Milton and Rose Friedman's "Free to Choose" and Its Impact in the Global Movement Toward Free Market Policy: 1979–2003

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In 1964, Lyndon Johnson defeated Barry Goldwater for the presidency of the United States by the overwhelming margin of 61 percent of the popular vote to 38 percent, and in terms of states won, the figure was forty-four to six. Barry Goldwater ran a campaign calling for less government and freer markets, and the population said no to him and yes to Lyndon Johnson's big government programs of the 1960s, for example, the War on Poverty. However, in the 1980 election, Ronald Reagan was able to defeat the incumbent president, Jimmy Carter, with 51 percent of the popular vote to 41 percent, and in terms of states, forty-four states to six states, running on essentially a similar platform to Goldwater's.

Obviously, something had drastically changed in that intervening sixteen years in the United States. For sure, a good part of that was the failure of the welfare/warfare state in the 1960s and 1970s. The U.S. economy in the 1970s was suffering from declining productivity, growing public debt, and inflation. The declining stature of the United States as *the* economic leader in the world was matched by a declining stature as a military superpower—as the frustrations of Vietnam fed into the failed policies in the Middle East, most obviously brought home by the Iranian hostage crisis in 1979. Reagan ran on a platform to reverse all of that, and in so doing he captured the imaginations of many. In particular, his rhetoric of uncompromising adherence to free market economics signaled a change in political rhetoric and public opinion.

Since the beginning of the progressive era, laissez-faire economics had been on the run from intellectuals and politicians and, since the Great Depression, the general public. There were, of course, lone wolf voices bucking this trend all along: Ludwig Mises, F. A. Hayek, Henry Hazlitt, and Ayn Rand being perhaps the most prominent in the 1930s, 1940s, and 1950s. In the 1940s, a superstar economist emerged to add his voice to these lone wolves and challenge the Keynesian hegemony in the economics profession and the conventional wisdom in the court of public opinion—Milton Friedman. Friedman's accomplishments as an economist, and as the premier public intellectual in the second half of the twentieth century for economic liberalism, are well known, so that is not what I am going to emphasize here. Instead, I want to focus on how his work in conveying the basic principles of economic liberalism changed public attitudes in the United States and abroad among the political elite, the intelligentsia, and the educated public, and, in particular, how that success in changing the climate of public opinion in the West in turn represented a beacon of hope to those in East and Central Europe and the former Soviet Union during the years leading up to the collapse of communism in 1989 and 1991.

There are many hypotheses about why the communist system collapsed in the late 1980s and early 1990s. One is that a Polish pope gave legitimacy to the Church behind the Iron Curtain and the unrest with Solidarity discredited the Workers' State in Poland. Once the Polish communist regime collapsed, the others followed. Another hypothesis is that Ronald Reagan's decision to up the military stakes highlighted the technological gap between the economic systems and toppled the system. Still another hypothesis is that a generation of political leaders from within the communist system that came of age during 1956 (the "thaw generation") and knew firsthand of Stalin's crimes against humanity had decided that this was no way for a civilized people to live. I cannot do justice to all these competing hypotheses here, but I want to suggest an alternative one and provide evidence of its plausibility—namely, that the economic failures of the real-existing communist system in East and Central Europe made sense only in light of the ideas of economic liberalism.[1] And in the 1980s, no one had stated those ideas more plainly and concisely than Milton and Rose Friedman in *Free to Choose*.[2]

FROM *CAPITALISM AND FREEDOM* TO *FREE TO CHOOSE*

One way to measure the impact of Milton Friedman's ideas is to simply compare and contrast the reception of *Capitalism and Freedom* at the time of its publication in 1962 with that of *Free to Choose* in 1980. As the Friedmans inform us in their memoirs, the intellectual climate of opinion at the time of *Capitalism and Freedom* was, to put it mildly, hostile (Friedman and Friedman 1998, 339). Milton Friedman states in the preface to the 1982 edition of *Capitalism and Freedom* that when it was first published in 1962,

