



A SPECIAL MEETING

THE MONT PELERIN SOCIETY

1980 | 2020

JANUARY 15–17, 2020

**FROM THE PAST TO THE FUTURE:
IDEAS AND ACTIONS FOR A FREE SOCIETY**

CHAPTER EIGHT

**THE RECEPTION OF FREE TO CHOOSE
AND THE PROBLEM OF TACIT
PRESUPPOSITIONS OF POLITICAL ECONOMY
PETER BOETTKE**



The Reception of *Free To Choose* and the Problem of the Tacit Presuppositions of Political Economy

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It is hard for today's students to appreciate the economic reality of the late 1970s, an economic reality of high unemployment, high inflation, and general economic malaise. This situation was true not only for the "rust belt" sections of the US economy, such as Pittsburgh's steel industry or Detroit's automobile industry, but coal and energy industries as well as industrial manufacturing in general were all in decline. This sense of economic malaise and political turmoil was not isolated to the United States. The United Kingdom was experiencing decades of economic decline, as well social disruption due to strikes and violence, and the world learned of economic, political and human rights crises throughout Latin America and Africa. India and China continued to languish in extreme poverty. The economies in East and Central Europe and the former Soviet Union were also stagnating and falling behind even the stalling economies of the mature western democracies of France and Germany. Economic malaise and political turmoil were a global phenomenon of the 1970s and early 1980s. Milton Friedman and Rose Friedman sought to explain the reasons for this sad economic reality with special reference to the public policy discussions in the US.

Milton and Rose were veterans in both the scientific contestation in the economics discipline and the general clash of ideas among the intelligentsia and the public policy community. *Capitalism and Freedom* (1962) was an international best seller, and Milton Friedman's columns in *Newsweek* as well as elsewhere, including numerous appearances on TV and radio made him

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An earlier version was presented at the 2020 Special Meeting of the Mont Pelerin Society, Hoover Institution, Stanford University, January 2020.

by the late 1970s perhaps the most recognized economists in all of the US, and perhaps the world. His 1976 Nobel Prize, of course, also solidified his reputation in the public imagination. In fact, it is perhaps no exaggeration to say that other than John Maynard Keynes, no economists in the 20th century achieved simultaneously scientific and public acclaim as Milton Friedman. And, Friedman, who obviously possessed a sharp analytical mind was gifted with a quick wit, and a charming personality which made him such an engaging guest on TV from the Phil Donahue Show to Book Talk on C-SPAN. Others are not so gifted. This rare set of gifts I will return to at the end of my paper. The reason is that my central thesis concerns the concept of the “tacit presuppositions of political economy” that are held at any specific historical epoch. Thomas Sowell has brilliantly worked with the idea of “visions” -- in particular the constrained versus unconstrained vision -- but this is a slightly different idea. Joseph Schumpeter had also earlier contrasted “vision” with “analysis”, and insisted that while in science and scholarship we judge contributions mainly by critical examination of analysis (logical and empirical) there is a vital place in science and scholarship for recognizing vision as the essential pre-analytic cognitive act that provides the questions for us to ask, and the raw material from which we commence our analysis. But even here, the concept of “tacit presuppositions” is slightly different. The concept comes from James M. Buchanan, and it relates to the unquestioned lived reality of the relevant population under investigation.¹ What they “take for granted” to be the reality of the situation. It is this “taken for granted” that determines how new ideas are heard, received, understood, and reacted to. Wresting control of that “taken for granted” and in the process shifting the “tacit presuppositions of political economy” was Milton and Rose Friedman’s great gift, and *Free to Choose* is a perfect illustration.

¹ Buchanan first develops the idea in his work with Richard Wagner *Democracy in Deficit* (1977) and the idea of the Harvey Road presumptions that frame and give rise to the Keynesian revolution. But the idea of “tacit presuppositions of political economy” is more fully worked out in his work on post-communism, see Buchanan (1997).

J. S. Mill, in an essay on the ‘Claims of Labour’ in 1845, postulated that when ideas are introduced without the appropriate circumstances, they just fade into the background, and when circumstances arise but there is a lack of ideas to frame and guide the moment opportunities for change will be missed. *But* when the right ideas met up with the appropriate circumstances, social change can be rapid and decisive. The Friedmans make a similar claim about the “tide of opinion” and how that must precede the shift in policy. Policy ideas which are considered outside of the bounds of the reasonable in one era will be considered commonsensical in another era depending on the shift in the tide of opinion. “A tide of opinion,” they write, “once it flows strongly, tends to sweep over all obstacles, all contrary views. Equally, when it has crested and a contrary tide sets in, that too tends to flow strongly.” (Friedman and Friedman 1980, 272)

Textbook economic models often work best when unique individuals are minimized in their influence on outcomes. That makes analytic sense as the focus is on market theory and the price system. But as various theoretical conundrums that have been exposed in basic theory, this analytical move has a cost -- namely the loss of our ability to understand market makers and trend setters, in other words the entrepreneur as the prime mover in the competitive market process. In our understanding of the history of social change, I would argue, we make a similar mistake if we discount the power of specific individuals and focus instead on abstract ideas and momentary circumstances. In the clash of ideas just as in the contestation of the market, there are pivotal people at pivotal times. Milton Friedman was such a pivotal person, and he changed the world because of it. He was able to do that because his unique talents enabled him to wrest control of the “tacit presuppositions of political economy” of a historical era, and as Andrei Shleifer (2009) summarized as “The Age of Milton Friedman” which he dates from 1980-2005. An era, Shleifer adds, that was characterized by a sharp rise in global living standards, while by all statistical

indicators life expectancy, educational attainment, and the establishment of democracy improved across the globe, and absolute poverty declined globally. That there is a dispute about this, I would argue, is one of the strongest pieces of evidence in favor of the power of the concept of “tacit presuppositions of political economy”.

