Free to Choose: A Personal Statement Study Guide

Free to Choose: A Personal Statement by Milton Friedman

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Plot Summary

Free to Choose: A Personal Statement by Milton and Rose Friedman is a book about economics. The book illustrates the Friedmans' strong beliefs in free markets and capitalism. Milton Friedman's TV series, *Free to Choose* is based upon this book. The book combines introductory economics concepts with political philosophy, which is usually missing from many introductory economic courses. The Friedmans' economics is based on the themes of human freedom, economic freedom and equity and the book discusses what happens when these three concepts are ignored. The market relays information through prices; therefore, prices must be free to reach their own levels, based on the buying preferences of consumers and the selling preferences of producers, without any government interference. In this way, all market participants will receive the correct information from the markets without any distortions introduced by government rules, regulations and policies. This is basically Adam Smith's invisible hand concept. All market participants will do what is best for the economy while acting in their own self-interest ,and the result will be an efficient outcome in which all economic agents benefit from exchange. There cannot be political freedom without economic freedom void of force and coercion.

Using this approach as their basis, the Friedmans look at various economic problems that nations have faced. They compare the economic systems of capitalism and planned economy and discuss why capitalism results in greater prosperity. What is missing in the planned economy is the role of personal incentives based on freedom. The role of government interference is discussed throughout the book, which the emphasizes that any kind of government interference hinders the efficient operation of the economy. This is also true with international trade and tariffs. Tariffs produce distortions in trade and cause changes in the level of income, employment and production in the trading nations. The Friedmans make their case for free trade.

The Great Depression and the factors that contributed to it is also discussed. As the founder of the school of monetarism, Friedman's beliefs are evident throughout the book. They are highly critical of the cradle to grave welfare state. But instead of just criticizing, the Friedmans offer ideas to replace the policies and programs that are in place or proposed and discuss why programs that rely on the market are superior. This is consistent with the monetarist emphasis on markets. Various other issues are also tackled, such as education, taxes and government spending. The Friedman's favor a school voucher program because it gives parents and students choice. It brings about competition among the education providers and makes them more responsive to the demands of the users. And as most adherents with roots to the Classical School, the Friedmans so not support the idea of big government and propose ideas to limit governmental growth. The chapter on inflation is the classical, textbook monetarist policy requiring slow and steady growth in the money supply. The book concludes with the Friedmans' proposal of an Economic Bill of Rights, which is a very interesting concept.

Chapter 1, The Power of the Market

Chapter 1, The Power of the Market Summary and Analysis

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The book opens with a discussion of the difference between the economic systems of the United States and the Soviet Union. The Soviet Union is an example of a planned or command economy. In the command economy, the government owns the means of production. Though all individuals work for the government, agricultural employees have their own small plots, which produce more than one third of the nation's agricultural output. Individuals select their own jobs in the labor market, but there are many moonlighters that provide services much quicker than the state. The government does not eliminate these market activities. "We hasten to add that voluntary exchange is not a sufficient condition for prosperity and freedom. That, at least, is the lesson of history to date. Many societies organized predominantly by voluntary exchange have not achieved either prosperity or freedom, through they have achieved a far greater measure of both than authoritarian societies. But voluntary exchange is a necessary condition for both prosperity and freedom." (Chapter 1, pg. 3).

The role of prices is central to the functioning of a market economy. The basis of the market economy is that both parties engaging in exchange can benefit from that activity or the activity will not take place. All this activity takes place without formal coordination or command through the use of prices. It is the market itself that coordinates the activities of all its participants in such a way that all participants are better off. It is the genius of Adam Smith who ascertained this function of the market.

Friedman uses pencils as an example of how the market functions without any form of central directions. Consumers decide they want to purchase more pencils. The stores find they are selling more pencils and order more from their suppliers. This causes the pencil manufacturers to order more supplies to make more pencils. The result is an increase in the price of supplies, including labor. None of the market participants has to know why the price of inputs increases. They just know that the buyers are willing to pay higher prices for the inputs just as customers are willing to pay more for pencils. The information is transmitted through prices. For example, higher oil prices lead to smaller, fuel-efficient cars.

Another function of prices in a market economy is in the determination of income. An individual's income is the difference between his costs and his revenues. The more the producer produces, the higher his costs are. Higher costs lead to higher prices, which enable the producer to afford the higher costs. So producers try to economize on costs or to use the most efficient techniques of production. Higher returns are an inducement to work, and they produce and function to direct resources from one use to another because the various factors of production go where they earn the highest return. A distortion is introduced into the market when the government interferes with minimum wage, price controls and price supports.

A distinction is made between human capital and physical capital. Human capital refers to the productive capabilities of the individual. It is based on the knowledge, training and experience that the entity has acquired. Physical capital refers to the factories, buildings, equipment and other physical items required for production. The individual's income depends on the kind, quantity and quality of human capital that he employs in the market. There is always dissatisfaction with the distribution of income in every society. In a market economy, the dissatisfaction is vented on the market; in a command economy, the dissatisfaction is vented on the rulers.

A governmental institution is supposed to serve certain purposes; however, it may or may not serve those purposes. Police and military are supposed to prevent coercion. The government is also supposed to provide the rules for the functioning of the economy. It is supposed to guarantee personal freedoms. Situations where third parties not involved in a transaction but are affected by the transaction are called market failures. These are situations where the market doesn't function properly to account for all of the costs of a transaction. Another role for government is to correct for market failure or devise methods of compensation. This can involve compensation paid to the injured party. There can also be situations of government failure. Whether the government should intervene or not is determined by comparison of the costs and benefits of the intervention.

The Friedmans' use Hong Kong as an example of an economy with little governmental interference. There are no tariffs, few restraints on free trade and very little government interference in the market. The small island has achieved one of the highest standards of living in the world. This statistic pertains to Hong Kong before its return to mainland China. This was also the situation in Great Britain and the United States in the mid-eighteen hundreds and resulted in massive immigration to America.

Chapter 2, The Tyranny of Controls

Chapter 2, The Tyranny of Controls Summary and Analysis

Common sense dictates that people buy from others when they can't produce a product as cheaply as someone else can. It also makes sense to buy at the lowest price and sell at the highest price. Every entity acts in its own best interest, which differs from that of others. Smith claims that the result is a maze of rules and regulations that cause problems. Everyone would be better off without the rules and regulations that restrict the market. He uses free trade as an example. Tariffs and other forms of controls cause more harm than good. Eventually these interferences and controls expand into the domestic market, and society is worse off than they would have been otherwise.

