a sales tax is a regressive tax, just as any other flat rate tax.

There are, however, other factors and trends in play that make to concentration of wealth in the hands of a few faster and more pronounced.

Fiscal policy That is, how the government spends the taxes it collects, and whether it borrows or lends funds (deficit, or surplus budget, respectively) to meet its budgetary targets, roles and obligations.

The defining character of US fiscal policy, starting with the Vietnam War, through Carter and Reagan/Bush was deficit spending, where the bulk of the deficit went toward defense. The logic for this was twofold: 1. To goad the Soviets into an economic race which was (mis)labeled "arms race") to drive them into bankruptcy as the key strategy of the Cold War (that Baudrillard calls WWII), and 2. During the 12 years of Reagan/Bush

² For instance, an entrance fee to a state park, or a toll.

to cut social spending to the bare bone and below.

Deficit budgets are not necessarily a bad thing. In the words of George Washington: "A national debt if it is not excessive, will be a national blessing."³ In order to be a national blessing, however, it must be spent on real investment in goods and services. The nature of the deficit during the Vietnam War and during Reagan--Bush was totally different.

It was invested in military goods which at the best are stockpiled and never used (like the insane number of nuclear warheads with which we must contend sooner or later, to avoid a nuclear disaster at home), and at the worst, used, which creates even more spending on weaponry to replenish the stockpiles, and to deal with our own war casualties.

The insanity of piling up the national debt was abated for a short while under the Clinton Administration to start up again with greater fervor than ever before during the first six years of George W. Bush. The Bush Administration mastered an economic policy of gross tax-cuts, chiefly to the very rich, with the astronomical and still mounting costs of the war in Afghanistan and Iraq. This practice of being in a costly war and coincidentally cutting taxes is unprecedented in the brief history of this country.

As a consequence, just recently, the ceiling on the national debt was increased by Congress to \$9 trillion. This is a sum compared to which everything else pales. 9,000,000,000,000. Most computers can express this figure only in scientific notation: 9.00E+12. If a dollar bill's thickness was 0.5 millimeter than a stack of \$9 trillion would be 28,125 miles. My imagination stops right here, because I cannot fathom what one can buy for this kind of money.

To make matters worse, and to finance war necessities on one hand and to fuel the conspicuous consumption⁴ of the general public on the other, we are in hock to the Chinese (the next supper-power to come) up to our ears.

The systematic weakening of labor unions This was a declared policy of the Reagan Administration that manifested itself first in the merciless crushing of the PATCO strike, early, at the time the Reagan revolution was unfolding. Ronald Reagan had a great deal of experience in the matter, even before he became the Governor of California, when he was a union buster spoke-person of GE as a side occupation to making movies of the genre of *Bedtime for Bonzo*.

But this was not the end. NAFTA and globalization that brought us outsourcing as a noble and American thing to do contributed to the weak-

³ Letters to Robert Morris April, 1781.

⁴ A phrase coined at the first quarter of the 20th Century by Thorstein Veblen.

ening of labor and to the replacement of high-paying industrial jobs with low-pay service jobs of teaching, pumping gas, flipping hamburgers and answering inquiries. To put the blame, solely, on Republican Administrations would be hypocritical. The Clinton presidency contributed more to this process than anyone both before and after. Clinton not just pushed through NAFTA that could not have ever happened under Bush the elder, but also made globalization both incontrovertible and irreversible. Lest also not forget that the arms-race got its start under the Carter Presidency.

The results are irrefutable. Today only 15% of the total labor force is unionized, and the mega corporations usually have the upper hand in any and all labor disputes and strikes. The Delta pilot strike serves well as a demonstrative example. This recent strike left the Delta pilots with another salary cut as a means of avoiding large-scale job reductions. And the government bailout of American Airlines went more toward stockholders bailout than to the workforce of the carrier.

The turning of the Supreme Court toward a Conservative agenda The last two appointments to the Court, justices Roberts and Alito, is a clear signal that the hard-fought battle over Roe vs. Wade is to be won by those who want to make abortion, especially for poor women, not just practically impossible, but also a crime for a physician to perform. This is the smoke-screen the mass media manipulators put on a moral issue to make it political. The economic reality, however, is that both justices (one of whom is Chief) in the past either represented large corporations, or ruled consistently in favor of capital over labor. One can surely expect that in the future this stance to favor capital is not going to change, adding to the slant of wealth allocation to the richest, and weakening, further, labor.