This essay will proceed as follows. Section II will discuss the reception of *Free to Choose* in real time circa 1980-82 prior to Friedman successfully shifting the tide of opinion. I focus on reviews by Robert Heilbroner and Kenneth Arrow in an effort to capture the tacit presuppositions of political economy that were in place in the post WWII period that Friedman had to buck up against throughout his scientific career and in his career as a public intellectual. Section III will discuss Friedman’s wresting control of the tacit presuppositions and the global impact of that first with the reforms in China (Deng Xiao Ping), Britain (Margaret Thatcher), and Ronald Reagan (United States), followed with the collapse of communism in East and Central Europe and the former Soviet Union, and finally the reforms among the Nordic countries as well as India, East Asia, Latin America, and Africa. The ideas in *Free to Choose* concerning the power of the market and the tyranny of controls spread throughout the globe, and a new era of economic freedom and international commerce lifted mankind to new heights of improvement in living standards and provided the “great escape” from poverty. It is a fact that must always be acknowledged when debating the merits of this era of globalization that in 2015 for the first time in human history less than 10% of the world’s population was living on less than \$2 per day. This decline in extreme poverty in absolute terms must never been forgotten as we contemplate the human condition. But, it is also not the end of the story, as I will discuss in Section IV because our era faces different challenges, and those “tacit presuppositions in political economy” have once more shifted due to discontent with globalization, the consequences of the global financial crisis, and concerns with

inequality and injustice. This challenge is a significant one for those of us influenced by the ideas in *Free to Choose* as educators, as scholars, and as citizens. After discussing these challenges, I will conclude the essay with a reminder of the main lessons from *Free to Choose* and a call to embrace the radical liberalism of Hayek, Friedman and Buchanan but adopting its core principles for our age.

II. Reception of *Free to Choose*

Both *Capitalism and Freedom* (1962) and *Free to Choose* (1980) were in the same intellectual tradition as Hayek's *The Road to Serfdom* (1944) and *The Constitution of Liberty* (1960). As such these were foundational texts of the intellectual motive forces of the Mont Pelerin Society. *Capitalism and Freedom* sold over half a million copies in the English language edition and was translated into eighteen different languages. The *TLS* rated the book one of the 100 most influential books since WWII. *Free to Choose* was the best-selling non-fiction book of 1980, and subsequently was translated into over 20 languages throughout the world. And, the TV series "Free to Choose" introduced these ideas to multiple generations through PBS distribution and later classroom use by professors.

Reception studies is an emerging discipline in intellectual history. I am not claiming to do a full "reception study" of *Free To Choose*, but instead a very select analysis to stress this point about the "tacit presuppositions of political economy". To do so, I am look at some highly select reviews to demonstrate the intellectual consensus that the Friedmans were challenging and to which they effectively countered and reversed. I have selected to highlight Robert Heilbroner's review in *New York Review of Books* entitled "The Road to Selfdom"; Kenneth Arrow's review in the *New Republic* and Christopher Lehmann-Haupt's review in the *New York Times*. I will also

point to the professional consensus within economics circa 1980 as reflected in the review in the *Journal of Economic Literature*. The key issue to keep in mind, as the Friedmans themselves stress, is how the Great Depression framed the discussion in the minds of the intellectual class. I would also add that the previous era of late 19th century capitalism, and the first decade and half of the 20th century and the concern with monopoly, exploitation of the workers, the disregard for the health of consumers, and the general sense of economic and political injustice permeated the discussion among intellectuals and policy makers. Some of these concerns with laissez faire capitalism can be factually contested, and in fact it has been by a variety of economists and historians, but that is different than the wresting control of the tacit presuppositions. As I will stress throughout this essay, in our discussions over the power of ideas and lived historical experience we are always dealing with a problematic past and a troubling present. How scholars and intellectuals learn to disentangle the various causes from the obvious correlations, and utilize sound theory to get the factual record straight is always one of the most difficult and treacherous tasks of the social scientists. But it is a task we must undertake if we hope to improve our understanding of the human condition.

This is particularly true if we remember as Hayek taught us that economics is a uniquely *human science*, where we are what we study, and thus our purposes, plans, expectations, and actions make up our subject, and the object of our efforts must be primarily to render intelligible in terms of human purposes the social phenomena we purport to study, such as the marketplace. This means, as Hayek stressed, the facts of the social sciences are what people believe and think them to be. Thus, while framing effects are vital in all scientific and scholarly endeavors, they become that much more critical in the human sciences. As Fritz Machlup once put it, economics is a science just like the natural science except that in the economist's case "matter can talk". As

we study the molecules and postulate the underlying principles of their motion and interaction, they speak back to us, and loudly if we care to listen. We are privileged as it were to be in this situation. The chemist or the physicist isn't so lucky to have this direct access to intentionality and thus the ultimate causal factor in their analysis of phenomena.

If all facts are theory impregnated as this implies, then all interpretations will be slanted in this or that direction requiring us to be very careful with our logic in our theoretical constructions and transparent with our data analysis. Clarity of exposition actually takes on a moral imperative in the human sciences if progress is going to be made, and strict rules of engagement must be adhered to otherwise the clash of ideas will result, not in a new consensus, but in the rather unproductive exercise of cataloguing arguments as right, left or center. Part of the motivation of Friedman's insistence that there aren't any schools of economic thought, but instead only "good economics" and "bad economics" was to overcome this tendency to catalogue one another rather than engage one another. But finding the best terms of engagements is often easier said than done.