In the 1930s, the United States enacted the Smoot-Hawley Tariffs, which raised tariffs to their highest level in U.S. History. The result was retaliation by other nations and a decrease in the volume of world trade and higher prices for consumers. Since then the world is still trying, in a variety of ways, to lower the tariffs. There is a fallacy among the public that imports are bad and exports are good. This doesn't make sense from an economic point of view. One nation's imports are another nation's exports. A nation that wants to export has to import. A nation's exports pay for their imports. The summary of a nation's exports and imports is contained in the Balance of Trade. When exports exceed imports, there is a Balance of Trade surplus. When imports exceed exports, there is a trade deficit. Many people believe that tariffs protect high wage countries from the imports of low wage countries. This isn't true because the value of the exchange rate is based on supply and demand. Imports result in a demand for the foreign currency, which raises its value relative to the domestic currency. The domestic currency weakens as its supply is increased in response to the amount being exchanged for foreign currency to pay for the imports. This results in changes in relative prices in both trading nations. When the exchange rate adjusts automatically, the adjustment process in supply and demand is automatic. When exchange rates are fixed, they can't adjust to supply and demand conditions, which results when there is a surplus or deficit. The United States continually ran a balance of trade deficit in the years following World War II. This led to an increased supply of dollars in world markets and provided liquidity for growth because the dollar was used as an international currency.

Nations decide what goods and services to trade based on comparative costs. Nations produce the goods that use comparatively fewer resources to produce than the other county and trade them for goods that they can't produce as cheaply. Trade based on comparative advantage results in the greatest efficiency for the trading nations. If governments try to subsidize their producers, they introduce a distortion into the market, and their citizens have a lower standard of living. The subsidies come from tax dollars, which are collected from the consumers. The result of subsidies is a lower price in foreign markets, so the foreign consumers benefit. But foreign employment levels decrease because of a decrease in domestic demand, and employment levels in the subsidized country will increase because of the higher level of subsidized exports. Tariffs can have the same kind of effect. A tariff placed on an import protects domestic employment and hurts foreign employment bringing about adjustments in employment levels and prices. This isn't a good approach to foreign competition. The best approach is to develop more efficient domestic industries.

Nations impose tariffs for a variety of reasons, in spite of the detrimental effects on international trade, efficiency and welfare. One reason for tariffs is national security. Industries providing a product vital for national security should be protected from foreign competition, so the nation isn't buying vital national defense supplies from foreign producers. This is usually accepted as a valid argument for a tariff, even though improved efficiency would be a better solution. No matter the reason for a tariff, the exchange rate will be affected. The exchange rate represents the price of the currency. "The price of the dollar, if determined freely, serves the same function as all other prices. It transmits information and provides an incentive to act on that information because it affects the incomes that participants in the market receive" (Chapter 2, pg. 39).

Crises occur in foreign exchange markets when the exchange rate value is determined by supply and demand. If the government is not happy with a currency value, it may intervene in the market by buying its own currency in exchange for another currency to raise the price of the domestic currency. They sell the domestic currency for a foreign currency to lower the domestic currency's value if they think it is too high. This interferes with the incentive and informational function of prices when they intervene.

A second reason used to justify the imposition of a tariff is the infant industry argument. This argument is based on the idea that a new developing industry cannot be competitive in international markets. A tariff gives the infant industry the protection it needs until it develops enough to be competitive. The problem is that the industry gets used to operating with the tariffs and will very rarely function without them even as that industry grows. The third reason used to justify a tariff is to protect domestic employment. In this scenario the government imposes a tariff to protect employment in an industry. The tariff results in a higher price for the imported product, so consumers buy more of the domestically-produced product. This leads to higher level of employment in the domestic industry. It also causes unemployment in the foreign industry, which is why these kinds of tariffs are referred to as "beggar thy neighbor" policies. This tariff functions to export unemployment to the foreign country. Free trade is best in terms of economics.

The Friedmans discuss various countries as examples of the standard of living and the level of economic freedom that result from their economic systems. In the United States with its use of markets, there is a high standard of living with many personal freedoms. The Soviet Union and China are the opposite. The Far Eastern countries of Singapore, Malaysia, Taiwan, Korea, Japan and Hong Kong have strong, thriving economies because of their reliance on markets. The different experiences of Japan and India are discussed.

Even though the United States rates highly in economic freedom, there are still many restrictions. Economic freedom is the right to decide how to spend one's own income; however, we can only decide on that part which we control. Since a large portion of income goes for taxes, taxes represent a portion of income that can't be controlled by the wage earner. So even though the United States enjoys a great deal of economic freedom, there are still many restrictions, and the Friedmans believe it best to lift many of these restrictions.

Chapter 3, The Anatomy of Crisis

Chapter 3, The Anatomy of Crisis Summary and Analysis

The Great Depression that occurred in 1929 deeply and adversely affected the world. In addition to unemployment and misery in various countries, it contributed to the rise of Adolph Hitler and the fall of Chiang Kai-shek in China. The Great Depression produced a change in economic thinking, referred to as the Keynesian Revolution, named after the theories of the economist, John Maynard Keynes. The real cause of the depression was incorrect policy decisions by the government.

The Federal Reserve System came into being as a result of continual and severe bank panics and failures in 1907. When the Knickerbocker Trust had financial difficulties, it started a run on the bank. A run is when depositors withdrawal their funds, so they won't lose their money. The panic often spreads to other banks, who in turn restrict payments, which means they won't allow depositors to withdraw all of their money. This refusal to give customers their money is illegal, but it is a means of controlling a bank panic. This restriction in the money supply leads to a recession. The panic of 1907 resulted in the enactment of the Federal Reserve act of 1913. This act created the Federal Reserve System, which is responsible for the nation's money supply.

Banks accept deposits and keep a fraction of them for reserves, then use the balance for loans. The bank makes its profits from the interest charged on the loans. If the bank doesn't use the deposits as loans, it uses them to buy bonds and profits from the interest on the bonds. Since banks don't have the full amount of the deposits on hand, a run on a bank occurs when too many people try to withdraw their money at the same time. Banks with a temporary cash shortage end up failing in this situation. One of the purposes of the Federal Reserve System (Fed) is to loan funds to banks facing a temporary cash shortage. This is why there are regional Fed banks around the nation.

The Fed also engages in open market operations, the buying and selling of bonds. When the Fed sells bonds, banks must pay for them with their cash reserves. This leads to fewer reserves in the system and fewer loans being made. The opposite occurs when the Fed buys bonds. When the Fed buys bonds from banks, the Fed pays with money. The money is added to the reserves of the banks, which now have more money available for loans. The Federal Deposit Insurance Corporation (FDIC) was created in 1934, to guarantee deposits in member banks. If a bank fails, the FDIC pays the depositor the amount of his funds that are in the bank when it fails.

The New York Fed, under the leadership of Benjamin Strong, controlled the international affairs of the bank. His death in 1928 left a void in the system and led to a power struggle. "This struggle for power proved to be - as no one could have foreseen at the time - the first step in a greatly speeded-up transfer of power from the private market to government, and from local and state government to Washington" (Chapter 3, pg. 70).

