

Capitalism and Freedom Study Guide

Capitalism and Freedom by Milton Friedman

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Plot Summary

Capitalism and Freedom was written by Milton Friedman in 1962 to defend what Friedman calls the liberal (or today what would be called libertarian) approach to economic policy in the face of very different views defended by social democrats or false liberals, as Friedman would have it. The book was a massive success, defending the economic institutions of the United States prior to the Great Depression. Friedman's book is full of proposals that will seem shocking to some today but were particularly radical for his time.

In fact, many of Friedman's proposals have been influential. Today, the flat tax he advocated has spread throughout former communist countries, his floating exchange rate is used throughout the world and school voucher programs are becoming more popular. Free trade has increased substantially since 1962, though not to the radical extent Friedman proposes. The book was widely read, selling half a million copies since 1962. As a Nobel Laureate and monetary economist, Friedman's influence extends far beyond this book, but it is in *Capitalism and Freedom* that many of his core economic ideas are explained most clearly to the public.

Capitalism and Freedom contains an introduction, conclusion and twelve modestly sized chapters, all of which focus on one or another economic concern. The introduction defines Friedman's conception of a liberal, the classical liberal of the 18th and 19th century who defends the decentralization of power, limited government, constitutionalism and the rule of law, cosmopolitan free trade, private property rights, free enterprise economics, and the standard liberal freedoms of speech, press, religion and the like, along with the advancement of the social progress of women. He also includes support for Civil Rights in the list, something somewhat controversial for his day.

Chapter 1 argues that economic freedom and political freedom are related and that if one wants to preserve and strengthen democratic institutions, economic freedom is a necessity. In Chapter 2, Friedman outlines the liberal conception of the role of government, which is merely to protect property, enforce the law, reduce negative externalities, manage money and—perhaps—support a weak social safety net. In Chapter 3, Friedman argues that the Federal Reserve's failure to manage the money supply caused the great depression and proposes a consistent price inflation rule as Fed policy.

Chapter 4 argues to abolish the Bretton Woods system in favor of floating exchange rates and Chapter 5 argues against the use of fiscal policy to stimulate the economy. In Chapter 6, Friedman defends the use of school vouchers in the place of public schools and in Chapter 7, Friedman argues that capitalism will reduce discrimination and is superior to forced integration. Chapter 8 argues that private monopoly is bad but that the cure is often worse than the disease; he also claims that corporate "social responsibility" is a damaging idea.



Chapter 9 defends what many see as Friedman's most radical idea, ending occupational licensure. Chapter 10 argues against the redistribution of income for egalitarian reasons. Chapter 11 argues that many social welfare measures fail to do what they intend and criticizes social security. In Chapter 12, Friedman defends a negative income tax to replace the welfare state in the elimination of poverty. Chapter 13 concludes that most of what is good economically comes from the market, not the government and that the government should be limited in its power.

Introduction

Introduction Summary and Analysis

A free man rejects the view that the government is the patron or master of the citizenry. The free man sees his country as the collection of individuals that composes it. He sees government only as an instrument, not a master; he sees only individuals freely pursuing their own ends, and a consensus on the fact that this should be permitted.

Those who love freedom must ask how we can stop government from destroying our freedom; the concentration of power is liberty's greatest enemy. Government should only preserve our freedom. Therefore, it must be limited. It can only protect citizens against external threats and criminals. It should enforce contracts as well. A free-market will check government power, as will the standard classical liberal rights of free speech, religion and thought.

Government power should also be decentralized. If power can be in the states, it should, and if it can be in the local community, then better still. It checks tyranny to be able to quickly escape it. However, centralization is attractive to many because they see that government can promote the public interest. However, the government that has the power to do good also has the power to do bad.

Government must also be limited because it is not the creator of civilization—only private individuals are. It cannot duplicate the creativity of the individual.

The book argues that competitive capitalism, the system of private enterprise operating through the market, is a necessary condition for political freedom. The proper label of this view is liberalism but the enemies of liberalism have taken its name as their own. Initially, what was called "liberalism" fought for freedom of thought, individualism, free-markets, free trade, constitutionalism, representative government, and the rule of law.

Instead liberalism is tied to state management of the economy, the welfare state and the redistribution of wealth, along with paternalism. With respect to civil freedoms and democracy, liberals are the same; it is in economic policy that the shift has come. Thus the name of liberalism is not called conservatism, though liberalism was initially a radical creed.



Chapter 1, The Relation between Economic Freedom and Political Freedom

Chapter 1, The Relation between Economic Freedom and Political Freedom Summary and Analysis

Politics and economics are not separate. Freedom in the economy helps to maintain freedom in political arrangements. It is also a component of freedom itself. Many scorn economic freedom as emphasizing materialism but this is a misunderstanding. The man forced to pay social security is sometimes a man forced to pay against his will. The man who would like to exchange goods with someone in another country is forcibly stopped by government tariffs. Without these restrictions, power can be decentralized, and this makes power harder for the government to collect.

We forget how often political and economic institutions have been unfree; most men have lived under tyranny, servitude and misery. The 19th century is a historical exception. However, it is true that free markets are not sufficient for political freedom, since many countries demonstrate the possibility of authoritarian capitalism. However, even in those societies citizens have more freedom than in countries without free-markets.

The free-market society of Western nations of the 19th century gave way to economic control and many of the remaining classical liberals worried that this would lead to undermining political freedom. In many cases, economic control led to serious infringements on liberty, such as when central planning fails and government tries to, say, control occupations in response.

Freedom is an all embracing ethic. It sees men as imperfect, and sees the problem of social organization as in large part the problem of preventing bad people from doing harm just as much as it is to help good people do good. The basic problem of social life is also how to coordinate the economic activities of large numbers of individuals. This can only be accomplished through coercive power in the state or voluntary co-operation in the market.

In the market, voluntary exchanges typically are informed and utility-increasing. Each household exchanges with others out of their own self-interest and so cooperation occurs without force. The market coordinated through private enterprise and freedom of contract, where individuals can enter or not into particular exchanges. If contracts are protected, the freedom of the market can arise.

Some criticize markets because of this freedom, because it gives people what they want and that this is bad for them, but this is an argument against freedom.



Government is needed for the "rules of the game" and to interpret and enforce the rules of coordinate. However, the market enables wide diversity. This means that power can be located in small pockets of individual actors. Such decentralization is harder within a government. Further, political organization is required to maintain political freedom, but such organization requires money and a socialist society puts less of it in the hands of the people and has less of it to begin with. Media outlets are also privately owned and will allow many groups with different views to use them if the price is right. Government owned media does not work the same way.