One key idea can be attributed to Max Weber, who seemed to be faced with impossible barriers to conversation within the Germany academy. He suggested a simple rule of thumb; scholars should restrict their analysis to the logical coherence and empirical consequences of the use of certain chosen means for the attainment of given ends from the point of view of the advocate of those ends. In other words, scholars do not debate ends, but only the relative effectiveness of various means to the achievement of those ends. This was the path toward *positive analysis*, and enabled scholars to escape the endless quarrel over normative goals in social arrangements and public policy. In this way, social science could strive for objectivity in analysis, and thus be of service to mankind as a tool for social understanding, and as a critical guide in public policy.

It is not my purpose to enter into a long discussion of methodology of the social sciences by stressing both subjectivism and value-free analysis, but I thought it was important to put forward only because Friedman always couched his policy discussion in terms of value-freedom. His goal was to demonstrate that the frustration with various public policies was not because the intentions were unworthy. To the contrary, these public policy intentions were most worthy, but ill served by the policy means chosen to achieve those ends. I will come back to this shortly, but first let me just say that this emphasis on unintended consequences (both good and bad) was a major stumbling block in the real-time reception of *Free to Choose*. The book was a challenge to perceived aspirations of the New Deal and the Great Society not so much in terms of their aspirations for the public good, but for the inability of the chosen policy path to achieve that public good. Intentions, Friedmans argued, were not the same thing as achieving, and that is disturbing to the sensibilities of those who believe they have devised the right policy to fix the serious problems that have been identified. And, in fact, the Friedmans challenge was often harsher than mere ineffectiveness, but that the policies chosen actually exacerbated the social problem. Such a conclusion surely had to be incredulous.

Christopher Lehmann-Haupt (1980) begins his review in the *NYT* with a note that the Friedmans are part of a “small but preserving band of spokesmen who have adhered to the tenets of free enterprise ever since, and despite, the coming of the New Deal.” In contrast to the teachings of Adam Smith and the contemporary doctrines of free enterprise, Lehmann-Haupt informs his readers that those of us “who have been raised at the foot of the New Deal have been taught that the manipulations of Adam Smith’s invisible hand were not always so benign -- that ever since the Industrial Revolution began, the invisible hand produced a minority of victims -- the young, the old, the sick, the uneducated -- which became a majority with the coming of the Great Depression

of the 1930s.” He then pronounces simply that the “Friedmans pronounce this view of history a myth.”

Lehmann-Haupt, after summarizing the argument in *Free to Choose* states that perhaps “10 or 20 years ago such arguments would be greeted by the public with all the seriousness reserved for a pamphlet picked up at Knott’s Berry Farms.”² But he quickly adds that today (circa 1980), it is obvious that the arguments found in *Free to Choose* have a “great deal going for them” in this historical context, and that he expects that the Friedmans will “open the debate.” The position laid out in *Free to Choose*, Lehmann-Haupt states unequivocally can no longer be seen as some minority view.

In contrast, both Arrow (1980) and Heilbroner (1980) inform their readers that the Friedmans are incapable of presenting both sides of an argument. Heilbroner, unlike the *NYT* review starts by telling his readers that a “large number of people are yearning to hear” the message the Friedmans have to offer. The resentment that was once directed at Big Business is now directed at Big Government. Thus, *Free to Choose* is a book in tune with the times “whether the arguments and diagnoses are cogent or not.” There are few among its potential readers, Heilbroner opinions, that will be willing to mull over the arguments presented, and instead will unfortunately take what the Friedmans have to say as a matter of faith. And Milton and Rose Friedman will not disappoint the faithful, as their argument on first read will appear to be one of “overwhelming logic” and “unanswerable evidence”. The case made for the Smithian market and Jeffersonian government is completely convincing *until* one considers what is left out of the narrative constructed throughout *Free to Choose*. The Friedmans present only a one-sided argument and leave out any nuance and qualifications that would muddy the presentation. This tactic, Heilbroner argues, is so

² The Knott’s Berry Farms reference is to the conservative political pamphlets designed to inform the general public about the benefits of free enterprise system that were on display at this famous theme park and store.

frustrating and disingenuous that reasonable critics are reduced to the position of just throwing up their hands. No room for reasoned discussion being left.

Rather than the history the Friedmans tell, what if, Heilbroner insists, we follow the great social theorists of capitalism such as Karl Polanyi and recognize that the capitalist system was not grounded in voluntary choices and mutual benefit. Instead, the modern capitalist system was a “product of a violent process of social displacement”. Economists like the Friedmans can talk all they want about productive specialization and peaceful social cooperation in theory, but the capitalist reality is one of a “unstable and unwelcome structure of social and economic relationships.” Capitalist society is far more dynamic and disruptive than the Friedmans want their readers to see, and they also smuggle in moral judgements without being explicit in their introduction according to Heilbroner. Due to disproportionate distributions of power in society, the simplistic voluntary exchange model conceals the need for countervailing forces in relations between management and labor, and between business and society if we hope to achieve a humane society. This is particularly damaging in the Friedmans discussion of equality, which in the end Heilbroner says, violates our sense of justice and violates modern conventions. Heilbroner sums up his opinion of the book as follows: “*Free to Choose* is to serious economic and political debate what fundamentalist preaching is to Bible scholarship.”

Sadly, I would argue that Arrow’s review is even more harsh in its assessment. Arrow’s first complaint is that the Friedmans nowhere elaborate the costs associated with following their path to policy change given the current status quo, nor do they admit the possibilities of negative consequences that might follow in the wake of the adoption of their proposals. Arrow seems to imply that true professional economists have a moral responsibility to the public to be more circumspect and evenhanded in their presentation. The fact that the Friedmans do not is grounds

for serious doubt in the exercise.³ Furthermore, Arrow insists to his readers that they recognize that the Friedmans do not rely on the libertarian principles of justice and political economy one might find in say Robert Nozick's *Anarchy, State and Utopia*, so their case must rely on *economic reasoning*. *Free to Choose* does not contain a deontological case for freedom, but a utilitarian-consequentialist argument. But, Arrow is quick to point out, such an argumentative basis is far weaker defense of laissez faire. "They are also aware," Arrow writes, "that economic theory shows that the market cannot always be successful achieving efficiency." Externalities, public goods, monopoly power, macroeconomic instability, inequality, all ensure that markets fail to achieve ideal levels of efficiency in exchange and in production.