The level of economic activity in the United States began to decline two months before the stock market crash in October, 1929. The Feds' immediate response to the crash was to pump reserves into the banking system, which is the correct response in terms of modern economic theory. But the Fed doesn't follow through. It allows the size of the money supply to decline through 1930, and then to decline sharply through 1933. This increased the severity of the depression. The first bank failure in 1930, caused a snowballing effect. If the Bank of the United States had not failed first, it would have been another bank that would have started the snowball effect. The Fed didn't respond by buying bonds and supplying money to the banking system, which would have stemmed the failure of the banks. It would repeat these actions in subsequent bank failures in the next few years. When Great Britain went off the gold standard, the Fed responded by raising the discount rate in order to protect the U.S. gold reserves. This put a further strain on the domestic economy in terms of worsening the depression. The Fed refused to engage in large-scale, open market operations to pump reserves into the banking system.

The failure of the Fed to act in the appropriate manner resulted in a shift of power within the Federal Reserve System from New York to Washington D.C. and led to the establishment of the position of Chairman of the Board to lead the organization.

Chapter 4, Cradle to Grave

Chapter 4, Cradle to Grave Summary and Analysis

Roosevelt won the presidential election of 1932, and brings about a needed change in policy. Roosevelt supported policies of active intervention in the economy by government. These ideas are known as the New Deal, a series of programs of government spending that begin in 1933. "The New Deal also included programs intended to be strictly temporary, designed to deal with the emergency situation created by the Great Depression. Some of the temporary programs became permanent, as is the way with government programs" (Chapter 4, pg. 84). Some of the public works programs, such as the Works Progress Administration (WPA) and Civilian Conservation Corps (CCC), serve the purpose of providing jobs for the unemployed. These were temporary programs.

The U.S. entry into World War II brought about a shift to a wartime economy, which emphasized planning, thus ending the unemployment and the need for the New Deal programs. The Depression ended. After the war, the world closely looked at economic planning. The United States, Britain, Sweden and France experimented with nationalization. The experience with planning did not prove as effective as they had hoped. In spite of this fact, government continued to grow, and the New Deal programs of Social Security, unemployment and direct payment were expanded. The Friedmans examine the German experiment with social welfare programs that began in the 1880s. Germany was the first social welfare state. The most successful of the welfare states have been Britain and Sweden.

The biggest program of social welfare in the United States is the Social Security program. At the same time, everyone complains about this program. Recipients complain the payments are too small, workers complain the government takes too much out of their checks, employers complain about the extra work and cost of compliance. The program is a form of social insurance and was enacted so working people would be assured of some income during both retirement and periods of unemployment. The funds each worker pays out for Social Security are not saved in a special account for that worker; they are immediately paid out to current retirees. "Social Security is in no sense an insurance program in which individual payments purchase equivalent actuarial benefits" (Chapter 5, pg. 95).

The Social Security tax is a regressive tax, which is one which takes a larger percentage of the earnings from lower-income groups than from higher income groups. Since it requires a contribution from the employer, it discourages the employer from hiring workers and discourages the worker from working. One benefit of the social security program is that spouses who have never worked are entitled to benefits based on their spouses' working records. At the beginning of the twenty-first century, fewer workers are supporting larger numbers of retirees, which is just the opposite situation from when social security was first put in place. The program represents a transfer from the young to the old, from the working to the non-working and from the lower to the upper classes.

There are various other programs designed to help the poor. Public Assistance, or Aid to Families with Dependent Children, is what is commonly known as welfare. This is usually an emotionally-heated topic because part of the population receives benefits for which the other part is paying. Welfare discourages the work effort. At the federal level, there are more than one hundred programs to assist the poor. There are also programs for housing subsidies. The building of public housing units resulted in the destruction of many neighborhoods. The projects they built became hotbeds of crime. Mechanisms for the provision of medical care are also available. Most programs are at the state and local level, but some, such as Medicare, are at the federal level. Many critics call these programs socialized medicine. Studies of socialized medicine in England have led to a theory called bureaucratic displacement: The program results in useful work being replaced by work that isn't useful useful because of bureaucracy. The resulting dissatisfaction has caused many physicians to leave the program and country and many patients to opt for private insurance programs. The Friedmans do not believe there is any need for socialized medicine in the United States.

When all of these government programs began in the United States, there were only a few recipients with each taxpayer paying a negligible amount. But the numbers have changed, and today the programs are draining taxpayers. The Friedmans discuss the outcomes in terms of a chart. Category I spending is the result of the individual spending his own money on himself. Category II spending has the individual spending his own money on someone else. Category III spending has the individual spending somebody else's money on himself. In the final category, Category IV spending has the individual spending somebody else's money on somebody else. This is analogous to expense account spending. Category III spending includes all welfare programs. Both Category III and IV spending tend to result in misuse of funds because the individuals are spending somebody else's money. The only way to spend somebody else's money is to take it away from them, and this is what government does through taxes.

One proposal to deal with the problem is to use a negative income tax. The negative income tax gives money to low or non-income people through the tax system. The present system just exempts people from being subject to the progressive income tax. The negative income tax would set a basic amount of allowance. If the income is above this amount, the individual pays income tax. If the income is below this amount, the individual would receive a transfer. The amount of the transfer would depend on the subsidy rate. The program can be designed to provide a specified level of income to everyone without the use of social welfare programs. It would also be far less costly to administer. The Friedmans also recommend using the negative income tax to replace the Social Security program and propose the broad outline of the steps that would be required to bring about the transition. The politics of the situation are that they cannot change things that easily without a political uproar.

Chapter 5, Created Equal

Chapter 5, Created Equal Summary and Analysis

The chapter begins with a question concerning the meaning of the words "equality" and "liberty." The terms seem to take on a different meaning over time. Originally, equality meant equality before God and liberty meant the freedom of the individuals to make their own decisions concerning their own lives. This is why slavery was a Constitutional issue. After the Civil War, the emphasis shifted to equality of opportunity. The idea of equality was eventually applied to living standards, quality of life and income. This brings equality into conflict with liberty. One group does not have the right to impose its wants and will on other groups of society. Thus, the emphasis now is on equality before God and the law.

The equality of outcome is the belief that everyone should receive their fair share. Any governmental attempt to ensure fair shares for everyone results in an infringement on liberty. There are ethical issues involved in the concept of fairness. How do you decide what is and isn't fair? Many countries have policies based on equality of opportunity. These are policies that result in a transfer of wealth from the rich to the poor. In spite of this, these policies do not result in greater equality. Great Britain tried and failed in instituting the policy of equality of opportunity.

Nations of the world are characterized by a disparity between the rich and the poor. The prevailing myth is that this disparity results from capitalism and the use of free markets. The facts are that the disparity is greater in societies that don't use free markets. Soviet Russia had two distinct classes. The upper class was comprised of the bureaucrats and the rest of population constituted the lower class. This disparity also exists in China. This is another way of saying that there is no middle class. Brazil is another country with a very marked disparity between the rich and the poor.