> its views were so far out of the mainstream that it was not reviewed by any major national publication—not by the *New York Times* or the *Herald Tribune* (then still being published in New York) or the *Chicago Tribune* or by *Time* or *Newsweek* or even the *Saturday Review*—though it was reviewed by the London *Economist* and by the major professional journals. And this for a book directed at the general public, written by a professor from a major

> U.S. university, and destined to sell more than 400,000 copies in the next eighteen years. 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)

The publication of *Free to Choose* would provide the exact opposite experience for the Friedmans.[3] The book sold 400,000 copies in hardcover and as a mass market paperback has sold millions of copies and been translated into over a dozen languages.[4] Perhaps an even better measure, though harder to put a precise number to, is how proposals first discussed in *Capitalism and Freedom* (and considered too radical for respectable conversation) have now become commonplace: monetary rules versus discretionary policy, private certification on the market rather than government licensure, school vouchers and competition in education versus government monopoly, and the flat tax versus a progressive income tax are but a few examples of how Friedman was the trailblazer for creative applications of market thinking to areas of public policy.

In *Capitalism and Freedom*, Friedman sought to establish an argument about the interconnectedness of economic and political freedom. It was possible, he argued, to have limited political freedom while adopting policies of economic freedom, but it was impossible to eliminate economic freedom without also infringing on the political freedoms of individuals. Moreover, economic freedom would put pressures on the political system to open up. In contrast to the popular position among intellectuals that political and economic freedom could be separated neatly, Friedman put forth the following historical challenge:

> Historical experience speaks with a single voice on the relation between political freedom and a free market. I know of no example in time or place of a society that has been marked by a large measure of political freedom, and that has not also used something comparable to a free market to organize the bulk of economic activity. (Friedman 1982, 9)

While *Capitalism and Freedom* is in many ways a more philosophical and foundational book than *Free to Choose*, the basic teachings of economic liberalism are conveyed even more forcefully and the applications more persuasive than in the earlier book. Moreover, *Free to Choose* is more explicit in its use of ideas such as the informational role of prices, the spontaneous order of the market system, and the interest group logic of political interference with the market. These aspects of the theoretical foundations of liberalism were not emphasized in the early 1960s but emerged more explicitly with the development of public choice theory by James Buchanan and Gordon Tullock in *The Calculus of Consent* (1962) and the theory of spontaneous order in F. A. Hayek's work from *The Constitution of Liberty* (1960) to *Law, Legislation and Liberty* (1973, 1976, 1979).[5] In short, what the Friedmans argued in *Free to Choose* is that the power of the market system is its ability to mobilize the incentives of individuals to realize the gains from mutually beneficial exchange, and that the price system is an indispensable aid in this endeavor by discovering the relevant information and communicating it to the relevant actors within the system, who in turn utilize it efficiently in realizing their individual plans. On the other hand, the attempt by government to interfere in the market order results in perverse incentives, distorted information, and the catering of special interests that concentrates benefits on well-organized and well-informed interest groups and disperses the costs among the unorganized and ill-informed mass of voters.

The Friedmans summarize the functions of prices in a market economy as follows: "Prices perform three functions in organizing economic activity: first, they transmit information; second, they provide an incentive to adopt those methods of production that are least costly and thereby use available resources for the most highly valued purposes; third, they determine who gets how much of the product—the distribution of income" (Friedman and Friedman 1980, 6). The price system constitutes an intricate web of information and incentives. Attempts by government to substitute control for voluntary exchange often result in a failure to rectify whatever perceived problem was used to justify government action in the first place and, in fact, often exacerbate the problem by imposing costs on some parties and concentrating benefits on others. Freedom of trade fosters cooperation and harmony of interests among diverse parties. Controls lead to conflicts and special interest politics: "There is, as it were, an invisible hand in politics that operates in precisely the opposite direction of Adam Smith's invisible hand. 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).