The various intellectual gymnastics that the Friedmans engage in to make their argument about the power of the market and the tyranny of controls, Arrow tells his readers, is littered with instances of fallacious argument making *Free to Choose* a "textbook example of false logical reasoning" and their lack of concern with questions of the distribution of income appear as "heartless". Lacking in logic and in compassion, unfortunately, the Friedmans also engage in a "cavalier" reading of economic history in the effort to make their case. Another serious flaw is that the work makes "no reference to the social reality of classes" except to indict the "new class" of bureaucrats, academics and journalists who benefit from government largesse. All the time making this argument, the Friedmans appear completely unconcerned with the dysfunctions in the market and in politics that results from concentrations in wealth. Arrow, in fact, uses the example of the Friedmans's skepticism toward government funding of science and their championing of

³ One of the Friedmans's great strength is their constant willingness to take on the strongest criticisms of the market economy and to raise the comparative analysis of the self-correcting mechanisms of the market in the wake of a variety of imperfections, and the difficulties of implementing political solutions. Their book is a constant exercise in comparative institutional analysis between for-profit private sector, the non-profit private sector, and the public sector in addressing a variety of social ills. So reading Arrow's dismissal of *Free to Choose* for being unwilling to weigh both sides of the argument in economic policy and social philosophy just seems to be disingenuous.

private philanthropy and flips the argument, suggesting that private donors of science will bias the research in the interest of the donor rather than the pursuit of truth.

Overall Arrow ends his review of *Free to Choose* stating clearly that he was disappointed by the lack of a guiding principle to public policy deliberations, a failure to consider the costs of policy changes being proposed, and the one-sided selection of arguments and evidence in the presentation. In short, while there is value to be found in the Friedmans “itemization of government failures: industrial regulation that is primarily in the interests of the special interest groups regulated, inefficient post offices, disappointing schools, welfare ‘messes,’ the failure of public housing” this does not follow from their presentation of economic principles or the broad sweep of history that they provide. One must remember, Arrow states, that there is a long list of social problems related to the free market that *Free to Choose* simply fails to wrestle with. Though he doesn’t explicitly say it, readers could easily be excused if the main take away from the review they got was that the book simply cannot be trusted, and as such, should be dismissed rather than debated.

I have belabored these reviews because they speak to the difficulties of getting the basic message the Friedmans want to offer to the intelligentsia of 1980. Their tacit presuppositions of political economy were just so at odds. For example, in Arrow’s litany of social problems he lists questions about consumer lack of knowledge and labors weak bargaining power, and the claim remember is that the Friedmans supposedly do not address these issues. Yet, any close reading of *Free to Choose* would see immediately that these are central questions raised and answered in chapters 7 (Who Protects the Consumer?) and chapter 8 (Who Protects the Worker?). Moreover, starting with the introduction, the Friedmans constantly remind their readers that perfection in human affairs is simply not an option; we must face not only past imperfections, but future

imperfections. There is no Dr Pangloss in the Friedmans view of capitalism. As they state: “in an imperfect world there were still many evils.” (Friedman and Friedman 1980, xviii) The idea was to find a set of institutions that would disperse power, rather than concentrate it, and would minimize the downside risk of the imperfections of this world. There was a danger to strong government in terms of freedom and prosperity, and the checks on guaranteeing that only the “right people” would be in charge of that strong government were not as robust as wishful thinking had hoped. Wishful thinking is no substitute for hard-nosed analysis in political economy. The tensions in the liberal project, and the costs and benefits of social change, are stated clearly and weighed throughout -- from the introduction to the conclusion in *Free to Choose*.⁴ Arrow just doesn’t find the Friedmans’s analysis persuasive, but that isn’t how he argues. Instead, Arrow wants to insist that the Friedmans don’t address these fundamental social questions. Why? It is my hypothesis that Arrow doesn’t engage in the “reasonable individuals of good faith can disagree” sort of dialogue with the Friedmans because he cannot see their answers as ones within the reasonable set of possible answers to these serious social questions. The “taken for granted” bounds of reasonable opinion were established by Arrow in the post WWII consensus, and the Friedmans are challenging that consensus.⁵

⁴ In his *JEL* review of *Free to Choose* Donald Yankovic (1981) stresses this point. As he says, rather than being the one-sided argument that critics such as Heilbroner and Arrow claim the book has many instances where the Friedmans draw attention to counter arguments to their position (and he lists page numbers from the beginning to the end of the book). For the litany of dysfunctions of government regulations, there is also a litany of abuses in the marketplace that must be addressed. The Friedmans are calling for a comparative institutional analysis in *Free to Choose*. In his concluding paragraphs Yankovic sums up his understanding of the Friedmans argument as: “Whether self-protection and competition in markets, or the regulatory instruments of government are most appropriate to deal with these evils are areas of controversy. Reasonable men of good will can be expected to disagree. The book provides an excellent point of view for considering this issue. After all, one does not abandon the principle that liberty is always to be preferred when one is convinced by reasoning and evidence that certain evils of the marketplace are too great to expect even enlightened and virtuous citizens to cope with them.” (ibid., 570)