Societies cannot have equality as a higher priority than freedom. History has shown that societies who use force end up with neither equality nor freedom. The entities using force use it for their own personal gain. Societies should place the emphasis on freedom first. This leads to greater degrees of both equality and freedom. Many societies have learned this lesson the hard way.

Chapter 6, What's Wrong with Our Schools?

Chapter 6, What's Wrong with Our Schools? Summary and Analysis

Education is a goal for most people. Schools that were private and voluntary became public and mandatory early in the nineteen hundreds. However, the education that was once very good is now declining. Parents have little control over the kind of education their children receive when education is publicly provided. The movement from private to public education was promoted by teachers and government, not parents. This resulted in a decline in the quality of education. Most education was controlled at the local level. Since the years of the Great Depression, control has gradually shifted from local to state to federal. Government administrators may have different ideas about how to achieve educational goals than the parents do. The more centralized and bureaucratized education becomes the less control the parents have.

Those with enough income evade this problem by opting for private education. This involves a double payment, since they are paying both for private tuition and public education with their taxes. Another way to obtain a good education is to live in wealthy suburbs that offer superior education in public schools, which is paid for through tax dollars. These parents are only paying once for education, and they are receiving a better deal for their tax dollars than parents in the inner-cities. Inner-city private schools provide a better education and produce a different kind of student than inner-city public schools. Parents who send their children to private school do so at their own expense. None of the public expense they pay is refunded to them.

The use of school vouchers is a proposal that would allow parents some choice in the school that their children attend. The voucher can be used for all or part of the tuition and costs at a school that the parent chooses. Public schools would charge tuition and be competitive with other schools to attract voucher dollars. If they didn't provide a good education consistent with parent preferences, the parents would send their children to another school, which will receive the voucher dollars. The school voucher program still uses tax dollars to pay for education, but it results in the parents having a greater choice in selecting the school and kind of education their children receive. At the time of this book's writing, parochial schools are the only alternative to public schools. These are church-subsidized schools.

The school voucher plan is not fool-proof. There are some problems, and there are many objections to the program. Public dollars being used to finance education at a parochial school may violate the Constitution regarding separation of church and state. This is an issue that must be settled by the courts. A second problem comes from the cost of the program. Part of the higher cost would come from parochial school students receiving vouchers. Another objection has to do with safe-guards for guaranteeing that the voucher funds are only used for education. Fraud can be prevented by allowing vouchers to be redeemed only by approved schools. The last issue has to do with race and discrimination. This can be prevented in the voucher program in the same way that it is prevented in the education program. A fifth issue has to do with economic class. A voucher program will affect the economic and social structures of the schools as students come and go to and from different places. A sixth issue has to do with the fear and doubt of sending children to different schools and the question of where new schools would come from. The last issue has to do with the effect of a voucher program on public schools. The public schools would have a problem being competitive with other schools. The exodus from the inferior schools would lead to further deterioration of those schools.

Even though there is support for a school voucher program, there are also obstacles. The entire bureaucracy of the education system is opposed to having schools open to market competition. There is always opposition to any opposed plans. Kenneth B. Clark points out that as long as the public school system functions as a protected public monopoly with not competition, there is little chance for change and improvement.

The problems in higher education are described as those of equity and quality. The existence of many low-cost colleges with subsidies attracts many students who aren't interested in obtaining an education. Many public institutions focus more on graduate teaching than on undergraduate teaching. At private institutions the situation differs. Students are paying for their education, and they want value for their money. Both suppliers and demanders of education have a stake in seeing that quality education is provided, or the students will go to a different school. Private schools also rely greatly on grants for research and buildings as a source of funding.

In terms of equity, the financing of higher education with public funds is justified on the basis of the social benefits associated with higher education. Society benefits from the higher educational level of the population. There is really no way to measure the costs versus the benefits of public higher education. One justification is on the basis of providing an equal educational opportunity. Making student loan funds available allows those who want an education to borrow the funds so that they can obtain the education. The payback of the loan is not on an equity basis because graduates have different earning levels. The Friedmans propose a college voucher program to replace the inequities in the system. Many states have enacted various scholarship programs.

Chapter 7, Who Protects the Consumer?

Chapter 7, Who Protects the Consumer? Summary and Analysis

Critics of capitalism say that the corruption of individual economic agents will lead to deception and fraud being practiced on the customer in terms of shoddy and over-priced products. The Friedmans use the drug industry and the Corvair as evidence. Governments thought they could control abuse through regulatory agencies. Regulation costs money, and, in spite of the money spent, there are shoddy products produced by the regulated entities. The entities that operate without any government intervention or regulation produce quality products. Most of the government agencies, such as the Interstate Commerce Commission and the Federal Drug Administration were created as a response to a problem. The purpose of this chapter is to examine some of the agencies.

In the years right before and after the Civil War, railroad growth in the United States exploded until there was more miles of rail track in the United States than in the rest of the world combined. There were so many railroads that they all engaged in cutthroat competition. No matter what arrangements they made, the result was a breakdown of the agreement and a resort to price cutting. In places where there was only one railroad, as was the case with short hauls, there was price gauging. The railroad could get away with it because the only alternative forms of competition were the canals and rivers, which were much slower. On longer hauls, each railroad faced competition from other railroads. There were many complains about the discriminatory pricing practices. The Interstate Commerce Commission was created in 1887, to halt the predatory practices. The railroads soon learned how to use the ICC to their own advantage. The ICC solved the short-haul discriminatory pricing problem by raising the long-haul rates to cover the sum of all the short-haul rates. The ICC was staffed with people who had been in the railroad industry, so as control shifted to the ICC, the railroads were not hurt in any way.

When trucks came became a form of competition, the trucking industry boomed because of the artificially high regulated rates of the railroads. Eventually the ICC regulated the trucking industry, and trucks have to be licensed by the ICC to operate on an inter-state basis. Soon the personnel at the ICC shifted and the commission became controlled by former persons who had made a livelihood in the trucking industry. "A major argument for letting market forces work is the very difficulty of imagining what the outcome would be. The one thing that is certain is that no service would survive that users did not value highly enough to pay for - and to pay for at prices that yielded the persons provided in the service a more adequate income than alternative activities open to them. Neither the users not the producers would be able to put their hands in anybody else's pocket to maintain a service that did not satisfy this condition" (Chapter 7, pg. 192).