Free to Choose leaves its reader with a clear message about the power of the market to harness individual initiative and knowledge of time and place, the importance of property rights and the rule of law in enabling individuals to realize the gains from exchange and to preserve our personal freedom, the failure of government policy to achieve the goals set, the vulnerability of government policy to opportunistic behavior by special interests, and the threat to human liberty that government intervention in the economy represents. While their message was directed primarily at an audience of U.S. readers, the Friedmans infused their work with a comparative analysis drawing on examples from Russia, India, China, and Hong Kong, among other places. The message learned through this comparative historical analysis is this:

> Wherever we find any large element of individual freedom, some measure of progress in the material comforts at the disposal of ordinary citizens, and widespread hope of further progress in the future, there we also find that

> economic activity is organized mainly through the free market. Wherever the state undertakes to control in detail the economic activities of its citizens, wherever, that is, detailed central economic planning reigns, there ordinary citizens are in political fetters, have a low standard of living, and have little power to control their own destiny. (Friedman and Friedman 1980, 46)

It is this broad sweeping judgment that would serve as an inspiration and catalyst for dissident economists within the former Soviet Union to push for economic and political change in the late 1980s and early 1990s.

THE INDIRECT AND DIRECT INFLUENCE OF MILTON FRIEDMAN IN 1989 AND 1991

The indirect influence of Milton Friedman as the leading intellectual spokesman for economic liberalism stretches from China to Poland and all points north and south as well. Only Hayek's influence would compare.[6] This indirect influence is revealed anytime a modern economic reformer insists on the interrelationship between economic freedom and political freedom, on the necessity of private property and the freedom of contract, on the importance of rule-bound monetary and fiscal policy, on the perverse consequences of government regulation, and on the special interest groups that form the tyranny of the status quo. Friedman made it respectable for economists to argue in favor of free markets and offer market solutions to public policy questions. In his own attempts to provide market solutions in public debates, Friedman originated many of the ideas that defined not only the Thatcher and Reagan revolutions in the 1980s, but would define transition policies in Poland, the Czech Republic, and Russia in the 1990s. Many of these ideas were forged in Friedman's attempts in the 1960s, 1970s, and 1980s to address vexing policy problems in the United States, UK, India, Israel, Latin America, and China.

Far from just the figurehead of the political philosophy and political economy of classical liberalism that many of the reformers embraced in their rejection of the previous socialist system, Friedman was also an inspiration for many of the policy proposals adopted. The Friedmans did not dare in 1980 believe that communism would topple in a decade, but they also didn't rule that option out:

> [L]etting the genie of private initiative out of the bottle even to this limited extent [context is Yugoslavia in the 1970s] will give rise to political problems that, sooner or later, are likely to produce a reaction toward great authoritarianism. The opposite outcome, the collapse of communism and its replacement by a market system, seems far less likely, though as incurable optimists, we do not rule it out completely.[7] (Friedman and Friedman 1980, 49)

The problem with the real-existing systems in Soviet bloc countries could not be tackled coherently with minor reforms to the socialist system. The problem wasn't with this or that aspect of the system but the entire system.[8]

Milton Friedman (1984), in a pamphlet for the Centre for Research into Communist Economies, summed up his position on the problems of trying to introduce markets into a command economy by stating,

> I believe this way of putting it is upside down. The real question is how far one can go in introducing command elements into a market economy. I believe it would be literally impossible for any large-scale economy to be operated on a strictly command basis. Fundamentally, what enables a country such as China or the Soviet Union to function at all is the market elements that are either deliberately introduced or are inadvertently permitted to operate. When I speak of market elements being introduced into command economies such as China's and the Soviet Union's, I am not speaking of free markets; they are highly distorted markets. That is why those countries have such low standards of living; that is why they are so inefficient. (Friedman 1984, 8)

The power of Friedman's observations of the failure of the real-existing socialist economies of the Soviet bloc was not lost on those in charge of designing the reforms for those economies. Abel Aganbegyan, one of Gorbachev's main economic advisors during the 1980s, describes his meeting with Milton Friedman in San Francisco as follows:

> I was astonished by his fantastic faith in private property, a faith that excluded the possibility of any other kind of property ownership such as that which exists in the socialist countries. In Friedman's opinion, well-being can be reached only through private ownership of property, a free market and the existence of banks completely independent from the state and serving that free market....But if we move away from conceptual problems to the concrete theories advanced by Milton Friedman in his studies, we find that many of them can be of great use to us. In a number of cases Friedman points to examples of financial misjudgement by the state in increasing expenditure, printing excess money and so on. And while I do not accept his view that the socialist countries should transfer property into private ownership, I nevertheless listened with great interest to his explanations of the present inflation in China, which he had recently visited, and in other socialist countries. (Aganbegyan 1989, 52–53)

The Gorbachev reform team lacked the imagination to embrace private property and the market economy, and instead the inconsistency in their reform efforts led to the unraveling of the Soviet system.