⁵ In 1982, *Capitalism and Freedom* was reprinted and Milton Friedman wrote a preface, where he states clearly that: “its views were so far out of the mainstream that it was not reviewed by any major national publication.” It is “inconceivable that such a publication by an economist of comparable professional standing but favorable to the welfare state or socialism or communism would have received a similar silent treatment.” (Friedman 1982, vi) My

III. Wresting Control of the Tacit Presuppositions

One must remember that *Free to Choose* is really the persistent and consistent application of basic economic reasoning to analyze the consequences of changes in public policy on the performance of the economy. The book building on *Capitalism and Freedom* also develops the argument about the interrelationship between economic and political freedom. The biggest differences in the central argument between the 1962 book and the 1980 book is the addition in the latter of ideas developed by F. A. Hayek on the nature of the price system and spontaneous order, and ideas developed by James Buchanan on the economic analysis of politics, or what came to be known as public choice and constitutional political economy. But boiled down to its bare essentials the Friedmans are simply asking that public policies be incentive compatible with basic economic motivations. Asking policy proposals to not require mythical beings populating the world for the policies to yield the results desired is not too big a logical leap. And the reality is that when the Friedmans sat down to write *Free to Choose* the stagnation and economic malaise was the reality that all were experiencing. Slowing growth and declining productivity raised doubt that private initiative could continue to overcome the dysfunctions caused by an overgoverned society. We were trapped in the unenviable situation where government grew because it failed, and it was continually failing because it was growing in scale and scope over the economic life of the people. The Friedmans were warning their audience that this growth of government and the politicization of our lives would eventually destroy both our prosperity and our freedom. Whereas Adam Smith

point in quoting this passage from Friedman is not to highlight the bias in academia and media, but to suggest that the silent treatment was due to the tacit presuppositions. One example is the Friedman position on competition in schools and voucher programs, which at one time were considered unthinkable, then became widely appreciated, to now subject to efforts to discredit and delegitimize. From the tacit presuppositions of political economy perspective, the critical issue is what is considered in, and what is considered out, of the reasonable bounds of consideration. As those boundaries of the reasonable shift, so will the reception of challenging ideas.

taught us that individuals pursuing their own self-interest within a system of property, contract and consent could promote the general interest in society, the experience in the 30 year period following WWII demonstrated that “Individuals who intend only to promote the general interest are led by the invisible political hand to promote a special interest that they had no intention to promote.” (Friedman and Friedman 1980, 281) Something had to change. *Free to Choose* provides the reader with some suggested constitutional changes that would in principle guarantee our economic and political liberties. But in following through consistently with their approach, the clash of ideas must be engaged first and the tide of opinion must be decisively turned. Milton and Rose Friedman believed that people were “waking up” and that individuals are “recognizing the dangers of an overgoverned society, coming to understand that good objectives can be perverted by bad means, that reliance on the freedom of people to control their own lives in accordance with their own values is the surest way to achieve the full potential of a great society.” (ibid, 297)

The Friedmans were champions of clarity of exposition, so their argument is not too hard for anyone to hear, but as we have seen it was much more difficult to actually be listened to. Over the next decades the Friedmans message would not only be heard but would be listened to from China, UK and US to throughout the entire globe. Both *Capitalism and Freedom* and *Free to Choose* would influence political leaders and finance ministers, as well as dissidents and community activities to challenge the monopoly of power held by governments from the big debate over capitalism versus socialism to the smaller debate about public school versus choice in education. The direct and indirect influence Friedman exerted throughout the globe during the period 1980-2005 is simply staggering. (see Boettke 2004; Shleifer 2009)

Bob McTeer, former head of the Dallas Fed summarized the impact of Milton Friedman as follows:

Friedman recognizes the power of the invisible hand of free enterprise to create wealth and jobs, while warning that the heavy hand of government will bring nothing but stagnation. He has argued for a monetary policy to stabilize prices and keep inflation low. Most important, Friedman has made economics a moral matter as well as one of productivity, jobs, and growth. Economic freedom, he reminds us, is every bit as precious as the other freedoms we treasure.

During the period between 1962 and 1980, one can see slow but persistent changes in the standard textbooks in economic where Friedman's ideas are presented to students from the elementary to the advanced level. The Keynesian consensus breaks down in theory and practice, and central planning is rejected as a guiding principle for developed and developing economies.

The tacit presuppositions of political economy by 1990 were decidedly shifted away from the taken for granted notions of inefficiency, instability and injustice of capitalism to one that saw capitalism as the creative force behind wealth creation and the tearing down of monopolistic privilege through entrepreneurial innovation. Socialist presumptions that had so influenced what intellectuals believed from the late 19th and most of the 20th century, were pushed into the background during the age of Milton Friedman. It would be difficult for me to argue that they disappeared, as the resentment toward the bourgeois class, and the fear of market exploitation and market instability were omnipresent in the educational establishment as well as in popular culture. It remained the case that the greatest fear of capitalism was mass unemployment, and the greatest resentment of capitalism was the idle rich. It was just that the typical answers that were given ever since the Great Depression, were worn out explanations, and the contending perspectives of monetary mischief by Central Banks was treated as worthy hypothesis to be reckoned with in empirical investigation of macroeconomic volatility and economic growth.

There was during the 1960s and 1970s a renewed appreciation for the power of the market and the dysfunctions of political intervention in the market with respect to wage and price controls, industrial organization and anti-trust, and social programs and fiscal responsibility. In many ways

by the late 1980s, all of Milton Friedman's basic ideas with respect to public policy and the power of markets and the tyranny of controls were accepted as within the realm of reasonable opinion. And the seismic changes that took place in the 1980s culminating in the collapse of communism and the transition to capitalism must never be understated. Friedman's ideas were influencing public discourse and policy initiatives from China to Estonia, and from the Nordic countries to Latin America.