The Food and Drug Administration (FDA), created in 1906, is the federal government's second consumer protection agency. It was created out of concern for the safety of food after the publication of Upton Sinclair's *The Jungle*. In the early days, the FDA was concerned with the inspection of food and with labeling of drugs. Its jurisdiction was extended to cover advertising and labeling and to granting approval for all new drugs. These additions to the FDA's mission occurred in the 1960s after the truth became known about thalidomide. A drug must now be determined to be safe before it can be marketed. The result is a decline in the number of new drugs introduced and a longer time period for approval. This also raised the cost of a new drug to over one million dollars in the 1960s. A study by Dr. Wardell showed that a greater variety of drugs were available in Britain than in the U.S. and that new drugs appeared much more rapidly in Great Britain. People with rare diseases in the U.S. are being hurt by the federal policy.

The Consumer Products Safety Commission is concerned with the safety of the various products on the market. The Commission, created in 1973, protects consumers from injury by defective and unsafe products. The Commission performs tests on products and issues safety standards. This imposes extra costs on the manufacture of a product, and this cost increase is passed on to the consumer. The establishment of standards results in trade offs in performance versus safety, and often bureaucrats who write the standards make arbitrary decisions.

The Environmental Protection Agency was created in 1970, to regulate issues pertaining to the environment. Many problems of the environment are the result of market failure. This is the case with pollution. Consider the example of water pollution. A factory dumping wastes into a river is polluting the water for those who are downstream. The costs of production do not include the costs that would be incurred if some other method were used for handling wastes. The river water is a free input. This is a case of market failure because the market is not tabulating all of the costs of production. The EPA tries to regulate the amount of pollution and environmental effects through the use of rules and regulations. Most economists favor dealing with the problem by devising ways of shifting the costs onto the offender. This introduces the cost factor into the firm's cost structure and forces it to seek more efficient methods of production.

Government became concerned with the supply of energy when the OPEC cartel instituted an embargo against the United State in 1973. This led to the creation of the Department of Energy in 1973. Any form of price interference affects the supply and demand of a product. A government can impose an artificially high price to encourage supply or an artificially low price to discourage supply. Government interference in the market discourages methods of alternative supply. This is also true with energy products. The removal of all forms of price interference will allow the market to reach its own equilibrium and companies will find alternative sources of energy.

The Friedmans feel that there will always be shoddy products and over pricing, even with government regulation. But the market is better at protecting the consumer than regulation is. The market allows the consumer the freedom of choice. The consumer's biggest enemy is monopoly, whether it is public or private. Monopoly limits the consumer's freedom of choice and the supply of the product.

Chapter 8, Who Protects the Worker?

Chapter 8, Who Protects the Worker? Summary and Analysis

In the past two hundred years, working conditions have improved for laborers in the United States and other countries. Many people use the term labor to mean both workers and labor unions. The vast majority of U.S. workers do not belong to labor unions. The effect labor unions and labor union type organizations have on workers depends on the kind of union it is. Some unions, such as the American Medical Association, function to restrict the supply of labor, which results in higher wages for the worker. The restriction comes through the licensing requirements and standards that the worker must meet.

Do unions result in higher wages for their workers? "The situation is, however, much more complex. Unions of highly skilled workers have unquestionably been able to raise the wages of their members; however, people who would in any event be highly paid are in a favorable position to form strong unions. Moreover, the ability of unions to raise the wages of some workers does not mean that universal unionism could raise the wages of all workers. On the contrary, and this is a fundamental source of misunderstanding, *the gains that strong unions win for their members are primarily at the expense of other workers*" (Chapter 8, pg. 223). Simple economics comes into play here. Whenever the price of anything, including labor, is raised, people don't want as much of the product, including labor. When wages increase, employers don't want to hire as many workers. When unions obtain higher wages, those wages only apply to the employed workers. Other workers are unemployed. Unions obtain their power to secure higher wages for their members through the use of the strike. Sometimes strikes can lead to violence.

Another way to secure higher wages for lower income workers is by enacting minimum wage laws. These laws set the limit for the lowest wage that an employer may pay. Their purpose is to help the low income worker. The effect, in many cases, is the opposite. The employer hires fewer workers when he must comply with minimum wage laws. The services of the employee are not worth what the employer must legally pay. Workers who would be hired at lower wage rates are not hired and are thus unemployed.

Another way of restricting the supply of labor or of limited entry into an occupation is by licensing. This was discussed above in regards to the American Medical Association, but it is prevalent in other occupations also. Look at the occupation licensing requirements for dentists, airline pilots, educators, and others. The government uses the excuse of protection of the consumer as the reason for licensing. It is usually the professional groups that lobby for the licensing requirements.

There have been cases of collusion between employers and unions. The Friedmans present a case involving coal miners as an example. The union controlled the output in that it would call for a slowdown or strike when the supply of mined coal grew so much that it would affect prices and wages. This and other practices maintained the high price of coal with the gains divided between the miners and the operators. This practice was halted by legislation.

Government has enacted a variety of laws geared toward the protection of workers. These are programs such as Unemployment Compensation, child-labor laws, minimum wage legislation and others. They are created the Office of Safety and Health Administration (OSHA) to establish standards for safety. Unprotected workers are those with no possible employer or those with only one possible employer. The ones with one possible employer are the highly skilled workers such as sports figures, and even they now have players' associations. The ones with no possible employer are those that are unemployable. This applies to those on public assistance, who must be qualified for a job that surpasses their public assistance amount. The Friedmans conclude that the labor market functions best on the basis of competition.

Chapter 9, The Cure for Inflation

Chapter 9, The Cure for Inflation Summary and Analysis

Federal Reserve Notes are the legal tender of the land. They are readily accepted in exchange for goods and services. But it isn't the pieces of paper that determine the national wealth. It is the work ethic of their population. The supply of money is a variable that the government must seek to control in order to avoid various economic problems in the economy.

Many different items have functioned as money over the course of history. The common factor is that each item had to be accepted in exchange for goods and services. Wampum beads were used in the early days. The state of Virginia used tobacco as a form of money for many years. They even issued certificates of deposits based on tobacco. Cigarettes functioned as a form of money during World War II in prison camps and in occupied Germany. In modern times where commodities are not used as a form of money, the government determines the size of the money supply. The supply is not determined by the size of a crop.

Economies that use markets can experience inflation. Inflation occurs when there are too many dollars in circulation. The money supply increases faster than the supply of goods and services and the result is inflation. This is why nations can't just keep printing more money to solve their problems. It requires more and more currency units to buy an item.

The Friedmans present various graphs plotting the size of the money supply and the Consumer Price Index. There is a very strong correlation between the two variables. The rise in prices follows the growth of the money supply. Many critics blame wage increases brought about by labor unions for inflation. The Friedmans points out that the relationship between monetary growth and price level rises exists in countries where labor unions are minimal. Businesses do not cause inflation either. International factors are not as important now that there is no gold standard. This is also true of fixed exchange rates. Low worker productivity has also been blamed as a factor contributing to inflation. Workers' productivity is a factor but not as important as growth in the money supply. "Inflation is primarily a *monetary phenomenon*, produced by a more rapid increase in the quantity of money than in output. The behavior or the quantity of money is the senior partner; of output, the junior partner. Many phenomena can produce temporary fluctuations in the rate of inflation, but they can have lasting effects only insofar as they affect the rate of monetary growth" (Chapter 9, pg. 252).

