

Testing Milton Friedman

Discussion Questions

Part 1: Equality of Opportunity

1. Milton Friedman argued that there are two kinds of equality. The first was financial equality, which strives for equal outcomes where everyone ends together at the finish line. The second was economic opportunity, which focused on equal treatment before the law and reducing barriers to opportunity. It believes that everyone should have the same opportunity to make use of his capacities regardless of race, religion, etc., but the society should not regulate the outcome.
 - a. Should our society be concerned more with getting people to the starting line (equal opportunity) or getting them to the finish line (equal results)?
 - b. If society is going to intervene in managing outcomes, instead of reducing barriers, where do we draw the line? For example, Shikha Dalmia argued that affirmative action, which originally lowered barriers, has turned into equal outcomes? Do you agree or disagree and why?
2. John Bouman argued that government should guarantee equal opportunity. That is a step beyond reducing barriers. What steps could government take to guarantee equal opportunity? Do you think they would work? Would there likely be unintended consequences?
3. Which is more important, freedom or equality? Should the freedom of some be restricted in order to provide greater benefits to others?
 - a. Milton Friedman argued: "The society that puts equality before freedom will get neither. The society that puts freedom before equality will end up with a great measure of both." Explain why you agree or disagree with this.
4. If your child has a special talent, is it ethical to other children to develop your child's talent to his/her fullest extent?
5. Similarly, if you have great financial means, is it ethical to other children to provide superior schooling to your child?
 - a. (One modern philosopher, Adam Swift, has proposed that we should likely read less to our children, so as not to exacerbate learning differences with students that come from less supportive families. Or at least, we should feel guilty about it.)
6. Shikha Dalmia argued (at 35:05) "it is one thing to tax people for vital functions of the state. It is

quite another to tax rich people to give that money to a certain subset of the people, whether they are the poor or the talented.” Agree or disagree and explain why.

7. At what point, if any, does income inequality become a serious problem in a free society?
8. Walter Williams (at 56:30) argued “I don’t believe government should play a role...there’s no tooth fairy or Santa Claus giving Congressmen the money, so the only way you can give an American citizen one dollar is first through intimidation, threats and coercion to confiscate that dollar.” Agree or disagree and explain why.
9. Walter Williams pointed out that government spending was 3% of gross domestic product (GDP) from 1787-1920s, and we grew to become the wealthiest country in the world. Now government spending is nearly 30% of GDP. Do you think this increased spending has been largely beneficial or largely wasteful?
10. Jon Bouman argued that we need a balancing act between individual freedom and the interest of the common good, consistent with an ordered society.
 - a. Do you agree or disagree with him? Why?
 - b. Should the order in society mostly come from government or private society, i.e. civic institutions, private citizens, etc.

Part 2: Government Control

1. Milton Friedman makes the argument that trying to do good with other people’s money simply has not worked. One reason, Friedman would argue, is that whose money we use changes people’s incentives. His famous “four ways to spend money” chart is below:

Four Ways to Spend Money		
Spend your own money	Spend the money of others	
1. High concern for price and quality	3. Low concern for price, high concern for quality	on yourself
2. High concern for price, low concern for quality	4. Low concern for price and quality	on others

Using the chart, analyze how you spend money on yourself (1), buying a gift for an acquaintance (2), a corporate expense account (3), and politicians (4).