The price system coordinates individuals over vast distances and across all belief systems. The man who sells wheat on the market has no idea whom he is selling to, at least not for the most part. This is particularly true in a global economy.



Chapter 2, The Role of Government in a Free Society

Chapter 2, The Role of Government in a Free Society Summary and Analysis

The market permits unanimity without conformity, which is to say that it produces social outcomes that all approve of but where each individual can do as she likes. However, this form of "representation" is not possible in some spheres, such as national defense where you and I cannot consume different amounts. When these goods must be produced, government is necessary to make collective decisions. Since unanimity is often a costly way of making social decision, we settle on majority rule.

We should distinguish individual activities from the framework of law within which those interactions take place. The former are the game-players, the latter are the rulers of the game. However, both sides must accept the rules, but they will disagree on their interpretation and must have a way of settling their disputes. They also need someone to enforce this agreement. We need an "umpire" and this is what government does. The absolute freedom of men conflict with one another, and the boundary must be decided in a fashion acceptable to all.

Examples of "umpire" roles include defining property rights and establishing a monetary system. In short, government should only do what markets cannot do for themselves. Some worry about private monopolies but they should also worry about public monopolies and public regulation. All are bad, and Friedman thinks that private monopoly is the least bad. He thinks that markets will, over time, break them up. However, he notes that his view on the matter will not apply to all circumstances.

Externalities occur when individuals impose costs on others indirectly, such as pollution. Governments need to define property rights so as to "internalize" the cost such that the person who incurs the cost bears the weight of it. Government should also probably build most roads, though it can build toll roads. We do not need public parks. Government itself can impose negative externalities. Generally it is hard to say in the abstract where the line between government and the market must be drawn.

Freedom must also be maintained by free individuals. The government cannot be paternalistic without depriving individuals of the ability to learn from their errors and become capable of maintaining their own lives. Children are a hard case, however, since the basic unit of social organization in our society is the family. However, children are also social products that will determine how society functions later. So paternalism for children may be inevitable. The best we can do is true a social consensus that is found by biased individuals through free speech and trial and error.



Many, many government interventions, however, cannot be justified, including tariffs, subsidizing farm production, rent controls, minimum wages, social security programs, health and safety licensure, public housing, and the draft.



Chapter 3, The Control of Money

Chapter 3, The Control of Money Summary and Analysis

Some say that free-market economies are inherently unstable and can produce boom and bust cycles. One role of government is to even out these cycles, as was most prominently argued in the New Deal. Currently economic growth is the excuse for government control. However, the Great Depression was produced by government mishandling the money supply.

Friedman wants to dispute both the view that the gold standard for backing money is good and that a group of technicians should have wide discretionary power to manipulate the money supply through a central bank. Liberals want to maintain a maximum feasible decentralized power, but this raises a problem with money. Most agree that government is responsible for money, but governments can mishandle it and use a central banking power to enrich themselves.

Most often money has been backed by a commodity, which is to say that on demand it could redeem currency in gold, silver, and the like. Many think that the commodity standard is the free-market standard but actual commodity standards often lead to a broad monetary economy and since government produces money they have an incentive to produce more of it. So governments abuse commodity standards.

A free society should avoid a commodity standard because it would cost great resources as a result of government mismanagement and American history shows that this is a problem. Many in the late 19th century were unhappy with it and it produced successive financial crises. This led to the creation of the Federal Reserve system but the WWI broke out and all the major nations abandoned the gold standard.

During periods where there was no central bank, monetary supplies would randomly contract in severe ways. Based on the evidence, Friedman thinks that the Federal Reserve System still inflated too much during and after World War I, and the Fed created the major contractions of 1920-21, 1929-33 and 1937-38. The evidence is too complex to present, but Friedman simply gives a brief history.

While the Federal Reserve can produce more money than what is deposited (known as fractional reserve banking), this can happen without a Federal Reserve and lead to the collapse of the money supply. At least the Fed can ease the pressure of everyone demanding to hold cash at once. Friedman then continues his history of American monetary policy.

In short, the Federal Reserve shows how unstable the economy can be made by concentrating power in the hands of a few; when they err, the whole country suffers. Instead, the Federal Reserve System should rely on rules rather than authorities. Thus,

in Friedman's view, general rules of monetary policy should be issued for the Federal Reserve System, much like there are general rules embodied in the Constitution for fair governance not in the hands of men with arbitrary authority. Central bankers, without a rule, will tend to focus on a subsection of the problem and not understand a monetary phenomenon as a whole.

Friedman argues that the Fed should aim to achieve a specified rate of growth in the stock of money, for example, the currency outside commercial banks plus its deposits should be increased month by month at a stable annual percentage rate between 3% and 5%. The target is less important than stability. Friedman's conclusion is somewhat tentative.



Chapter 4, International and Financial Trade Arrangements

Chapter 4, International and Financial Trade Arrangements Summary and Analysis

International monetary issues and trade arrangements are an especially complex topic. However, the liberal cannot neglect it because it is the most serious short-run threat to liberty in the United States. Without solving the problem, the government will try to control the economy to solve it. Much economic freedom is lost following the control of foreign exchange.

Some governments make their currencies "inconvertible" which is to say it cannot be traded for any amount of another currency. In Friedman's day, conversion was still illegal, and at that time it had been illegal since 1933 to hold or to buy and sell gold. Government now controls the price of gold internationally and this benefits the government at the expense of the people.

Friedman then separates the two problems of the balance of payments and the danger of a gold run; a loss in confidence can destroy an economy by triggering the latter. Friedman then explains how the two problems are related and discusses alternative mechanisms. The details are complex but Friedman reviews them in detail. He concludes that we have an incoherent policy that baffles our trading partners which makes trading harder and economic stability harder to maintain.

Friedman prefers floating exchange rates, where any currency is convertible into any other by means of exchange (this system was somewhat established in the 1970s). An automatic gold standard is consistent with a free society but it has problems. Friedman thinks that floating exchanges rates are compatible with a free society as well and prefers this solution. He reviews why most economists in his day oppose the idea; he believes that economists largely misunderstand floating rates based on statistical fallacies.

Friedman believes that monetary stocks will be self-regulating under his preferred system. He thinks the US should stop selling gold at a fixed price, allow individuals to buy and sell gold, let the Fed hold however much gold it likes, not set dollar exchange rates, among other things.