When a group of young economists was tapped to form the new reform team at the end of the Gorbachev period and then into the Yeltsin years, Milton Friedman's influence was again repeatedly recognized. In her book *Sale of the Century*, Chrystia Freeland makes this stunning observation: "It was, of course, an absurd decision. Here was Gaidar, an ardent capitalist, a fan of F. A. Hayek and Milton Friedman, a man who thought the welfare state in Western Europe was far too large and would have voted for Ronald Reagan, shaping the economic ideology of the Communist Party of the Soviet Union (CPSU). It was like asking a crusading atheist to write a new catechism for the Vatican" (Freeland 2000, 29).[9]

Friedman's insights into the nature of real-existing communist economies were important for a variety of reasons that would later prove crucial during the transition period. It was the distorted market economy that failed in 1989 and 1991, with the social networks and political interconnections that had been formed under the incentives of that distorted system. The system led to disproportionate power to those in politically privileged positions, inefficiencies in production due to perverse incentives and the distorted signals of administered prices, and lacked any incentive for innovation, change, and progress. As Friedman would put it during a trip to China in 1988, "The problems of overcoming vested interests, of frustrating rent-seeking, apply to almost every attempt to change government policy, whether the change involves privatization, or eliminating military bases, or reducing subsidies, or anything else" (Friedman 1990, 94).

In order to defeat the vested interests and transition to a free market economy, Friedman counseled that reformers move quickly and decisively. The discussion is subtle because Friedman admits that "slow and steady" may outperform "one fell swoop" under certain conditions, and in particular may outperform with regard to issues of equity and political sustainability of the reforms. But ultimately, the arguments for economic efficiency, and the reality that gradualism enables vested interests to organize and fight against change, leads one to lean toward quick and decisive moves in economic policy. This does not mean that reformers should give little thought to the political sustainability of reforms. Instead, as Friedman highlights, there are a few basic ways to address the tyranny of the status quo in economic reform. One way, followed in the case of British Telecom, is to try to create stakeholders from the vested interests so they will see the benefits of privatization. As Friedman warns, the problem with this approach is if you end up simply substituting a private monopoly for a government monopoly, the politically connected will fight to maintain an effective barrier to entry in the respective industry.[10] To avoid this problem, Friedman himself advocated a free distribution of shares in the state enterprises and then allowing citizens to freely buy or sell the shares in an open market. And, finally, rather than fighting the existing monopoly head-on, the reformer could simply eliminate the government-enforced barrier to entry in the industry and allow the market to generate substitutes either through the entry of direct competitors or technological innovations that change the nature of the industry.[11]

While we have seen that the different economists in Russia acknowledged Friedman's influence in framing their discussions, the most successful economic reformers in Poland and the Czech Republic borrowed from Friedman more than a frame of reference. Poland's finance minister, Leszek Balcerowicz, has turned to Friedman to find practical ideas from monetary stabilization to privatization to the flat tax.[12] Jeffrey Sachs (1993, 87), Anders Aslund (2002, 256), and Marshall Goldman (2003, 196) all credit Friedman as the "godfather" of the voucher privatization proposals that circulated throughout transition economies. Perhaps the strongest endorsement of a direct influence of Milton Friedman guiding the transition experience comes from Vaclav Klaus, and thus it is worth quoting him at length from a speech he gave at the Prague School of Economics on the occasion of awarding an honorary doctorate to Milton Friedman on April 17, 1997:

