

Interview. “Speaking Out: Interview with Renowned Economist and Nobel Prize Winner, Milton Friedman.” Interviewed by Philip J. Neimark. *Money Maker*, October/November, 1980, pp. 8–12.

Philip J. Neimark: You are one of the few economists who doesn't have a blind spot when it comes to combining theoretical philosophy and pragmatic economics. Your ability to put the two together is rare. What do you think allows you to make the fusion?

Milton Friedman: I see the word philosophy as broad, covering a multitude of sins. I interpret philosophy in a narrow sense: relating to ultimate values and ethical considerations. Viewed this way, our problems don't really derive from philosophy. I don't believe we are in trouble today because people have the wrong values, or because basic values have changed. People have the same values, but different objectives, than 50 years ago.

Though it is generally believed that politics and economics are largely unconnected, that political freedom is a political problem and material welfare is an economic problem—such a view is a delusion. There *is* an intimate connection between politics and economics. Only certain combinations of politic and economic arrangements are possible. A society which is socialistic cannot also be democratic in the sense of guaranteeing individual freedom.

For example, many U.S. citizens are not free to follow the occupation of their choosing without a license. The man who would like to exchange goods with a Swiss for a watch is prevented from doing so by a quota. The farmer cannot grow the amount of wheat he wants. And so on. Clearly, economic freedom is an extremely important part of total freedom.

Economic arrangements play a dual role in the promotion of a free society. Economic freedom is also an indispensable means toward achievement of political freedom. Viewed as a means of political freedom, economic arrangements are important because of their effect on the concentration or dispersion of power. The kind of economic organization that provides economic freedom directly, namely, competitive capitalism, also promotes political freedom. It separates economic power from political power and enables one to offset the other.

PJN: *Is there any parallel between the free market and what one might call the “political market?” If politicians ultimately exist for only one reason—their reelection—what does this mean in terms of our system?*

MF: That’s absolutely true about politicians. The economic analysis is as applicable to politics as to economics in that both are markets. Economics are markets in which people compete for money. Politics is a market in which people compete for votes and power.

PJN: *Haven’t our politicians in power for the last 40 years enacted increasingly irrational economic legislation?*

MF: The politicians themselves are not irrational. They aren’t desirable, which is a very different point. The enactment of the legislation enables those politicians to remain in office!

PJN: *Does this legislation reflect the view of the public?*

MF: No—that’s a *non sequitur*. The legislation does not reflect the view of the people in a majority or general will. Legislation is a response to special interests that insure reelection for the politicians. In the economic market the sale of dangerous substances does not reflect the people’s will. You cannot tell me people desire spending 40 percent of their incomes through government!

In a much quoted passage from his inaugural address President John F. Kennedy said, “Ask not what your country can do for you—ask what you can do for your country.” It is a striking sign of our times that the controversy about this passage centered on its origin and not on its content. Neither part of the statement expresses a relation between the citizen and his government.

The paternalistic, “What your country can do for you” implies that government is the patron, a view at odds with the free man’s belief in his responsibility for his destiny. The organismic, “What you can do for your country” implies government is the master or the deity, the servant or the votary.

To the free man, the country is the collection of the individuals who compose it, not something over and above them. He is proud of a common heritage and loyal to common traditions. He regards government as an instrumentality, neither a grantor of favors and gifts, nor a master or God to be blindly worshipped and served. He recognizes no national goal except as it is the consensus of the goals that the citizens severally serve. He recognizes no national purpose except as the purposes for which citizens strive.

The free man will ask, “What can I and my compatriots do through government” to help discharge individual responsibilities, to achieve goals and purposes, to protect our freedom?

And he will follow this question with another: How can we keep government from becoming a Frankenstein that will destroy the freedom we established it to protect?

The preservation of freedom is the protective reason for limiting and decentralizing governmental power. There is also a constructive reason. The great advances of civilization, whether in architecture or painting, in science or literature, in industry or agriculture, have never come from centralized government. Columbus did not seek a new route to China in response to a majority directive of a parliament though he was financed by an absolute monarch.

Newton and Leibnitz, Einstein and Bohr, Shakespeare, Milton and Pasternak, Whitney, McCormick, Edison and Ford, Jane Addams, Florence Nightingale and Albert Schweitzer—none of these opened new frontiers in response to governmental directives. Their achievements were the product of individual genius, of strongly held minority views, or a social climate permitting variety and diversity.