The Burst of the Real Estate Bubble In a gloom-and doom article, Hudson (2006) foresees a terrible future for those who were foolish enough to follow the Sirens' song of mortgage bankers, and the sudden and dazzling appreciation of real estate values in many areas of the country. The combination of these two with low interest rates and a Federal Reserve policy to supply the money to sate the demand for mortgages, according to Hudson, will make a great number of the population practically debt serfs to banks.

If one accepts Hudson's reasoning then it is clear than when the bubble will burst, and all bubbles eventually will, the ones left holding the proverbial bag will be those who expected the rise of real estate values to continue, indefinitely. The many bankruptcies that will follow and the further dwindling of disposable income will push the already skewed wealth allocation further and faster from the poor toward the rich.

I am not a great propagator of bubbles. In my opinion bubbles are an

invention of economists who cannot squeeze an observable phenomenon into the confines of their cherished models. Bubbles happen, so we can still believe in the predictions of models which clearly failed to anticipate reality. But fear not, because the bubble will eventually burst.

I find Hudson's analysis both too simplistic and too generalized. The golden rule of the real estate business is that there are three determining factors of real estate value: location, location, location. That is, although in some parts of the country real estate prices clearly slowed down, in some other parts they not only didn't fall but in fact increased. We are waiting for the "bubble burst" since September 2005, and it has yet to come.

Another important differentiation is whether the real estate purchase was for the purpose of investment (speculation, one may say), or for the purpose of one's domicile.⁵ In the former case, although down payment in many areas went below 10% of appraised value, it was usually the well-to-do who exploited the boon in prices. If indeed the bubble will burst these people would be the most affected.

Perhaps many will turn into serfs of mortgage banks, or worse case, will go bankrupt (something this Administration made very difficult, favoring lenders). Yet, the deciding issue will be their future cash flow expectations from other sources of their wealth, and from their anticipated personal earning power. Also, their capital losses will be mitigated by the write-offs they can use to reduce their tax liabilities.

Those who purchased real estate for the purpose of domicile whatever happens to real estate values will not affect them unless they cannot keep up with their mortgage payments given their future earning potential. Because during periods of low interest rates and easy mortgage money, and because the government subsidies of mortgage borrowing for individuals, it would be foolish not to take advantage of opportunities that promise also a sizeable appreciation of value, vis-à-vis rent that gives none of these.

If real estate prices will decline, but wages and salaries do not, then the value of one's home is important only in the case one has to sell. This happens, usually, when one changes jobs for higher future income. And even if one created "negative equity" (Hudson 2006), that is the sale price of one's home is less than what one owes, the purchase price of a home at the new domicile will be lower as well, and the realized capital loss is, again, tax deductible.

Whether the gloom of Hudson, or my more optimistic view will come to pass, the fact remains that if there is a bust of the real estate market,

⁵ Hudson considers the idea of "investing" with incurring debt an absurdity. If that were the case we can throw out the window 50 years of financial theory making and the obvious relation between leverage and return, and financial risk and business risk.

wealth distribution will be further distorted toward the rich.

Environmental effects The recent catastrophic consequences of hurricanes, mudslides, tornados, and flooding brought into focus how vulnerable the poor are and how ineffectual our government is to protect those who do not have substantial reserves to rely on in case of a natural disaster. Global warming that supposedly triggers many of these natural disasters if not abated will bring in the future more Katrinas. The current regime that refuses to accept the consensus of the overwhelming majority of scientists is not going to do a thing to move toward a change that perhaps can alter the disastrous course set for our future.

If indeed we have to face more and more intense occurrences of environmental emergencies the poor will get poorer, the middle class will get poor and the rich will be only marginally affected, if at all.

Then, there is the gasoline crisis rearing up yet again its ugly head, just the same as it did twice during the 1970's. As Yogi Berra would quip: "It's *déjà vu* all over again." The price hikes found us just as ill-prepared as the gasoline shortages found us then. Perhaps the situation today is worse. Although we do not have yet shortages to the extent that people will kill each other at the pump or get gas on either odd, or even days depending on their license plate number, prices of a gallon regular went over \$4.00 in several places in the country. The price of a barrel of oil is over \$70 and given the situation in both Iraq and Iran the market is hinky which pushes future and spot prices up. Again, the most affected are the middle class that has to cut on other budget items, because getting to work with their recently acquired Hummers, Excursions, Yukons and Suburbans is a must. Therefore their demand for gas is extremely both price-inelastic and impacts on disposable income.

The poor, at the bottom of the wage-scale is reaching the point that it makes more sense to go on welfare than getting to work.⁶

The President in his 2006 State of The Union speech contended, correctly, that we are, as a nation, addicted to oil. Yet, his tax program promoted the behemoths of the road. The average fleet mileage of new cars produced has not changed from 27.5 gallon a mile for the last 20 years.