Friedman argues that floating exchange rates will allow the United States to move effectively and directly to free exchange in other goods and services which he believes will make the nation much wealthier since trade, generally speaking, makes all sides better off. Monetary exchange rates will allow trades across countries to equilibrate in accord with those rates.

Friedman ideally wants us to move to free trade unilaterally. Free trade would substantially promote the cause of freedom at home and internationally. We could proclaim our consistent commitment to laissez-faire by opening our markets to all free comers.



Chapter 5, Fiscal Policy

Chapter 5, Fiscal Policy Summary and Analysis

An oft-used rationale for government power is that extra government spending is needed to reduce unemployment. However, this failed in the Great Depression and there is no reason to expect that it will succeed today. Debt was supposed to finance greater consumption which would lead to more employment, but theoretical analysis has discredited it.

Today government spending is defended on the grounds that it "balances" the economy and that it should rise to stabilize total expenditures. However, this is absurd, because a true balance would have government spending shrink when private spending increased. This rationale has allowed government expansion to proceed unabated and prevented a reduction in taxes.

The federal government's spending now has large effects on the economy, but the economy could be stimulated in the private sphere. Even if the balance-wheel theory were true, the wheel could turn the other way. However, in any case, the "balance-wheel" turns largely at random and so leads to instability.

The origin of the balance-wheel view begins with a crude form of Keynesianism, which holds that government spending has a multiplier effect which leads to economic growth. The reasoning is spurious. In fact, over time, the government simply pulls money out of the market; what is more, the analysis of spending never focuses on what the spending is for. It suggests that digging holes and filling them up again could help the economy.

Friedman argues that no established economist denies the crude Keynesian analysis appealed to by politicians. Friedman warns that discussions of macroeconomic policy in a book like *Capitalism and Freedom* are inherently highly simplified. Friedman then points to his extensive empirical work which shows that for every dollar the government spends only about a dollar is added to income on average. Government spending is therefore not expansionary. However, cutting government spending is expansionary. An extensive body of evidence contradicts the crude Keynesian rationale for government power.



Chapter 6, The Role of Government in Education

Chapter 6, The Role of Government in Education Summary and Analysis

Schooling is mostly run by government, Friedman claims. This state of affairs was a gradual development. Government has dramatically and irresponsibly increased its power as a result.

Two arguments provide for government involvement in education. First, there is the claim that education has positive externalities which is to say that it provides social benefits not captured by its price. Second, there is the paternalistic argument that parents will not do best for their children. The former argued for general citizen education and the second for specialized vocational education. Friedman then distinguishes between education and schooling; neither is required for the other. The state largely schools.

Democratic societies cannot exist without a literate and informed population. Education can help as a result. The government can require education for this purpose but it need not produce education itself. Instead, parents could be required to pay for school and then extreme cases could be aided with a subsidy. With this solution, government machinery could be eliminated and stop governments from controlling education. Further, increased income would lead to fewer subsidies not an enriched government.

Friedman is concerned that such a policy may not be feasible in some places in the country, and so government pays for minimum schools and higher levels of education. Some see this as the only good means to reach the minimum; more schools is paid for to benefit society as a whole. Purely vocational training is not justified by this argument.

It is also unclear which forms of education should be subsidized. Imposing a minimum requirement can accomplish this purpose. However, the government need not administer education, just subsidize it. Vouchers could replace the public school system. Governments would only ensure that education met minimum standards.

Some argue against values on the grounds that common values could not be propagated but this would rule out private schools if pushed too hard. It is also not clear that denationalizing schools would have this effect. Instead, it would increase parental choice. Some worry that private schools increase class distinctions but in fact this argument works in the other way because the market is not discriminatory in the way the government is.

Friedman also argues that competition will help the schools system. Increasing monetary expenditures indiscriminately will not help either and has been shown not to



increase learning. The problem with teacher salaries is not that they are too low but that they are the same regardless of quality.

Friedman also argues that the idea that schools will not be created in small towns has been undermined by low transportation costs. Administrative problems would be costly but could be resolved.

As for university education, government was not initially a major component of financing but their role has grown. One reason is because of its cheapness. However, the cheapness of education is not a rationale for vocational training. For a better higher education system, subsidies should simply be given to those who cannot afford it.

However, vocational and professional school should be totally privately run since it has no positive externalities in the same sense as other forms of education. Some argue that this market is restricted by underinvestment in human capital but there is no reason private contracts should fail to solve this problem. The only real problem is the stigma against education contracts.

If government intervenes, it should only subsidize. It should not aim to redistribute income but to make capital available to industry.



Chapter 7, Capitalism and Discrimination

Chapter 7, Capitalism and Discrimination Summary and Analysis

Friedman claims that the rise of capitalism and the reduction in discrimination based on religion, race, social grouping and the like have gone together and he thinks there is a reason for this: contract arrangements replaced status as a source of wealth. A strong belief in private property rights led to Negroes always being permitted to own real or personal property; this belief in property rights made discrimination difficult because people's self-interest in benefiting from, say, the productivity of blacks, was pitted against their natural racism. Economic efficiency is separated from irrelevant characteristics.

Friedman is a racial egalitarian but he believes that coercive force should not be used against racists in violation of their property rights. For instance, fair employment commission legislation involves interference of individuals to enter into voluntary contracts. If a grocer wishes to make money and he knows his community has an aversion to black cashiers, if he does not prefer whites, he will not be able to maintain his business. This will mean fewer competitors and accordingly higher food prices for the community.

Many argue that fair employment commissions are justified in interference because no one deserves to be hired or fired based on an irrelevant consideration. This is characterized as a harm to the person discriminated against. However, Friedman denies that a refusal to engage in a contract is a harm.

The problem with fair employment commission legislation is that it is based on a principle that would be rejected in other areas—that the state can give special privileges to a few. Should the majority change its mind about which group is to be protected against discrimination, bad consequences could follow. It is also a form of social engineering and could even be applied to free speech to produce "fair speech" laws (Friedman's conception of hate speech).

Friedman also rejects "right-to-work" laws which make it illegal to require union membership as a condition of employment. However, this also interferes with freedom of contract. As a liberal, Friedman wants to preserve freedom of contract here as well. Big unions should not have monopoly power, to be sure, but other laws give them that power and it is those laws that should be ended.

As for segregation in schools, it is a problem because schools are run and administered by government and so the government must make an explicit decision—forced integration or forced segregation. However, both are unjust; if forced to choose,

however, Friedman would find it impossible not to choose integration. Without public schools, the government could avoid either sort of force and the market could reduce the incentive to discriminate.