2. Bryan Caplan makes the argument that government charity often “crowds out” private charity. Do you agree that government programs make people less likely/interested in donating to private charities, since taxes already pay for such programs? In your opinion, which is more effective, government programs or private charities?
3. Austan Goolsbee argues that government is necessary, for example during hurricane Katrina. Do you think the government was effective during hurricane Katrina? What about private charities like the Red Cross?
4. To what extent do government programs create a “culture of dependency”?
5. Clarence Page argued that with Social Security we “don’t have to worry about it disappearing in a Bernie Madoff Ponzi scheme.” Besides Madoff committing fraud, Social Security is fully funded only through the year 2033. Is it secure? Should we have public or private pensions?
6. Is it the governments job to protect domestic industries? American automobile manufacturers have been bailed out three times in the last 50 years. Should this continue to protect jobs, or should they have to change through the harsh lessons of competition?
7. Bryan Caplan argued, “if you have a firm that has such a great idea, they ought to be able to raise money from investors. The reason why government takes taxpayers’ money is because people would not put their own money into it because they think it’s not going to work.” Do you agree or disagree?
8. To Caplan’s point, who is better at “picking winners,” investors or politicians? Does politicians’ lack of “skin in the game” create different incentives that investors?
9. Austan Goolsbee suggests that governments should sponsor research and development because firms don’t appreciate spillover effects.
 - a. How is it that firms don’t recognize spillover effects but politicians do?
 - b. Should a firm be worried about spillover effects or their core mission?
10. Austan Goolsbee (28:30) argues that firms are wasteful, too, not just the government. Using Friedman’s four ways to spend money chart, discuss which is likely to be more wasteful.
11. Bryan Caplan (30:15) suggests that the impulse to “do something” by politicians is often worse than doing nothing. Do you agree or disagree?
12. Bryan Caplan (37:15) argues that Friedman would have replaced much regulation with reputation. How effective do you think reputation is at protecting customers? What about rating firms on the internet?

13. The narrator (40:00) suggests that people want more government to be protected from their own stupidity. Do you agree or disagree and why?
14. Milton Friedman (45:15) argues for a balanced budget amendment. Should the federal government be forced to balance its budget, or does this prevent them from dealing with emergencies, like wars and recessions? If there were an emergency exception, would politicians be incentivized to redefine what an emergency is?

Part 3: Free Markets

1. Raghu Rajan (6:00) argues that too many regulations can prevent entry level jobs from existing, especially in the developing world. Do you think it is better to enforce western style standards on all countries and prevent many jobs, or have looser standards so that jobs can be developed?
2. Brad DeLong (8:18) suggests that it would be better to have firms have insurance and generous payments for injuries than having government (e.g. OSHA) inspectors. How would a firm's incentive for safety be different under each scenario?
3. Dani Rodrik (9:15) argues that "sweat shops" are the first transition from bringing rural people into factories, where they will learn skills and move into textiles, chemicals, etc. Should we not buy from sweat shops because they don't have American standards, or should we buy from them because they are helping people get out of even greater poverty?
4. Raghu Rajan (13:20) mentions the deregulation that happened in the late 1970s, particularly in airlines and trucking. Airlines used to be luxurious, with real food and real plates, but were very expensive. The experience is less satisfying now, but the market has greatly expanded due to lower costs and competition. Which way would you prefer it to be?
5. Kevin Murphy (20:00) notes that too much regulation pushes people into the "informal economy" (the black market, bartering, etc.). Name an industry that you think is overregulated. Can you think of unintended consequences as people turn to the informal economy because of said regulation?
6. Do you think people are safer in the formal economy or the informal economy? What is the optimal level of regulation?
7. The contest in economics, according to Milton Friedman (29:30), is "Which system is the best arrangement for enabling poor people to improve their lives?" Which economic system do you think creates the most upward mobility?
8. Friedman then argues that – without exception – "the freer the system the better off the ordinary person has been." Do you agree or disagree? What is the optimal level of freedom from

government? (This is further discussed in minutes 32:00-35:00.)

9. What role do you think the government should play in education (38:45)?
10. Should there be more competition in education through the use of vouchers? Ideally, each student would get a coupon from the state, to use at any school she or he wishes. How would schools compete for students?
11. Kevin Murphy (40:00) argues that suburban schools are usually pretty good, whether public or private, but it is inner city schools that are typically dramatically worse. Inner city parents tend to show high support for vouchers, whereas suburban parents tend not to. Do you think that wealthier suburban parents are preventing inner city schools from improving faster by opposing vouchers and the competitive pressure they would put on those schools?
12. Do you think that trade and peace (50:10) are corollaries? Consider this quote attributed to Fredric Bastiat (1801-1850): "When goods don't cross borders, soldiers will."