Chapter 1—The Relation Between Economic Freedom and Political Freedom

p.8, ¶ 4: Exchange controls are rare today, but were applied by many countries in the postwar years. Essentially, they were restrictions on private individuals’ ability to purchase foreign currency for use in foreign trade. It might be hard to imagine today, when you can buy DVD’s from Japan with a debit card (as I did for my daughter this past Christmas), paying dollars out of your account to pay a bill in yen. The foreign exchange transaction is handled by the banks—yours and the vendors—in a way that is almost transparent to you. But under exchange controls, it was illegal for private citizens to own foreign currency, and any that was earned by selling exports had to be exchanged immediately at the central bank (i.e., the government) for domestic currency. To buy imports, you then had to apply to the central bank for permission to purchase from it the foreign currency needed to complete the transaction. And the central bank often denied permission. The primary purpose of exchange controls was to prevent a balance of payments deficit¹ from arising (or growing) by restricting the amount of money that could leave the country via foreign trade and investment. As a secondary effect, though, they functioned as a type of trade restriction.

p.8, ¶ 5: He’s talking about Social Security pensions here.

p.9, ¶ 2: Fair trade laws were state laws that allowed manufacturers to compel retailers to sell their goods at set prices, or at least, to set minimum prices for their goods. Most states passed these in the 1930s to protect small businesses from large discounters—“chain stores,” as they were called then. Of course, they also penalized consumers by forcing them to pay higher prices. Retailers who refused to follow the manufacturer’s dictates could be charged with a crime. (I’m not making this up. You have Friedman’s word for it.) I recall very well when good quality golf balls—“pro-line” balls—were sold only at golf course pro shops, a fact that was usually emblazoned on the box, in large letters. And no matter where you shopped, they always sold for $1.25 each. Why? Fair-trade laws in most states allowed the ball manufacturers to dictate this price. Outside pro shops you could only buy lower-quality balls—known as “drugstore balls,” since a lot of them were sold at Walgreen’s and similar stores, in the dark ages before discount stores. I still remember the shock I felt the first time I saw Titleist balls for sale at K-Mart, at a dollar a ball.

p.10, ¶ 4: Jeremy Bentham (1748-1832) was an English philosopher who developed the theory of utilitarianism. He strongly supported the extension of political freedom and the elimination of restrictions on personal freedom. He also invented the concept of utility, and, of course, the util.

p.11 ¶ 1: Friedrich Hayek, (1899-1992), Austrian economist, strong supporter of market economics and personal freedom, received the Nobel prize in economics in 1976. The Road to Serfdom (buy here or here; comic book version here; summary here) is a readable book, on the order of Capitalism and Freedom. If you want to read a compelling demolition of the principles of socialism, this is the place to start. The Library has a copy. I highly recommend it.

p.13, ¶ 2: “Fundamentally, there are only two ways . . . .” Read carefully.

p.15, ¶ 2: "Underlying most arguments against the free market is a lack of belief in freedom itself."--one of several famous quotes from this book, and a crucial point. Next time you hear Barney Frank railing against capitalism but insisting he’s looking after your best interests, keep this paragraph in mind.

p.16-19: A very important section. Friedman explains why a market economy is necessary for political freedom. Consider our current situation in the US. The major news media outlets—network TV and CNN, and most major daily newspapers—are strongly left-leaning in their political sympathies and reporting. (News item, 8/27/10: 88% of political campaign contributions made by network TV employees in 2008 went to Democrats.) Political opposition to all this has largely been funded by wealthy individuals. One notable case is the Australian news media magnate Rupert Murdoch, who currently owns Dow Jones Co., publisher of the strongly Republican Wall Street Journal. Murdoch also started Fox TV and, of course, Fox News. While Murdoch is himself sympathetic to conservative causes, the primary reason he created Fox News is the reason he created the rest of his huge media empire—to turn a profit. He guessed that, since all the major news outlets were leftist, there was a large untapped demand for a right-wing news network. He was right, and has made a bundle.

p.18, ¶ 4: The Daily Worker was a newspaper published by the Communist Party USA.

p.21, ¶ 3: “No one who buys bread . . . .” Perhaps the best-known line from the book, and an important point. Free markets undermine discrimination; government power enforces it.

¹ A nation’s balance of payments is the difference between money flows into a country from abroad (exports + capital investment by foreigners) and money flows out of the country (imports + foreign investment), adjusted for central bank operations and some miscellaneous terms. A nation is in deficit if more money flows out than in. Under the Bretton Woods international monetary system in effect from 1946 through 1972, a nation would have to devalue its currency if it ran large, chronic deficits. Today, in the floating exchange rate system, the exchange rate just adjusts by market action, more or less.