Concurrently, we do not have an aggressive fuel conservation program, and substitutes for gasoline (wood chips, ethanol, and switch grass?) are but a pipe dream.

Although we do not have shortages, oil companies are making record profits, company executives' compensation are beyond imagination and we still do not have a transcript of VP Cheney's meeting with these execu-

⁶ Didn't Friedman opine once that the great depression was caused by the laziness of labor that refused to work for starving wages?

tives while developing an energy plan for the country.

China's exponentially increasing demand for oil must be considered, as well. It is a market that is beyond any reasonable imagination as far as its future hunger for oil will go. All these point to a conclusion that things at home are not going to get better before they get worse.

Demographic effects We are facing an aging population, constituting a demographic shift that makes elderly and retired from the workforce people proportionally much larger than the in-the-labor force would be able to sustain. Although some of the retiring are the "baby-boomers" whose emergence in the late 1940's and early 1950's is partially responsible for this demographic skew, are well-to-do, with investment portfolios and retirement packages sufficiently secure. Many others are not in this enviable category. Further, because of the reduction of fertility rates that followed later, family members who should take care of their aging parents are fewer than it has been before. This will add to the already mounting social welfare burden with grave consequences.

The demand for unskilled labor, therefore, will rise even further. This will draw in more illegal aliens from Mexico and other Central American countries to fill the void, because Americans are not used to and cannot survive on the wages these jobs pay. Thus, no matter how much Lou Dobbs excites his viewers with anti-immigration propaganda to increase his ratings, the "push-pull" of illegal immigration will not stop. This workforce will have no political power and will be easy prey for employers who will surely turn them to obedient serfs.

All the factors I discuss here contributed to a wealth-allocation reality in which the top 2% of the population controls 85% of the total wealth. What is even more frightening, if this process will continue unabated, is that 1% of the richest individuals control 53% of the corporate wealth. Thus, it is a situation where "maximizing shareholders' wealth," a mantra we put in the heads of business schools graduates will be tantamount to shifting even more the wealth of the nation to the top 1%.

This is something which will have further consequences not just in pushing more and more people to the bottom of the income class, but will curtail even more our personal as well as our economic freedoms, because most business organization operate in an authoritative manner. Read on!

4. EASE

Panics do not destroy capital; they merely reveal the extent to which it has been previously destroyed by its betrayal into hopelessly unproductive works.

— JOHN STUART MILL

Extreme Authoritative Structured Enterprises (EASE) the name I use to categorize organizations which are police, paramilitary, military, penitentiary, DOD, NASA, the many Intelligence Agencies, Homeland Security, etc. These organizations adhere to a strict chain of command, they immunize themselves from internal dissent, and some times even to the point that such dissent is punishable by law.

At the same time they are more than likely to operate outside of the constitution and preferring an executive branch which is capable to support their activities, more often then not outside constitutional boundaries, or beyond the control of the legislative branch.

But this organizational structure is not unique just to EASE which operate the way they operate under the excuse of both efficiency, and the obvious need for secrecy. Many corporations that are school X, function the same way. Drug testing, spying on e-mail and rest rooms, making demands on the private lives of their employees and their immediate families are common practices in tens of thousands of American corporations. The leverage is always the job, or health insurance, or both. Tens perhaps hundreds of thousands of employees are willing to accept sometimes ridiculous rules of the workplace, all limiting their personal freedom, Friedman was designating as the ultimate requisite of a happy society, for the sake of keeping their and their families' health insurance which would be lost if they changed jobs.

The transformation to a tightly controlled society was further exacerbated during the new millennium by two factors:

1. The so called "War on Terror" which brought us the two Patriots Acts, and
2. The outsourcing of production jobs and the shifting of employment of service and usually menial jobs to immigrants, both legal and illegal.

The former, seriously hindered civil rights of American citizens by allowing arrests and detentions for indeterminate periods without a formal charge and without the right to a lawyer, based on unsubstantiated suspicions. The latter, absorbed into the labor force more than 11 million who are too scared to complain or organize for fear of being deported back to their country of origin.

An unhealthy symbiosis came into effect: An executive branch that is thriving for more control and more secrecy, a *corporatocracy* that favors a most powerful executive branch "to get things done" and an election system where money, controlled by the riches two percent of the population, decides the outcome.

This symbiosis is not stagnant, however. The more it exists, the more it will shift power, i.e., the more it will reduce the separation of powers, and

the control mechanism of “checks and balances.”

Are we being transformed to space-age sharecroppers as Hudson claims (*ibid.*)? Are we going back to the future to borrow a popular movie title, to turn the country into “industrial” feudalism? Hard to tell. The prospects are not too good, though.