> Reading and studying Milton Friedman's works helped me and many of us to understand economic reality, to understand economics, to understand its methodology, the role of the market in society, the role of the state in a free market economy, the role of money in the economy etc. Surely there were other influential authors but there was no one comparable in intellectual and human integrity, in firmness of stances and attitudes, in innovative boldness, in simplicity and clarity of exposition and in the scope and quality of important contributions both to economic theory and to the theory of public policy.
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> Milton Friedman is, however, not only a theoretician in the very rigorous discipline of economic science. He is, at the same time, a true believer in the unrestricted market economy and I believe that his books *Capitalism and Freedom*, together with a more recent *Free to Choose*, opened the eyes of whole generations of not scholars but of ordinary citizens on all continents of this planet.
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> All that helped us to understand the tenets of the old communist regime and its oppressive character and economic irrationality. With Milton Friedman's works as our background we had no dreams about the so-called third ways, about perestroika, about the reformability of communism. Milton Friedman helped us to interpret the actual communist economy not as a textbook command economy, based on directives going in the vertical direction from the central planning commission at the top to individual firms but as a very strange and truncated market economy with imperfect, but nevertheless dominant horizontal relations among economic agents at the microlevel. Milton Friedman knew that it was impossible to suppress human behaviour, the

> spontaneity of exchange, implicit if not explicit prices, wide-spread bargaining etc. It was a very rare attitude at that time.
>
> At the same time, the works of Milton Friedman helped us to understand the logic of the transformation of a communist country into a free society and a full-fledged market economy. Because of him, we had a clear vision where to go and a pragmatic strategy how to get there. We did not want to mastermind the whole process because it would not be possible and definitely not successful. We knew we had to trust free citizens to create the new world—with a moderate help from the above only.

Klaus's words touch on the themes we have emphasized as coming out of *Capitalism and Freedom* and *Free to Choose* with regard to the power of markets and the tyranny of controls, and clearly state how Friedman's ideas guided the construction of economic policy during the transition.

How have these policies fared? If you listen to the popular press and left-leaning academics, then you will hear about social disruptions and a general discrediting of market reforms in East and Central Europe and the former Soviet Union. But the popular rhetoric is often divorced considerably from the reality of the situation, especially as compared with merely a decade ago.[13] As Vladimir Dlouhy, the former minister of industry and trade of the Czech Republic has put it: "If someone would have told me in 1989 that by 2009 we would have a capitalist economy, the rule of law, a stable democracy, European integration, etc., etc., I would have told them they were crazy. When you look at the immediate past, you become a pessimist. When you look at a longer term horizon, the progress is breathtaking."[14] Of course, mistakes were made, and the corrupting influence of interest group politics is ever present. Intellectually, we now know that we must emphasize the necessity of certain key institutions in order for markets to work as effectively as we might hope—a point that is implicit in the Friedman analysis of the power of the market and tyranny of controls, but now must be made more explicit, as has been repeatedly stressed by James Buchanan (1997), Ronald Coase (1992), and Douglass North (1994). Moreover, culture and history no doubt represent a significant constraint on our ability to establish a successful market economy in the former communist economies, as recently stressed by Steve Pejovich (2003).

The impact of culture and history is not felt in terms of economic performance of market-oriented reforms *if* they were implemented.[15] Privatization and competition will lead to gains in productive efficiency and with that, wealth. But the culture and history of a country can impede the long-term legitimacy of the private property order and thus reverse the policy mix in a country. This leads us back to the project of the Friedmans—to educate not just the intellectuals of any society but also the citizenry. The economic liberal's project is not only to pursue a correct scientific understanding of the world but to change the intellectual climate of opinion toward an appreciation of the liberal project of constraining the government and encouraging the voluntary cooperation of individuals in society.[16] And here we can hope that the peoples of the former socialist economies will continue to benefit from the teachings of the Friedmans. In 1980, they ended *Free to Choose* with an optimistic chapter pointing out that "The Tide Is Turning." The call to action that the Friedmans make is characteristically straightforward:

> Needless to say, those of us who want to halt and reverse the recent trend should oppose additional specific measures to expand further the power and scope of government, urge repeal and reform of existing measures, and try to elect legislators and executives who share that view. But that is not an effective way to reverse the growth of government. It is doomed to failure. Each of us would defend our own special privileges and try to limit government at someone else's expense. We would be fighting a many-headed hydra that would grow new heads faster than we could cut the old ones off.
>
> Our founding fathers have shown us a more promising way to proceed: by package deals, as it were. We should adopt self-denying ordinances that limit the objectives we try to pursue through political channels. We should not consider each case on its merits, but lay down broad rules limiting what government may do. (Friedman and Friedman 1980, 287)