But as the 1990s progressed and the difficulties of post communism became more obvious Friedman himself began to question the lesson to be learned from this experience. First, he stressed that while he sincerely believed that, in the realm of ideas, the basic Smithian program he presented had won the day based on impeccable logic and unimpeachable evidence, he did admit that market oriented thinkers of the conservative and classical liberal variety had often lost the battle of public policy implementation. This was critical because lesson #1 in public policy was to adopt incentive compatible policies, but lesson #2 was pursue incentive compatible strategies for the implementation of strategies. As Dennis Robertson wrote years earlier, if for our explanations in political economy we rely on the benevolence of the actors to achieve the outcomes, we will both be left waiting forever to achieve the desired outcomes, and exhaust the benevolence that actors actually have in their possession in the futile effort to achieve those outcomes. Alternatively, rather than requiring sacrificial beings, if we instead rely on the ordinary motives of men and women, and seek ways to align incentives in a way where doing good is consistent with achieving good, and avoid those situations where we end up doing bad by doing good (see Coyne 2013). If we align incentives right, then we can escape the dysfunctions of the overgoverned society, and realize the "Good Society" that Walter Lippmann, F. A. Hayek, and Milton Friedman all talked about. But by failing to win the day on implementation, the contradictions and conflicts of the

transition period have come to define the experience of the 1980 to 2005 era as much as the great growth in wealth and generalized prosperity.

Real existing capitalism does exhibit cronyism as well as creative destruction. That empirical reality in the 2000s created impressions and issues in sustaining the control over the tacit presuppositions of political economy along the lines the Friedmans fought so hard to pull in their direction. This was solidified after the global financial crisis in 2008, and the policy responses followed over the past decade in response. Those in politically privileged positions were presumed to be bailed out, while those who lacked political privileges access were left to fend for themselves in the hyper competitive world of global capitalism. The tacit presuppositions reversed back, I am arguing, to the pre-*Free to Choose* era, and that presents the challenge we must all face today.

IV. The Challenge of Our Age

As a 19 year old in my second year of college, but repeating my freshman year over, I was exposed to economics. The year was 1979. What was my experience with the world, not on the black board, but out the window? First, the 1970s were difficult times economically and politically. Prior to my teens, I did experience the turbulent times of the 1960s, but as a child would. I grew up just outside of Newark, NJ in the suburbs, and my grandparents lived close to Asbury Park down at the Jersey shore. My youth saw friends' older brothers sent off to fight in Vietnam, others who missed the draft because of college deferment, and many older siblings that started to question the entire purpose of the Vietnam War and the social conventions of their parents. Watergate followed, and Nixon, Ford and then Carter were objects of ridicule more so than symbols of leadership and hope. The images, for good or bad, from my youth are of Nixon saying "I am not a crook" and his flying off in the helicopter after he was forced out of office in disgrace; of Ford,

a former All American college athlete, stumbling down the stairs of Airforce One; and Carter appearing on TV in a cardigan sweater invoking the Boy Scouts to check the thermostat in your home to keep so as to not waste natural gas. Seriously, that happened! Combine that with stagnating economy with high unemployment, with inflation, and with long lines to get gasoline.

When I sat in economic and was introduced to basic supply and demand it was as if I had been given a magic set of eyeglasses that now allowed me to see the world as it was and it gave me a sense at the ripe old age of 19 that I was starting to understand how the world worked. My “taken for granted” presuppositions were forged in a world where New York City was bankrupt, where the US economy was stagnant, and our politicians were corrupt at worse and buffoons at best. Communism did not offer an alternative as they cheated in sports, and were led by an old and decrepit cadre starting with Brezhnev. Just as described by the Friedmans, the world in which I was educated in economics was the opposite from the world that Depression era college students experienced. The intellectuals educated in the 1900-1950 period saw monopoly exploitation, financial speculation lead to ruin, mass unemployment, and gross social injustice. I saw those things as well, but rather than seeing the source as emanating from the acts of voluntary market exchange I came to see them as the natural by-product of government policies which produced perverse incentives and distorted signals, and which when studied in-depth favored particular groups at the expense of others. Between 1979 and 1999, my studies and my experiences reinforced these priors. It was my taken for granted picture of the world. The Friedmans helped produce that, but they were not alone, and they were certainly aided in that framing by the lived reality of economic and political life both in the US and abroad.

When I started teaching economics, most of my students had that same experience. I taught my first classes on my own in 1985, and the youngest person in that class would have been born

around 1968. When I moved to GMU in 1998, my youngest students would have been born around 1980. They had all witnessed in their lives the collapse of communism, the birth of democratic countries, and the economic wealth created by globalization. But by 2008, those students were born around 1990, and their taken for granted background had shifted. They grew up during the era of tensions in the middle east, the difficulties with post communism, the protests against globalization, and a growing concern with climate change. What they don't have any lived memory of is the failure of communism and the hope of post-communism. Fast forward to 2019, and those students were born around 2002. What they know is not the shock of 9/11, but the experience of a permanent war economy. They were coming of age intellectually when the global financial crisis hit, and more accurately after the narratives about that crisis were formed. This current generation, at least some of them, have grown up believing that wealth is ill-gotten due to privilege or due to pure random luck, that the wealthy are too myopic to consider the future costs of irreversible climate change, that markets are plagued by inefficiency, instability, and injustice. The global financial crisis in immediate impact might have been closer to the 1970s stagnation than the 1930s financial ruin, but a decade later and the impact on those "tacit presuppositions of political economy" are in fact closer to the 1930s.

