"Free to Choose" damns government interference

Free to Choose, Milton and Rose Friedman, New York,: Avon Books, xxi, pp. 330.
by Mike Bradfield

This book is an impassioned, even rabid, defense of private enterprise and damnation of government interference. It is the "Altered States" of economic thinking —if you accept a few basic premises, the rest follows more or less logically and it will scare you. However, if you cannot suspend your disbelief, then the book is a diatribe repleat with name calling, half-truths, and doubletalk.

Having been charitable, let's examine the underlying assumptions of **Free to Choose**. The argument assumes that the U.S. has a "free" economy in which all transactions are voluntary and therefore would not be engaged in unless both sides of the transaction benefitted. Following Adam Smith, in a free market, self interest serves the public good if there is so much competition that no individual in a market has any real power.

The Friedmans write as if the private market in the U.S. is the same as the "free" markets of Adam Smith. But are markets "free"? in both Canada and the U.S., almost one half of the total output is produced by the 100 largest firms. Twenty-five percent of Canadian workers (one third in the Atlantic provinces) live in "one industry" towns. Four oil companies control 64% of the industry. However, while the Friedmans recognize that "your money or your life" is not really a voluntary choice, they fear coercion from government, not from the giant corporations which confront us as workers and consumers.

The Friedmans admit the existence of market power, but are willing to pretend: (1) it isn't serious, citing the U.S. auto industry as an example of an innovative, efficient industry, subject to the "full rigors of competition"; or (2) it could be overcome with free trade (ignoring the ease with which the multinationals form international cartels); or (3) it is more desirable than the imperfections of government interference in our lives.

This last point bears some elaboration. Given their belief in the existence and efficiency of a private market economy (let's not pretend that it's free), the Friedmans are willing to trust the private economy to work in the public interest. They damn well-meaning attempts by governments to solve social problems, arguing that democracy doesn't really function to society's benefit. On the other hand, they praise the "explosion of charitable activities" that private wealth permits, extrolling the virtues of the businessmen who use their own preferences as the basis for accomplishing social goals. It is not clear why politicians, occasionally and imperfectly accountable, but still accountable, can do a worse job of determining preferences than businesses which are accountable to no one in their social works and not to the discipline of real competition in their economic activities.

In addition to competition, there also has to be a socially acceptable distribution of incomes and wealth. This means society must have some **sense of fairness** in the way wealth is distributed between different people or groups. The Friedmans believe that your income is a function of your inherited skills, your willingness to work, and a bit of luck, and therefore the system is fair. They ignore evidence showing that ability to do well in the market system is largely a function of the economic status of your parents. Incomes are currently distributed in a highly unequal fashion, with the top 20 percent receiving ten times the purchasing power of the bottom 20 percent. These inequities don't prevent the Friedmans from wanting the laws of supply and demand to determine who gets what. For instance, they want the government to quit subsidizing higher education. Raising tuition will make education more efficient, excluding students who "will only go to college if it is subsidized". This analysis leaves no room for the students who cannot afford higher tuition.

Beyond the basic assumptions, the book contains many misleading statements. Often there are invalid comparisons, such as between China and Taiwan, as if the difference in economic performance were related solely to the form of government in the two countries and had nothing to do with historical developments or the level of U.S. aid. While government interference is believed to be the downfall of the U.S. economy, West Germany is cited as an example of how a free economy can perform better than a centrally planned economy (East Germany). What isn't pointed out is that West Germany is a social democracy where massive social systems have not crippled the economy nor led the workers to become indolent.

The Friedmans present simplistic explanations. The U.K. is an example of country which has desclined because of its socialism; no mention of the loss of an empire from which it had earlier extracted wealth. Pollution? The people responsible for it "are consumers, not producers. . .People who use electricity are responsible for the smoke that comes out of the stacks of the generating plants". But who convinced the people to want more electricity and who made the decision not to put "scrubbers" in the smoke stacks?

Occasionally, the Friedmans distort the truth, as when they say that "the country is increasingly divided into two classes of citizen, one receiving relief and the other paying for it." While this may feed the mythology that most of us hold, it doesn't fit the reality. In Canada, where the tax system hits the poor the hardest, but probably less so than in the U.S., the various forms of taxes paid by the poor are almost identical to the value of *transfers* received by them from the government. It *does nothing for a rational* analysis of the economy to pretend otherwise.

Given their perspective, it is not surprising that the Friedmans' solutions boil down to restricting the government's ability to interfere with private business. Yet the cases they cite, for instance, the Interstate Commerce Commission, shows how government's attempts to protect society have been used by businesses to further exploit society. Surely, this conversion of watch dogs to lap dogs is evidence of the massive political and economic power concentrated in the hands of vested interests. If the "concentration of economic and political power in the same hands is a sure recipe for tyranny" and if it is the "valid duty of government to preserve and strengthen a free society", the Friedmans' solution is a recipe for the tyrant to cook our goose, having handed it over on a silver platter.

If you believe that free enterprise exists, you'll love the Friedmans and their selective use of Adam Smith. However, Smith also warned that "people of the same trade seldom meet togeher, even for merriment or diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices".

Adam Smith pointed out the possibilities of a free market serving the public interest. He recognized that economic power would be used in the private interest against the public. Why don't the Friedmans worry about that?