The danger is when a people forget that one of the most basic truths in human affairs is that the greatest threat to our freedom and our ability to realize peaceful social cooperation is the concentration of power in the hands of few. As the Friedmans warned, we had deluded ourselves in the twentieth century into believing that the concentration of power was not a threat as long as that power was to be used for good purposes (Friedman and Friedman 1980, 297). The costs to humanity were great, and nowhere as great as to those peoples who had to endure the good intentions of communism.[17] Hopefully, the reformers-turned-political-leaders learned not only how to privatize their economies but also how to constitutionally constrain their governments from the wisdom of Milton Friedman.

CONCLUSION

We live in a world where activists take to the streets to protest globalization and the inhumanity of capitalism, and at the same time are wearing sneakers constructed in Indonesia, sweaters made in England, pants made in the United States, and gas masks made in Canada. Of course, a free market economist himself can find fault with the International Monetary Fund, World Bank, and World Trade Organization, but that degree of subtlety is absent from our protestors' argument. On the other hand, they contend that the spread of markets throughout the world generates a race to the bottom in terms of labor policy and environmental control, and reinforces an unequal distribution of resources between rich and poor nations.

The logic of economic reasoning and the evidence point in the opposite direction. Markets are the most effective means available to improve the lot of mankind by spreading the international division of labor and increasing the productive capacity of mankind. Increases in real income can result only from increases in real productivity, and increases in real productivity result from improvements in labor skill, advancements in the stock of technological knowledge, and more effective management and organization of economic production within enterprises. Globalization brings all three of these sources of real productivity gains from the more developed economies to the less developed ones. Moreover, the expansion of the market area erodes the power of local monopolies and exposes political leaders to world standards of acceptable public policy toward the least advantaged in a society. As the Friedmans contended in *Free to Choose*, letting the market genie out of the bottle destabilizes the monopoly on political power that the ruling elite possess in a command economy.

"A tide of opinion, once it flows strongly, tends to sweep over all obstacles, all contrary views" (Friedman and Friedman 1980, 272). The events of the world subsequent to the publication of *Free to Choose* demonstrate the veracity of this claim. Communism collapsed, development planning in the Third World was rejected, and even the welfare state in Western democracies has resulted in fiscal reforms. But there are still those who agitate for more government involvement in the economy in the name of security—personal, economic, and national. For those of us who are persuaded by the argument that a people that is willing to trade off its liberty for security deserves neither, the demand for, and popularity of, these security measures is a disturbing trend. But perhaps we might find hope from a region of the world that in fact used to represent one of the main causes of our security concern in the West: the former communist economies. As Mats Lars, former prime minister of Estonia, remarked recently in describing the intellectual climate of opinion in Europe, "The most left wing parties in the new Europe, from an economic policy standpoint, are more right wing than the most right wing party from the Old Europe."[18] As I have tried to suggest here, the prevailing climate of public policy in East and Central Europe and the former Soviet Union that pushes for market initiative instead of government-provided security is in no small measure due to the powerful message conveyed in the works of Milton and Rose Friedman and their commitment to sound economic reasoning and to the philosophy of limited government.

NOTES

[1] This is actually the hypothesis that is most plausible in the face of the evidence, as I have argued in Boettke (1993, 3–4, and 2001, 1–6). Also see Boettke, ed. (2000) for an examination of the century-long debate among economists on the theory and practice of socialism.

[2] I take particular delight in this regard from the cartoon from the *Christian Science Monitor*, and reproduced in the Friedmans' memoirs, of a statue of Lenin being replaced with a statue of Milton Friedman in Poland. See Friedman and Friedman (1998, 513).

[3] Milton Friedman has stated on many occasions that he actually considers *Capitalism and Freedom* the superior book to *Free to Choose*, so the puzzle of the different receptions cannot be explained by reference to quality.