Chapter 8, Monopoly and the Social Responsibility of Business and Labor

Chapter 8, Monopoly and the Social Responsibility of Business and Labor Summary and Analysis

The marketplace lacks the personal rivalry often associated with competition. Instead, it has an impersonal character. Prices are determined by the market. Monopolies arise when particular individuals or enterprises come to dominate a market and control the terms on which individuals can access it.

Monopolies therefore raise two problems for the liberal: they produce limits on voluntary exchange and raises the issue of the "social responsibility" of the monopolist (for the firm in the competitive market has no choice but to follow what actions produce profit and which do not).

There are three primary forms of monopoly: monopoly in industry, monopoly in labor and government produced monopoly. Monopolies in industry are rare; many see monopolies when they in fact only see large firms. However, what matters is a firm's size relative to others in its market, not its absolute size.

Unions often produce labor monopolies but worries about them can be overemphasized since many are ineffective, but government does give them special privileges which gives them the ability to set wages in some cases.

Finally, government produces monopolies and gives them enormous power, like the Post Office and the Tennessee Valley Authority. Licensure practices are the same things. All of these actions by the government reduce competition, restrict free choice and raise prices. Monopolies of the latter sort have a different nature.

However, patents and copyrights are also government created monopolies; they are justified on the grounds of giving a reward to those who innovate and often because individuals seem to have a right even in the ideas they create. That said, Friedman supports a shorter period of patent life.

Monopolies are caused by three major factors: technical considerations where monopoly is most efficient. In this case, one must choose between the evil of private monopoly, government monopoly and government regulation. Friedman thinks the first is least bad. The second source of monopoly is direct and indirect government assistance (such as tariffs and the tax structure) and this assistance should be ended.

Finally, there is private collusion, or the deliberate setting of prices through an agreement by firms. However, collusion often breaks down when prices are raised above the market price since any of the members can defect from the agreement and



capture the lost market share. That said, antitrust laws aim to stop collusion before it starts, largely trying to make collusion more costly.

The government should first eliminate measures that directly support monopoly and then reform tax laws by abolishing the corporate tax. Friedman also denies that corporations have any social responsibility; their only responsibility is to make as much money for their shareholders as possible. Otherwise, they hamper the private enterprise system which does the most for the common good anyway.

Friedman even condemns charitable giving by corporations on these grounds. In any event, they have no way to make the relevant adjustments to their effects on the market. Generally Friedman sees corporate "social responsibility" as a step away from individualism and towards a corporate state.



Chapter 9, Occupational Licensure

Chapter 9, Occupational Licensure Summary and Analysis

Freedom of occupation has been a key factor in the dramatic increase in wealth and freedom in the 19th and 20th centuries, but we have engaged in a regression by letting the state issue occupational licenses. In this chapter Friedman argues against licensure in general and medical licensure in particular, in part to show that liberal principles can have seemingly radical conclusions.

Licenses are simply restrictions on who may hire who. Guilds and castes are related systems. In fact, all restrictions on trade are restrictions on the arrangements some can make on others. Today occupational licensure is spread across the economy and the arguments for control of labor supply are typically given by those who benefit from the licenses.

In fact, licensed practitioners benefit from licensure because they are able to raise their wages by reducing the supply of those who perform their service. It thus establishes a privileged economic class within a particular field. The system perpetuates itself because licensed members of each field are those who populate government bodies that continue licensure. Since so much of the livelihood of these individuals depends on retaining licensing control, they will focus a great deal of energy on procuring these privileges.

Three levels of control should be separated: registration, certification and licensing. Registration is simply forming a list of who engages in what; certification involves requiring individuals display skills in a particular area, such as a qualifying test for a CPA. Neither activity prevents others going into business. However, licensing proper requires detailed demonstration of competence and leads often to exclusion.

What can justify these forms of control? Some claim that it helps others pursue their aims more effectively as one may need to know who is doing what, such as firearm registration but this is only sometimes a justification that would override individual liberty. Conversely, registration is often just a method of making taxation easier. However, registration might make protection against fraud easier.

It is harder to justify certification since the market can do this for itself. Retailers and department stores certify the goods they sell and they could do the same for professionals; in both cases, good products maintain good reputations which increase sales.

Licensure is still harder to justify since it deliberately blocks private contracts. However, sometimes licenses stop, for instance, incompetent physicians that produce epidemics and other such negative externalities, but if he only harms his patient that is a simple

matter of contract. However, the main argument for licensure is paternalism, that the people are stupid and must be taken care of by the more intelligent.

All forms of licensure have social costs and they can be used as a tool of special interest groups to benefit themselves at the expense of consumers.

However, when it comes to medical licensure, people become quite concerned with these arguments. Remember, though, that licensure gives great power to the medical profession to control physicians and in Friedman's day the American Medical Association was the strongest trade union in the United States. They exercise this control through entry into medical school; without AMA approval, medical schools will not be able to operate because they have to be approved to give out medical degrees that will qualify individuals to practice medicine in a particular state.

Friedman emphasizes that he does not think that individual members of the medical profession conspire to raise their income. Instead, they protest against looser restrictions on the grounds that it will produce lower incomes for doctors, below what they should "properly" make.

"Quality control" is not a better argument, since many limitations on entry have nothing to do with quality. For instance, citizenship is often required for licensure and this has nothing to do with quality. The medical profession can also restrict technological and organizational changes made in medicine in this way.

Friedman denies that licensure increases competence generally. First, licensure creates an incentive to get around licensure and this probably gives rise to osteopathy and chiropractors. In any event, restricting the amount of doctors reduces the total number of medical-hours available on the market, which seems like a worse outcome than having more medical hours, some of which are less than the highest quality. Changes over time are blocked as well. It also restricts competition, which on its own would increase standards.

We can get information about which doctors are effective or not through reputation effects; licensure is not needed. It would be enough to make doctors legally responsible for negligence, fraud and harm that they cause. Further, an "intermediate" level of medical care could arise to provide cheaper services that require less expertise to provide (like nurse practitioners today). Medical teams might also be more widespread.



Chapter 10, The Distribution of Income

Chapter 10, The Distribution of Income Summary and Analysis

The greatest move towards collectivism in the West has been a belief in income equality and the willingness to use the state to bring it about. Friedman asks two questions: first, what justifies such intervention and second, how effective are those policies that aim to bring it about?

The free-market distributes income according to the value of one's labor and the instruments one uses to produce goods and services. However, many wish to see an equality of income regardless of productivity because they see it as part and parcel of equal treatment. Yet Friedman claims there is no essential connection between equal treatment on the one hand and equal shares of income on the other.