What accelerated the growth in the money supply in the 1950s and 1960s? The Friedmans attribute it to higher levels of government spending and the policy of full employment and mismanagement by the Federal Reserve System. Government spending does not automatically lead to inflation and monetary growth. Government spending can be financed in different ways. If the financing is in the form of higher taxes or by borrowing through bond sales to the public, then there is no inflation. However, if the increased spending in financed by increasing the money supply, there is inflation. Since raising taxes is usually politically unattractive, expansion of the money supply is usually the way spending is financed.

The second government policy that leads to monetary growth is the full employment policy. Government spending leads to higher levels of employment. The full employment policy resulted in the government financing its spending by monetary growth instead of by taxes. This led to the federal budget deficits that kept increasing. Instead of resulting in full employment during those years, the policies resulted in inflation.

The third factor that contributed to inflation was the mistaken policy of the Fed. The Fed tried to control interest rates. The result of this was a roller coaster ride of inflation and recession through the mid part of the century. The level of inflation never returns to its pre-recession level after the end of a recession. So each peak was higher than the previous one. The spending to end the recessions led to the rising deficits.

Monetary growth to finance government spending is not the solution to a nation's economic problems. Inflation means a decrease in purchasing power. It takes more currency units to buy something than it did before inflation. How much taxes people pay increases because inflation puts them in a higher tax bracket. Borrowers, including the government, pay back loans with currency units that have less purchasing power.

The cure for inflation, according to the Friedmans, is for government to allow for a slow rate of growth in the monetary supply. This hurts some people and helps others, just as some people benefit from inflation. Sellers receive higher prices for their products during periods of inflation. Home owners with fixed interest mortgages benefit as their property values increase. But eventually, society wants its inflationary ails cured. Cures for inflation are not easy. They usually involve slower growth rates and unemployment as side effects. As prices go up, workers demand and receive higher wages in order to keep up with inflation. When this happens, the economy is caught in a wage-price spiral. The higher costs lead to higher prices followed with demands for higher wages. Many labor contracts have escalator or cost of living adjustments clauses that result in automatic wage increases based on the inflation rate. Loans and mortgages are offered with variable interest rates based on the inflation rate. Wage and price controls are sometimes used in an attempt to curb inflation. These are not good measures from an economic point of view. They introduce distortions into the market. As soon as they are removed, wages and prices jump up as market participants try to recoup their losses. The real cure involves a steady, slow growth in the money supply.

Chapter 10, The Tide is Turning

Chapter 10, The Tide is Turning Summary and Analysis

When governments don't achieve their announced goals, public reaction eventually turns against them. This results in different candidates being voted into office. In the United States, it also took the form of a tax revolt. Eliminating tax revenues without eliminating spending programs is not a situation that can last for long. This dissatisfaction with higher taxes leads to spending financed by monetary growth.

Different nations choose different policies. Policies are often determined by the intellectual thinking of the time. Economics develops and changes just as other disciplines do. The belief in free trade and capitalism came into vogue in the mid-nineteenth century in some countries. A hundred years later, planning and centralization became the popular policies. The Friedmans go on to discuss the difference between concentrated and diffuse interests. Political systems that enact detailed legislation find they give power to certain small groups. These groups promote their own special interests instead of the general interests of the masses.

An example is the case of the Brennans in Rochester, New York. They opened their own local delivery service that guaranteed delivery of letters and packages in Rochester the same day. The Post Office sued and the Brennans lost the case at the Supreme Court level. The Brennans challenged the government monopoly. To the postal workers and administrators, the challenge of private competition means the loss of jobs.

The Friedmans believe there should be an economic Bill of Rights that limits the power of government in economic and social areas. It would include limits on spending and taxing, the prohibition of tariffs, wage and price controls, occupational licensing and allow the right of people to engage in free trade. This wouldn't be enough to prevent bigger government from forming. It might even be ignored. Written constitutions are not effective if they are not supported by the population and leaders. This was evident in many South American countries in the mid-twentieth century. Constitutional amendments are a means to bypass Washington. This was a movement that took place in the 1970s in regards to taxes and spending. There is also a movement for a Constitutional amendment to require a balanced budget. The limits on spending and taxing would result in slower growth of big government. The Friedmans also support repeal of the Sixteenth Amendment, which authorized the income tax. They propose a replacement for the income tax that would exclude corporations and artificial persons. They support an obligation to provide balanced monetary growth, and this would also be a part of their economic Bill of Rights. This would include protection against inflation.

The beliefs in economic and human freedoms are utmost in the beliefs of the Friedmans. According to them, concentration of power is the greatest threat to human freedom. People still have the option of choosing whether they want to continue along the present course to bigger government, or whether they want to change things.

Characters

Adam Smith

Milton Friedman

Karl Marx

John Maynard Keynes

Benjamin Strong

A.V. Dicey

Dr. Gunnar Biorck

Dr. Max Gammon

E.G. West

Kenneth B. Clark

Dr. William Wardell

Pat Brennan

Objects/Places

United States

The United States economy is used as an example of a capitalist or market economy. It is based on the free exchange among market participants without coercion. All market participants acting in their own best interest do what is best for the economy and all benefit. Information between different market participants is conveyed through the market by prices.

The Soviet Union

The Soviet economy is represents a planned economy. The economy doesn't function on the basis of free exchange among market participants. It doesn't use markets and prices to convey information. A planning authority determines the outputs and inputs without the use of markets.

China

China is another example of a planned economy. China was underdeveloped and backward at the time of the Communist revolution. Economic planning resulted in industrialization and some modernization.

Israel

The Israeli economy is a planned economy with much government intervention. It is a small nation with a heavy reliance on international trade. Its citizens enjoy a high standard of living and personal freedoms, unlike the Soviet model. Israel also has communes called Kibbutzes, which are experiences in communal living.

Germany

Germany is referred to throughout the book. Germany first began experimenting with a social welfare state in the 1880s. It was the first social welfare state.

Great Britain

England is the home of Adam Smith. The economy based on markets also uses economic planning and has a degree of nationalization. The British also have a socialized medicine program, which has forced many physicians out of the public program.

India

India is a society based on a caste system, which their society was reluctant to relinguish. This led to growing income disparity as the society remained locked in tradition. This retarded the economic development of the country.

Washington D.C.

The Washington D.C. area is the site of the location of many of the regulatory agencies and labor unions. These groups also functions as lobbyists and are active in promoting legislation that is favorable to them and fighting legislation that is not favorable to them.