The Friedmans had a framework for understanding why the promise of the 1980s gave way to the frustrations experienced with stalled and failed reforms in their book *The Tyranny of the Status Quo* (1984). The great awakening to the dangers of overgoverned society was only an idea awakening, but the reality of political change means defeating the "iron triangle" of interests that form during the period of government growth and benefit from the existing political arrangement. (ibid., 165ff) Unfortunately, their work on the frustrations with market reforms did not resonate with readers as their earlier work did. The cronyism of the capitalism that the current generation

of youth identifies with the US economic system is a reality. We live in the rent-seeking society that Buchanan, Tollison and Tullock (1980) warned of, and which Randy Holcombe (2018) and Michael Munger (2019) have respectively diagnosed recently. Promissory politics leads to predatory governments, just as the Friedmans taught, but the challenge of our age is that the young see the predation in the seeking of protection of privilege by business interests, rather than in the politicians, bureaucracy and intellectuals who seek to expand the power of the state by securing those privileges for those monied interests.

One way to think about this that might help and highlight the challenge we face as educators, scholars and communicators is to parse the issue of predation. We can all agree that predation is a fundamental problem in political economy. From Adam Smith's *The Wealth of Nations* to Daron Acemoglu and James Robinson's *Narrow Corridor* (2019) the problem of curbing predation is fundamental in understanding the political economy of development, and of achieving a good society defined as one of religious, political and civil liberties and generalized prosperity -- in short, a society defined by productive specialization and peaceful social cooperation. Predation comes in the form of *private* predation, as individuals exercise their power over others, and exploit them to their advantage. But predation also comes in the form of *public* predation, where those in positions of power use the full force of the law and the apparatus of coercion (including police and military) to rule over others and make them subjects rather than citizens. And here is the puzzle, in order to curb private predation, we create public authorities to police us, but in so doing we create the very possibility of public predation which we then must keep in check through constitutional efforts that must empower yet constrain. Again, political economists from Adam Smith to Daron Acemoglu and James Robinson all understood this fundamental paradox of governance.

But where the tacit presuppositions of political economy kick in is not in recognizing this conundrum, but in our priors about the resolution to it. For ease of exposition, let's limit the discussion strictly to the question of optimism and pessimism about the ability for private governance to self-police private predation, and the ability of constitutional checks and balances to effectively bind the governmental habit of public predation. Because of the frustrations with the failed policies of the 1960s and 1970s, and demonstrated in the stagnation of the late 1970s, when the Friedmans wrote *Free to Choose*, the tacit presupposition of my generation was that private predation would be easier to self-police than checking public predation via constitutional constraints. To this generation, however, I contend it is the opposite, and namely because the faith in curbing government predation isn't to be found in constitutional restraint but in the selection of "right people". The only thing preventing this right people answer, according to this now common narrative, is the willful and corrupt action of political opponents to fix the rules of the election, or manipulate the minds of voters through misinformation and sowing confusion and/or discord. As a result we are prisoners to a political system populated by evil people empowered by stupid people who have been manipulated by those in power and the monied interests who work with them. If more people were allowed to vote, and if more voice was given to the voiceless, we would see more power transfer from the powerful to the powerless, and the public sector would reflect true democratic values of fairness and justice. We are one another's dignified equals, except when we lie, cheat and steal to get what we want. So, if we eliminate the lying, the cheating, and the stealing, what we get from democratic processes is what we will want -- presumably a more just and humane society.

For those of us who believe in liberal political economy, we have a challenge, and the only way to meet this challenge head on is to strive to be scientists, educators and communicators at the

Friedman level of clarity of argument and carefulness and thoroughness in empirical analysis. It requires patience, devotion to craft, and quickness of mind and gentleness of spirit. Friedman was a unique talent, and the skill set he exhibited must be adapted to our present age, but it must be displayed by many if there is any hope of turning the tide again. With great challenges comes a great opportunity for those prepared to take advantage of it. The best thing MPS has done over the past decade, in my opinion, is to cultivate programs for the next generation of thought leaders, and from within that crowd perhaps will emerge precisely that pivotal person for these pivotal times. In terms of our global reach and recruitment of young scholars, often from previously underrepresented fields and locations, MPS is attempting to discover those talented scholars, educators, public intellectuals, and policy makers that are up to the challenge. This is something we must continue to do and do even better over the next decades if we are to meet the challenges of our age.

V. Conclusion

It will do no good in our effort to engage the current generation and to wrest back control of the tacit presuppositions of political economy to deny the problems they see as critical to the world. On issues from racial injustice to environmental degradation, we must be willing to grapple as Milton and Rose Friedman did in *Free to Choose* with the imperfections of this world and thus the great evils that are revealed. The political and economic systems of the western democracies suffered from perverted incentives and distorted signals, and, as a result, the market process does not operate as it should to spur enterprise, to guide actors in their decisions, to lure them with profit, and to discipline them with loss. The power of the market has been muted, while the tyranny of controls has expanded since 9/11 and 2008.

There is much wisdom in Adam Smith's argument that great nations are never ruined by private misconduct, but they can be by public misconduct. Smith was also right to stress that the power of innovation can quite often overcome the impertinent obstructions which government erects to hinder productive specialization and peaceful social cooperation. As he wrote in *The Wealth of Nations*: "The uniform, constant, and uninterrupted effort of every man to better his condition, the principle from which public and national, as well as private opulence is originally derived, is frequently powerful enough to maintain the natural progress of things toward improvement, in spite both of the extravagance of government, and of the greatest errors of administration. Like the unknown principle of animal life, it frequently restores health and vigour to the constitution, in spite, not only of the disease, but of the absurd prescriptions of the doctor." (see Smith 1776, Book II, Chapter 3, 325) But there also must be a tipping point where the perversity of the incentives and the distortions in the signals are so significant and the deformation of the economic system is so severe that the correction cannot avoid being deeply problematic and painful. As liberal thought leaders, are we prepared to grapple with the fall out of the bad public policies our own analysis has warned us about for decades?