[4] The translations that I could find were as follows: French, 1980; German, 1980; Japanese, 1980; Norwegian, 1980; Spanish, 1980; Swedish, 1980; Danish, 1981; Italian, 1981; Portuguese, 1981; Chinese, 1982; Finnish, 1982; Hebrew, 1988; Polish, 1988, 1994; Czech, 1992; Estonian, 1992.

[5] The focus on the informational role of the price system was an aspect of Hayek's economic thought that was widely accepted from the 1940s. However, the development of "information economics" would not occur until the 1960s, after George Stigler's seminal paper on the topic. Moreover, while Friedman and Hayek were close intellectual allies in the battle against socialism, especially in their work with the Mont Pelerin Society, the emphasis on spontaneous order is more identified with Hayek than Friedman. But see the discussion in *Free to Choose* where they discuss language, science, and culture as examples of how complex and sophisticated orders can arise as the unintended consequence of individuals pursuing their own interests. See Friedman and Friedman (1980, 16–19).

[6] A comparison of the scientific impact of Hayek and Friedman, however, weights strongly in favor of Friedman. When I did *The Intellectual Legacy of F. A. Hayek* volumes for the Hayek centennial celebration in 1999, a citation study was conducted, and Friedman dominates over all the classical liberal economists who have won the Nobel Prize (Buchanan, Coase, and Stigler) and the older generation of Mises and Knight. See Boettke (1999, xi–xvi).

[7] It is important to stress two parts about the Friedmans' analysis. First, they never fell into the trap of believing the Soviet system was a textbook model of central planning that could allocate resources efficiently. Textbook central planning was impossible, but what emerged was a government-regulated market economy that served particular vested interests of the ruling elite (see Friedman and Friedman 1980, 1–2). Second, while recognizing the military prowess and threat of communism, the Friedmans never bought into the economic, let alone moral, superiority of the communist system like so many of their contemporaries. Economists such as John Kenneth Galbraith and Paul Samuelson wrote well into the 1980s about the productive capacity of the socialist system to outperform the capitalist system. In this respect, the analysis by the Friedmans of the rotting of the socialist system from within and the instability that would be introduced once minor market reforms were implemented was prescient indeed. On the development of the implications of the noncentrally planned nature of the Soviet system, see Roberts (1971) and Boettke (1990, 1993, and 2001). On how the introduction of market reforms and inconsistent policy shifts caused the downfall of the communist regime under Gorbachev, see Boettke (1993).

[8] We learn in their memoirs that the Friedmans had a fascination with learning up close the operation of different economic systems, including their year-long trip to visit over twenty countries in the early 1960s (Friedman and Friedman 1998, 279–332). The Friedmans also were involved in the effort to bring the latest teachings of market economics to economists in the former Soviet bloc, dating from the mid-1960s. These meetings were held under the auspices of an Italian research center (CESES) under the direction of Renato Mieli, who worked in cooperation with G. Warren Nutter (Friedman and Friedman 1998, 338). Nutter was Milton Friedman's student at the University of Chicago and challenged the dominant opinion among Sovietologists at the time that despite whatever political problems the Soviet system confronted, the economy had performed admirably in lifting a country from a backward peasant economy to an industrialized economy in less than a generation. Nutter's (1962) work challenged the growth accounting that was being done on Soviet-type economies, and his revised figures called for a reassessment of the economic prowess of the Soviet system. In other work, Nutter (1983) also challenged the notion that either shadow pricing mechanisms or the decentralization of administration could provide the incentives and information required to improve the economic performance of the Soviet-type economy. Markets without private property, Nutter argued forcefully, were a grand illusion, and without the establishment of private property rights, Soviet reforms were bound to lead to frustrating results. Nutter was a trailblazer whose works were often dismissed during his day, only to have them viewed as singularly prescient after the collapse of the Soviet Union in 1991. For a discussion of the debate over Soviet economic growth figures, see Boettke (1993, 12–45).

[9] Gaidar, in an interview for the PBS series "Commanding Heights," states in response to a question about Milton Friedman's influence: "Yes, I read Friedman's books with interest, and also Hayek. They were very authoritative for us, but all the same far away from our domestic realities."