Virginia

Virginia is used as an example in the chapter on money and inflation. For a while, Virginia had an economy that used tobacco as money and issued certificates of deposit based on tobacco.

Themes

Human Freedom

Human freedom is one of the prevailing themes of the book. Individuals must be free to make their own decisions and choices without any form of coercion. This is true in economics and social decisions. Human freedom is also dependent on the prevailing political system. The United States and Great Britain developed on the basis of capitalism with its emphasis on free markets and economic and personal freedoms. Other nations did not. Nations such as the former Soviet Union did not allow these personal or economic freedoms because of the politics of the situation. The fact that the political situation did not allow for individual freedom, combined with a non-market based economy resulted in a different path of development for the economy. The lack of human freedom means the lack of choice. Human freedom also has to do with the role of incentives. People make their own choices based on the incentives involved. Human freedom involves the opportunity to take risks in response to incentives. When incentives are absent, there is no reason to take risks. When choices are absent, freedom is also absent. Human freedom stems from the prevailing economic and political system. Human freedom means living in an environment that is free of coercion in decision making. When individuals have little human freedom because of the nature of the prevailing political system, they don't take chances.

Economic Freedom

Economic freedom is another theme of the book. Economic freedom is closely tied to the nature of the political system and human freedom. Economic freedom means all economic agents have the freedom to act in their own best interests and to do what is best for themselves. Economic freedom means that individuals have the human freedom to make their own decisions in response to incentives and to act in their own best interest. Individuals are then willing to take risks in the hopes of experiencing financial gain.

Economic freedom is a fundamental part of capitalism. All economic agents acting in their own best interests in response to market signals end up doing what is best for the economy. Economic freedom means that individuals have the right to go into whatever business they want and to employ their resources in whatever way they choose. The little company that an individual starts in his garage or basement has the potential of becoming another Google, Microsoft or Xerox. The individual has the economic freedom to try.

The importance of this theme is given by the title of the book, *Free to Choose*. Allowing the individual to make his own economic decisions has implications for the entire economy when it is multiplied by all of the individuals in that economy. This is Adam Smith's invisible hand concept. No force or coercion is required. Force or coercion is actually harmful for the economy. Economies based on freedom are the economies that have prospered throughout history. A comparison of the economies on both sides of the Berlin Wall was proof of this. The economies not based on freedom were not prosperous and those based on freedom were.

Big Government

A third recurring theme of the book is the problem of big government. This is an expected theme, given the monetarist beliefs of the authors. Big government means big spending and big tax bills. Big government means government intervention in the economy. These are actions that are anathema to a monetarist. The different aspects of big government are examined and discussed in the book, from regulation to education. Regulation is viewed as a form of protection for the regulated entities. The railroads and trucking industry are used as examples of this. Big government is evident in the state monopolies of education, which is the public school system. Parents are deprived of a say in the education of their children when education is controlled by government monopolies. A school voucher program introduces the element of competition. Schools then would have to be competitive, or students will opt for another school. The voucher system gives the parents the option of choice, which is limited in the present system.

Big government is the cause of many of the nation's economic problems. Inflation, according to the Friedmans, is the result of monetary mismanagement by government. Government spending financed by monetary growth causes inflation. The point of view is that big government has deprived the individual of choice in every market in which they involve themselves. But the individual, according to the Friedmans, still has the freedom of choice when it comes to big government in terms of spending and taxing. They discuss using the amendment process, which is what the tax revolt of the 1970s was about. The balanced-budget amendment was also discussed. Government is viewed as the cause of problems such as inflation. Inflation comes from financing government spending by monetary growth instead of by taxation. Big government limits individual and economic freedoms with its rules and regulations. This is the point of *Free to Choose*.

Style

Perspective

Free to Choose is a book about economics, written by economists. Milton Friedman is a Nobel Prize winner in economics; Rose Friedman completed all the requirements for a Ph.D. in economics except her dissertation. Milton Friedman spent most of his life teaching economics at the University of Chicago. The Friedmans' monetarist background and beliefs in a free market are evident throughout the book. Their reasons for writing the book are to express their beliefs in the free market system and to issue a warning about a government that has become too big.

The audience for the book is anyone who is concerned with government actions and the growth of government. This book is very straightforward and readable. The reader will not become lost in economic concepts and does not require any economic background or knowledge to read and understand the book. All ideas are clearly presented in everyday English. There is very little economic jargon in the book. The reader will probably not even know that he is immersed in economics when he reads this book because all technical terms are omitted or explained in everyday English.

Tone

The book is written in an objective presentation style. The subject matter is definitely the economics of Milton Friedman. What is good about the book is that the Friedmans don't just criticize. When they criticize some government program or action, they propose a solution and explain why. They explain what was wrong with the action and why it was wrong. They discuss the effects of the action or program. They then explain what should have been done and why. This approach is one of the most impressive features of the book.

The reader has to be impressed by the approach of this book. It is not just wanton criticism. The Friedmans present very complex subject matter in a very readable, understandable manner. Readers without any economics background are impressed by the fact that they are reading an economics book and understanding it. They don't have to re-read parts of the book trying to grasp concepts because of the writing style of the book.

One of the Friedmans' points is that people are not at the mercy of government. People have a choice when it comes to big government and taxes and spending and other economic issues. Not only do they have a choice, but the burden of choice is on each individual. The individual, working with other individuals, has the power to bring about change through the voting and political process. The Friedmans point out that the way to bypass Washington is through the amendment process. It is up to individuals to be informed when they makes their choice.

Structure

The format of the book is very simple. It is divided into a Preface, Introduction, ten chapters and appendices. It is a format that works quite well for the book. The Preface discusses the reasons the Friedmans wrote the book, which was the basis for the television series. The Introduction explains the framework for the economy as it was laid out by the country's founders. Each of the ten chapters is devoted to a different issue or topic. Each of the chapters is self-contained in the material that it covers. The reader does not have to do any backtracking to find concepts or terms. Concepts are explained in everyday English without technical jargon. This makes the book very readable for the reader.

One of the best features of the book, next to its readability, is the fact that the Friedmans propose solutions to the programs and policies they criticize. This adds to the readability of the book and the effect on the reader. The reader is not left with the idea that the situation is impossible and can't be solved. This method is employed in every chapter. There are also extensive notes that illustrate the depth of the research involved in writing the book.