Inequality exists in the market in that different people have different abilities to satisfy the wants of others, and so they are paid in accord with these abilities. However, the redistribution of wealth effectively denies individuals the opportunity to engage in this competitive process; in a sense redistribution is a generator of inequality. It also ignores the fact that individuals have different natural endowments of ability.

Some try to argue for equality of income but not of endowments, since equalizing endowments seems obviously authoritarian, but Friedman thinks any distinction between equalizing the two is untenable. There is no non-arbitrary way of distinguishing reasons to equalize income and reasons to equalize endowments. Further, equality is often a smokescreen for envy that others have more than you do.

The market allocates payment and does not distribute it. There is no central distribution of income in the market anymore than there is a central distribution of chairs in the world. Further, the market implicitly recognizes that the amount of wealth in a society is partially reliant on how it is distributed. Redistributing wealth can slow economic growth.

Further, the allocative function of the market allows it to allocate income without violating liberty. It allows for power to be distributed without a coercive government mechanism that would inevitably be controlled by someone.

Capitalism's great achievement has not been the concentration of property and power but the freedom of individuals to develop and improve their abilities and lives. In fact, restrictions on capitalism often produce income inequality as well because of dramatic differences in living standards between the powerful in the government and the powerless outside of it. Effective inequality of wealth is reduced by the economic growth capitalism brings, the products it makes cheap and the liberty from toil it provides to individuals.



Statistical problems arise in measuring income inequality, however. The evidence is hard to separate into short-run differences in income and long-run differences so it is often unclear what is going on. Further, government methods used to alter income, such as graduated income taxes and inheritance tax cause many problems.

For instance, high taxes on highly productive activities discourage entry into those fields and so produces a smaller number of people with access to that wealth. Evidence shows that the personal income tax has been arbitrary in its effects. Taxes on being wealthy are in practice low, while taxes on becoming wealth are quite high.

Friedman argues that progressive or graduated income taxes are unjust because they restrict individual freedom for the sole purpose of redistributing income; he prefers a flat-tax on income above an exemption level and with few deductions. The exemption could be graduated depending on income. Friedman then argues that a flat-tax would bring in just as much revenue with less tax burden.

Finally, Friedman admits that some inequalities are due to imperfections in the market. Some game the system and become wealthy as a result. However, these loopholes could be closed and special privileges removed.



Chapter 11, Social Welfare Measures

Chapter 11, Social Welfare Measures Summary and Analysis

The sentiments that produced the progressive income tax also produced a number of "welfare" measures such as social security, public housing, minimum wages, farm price supports, special aid, and so on. Friedman will largely discuss the unintended effects of these programs and will analyze old age and survivor's insurance.

Public housing is often defended on public externality grounds. Those without housing will often impose costs on the community in terms of greater public services, but this does not argue for public housing but higher taxes for the sort of housing that adds to social cost. Public housing can only be justified on paternalist grounds, in Friedman's view.

Further, public housing has involved destroying housing units to make new room and has reduced the amount of space and increased the number of persons per unit. Special interests also came to dominate the building of such projects.

Minimum wages actually tend to increase poverty by outlawing wage rages at certain levels. Instead of simply paying higher wages, employers will fire people or hire fewer other people. Those without jobs are those who can least afford it.

Farm price supports benefit large farmers and not those farmers who are poorer and make ends meet by offering lower prices. As a result, more food is produced but the income benefits only accrue to those left in the market. The consumer also pays twice in terms of taxes and higher food costs.

The "social security" program is a vast invasion into the personal lives of many in the nation and Friedman thinks that it has no justification from a liberal perspective. Old Age Survivor's Insurance (OASI) requires that a wide group of people must purchase provision for old age, that the provision must be purchased from the government and that income will be redistributed since some will pay more but not receive the equivalent amount of increased benefits.

These elements need not be combined. First the income redistribution is indiscriminate and serves to penalize the productive and subsidize the unproductive, hurting the economy as a whole. The system is not self-financing either.

Annuity purchase does not need to be nationalized; why cannot individuals simply purchase annuities from private individuals? There is no good argument for government monopolization of annuities, not economies of scale, not facilitating purchase, and the costs of nationalization are enormous. Those who manage the money become a

monopoly of bureaucrats controlled by congress. Liberal and efficiency considerations weigh against it.

Now, should individuals be forced to buy annuities? There is a paternalistic argument which insults liberalism's commitment to individual dignity. It also penalizes those who take care of themselves. The paternalist is effectively a totalitarian. Individuals should be free to make their own mistakes.

Most will not endorse the logical implications of paternalism, but the mild proponents of paternalism are simply inconsistent for not following their principles to their logical extension.

Further, the effect of private, familial and charitable forms of provision have been widely underestimated. Compulsory annuity purchase has imposed great costs with few gains.

Chapter 12, The Alleviation of Poverty

Chapter 12, The Alleviation of Poverty Summary and Analysis

The West has experienced extraordinary economic growth over the last two centuries but many still live in poverty. Private charity is desirable and in the 19th and early 20th centuries such organizations grew dramatically. However, many argue that private charity is not enough because individuals will tend to undervalue poverty relief as it has positive externalities. Everyone is benefited with less poverty.

However, Friedman accepts the reasoning that justified government action to alleviate poverty but the question remains about how and how much. First, we should have a program directed to helping the poor and second it should make use of the market as much as it can. Friedman prefers a negative income tax where individuals all pay a slightly graduated tax but below a certain level of exemption they would receive increasing compensation in the form of cash as income falls, though not so much as to eliminate their incentive to raise their incomes.

Administrative problems would arise but this system would minimize them. It would certainly be better than the current system. There is a political risk that the majority will use the system that taxes them to help minorities to tax minorities to help themselves.

The liberal creed is that the dignity of the individual requires that he be free and have an equal right to freedom. He will therefore distinguish between equal rights and equal opportunity, material equality and equality of outcome. He will reject the latter three forms of equality to preserve the former. He will therefore prefer measures that will promote liberty and equal rights and prefer to use markets in the economy and eliminate monopolies. He will prefer private charity to state action. However, the egalitarian wants to take from some and give to others; the egalitarian therefore cannot be a liberal.



Chapter 13, Conclusion

Chapter 13, Conclusion Summary and Analysis

In the 1920s and 1930s, most intellectuals believed that the economy should be centrally planned and many of those attitudes remain with us. Many regard nearly any government intervention as desirable and the defenders of freedom are on the defensive. Yet the experience of government intervention is on the side of liberty; it is clear that the market is superior. The promises of communism have failed to come to fruition.