5. The Relevance to the Investor

Probable impossibilities are to be preferred to improbable possibilities.

— *Poetics*, ARISTOTLE

What can the investor do about all this? There is an activist solution and there is a “going with the flow solution.”

The activist’s solution is the changing of the political process to reverse turning the US into an industrial fiefdom. The first two immediate things that must happen in order to accomplish this are the neutralization of the influence of money in the election process, and the elimination of the lobby system.

Both are very simple to model. The first involves a strict campaign financing reform instead of the token McCain—Feingold bill which is already has been gutted of any teeth to use a mixed metaphor. The model of the UK would do the job, efficiently, including free access to TV media for political candidates for office.

The second is also very simple: make lobbying politicians illegal (in fact it is no less now than legalized bribery). Perhaps if a strict campaign financing law is put into effect, lobbying will almost disappear, naturally.

Although I am neither a swami nor a soothsayer, I am quite confident in foretelling that neither one of these two requisites will happen. This is so, because both parties are happy with the existing situation, feeding at the trough of big money, whether corporate or in the hands of a few hundred.⁷

We do not have an opposition party per se. We do have sporadic fragments of flurry against policies, dictums, and orders the administration tries to put in effect. And this is only, when and where the constituents of elected officials are so badly hurt that their displeasure may jeopardize the re-election of their representative.

The media, radio, TV and print are owned by big: money: 85% is

⁷ The 600-800 families George Carlin calls the “ownership class,” a rather appropriate name, because it is not just conjures up the images of fiefdom, but it is also a true label for the reality of the concentration of capital.

owned by 15 companies or individuals. Their focus is on issues which are marginal to our real problems: same sex marriage, prayer in schools, the showing of the Ten Commandments in public places, pro life or freedom of choice. OxyContine induced propaganda, or where the truth lies.

Or spend untold weeks on the disappearance in Aruba of Natalee Holloway, who vanished without a trace while on a high school binge of alcohol and drugs, or with whom did Michael Jackson share his bed. Although enough information is available on the Internet for those who care to seek it out, for most low income people it is, just as cable TV, practically, inaccessible because of high costs.

Thus, in the words of Don Corleone: "*Fowgdabodit.*"

The passive reaction is whether the political—economic process, if continues will change the way the risk averse investor should secure his future, and what are the consequences one should be aware of.

One of my statistics professors of the very distant past used to say that although the law of large numbers will not always take precedent, nevertheless, the way to bet is on the powerful. This seems to me still the perspicacious advice.

That would mean the mixing of a conservative and a defensive investment portfolio. Because inflation will surely increase as the result of the break-neck deficit spending⁸ and because of rising energy cost that will affect all sectors of the economy, I would still recommend a carefully selected real estate portfolio,⁹ the reduction of debt servicing costs, and substantial near cash holdings.

Stocks perhaps would be suitable for those who would tolerate higher risk for the promise of more return. But even for those I would stick with my ex professor's wisdom and diversify into blue chips. None of the high-tech, garage-industry stuff, you hear!

But do not listen to me. As the Brits say: The value of what you get for nothing is nothing. Make your own analysis and choice.

⁸ In a recent speech, Senator John McCain of Arizona remarked that the government is spending money "like a drunken sailor." The good Senator forgot to mention at the same breath that he has been a staunch supporter of the war in Iraq, the biggest ticket item in spending, and that the "drunken sailor" is giving huge tax cuts to that segment of the population who will less likely to spend it in a way that it will trickle down, a policy he also supports.

⁹ Watch where the retiring baby-boomers are heading.

6. Final Cogitations

In order to arrive at what you do not know
 You must go by a way which is the way of ignorance.
 In order to possess what you do not possess
 You must go by the way of dispossession
 In order to arrive at what you are not
 You must go through the way which you are not.

— *Title*, T.S. ELIOT, *Date*

Perhaps Friedman wouldn't call today's American capitalism that capitalism he wrote about the first time in 1962. Yet, his attacks on government that supposedly should be there to help people but instead it is curtailing their freedoms, helped to usher in the political and economic realities facing us today and for some times to come.

The fact remains that a government which is systematically weakened in favor of private enterprise is going to perform under par during conditions of emergency with devastating consequences. That this weakening of government was not a natural evolution, but created on purpose to prove just the point of ineffective government, notwithstanding, we have to live with this, or repair it. The upshot, however, remains that all the good things Friedman foretold his disciples is not reality, and it can never come to pass.

Quite the contrary. The more we privatize, the more government and business will curtail our freedoms, as citizens, and our freedoms of economic choice, and more the activities of our government will be cloaked in secrecy.