We must always remember as true radical liberals that we inherited a problematic past, and a troubling present. Kant told us, and Berlin adopted it as his motto, that out of the crooked timber of humanity nothing straight can ever be made. We are imperfect beings living in an imperfect world stumbling along with the aid of very imperfect institutions. As liberals how we respond to this will dictate our success. Buchanan (1991) explained how the great classical liberals of the 19th century missed their opportunity due to their failure to develop a theory of justice that answered the challenges of their day. Frank Knight pondered on multiple occasions whether liberals would have the intellectual courage and wherewithal to meet the challenge created by the

Great Depression and the communist and fascist threat. And, of course, Hayek spent the second half of his career trying to answer this challenge and it largely motivated his efforts with the Mont Pelerin Society. We as heirs to this intellectual project can do no less.

This is a Special Meeting of the Mont Pelerin Society celebrating the 40th anniversary of a meeting held on these grounds in 1980. That meeting was held at the cusp of a revolution spearheaded by Milton and Rose Friedman's *Free to Choose*, and it ushered in "The Age of Milton Friedman". It is right that we celebrate this chapter in our society's past. But as we meet today, we must remember our situation intellectually is less like 1980 and more like 1938 (Colloquium Walter Lippmann) or 1947 (Mont Pelerin). The tacit presuppositions of political economy have shifted once more and away from our ideas. Books are continuously released these days criticizing Mont Pelerin Society, and in broader strokes, the entire economics profession in its complicity with regard to the global financial crisis, the prioritizing capital over labor and democracy, and the preoccupation with growth over the environment. Each day new studies in the New History of Capitalism are published, discussed, and built on in history, philosophy, political science, sociology, cultural studies, communications, global affairs, and area studies departments. In short, economics has been effectively surrounded by all the associated disciplines in the social sciences and humanities by critics. The reality is that not all the criticisms are wrong, and many, in fact, are right. But practically speaking, the reality is that any argument from within economics that hopes to effectively counter must begin with where they are, not where we are.

Hayek's career is instructive from this point of view. When he moved to LSE in the early 1930s, he gave as his inaugural address "The Trend of Economic Thinking", and a major lesson of that address is that if you think like a neoclassical economist, then the arguments for planning will appear very problematic to you. (see Hayek 1933) Only those who reject economic way of

thinking could advocate for such a path. Unfortunately for Hayek, by the end of the 1930s, the standard argument for planning was couched precisely in the most neoclassical of language. This led him, I argue in my recent book on Hayek (see Boettke 2018) to make two simultaneous turns in the 1940s away from technical economics and toward (1) the examination of the institutional framework within which economic life takes place, and (2) the philosophy of science, which due to a wrong turn, had turned a blind eye toward the institutional framework and the essential dynamic nature of market system and, in particular, the guiding role of relative prices and the functional significance of profit and loss accounting. Hayek's great discoveries in economics as reflected in works such as "Use of Knowledge in Society" (see Hayek 1948) as well as his political books such as *The Road to Serfdom* (1944), *The Constitution of Liberty* (1960), and *Law, Legislation and Liberty* (1973, 1976, 1979) all follow from this research path he was forced to embark upon with his examination of the "Abuse of Reason". (see Hayek 1952) For our purposes, however, it is important to stress that Hayek took this intellectual journey not alone, but with his fellow members of the Mont Pelerin Society. Liberal political economy was reconstructed with their hands from 1947 to 1980 culminating in so many ways with the publication of the Friedmans's *Free to Choose* and the 1980 meeting at Hoover that we are celebrating with this special gathering.

In conclusion, I want to suggest that those here at this meeting must continually learn from the Friedmans, and from Hayek, and from Buchanan, but apply those lessons to our age, and the challenges we face today with the same creativity and commitment that these great intellectual leaders did. Respectfully, I want to suggest that the challenges the next generation of thought leaders must face are more difficult than those faced in the period of 1970-1980. The students sitting in our classrooms today do not have the same taken for granted lived experiences that I had.

They don't know in their heart of hearts that 'socialism sucks'; that government is 'a parliament of whores'; or that the welfare state is 'losing ground'. They believe they know that markets are inefficient, unstable and unjust. They believe in their heart of hearts that markets are corrupting of our morals, and destructive to the 'good society'.⁶ Thus, now more than ever we must remember Hayek's words by which he began *The Constitution of Liberty* (1960, 1):

If old truths are to retain their hold on men's minds, they must be restated in the language and concepts of successive generations. What at one time are their most effective expressions gradually become so worn with use that they cease to carry a definitive meaning. The underlying ideas may be as valid as ever, but the words, even when they refer to problems that are still with us, no longer convey the same conviction; the arguments do not move in a context familiar to us; and they rarely give us direct answers to the questions we are asking. This may be inevitable because no statement of an ideal that is likely to sway men's minds can be complete: it must be adapted to a given climate of opinion, presuppose much that is accepted by all men of the time, and illustrate general principles in terms of issues with which they are concerned.

It is now up to the next generation of scholars, educators and communicators involved with Mont Pelerin Society to do the heavy work of restating and reconstructing the liberal principles of justice and political economy and offer a vision of the good society for our times. Let's hope that among you there is someone, and hopefully a number of you, that is as clear of thought, firm in their convictions and as convincing in argumentation as Milton and Rose Friedman were in *Free to Choose*.

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⁶ I recommend most enthusiastically the book by Virgil Storr and Ginny Choi (2019) on *Does the Market Corrupt Our Morals?* In tone and attitude, I believe this book is a model of how to engage today's students in a way that might persuade them of the merits of the market society. I would also recommend Paul Rubin's (2019) recent book *The Capitalism Paradox* for similar reasons.

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