Income taxes drown the productive members of society, monetary reforms have produced inflation, farming programs have propped up the wasteful and powerful. Public housing has made juvenile delinquency and poverty worse and the pure image of labor unions has been destroyed. Social security grows in size and cost and the list goes on. Exceptions exist, of course, including the interstate highway system, orbiting satellites and, not without criticism, the school system. Sherman antitrust laws have been, on balance, an improvement, and law and order are largely maintained.

However, on balance, government has been a failure despite the fact that the United States has continued to progress. People become richer and more and more minorities have the benefits of freedom.

The central problem with government is that they force people to act against their own interest to promote the supposed general interest. They impose the values of others on individuals and hamper the strongest and most creative forces that men know of. In fact, Friedman speaks not of mere self-interest, but all the private value pursuits of life. Free societies permit people to disagree on the nature of the good life and go their own way. The burden should be on the proponents of power to justify themselves.

Freedom is threatened from two sides, the Kremlin and the internal threat from men of good intentions who want to reform us, but their intentions do not render concentrated power harmless. Both threats reinforce one another, as the military build-up to fight communism puts great power in the hands of the government. Unfortunately, in Friedman's eyes, this danger cannot be avoided but we must not intensify it without good cause.

Free institutions will withstand a lot but we must be aware of the threats we face and that free institutions offer a better life, although progress sometimes appears to be slower without the state's power. Hopefully the glimmers of freedom in the eyes of a few intellectuals bode well for the future.



Characters

Milton Friedman

Milton Friedman (1912—2006) was a Nobel Laureate economist, who not only made important theoretical contributions but was deeply influential across the world in policy. He was a prominent figure in the conservative and libertarian movements of the late 20th century and promoted classical liberal ideas in his many popular works, including not only books but videos, lectures and magazine columns. Friedman published *Capitalism and Freedom* in 1962 and the book has sold half a million copies since.

Friedman was a prominent advocate and founder of the Chicago School of Economics which challenged Keynesian orthodoxy in economics in the post-war economics profession, not only on its own theoretical terms but with their own doctrine of monetarism. Friedman predicted stagflation (rising inflation and unemployment at the same time) when the Keynesian model could not. He was also a famous critic of and historian of the Federal Reserve System. Friedman famously claimed that the Federal Reserve Board was the cause of the Great Depression due to fiscal mismanagement.

Capitalism and Freedom is one of Friedman's attempts to spread free-market ideas to the public at large. The book advocates a number of free-market proposals, many of which are implemented across the world today and seem commonplace, such as floating exchange rates, flat taxes, though many of his more radical ideas remain controversial, such as school vouchers, or totally ignored, like ending occupational licensure.

John Maynard Keynes

John Maynard Keynes (1883—1946) was a British economist whose ideas have shaped the 20th century more than any other. Keynes was the founder of modern macroeconomics and defended a mixed economy approach to government, where the government stops far short of nationalizing industry but instead uses fiscal policy to manage the economy and the boom-bust cycle, particularly to prevent permanent, stable and mass unemployment.

Keynes was originally thought to have "saved capitalism from itself." After the end of World War II, all the relatively free countries adopted his policies as their governing economic philosophies. However, the power of Keynesian ideas shrank in the 1970s when through the criticisms of Milton Friedman, the models of the macroeconomy that Keynesians had produced were thought to be refuted by the experience of stagflation. While Keynesian economics has enjoyed a popular upsurge, in economic thought Keynes's economic models have had to adjust substantially to the criticisms advanced by Milton Friedman. While Keynes does not feature prominently and explicitly in *Capitalism and Freedom*, it is the Keynesian approach to governance that Friedman is



primarily out to refute and to present an alternative to. Keynesian doctrine comes in for particular criticism in Chapter 5, on fiscal policy. Friedman argues that fiscal policy is not only ineffective because of poor governmental management but it fails to recognize the monetary causes of inflation and unemployment.

Franklin Delano Roosevelt

President of the United States during the Great Depression, Friedman condemns his—then widely popular—New Deal programs as government largess; Friedman argues that, in fact, bad Fed policy caused the Great Depression.

The Classical Liberal

The classical liberal is one who is worried about the damaging social effects of the concentration of power and seeks to limit it. He is one who is just as worried about the opportunity for government to do bad as its opportunity to do good.

The Well-Intentioned Social Reformer

Friedman sees the most dangerous individuals in democratic governments as the well-intentioned social reformers who believe that they can use the coercive power of the state to change people.

Rose Friedman

Friedman's wife, a fellow economist and often co-author, she helped to write *Capitalism and Freedom*.

Corporations

While many associate capitalism with corporatism, Friedman is at pains to distinguish the two. He argues that corporations often seek special privileges for themselves from the government and at the expense of the people. Government should not grant these privileges.

The American Medical Association

The association of doctors responsible for accrediting medical schools and licensing physicians, Friedman believes that the AMA is, in his day, the most powerful and destructive union in the country because it unjustifiably limits the supply of much needed physicians.



Egalitarians

Those who think that the equal moral worth of persons requires the equalization of income, material wealth or outcomes. Friedman stridently condemns their aims as incompatible with freedom, and therefore, as incompatible with liberalism.

The Poor

Despite associations between libertarians and indifference to the poor, Friedman advocates a negative income tax that he believes will not only provide an effective safety net but be far more effective than the current welfare state.

The Federal Reserve

The organization of bankers and economists that manage the money supply of the United States; Friedman blames Fed mismanagement for the Great Depression.



Objects/Places

Liberalism

In Friedman's mind, the 17th, 18th and 19th century ideology that emphasized representative government, the rule of law, free enterprise, free trade, the advancement of women, constitutionalism, ending slavery, limitations on state power and the freedoms of speech, religion and the press. Friedman identifies as a liberal.

Capitalism

The economic system that arises in combination with modern industrial institutions and strong private property rights with little government interference. Friedman is a strong proponent of capitalism.

Keynesianism

The economic doctrine of John Maynard Keynes that Friedman rejects and believes has been theoretically and empirically refuted.

Socialism

The social and economic philosophy which holds that the means of production should be owned by the state. Friedman stridently opposes socialism.

Paternalism

The social and political philosophy that holds that some individuals must have decisions made for them by the state because they are unable to take care of themselves. Friedman believes that paternalism is an offense to the dignity of the individual.