Quotes

"Adam Smith's flash of genius was his recognition that the prices that emerged from voluntary transactions between buyers and sellers - for short, in a free market - could coordinate the activity of millions of people, each seeking his own interest in such a way as to make everyone better off. It was a startling idea then, and it remains one today, that economic order can emerge as the unintended consequence of the actions of many people, each seeking his own interest." (Chapter 1, pg. 5)

"In countries like the United States the major productive resource is personal productive capacity - what economists call "human capital." (Chapter 1, pg. 12)

"Experience has shows that once government undertakes an activity, it is seldom terminated. The activity may not live up to expectation but that is more likely to lead to its expansion, to its being granted a larger budget, than to its curtailment or abolition." (Chapter 1, pg. 24)

"The economic controls that have proliferated in the United States in recent decades have not only restricted out freedom to use our economic resources, they have also affected out freedom of speech, of press, and of religion." (Chapter 2, pg. 31)

"Intellectuals everywhere take for granted that free enterprise capitalism and a free market are devices for exploiting the masses, while central economic planning is the wage of the future that will set their countries on the road to rapid economic progress." Chapter 2, pg. 46)

"Another essential part of economic freedom is freedom to use the resources we possess in accordance with out own values - freedom to enter any occupation, engage in any business enterprise, buy from and sell to anyone else, so long as we do so on a strictly voluntary basis and do not resort to force in order to coerce others." (Chapter 2, pg. 57)

"By the end of the war the United States had replaced Britain as the center of the financial world. The world was effectively on a dollar standard and remained so even after a weakened version of the prewar gold standard was re-established. The Federal Reserve System was no longer a minor body reacting passively to external events. It was a major independent force shaping the world monetary structure." (Chapter 3, pgs. 68-69)

"The System could have provided a far better solution by engaging in large-scale open market purchases of government bonds. That would have provided banks with additional cash to meet the demands of their depositors. That would have ended - or at least sharply reduced - the stream of bank failures and have prevented the public's attempted conversion of deposits into currency from reducing the quantity of money." (Chapter 3, pg. 74-75)

"They reflected the change that had occurred earlier in the intellectual atmosphere on the campuses - from belief in individual responsibility, laissez-faire, and a decentralized and limited government to belief in social responsibility and a centralized and powerful government." (Chapter 4, pg. 83)

"In our opinion there is no case whatsoever for socialized medicine. On the contrary, government already plays too large a role in medical care. Any further expansion of its role would be very much against the interests of patients, physicians, and health care and health care personnel." (Chapter 4, pg. 106)

"The negative income tax would be a satisfactory reform of our present welfare system only if it replaces the host of other specific programs that we now have. It would do more harm than good if it simply became another rag in the ragbag of welfare programs." (Chapter 4, pg. 113)

"'Equality,' 'liberty' - what precisely do these words from the Declaration of Independence mean? Can the ideals they express be realized in practice? Are equality and liberty consistent one with the other, or are they in conflict." (Chapter 5, pg. 119)

"There is little support for the goal of equality of outcome despite the extent to which it has become almost an article of religious faith among intellectuals and despite its prominence in the speeches of politicians and the preambles of legislation." (Chapter 5, pg. 131)

"In shaping out own policy, we can learn from the experience of Western countries with which we share a common intellectual and cultural background, and from which we derive many of our values." (Chapter 5, pg. 134)

"Hardly anyone maintains that our schools are giving the children the tools they need to meet the problems of life. Instead of fostering assimilation and harmony, our schools are increasingly a source of the very fragmentation that they earlier did so much to prevent." (Chapter 6, pg. 141)

"However, their interests as teachers, as administrators, as union officials are different from their interests as parents and from the interests of the parents whose children they teach. Their interests may be served by greater centralization and bureaucratization even if the interests of the parents are not - indeed, one way in which those interests are served is precisely by reducing the power of parents." (Chapter6, pg. 147)

"The situation is very different at private institutions. Students at such institutions pay high fees that cover much if not most of the cost of their schooling. The money comes from parents, from the students' own earnings, from loans, or from scholarship assistance. The important thing is that the students are the primary customers; they are paying for what they get, and they want to get their money's worth.

The college is selling schooling and the students are buying schooling. As in most private markets, both sides have a strong incentive to serve one another. If the college doesn't provide the kind of schooling its students want, they can go elsewhere." (Chapter 6, pg. 166)

"If, as we shall argue, we cannot depend on government intervention to protect us as consumers, what can we depend on? What devices does the market develop for that purpose? And how can they be improved?" (Chapter 7, pg. 184)

""The most careful empirical study of this question that has been made, by Sam Peltzman, concludes that the evidence is unambiguous: that the harm done has greatly outweighed the good. He explains his conclusions partly by noting that 'the penalties imposed by the marketplace on sellers of ineffective drugs before 1962 seems to have been sufficient to have left little room for improvement by a regulatory agency.'" (Chapter 7, pg. 197)

"Perhaps also it may lead to a second look at the performance of market mechanisms in areas where they admittedly operate imperfectly. The imperfect market may, after all, do as well or better than the imperfect government. In pollution, such a look would bring many surprises." (Chapter 7, pg. 208)

"After the minimum wage rates were raised sharply, the unemployment rate shot up for both what and black teenagers. Even more significant, an unemployment gap opened between the rates for white and black teenagers." (Chapter 8, pg. 227)

"Labor unions can and often do provide useful services for their members - negotiating the terms of their employment, representing them with respect to grievances, giving them a feeling of belonging and participating in a group activity, among others. As believers in freedom, we favor the fullest opportunity for voluntary organization of labor and are willing to pay for, provided they respect the rights of others and refrain from using force." (Chapter 8, pg. 232)

"The 'real' forces that determine the wealth of a nation are the capacities of its citizens, their industry and ingenuity, the resources at their command, their mode of economic and political organization, and the like." (Chapter 9, pg. 238)

"As inflation accelerates, however, sooner or later it does so much damage to the fabric of society, creates so much injustice and suffering, that a real public will develops to do something about inflation. The level of inflation at which that occurs depends critically on the country in question and its history." (Chapter 9, pg. 261)

"When a special interest seeks benefits through highly visible legislation, it not only must clothe its appeal in the rhetoric of the general interest, it must persuade a significant segment of disinterested persons that its appeal has merit. Legislation recognized as naked self-interest will seldom be adopted...." (Chapter 10, pg. 285)

"The limits - on either taxes or spending - are mostly specified in terms of the total income of the state or nation in such a way that if spending equaled the limit, government spending would remain constant as a fraction of income. That would halt the trend toward ever bigger government, not reverse it. However, the limits would encourage a reversal because, in most cases, if spending did not equal the limit in any year, that would lower the limits applicable to future year." (Chapter 10, pgs. 291-292)

Topics for Discussion

In a market economy what is the effect of individual economic agents acting in their own best self interests?

What are the reasons for the enactment of the Smoot-Hawley Tariffs? What has been the effect?

What function do prices serve in a market?

What is the Federal Reserve System? What are the factors leading to its creation?

Discuss the pros and cons of a school voucher program?

What is the effect of licensing requirements in different occupations?

What conditions led to the development of the Interstate Commerce Commission and other federal regulatory agencies?

What is the cause of inflation according to the Friedmans? How can the problem be solved?

What are the major points in the Friedmans Economic Bill of Rights?