The more loss of freedom, the more improbable democracy is. Without democracy, ultimately, we will have very little freedom, if at all. Not surprisingly, the Patriot Acts are already sarcastically called 1984. I, who had the dubious pleasure to live under fascist and communist rule, my feeling is that we are getting very close to the invisible hand controlling our lives.

But there are still differences. For one, we still have freedom of speech, and we still do not have a Dachau style experimental concentration camp to put away Moslems, Gypsies, homosexuals, and anyone who openly criticizes the Administration.¹⁰ Nevertheless, similarities are abound with the inexplicable fact that people are willing to accept the propaganda funneled into their homes, courtesy of the media, owned by those who sponsored the evolution of this system.

¹⁰ Just don't name your son Aziz, Abdul, or Mohammed. If you are Aziz, Abdul or Mohammed, and an American citizen, change it, legally, to Fitzgerald.

Under the two dictatorial regimes I mentioned and experienced personally, people knew that the official line was a lie. Moreover, listening to other sources, such as the BBC, or Voice of America was treasonous, punishable by prison or concentration camp. Yet, they did everything to seek out the truth, because that was the glimmer of hope that showed a different future. Today, Fox News is the leading source of information to millions who cannot accept facts which are inconsistent with their beliefs. The flag and the word freedom cover everything they do not want to hear or see.

“Capitalism and Freedom” sold 400,000 copies by the time the second edition in 1982 went to print. It is still going strong, because Friedman’s contentions regarding freedom and capitalism provided the ideological bricks and mortar for where we got at the start of the 21st Century. Friedman’s book was just carefully selected conjectures displayed with great ideological bias. One cannot miss this if one is willing to admit that it achieved exactly the opposite of what its author propagated and foretold.

Yet, one has to remember that economics is more art than science (Szostak 1992), and that Friedman is a Nobel Laureate practitioner of the genre. Just as Jackson Pollock is considered by some one of the greatest painters of the 20th Century. Yet, for many others Pollock’s works is the random splattering of paint on large canvases by a dipsomaniac, referring to Pollock as “Jack the Dripper”. What should be Friedman’s sobriquet?

References

- Bhattacharya, S. (1979) Imperfect Information, Dividend Policy, and the Bird in the Hand Fallacy, *Bell Journal of Economics* 10: 259–70.
- Bhattacharya, S. (1980) Nondissipative Signaling Structures and Dividend Policy, *The Quarterly Journal of Economics* 95: 1–24.
- Black, F. (1972) Capital Market Equilibrium with Restricted Borrowing, *Journal of Business* 45: 444–55.
- Black, F., Jensen, M.C and Scholes, M. (1972) The Capital Asset Pricing Model: Some Empirical Tests., in M.C. Jensen (ed.) *Studies in the Theory of Capital Markets*. Praeger.
- Black, F. and M. Scholes (1973) The Pricing of Options and Corporate Liabilities, *Journal of Political Economy* 81: 637–54.
- Fama, E.F. (1965) The Behavior of Stock Market Prices, *Journal of Business* 38: 34–105.
- Fama, E.F. (1970) Efficient Capital Markets: A Review of Theory and Empirical Work, *Journal of Finance* 25: 383–417.
- Frankfurter, G.M. (2006) The Theory of Fair Markets: Toward a New Finance Paradigm, *International Review of Financial Analysis* 15: 131–45.
- Hudson, M. (2006) The Road to Serfdom, *Harpers* 132: 39–46.

- Jensen, M.C. and W.H. Meckling (1976) Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure, *Journal of Financial Economics* 3: 305–60.
- Lintner, J. (1965) Security Prices, Risk, and Maximal Gains from Diversification, *Journal of Finance* 10: 587–615.
- Markowitz, H.M. (1952) Portfolio Selection, *Journal of Finance* 7: 77–91.
- Markowitz, H.M. (1959) *Portfolio Selection*. Yale University Press.
- Merton, R.C. (1973) Theory of Rational Option Pricing, *Bell Journal of Economics and Management* 28: 183–4.
- Miller, M.H. and Modigliani, F. (1961) Dividend Policy, Growth and the Valuation of Shares, *Journal of Business* 34: 411–33.
- Modigliani, F. and Miller, M.H. (1958) The Cost of Capital, Corporation Finance, and the Theory of Investment, *American Economic Review* 48: 261–97.
- Sharpe, W.F. (1964) Capital Market Prices: A Theory of Market Equilibrium Under Conditions of Risk, *Journal of Finance* 14: 425–42.
- Szostak, R. (1992) The History of Art and the Art in Economics, *History of Economics Review* 70: 70–107.