The Great Depression

The period of deep economic recession worldwide between 1929 and 1941, which many at the time believed was caused by capitalism. However, Friedman believes it was caused by the mismanagement of the money supply by the Federal Reserve System.



Floating Exchange Rates

An arrangement of international money supplies that allows currency values of different countries to change given the supply and demand for each currency vis-à-vis one another. It is the system in place today but in Friedman's day it was not. Friedman was one of the first to advocate it on the grounds that it would increase stability in the international economy. His advocacy was deeply influential.

Fiscal Stimulus

The process by which government cuts taxes and increases spending to try to increase economic activity, often during a recession. Friedman thinks that fiscal stimulus is destructive, ineffective and increases the power of the state unjustifiably.

School Vouchers

Friedman argues that the American education system could be substantially improved if rather than having government run and finance the education system, Americans were given vouchers that they could take to any public or private school they liked.

Monopoly

A circumstance that arises when one firm dominates a market regardless of whether it is public or private or through the operation in the market or due to government regulation. Friedman condemns all forms of monopoly but believes that private monopoly is less bad than both public monopoly and public regulation.

Occupational Licensure

The process by which a regulatory board backed by the government determines which individuals within a profession may practice. Friedman sees occupational licensure as a return to the Medieval Guild system, a mechanism that allows an elite group to enrich itself by restricting the supply of its labor to the consumer, forcing consumers to pay higher prices.

Social Welfare Programs

Friedman criticizes social welfare programs and inefficient methods of making the poor servile and dependent on the state. He argues that they should be largely replaced with private investment, charity and a negative income tax.



Negative Income Tax

The negative income tax is a graduated tax with a floor of exemption, such that under a certain income citizens pay no tax. Instead, as they fall below that income, the government provides a subsidy to alleviate poverty, but not so much that they lose an incentive to increase their incomes.

The Draft

Friedman advocates ending the draft which he regards simply as slavery.



Themes

Liberalism

For Friedman, liberalism is not the philosophy of social freedom, the mixed economy (the combination of capitalism and socialism) and expansive social welfare programs. Instead, it is an older creed of those who first called themselves liberals in the 19th century, of what is today called "classical liberalism." Classical liberalism is akin to modern day libertarianism, though it is not as centrally focused on equating justice with respect for private property rights.

Instead, it emphasized the ending of state involvement in religion, representative government, free enterprise, free trade, the abolition of slavery, the social advancement of women and the traditional liberal freedoms of speech, religion and press.

Liberals strongly defended limiting government, social creativity, individualism, constitutionalism and the rule of law. They ardently argued for the decentralization of power and the inherent limitations on the ability of men to fundamentally reform society. They were also cosmopolitan in emphasis, defending a policy of peace and internationalism.

Capitalism and Freedom is not accurately classified as a pure libertarian work. Instead, it defends a mild social safety net. It is also not a conservative work since it does not defend restrictions on social freedoms or the importance of tradition and virtue and community in society. Instead, it is an attempt to revive the doctrines of classical liberalism. Friedman realizes that by using the term "liberal" in the sense that continental Europeans employ it that he is bound to confuse American audiences. Nonetheless, he refuses to give up the term to those he regards as its illegitimate heirs.

The Failures of Government and Success of the Market

Capitalism and Freedom is not a work that is focused largely on liberal social freedoms as other important books in the classical liberal tradition, such as John Stuart Mill's *On Liberty*. Rather it is written not by a social philosopher and economist like Mill but, in an age of increasing specialization, it is written by a man who, while a world-class economist, was not a moral philosopher. Consequently, while it sometimes touches on moral matters, it does not develop a principled case for liberty but rather defends capitalism largely on the ground that government fails and markets succeed.

For Friedman, markets work because they recognize the inherent limitations of man; they do not try to change men into serving the common interest, or force them to act against their self-interest. Instead, markets allow for experimentation, creativity and yes,



even failure from which Friedman believes individuals will learn to avoid actions in the future.

More specifically, Friedman defends a number of pro-capitalist economic measures. He argues that school vouchers should replace the government education system, that the negative income tax should replace the welfare state and the fiscal policy should not be used to manage the economy. He also decries all forms of price controls, minimum wages and regulation of private industry save in a limited number of circumstances. In the view of many, Friedman's most radically capitalist proposal is ending occupational licensure.

The Fragility of Freedom

An important theme that is raised most prominently early in the book and towards the end is the fragility of freedom. Friedman points out that the history of man has largely been characterized by poverty, oppression, sickness and tyranny. Only in the 18th and 19th centuries did life improve dramatically for an important part of the world's population.

Friedman believes that it was the social, political and economic philosophy of liberalism that brought about the spectacular increase of wealth through their advocacy of capitalism. He also argues that by pushing for limited government, liberals created the conditions of freedom enjoyed today in Western nations.

However, Friedman also argues that political and economic freedom are tied together, both in principle and in practice. In principle, it is hard to see why someone should be free to choose her religion but not free to keep a substantial portion of what she earns or to be able to freely exchange with others. Second, in countries with no economic freedom, there is also no political freedom. So Friedman sees economic freedom as a method of maintaining representative democracy.

Throughout the book, Friedman views big government as a threat to individual liberty and argues that the increasing size of government threatens to destroy the fragile fabric of liberty. While emphasizing that the American devotion to freedom is strong and that the free-market is resilient under assault, he is concerned that if Americans do not recover their liberal heritage they will lose their liberal institutions which he believes are the source of American individual liberty and economic prosperity.



Style

Perspective

Milton Friedman is a widely renowned (though sometimes reviled) Nobel Laureate economist and self-professed classical liberal. His perspective reflects his profession and his ideology. As a first-class economist, Friedman is quite versatile in his mastery of economic concepts. He not only aims to break down economic concepts for the reader but is able to explain a number of important complexities involved in, for instance, international monetary economics and Keynesian versus classical views on fiscal policy. Thus, Friedman's perspective as an economist comes through clearly through clear writing and an obvious familiarity with economics.

Friedman defines a liberal as a supporter of limited government, defender of free enterprise, an individualist and someone who believes that humans' abilities to govern and alter their natures are limited. Again, he rejects the conception of liberalism that combines liberal social freedoms with an endorsement of state regulation of the economy and overly generous (in Friedman's mind) social welfare programs.

Friedman, due to his liberal outlook, is quite critical of government power. He argues, chapter after chapter that major social and economic problems are caused by excessive government intervention. From social security to the draft, from minimum wage laws to occupational licensure, Friedman rejects state intervention into the economy. Rather, Friedman extols the virtues of markets and freedom and defends his conception of the dignity of the individual and his right to liberty.