[10] Of course, this is the criticism of the insider deals that were struck in Russia that have led to a generation of oligarchs. See Goldman (2003). Contrary to these arguments, I would stress with Boyko, Shleifer, and Vishny (1995) that the primary purpose of privatization was "destatization," and reform efforts should be judged against that standard. The lingering economic problems in East and Central Europe and the former Soviet Union are a consequence not of either "insider" or "voucher" privatization but the lack of actual implementation of reforms, the partial nature of many of the reforms that were implemented, and the continuing interference of the state in economic life.

[11] Friedman (1990, 91) points to changes in communications, such as e-mail, telephone, and fax machines, as effectively eroding the monopoly power of the U.S. Post Office. On how this example of the U.S. Post Office can serve as a general model for transition economies in privatization, see Boettke and Leeson (2003).

[12] See Burba (1999) for a discussion of Balcerowicz's advocacy of the flat tax and the origination of the idea in Friedman's *Capitalism and Freedom* (1982, 172–76).

[13] The empirical record of postcommunism is often clouded by (1) an unreliable base state, as the official data on the economy at the time of the collapse of communism often overestimates the economic health of these economies, (2) failure to adequately account for the problems of a shortage economy, repressed inflation, negative value-added production techniques, etc., that characterized the Soviet-type economy and thus misinterprets the initial period of the transition

in terms of price adjustments and the reallocation of labor and capital, and (3) failure to incorporate into the analysis the unofficial economy that emerges as individuals attempt to evade the regulations, registration fees, and taxation of the official system even after so-called reforms have been implemented. These problems are discussed in Boettke and Leeson (2003).

14 Personal interview by Peter Boettke, Scott Beaulier, and Susan Anderson with Vladimir Dlouhy at his office in Prague on July 14, 2003.

15 The results obtained from both the Index of Economic Freedom and the Economic Freedom Index are clear on this: Economic freedom (security of private property, freedom of pricing, sound money, fiscal responsibility, low taxes, nonintrusive regulation, and open international trade) is positively correlated with economic growth. It is just not the case that countries can score low on these different indices of economic freedom and experience significant economic growth and improvements in the standard of living of the average citizens in their country. An online description of the Economic Freedom Index is available at www.freetheworld.com.

16 As stressed by Milton Friedman, the classical liberal economist will do a disservice to his cause if he allows his ideological position to crowd out his positive economic analysis. Instead, the case for classical liberalism must be grounded in sound economic analysis. To accomplish this, the economist should in the first instance engage in a positive analysis of any policy proposal by treating the ends of that proposal as public-spirited and unobjectionable from a broadly accepted moral standard (for example, we want to help the least advantaged in society). Then subject that proposed policy to economic analysis, with the surprising result that much of what is advocated in the name of the public interest actually fails to promote that objective. Confronted with this knowledge of the conclusions of positive economic analysis, politicians should abandon their previous policy and pursue one more suited to meet the stated objectives. In the face of repeated failures to respond to the logic and evidence provided by sound economic analysis, Friedman then suggests that the economist can offer a positive analysis of the political process of policymaking. At this level, the logic and evidence lead one to expose how special interest groups operate in concert with politicians and a permanent bureaucracy to concentrate benefits on the well-organized and disperse benefits on the unorganized and establish effective constraints on any attempt to change the status quo. Again, values are not unwarrantedly imported into the analysis. The conclusions that emerge about the inertia of the status quo and the logic of concentrated benefits and dispersed costs are derived through sound economic reasoning. Finally, in building the positive construction of a constitution of economic policy, Friedman argues that we need to learn from thinkers such as Adam Smith and Thomas Jefferson and build institutional constraints that will enable “bad men” to do least harm, rather than free “good men” to accomplish all that they intend. *Free to Choose* is a perfect illustration of how to engage in each of these levels of analysis in political economy.

17 See R. J. Rummel (1994) and Courtois et al. (1999).

18 Remarks at the graduation ceremonies of the American Institute for Political and Economic Studies (Fund for American Studies) at Charles University, August 2, 2003.

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