Tone

The tone of *Capitalism and Freedom* combines elements of Friedman's role as an economist, a critic of government intervention into the economy and a defender of capitalism and classical liberalism. First, in chapters where Friedman is most focused on complex economic topics, such as the Bretton Woods System and Friedman's proposal for floating exchange rates, the tone is a bit dry, though Friedman does the best he can to remain engaging despite complex subject matter. To maintain economy of prose, Friedman often refers the reader to his more scholarly and less popular works.

However, Friedman's tone as an economist is combined with a more negative and critical tone with respect to government intervention. For instance, Friedman does not absolve the Fed of explicitly irresponsible behavior when the Great Depression hit. He attacks well-intentioned social reformers as corrupted by power and claims that corporations often seek unjust privileges from the state. Most of all, Friedman is a critic of politicians and bureaucrats whom he regards—largely speaking—as enemies of freedom.



Overall, however, Friedman's tone is happy and positive. For anyone who saw Friedman speak, he always maintained a sunny disposition and an energetic mode of engaging his audience. This chipper quality and optimistic confidence comes through in his writing. Friedman extols traditional liberal values and shows a great respect for the dignity of the individual and his ability to shape his life for himself, despite what might be regarded as his controversial interpretation of what respect for persons demands.

Structure

Capitalism and Freedom is composed of twelve chapters, in addition to a brief introduction and brief conclusion. The main chapters focus on economic questions on partly distinct matters; as a result, each chapter is largely self-contained despite expressing common themes. Friedman is very clear about his thesis in each chapter and lays bare the chapter structure early on. In the introduction Friedman explains his classical liberal point of view and his basic principles of believing in the limitations of the ability of man to change his nature, the decentralization of power and free enterprise.

Chapter 1 claims that political and economic freedom rise and fall together; free-markets are the best preservers of democratic institutions. Chapter 2 defends the liberal view of government, which is quite limited. Chapter 3 attacks the Federal Reserve for mismanaging the money supply and causing the Great Depression. In response, Friedman proposes a fixed monetary expansion rule.

The Bretton Woods system should be abolished in favor of floating exchange rates for currency, Friedman argues in Chapter 4. In Chapter 5, Friedman claims that fiscal policy is an ineffective method of preserving economic growth and ending recessions. Chapter 6 argues in favor of school vouchers for education. Chapter 7 claims that capitalism can substantially decrease discrimination.

In Chapter 8, Friedman condemns private monopoly but argues that government regulation and public monopolies are worse; he also attacks the notion of corporate social responsibility. In Chapter 9, Friedman advocates the abolition of occupational licensure, including and especially medical licensing. In Chapter 10, Friedman claims that income should not be redistributed on egalitarian grounds.

Chapter 8 argues that private monopoly is bad but that the cure is often worse than the disease; he also claims that corporate "social responsibility" is a damaging idea. In Chapter 11, Friedman criticizes a number of social welfare programs and Chapter 12 claims that the welfare state should be replaced by a negative income tax. In the conclusion, Friedman argues that many social goods arise from the market and that government must be limited if it is not to deprive society of those goods.



Quotes

"Our minds tell us, and history confirms, that the great threat to freedom is the concentration of power." (Introduction, 2)

"The great advances of civilization, whether in architecture or painting, in science or literature, in industry or agriculture, have never come from centralized government." (Introduction, 3)

"I know of no example in time or place of a society that has been marked by a large measure of political freedom, and that has not also used something comparable to a free market to organize the bulk of economic activity." (Chapter 1, 9)

"... the role of the market ... is that it permits unanimity without conformity." (Chapter 2, 23)

"These then are the basic roles of government in a free society: to provide a means whereby we can modify the rules, to mediate differences among us on the meaning of the rules, and to enforce compliance with the rules on the part of those few who would otherwise not play the game." (Chapter 2, 25)

"A liberal is fundamentally fearful of concentrated power." (Chapter 3, 39)

"The Great Depression in the United States, far from being a sign of the inherent instability of the private enterprise system, is a testament to how much harm can be done by mistakes on the part of a few men when they wield vast power over the monetary system of a country." (Chapter 3, 50)

"Despite its technical character and forbidding complexity, the subject of international monetary arrangements is one that a liberal cannot afford to neglect. It is not too much to say that the most serious short-run threat to economic freedom in the United States today ... is that we shall be led to adopt far-reaching economic controls in order to 'solve' balance of payments problems." (Chapter 4, 57)

"Whether the views so widely accepted about the effects of fiscal policy be right or wrong, they are contradicted by at least one extensive body of evidence. I know of no other coherent or organized body of evidence justifying them." (Chapter 5, 84)

"A stable and democratic society is impossible without a minimum degree of literacy and knowledge on the part of most citizens and without widespread acceptance of some common set of values." (Chapter 6, 86)

"The substitution of contract arrangements for status arrangements was the first step toward the freeing of the serfs in the Middle Ages." (Chapter 7, 108)



"Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible." (Chapter 8, 133)

"Licensure therefore frequently establishes essentially the medieval guild kind of regulation." (Chapter 9, 141)

"To each according to what he and the instruments he owns produces." (Chapter 10, 162)

"The great achievement of capitalism has not been the accumulation of property, it has been the opportunities it has offered to men and women to extend and develop and improve their capacities." (Chapter 10, 169)

"Humility is the distinguishing virtue of the believer in freedom; arrogance, of the paternalist." (Chapter 11, 188)

"The heart of the liberal philosophy is a belief in the dignity of the individual, in his freedom to make the most of his capacities and opportunities according to his own lights, subject only to the proviso that he not interfere with the freedom of other individuals to do the same." (Chapter 12, 195)

"Concentrated power is not rendered harmless by the good intentions of those who create it." (Chapter 13, 201)



Topics for Discussion

Why does Friedman call himself a liberal? What do you think a liberal is? Which form of liberalism do you find more compelling, Friedman's or the one you are most familiar with?

What do you think of Friedman's case for capitalism over the mixed economy at a general level? Illustrate your argument with three examples from the book.

Why does Friedman think that political and economic freedom rise and fall together? Has time vindicated him?

Do you think Friedman is right to condemn paternalism as strongly as he does? Why or why not?

Is Friedman right that fiscal stimulus by the government is ineffective?

What do you think of Friedman's case for school vouchers?

What do you think about Friedman's argument against occupational licensure?

What do you think of Friedman's proposal to replace the welfare state with a negative income tax?