Government can never duplicate the variety and diversity of individual action. By imposing uniform standards in housing, nutrition or clothing, government could improve the level of living of many individuals. By imposing uniform standards in schooling, road construction, or sanitation, government could improve the level of performance in many areas and perhaps even on the average of all communities. In the process, government would

replace progress by stagnation; it would substitute uniform mediocrity for the experimentation which can bring tomorrow's laggards above today's means.

PJN: If what politicians have done doesn't reflect the will of the people, how were the politicians able to get away with doing it? What can we do about it? Is the mess Americans find themselves in because they desired a free lunch?

MF: No. The fundamental defect in the political market as compared with the economic market is because there is no mechanism for properly registering a diffused general effect. You have the most potent group in the political market, and it's a small group that wants something badly—something which will have limited effects on a great number of people.

We are ruled by a majority—but the majority is ruled by a coalition of minorities. The effective way of getting elected to Congress or to the White House has been to find in your constituency three percent of the people who want something that nobody else gives a damn about. Then you say, okay, I'll vote for what you want if you vote for me. In turn they say, if you vote for what we want, we don't care what else you do.

Then ... you go to another three percent ... then another four percent ... and another five percent ... and that's the way you gain a 51 percent majority.

PJN: What if the five percent you promised one group is contradictory to the five percent you promised another group?

MF: They can be contradictory provided the contradiction is diffused. Let me illustrate with the airline industry which is controlled by the Civil Aeronautics Board. In political self-interest, politicians enacted and enforced control for the stockholders' benefit. On the other hand, people who ride planes want low fares. So it was in the politicians' interest to propagandize for low fares. The fascinating thing about the case was that the same people were on both sides of that issue!

We should ask: Why did we get the CAB in the first place? As time went on and airline regulations did not serve the interests of the same groups, we got deregulation because of the

politicians' self-interest to deregulate. The main point is the curious contradiction—which must be stressed over and over—we live in a democracy and yet the ugliest phenomenon is the enactment of legislation for special interest groups that is harmful to the vast majority. The oldest example of this is the tariff. One of the latest and obvious examples was to enact a guaranteed loan to Chrysler. You and I would both agree this was against the general interests.

But in a political market, the fact that a large number of people are hurt only a little did not culminate into a vote against the measure.

In the economic market, it's quite different. If I have to pay ten cents, I pay the ten cents. And a million people paying ten cents accumulates into a hundred thousand dollars.

A million people, each hurt ten cents, does not provide a million votes. That is the fundamental difference between the economic market and the political market.

PJN: *Is this a matter of short term solutions for short term interest groups?*

MF: It doesn't matter whether it's long or short term. The kind of political system we have is concentrated interest versus diffused interest. Nobody has a strong incentive to lobby for a measure which will have widely distributed good effects. If a measure gives everybody a dollar, how would it pay anyone to lobby for it?

Do not confuse the economy at large with benefits to particular groups. The matter is one of concentrated interest versus diffused interest. No doubt the existence of the Federal Communications Commission with its licenses for television and radio stations has had long term benefits to station owners. No doubt it has also been harmful to the public.

Let's say I invent a video disc which costs \$1 each and which benefits a hundred million people. I have a concentrated economic interest developed. On the other hand, it would never pay me or anybody to campaign to pass a law which gives a benefit of \$1 to a hundred million buyers. In the economic market, diffused general benefits are converted into concentrated interests that it pays people to pursue it. In the political market, it's the reverse. Diffused

general benefits do not provide anybody with an incentive to have laws passed. On the other hand, concentrated special benefits in the political mechanism provide a great incentive.

In my opinion, government power must be dispersed. If government is to exercise power, better in the county than state, better in the state than Washington, D.C. If I do not like what my local community does, be it in sewage disposal, zoning or schools, I can move to another community. While few take this step, the possibility acts as a check. If I do not like what my state does, I can move to another. If I do not like what Washington imposes, I have few alternatives in this world of jealous nations.

PJN: Would it be correct to say that the minority political interests you're talking about are not the same as the usual minorities we speak of politically?

MF: Correct. The groups in our society with the most at stake in the preservation and strengthening of competitive capitalism are those minority groups who most easily become the object of the distrust and enmity of the majority—the Negroes, the Jews, the foreign-born, to mention the most obvious.

Yet, paradoxically enough, the enemies of the free market—the Socialists and Communists—have been recruited in disproportionate measure from these groups. Instead of recognizing that the existence of the market has protected them from the attitudes of their fellow countrymen, they mistakenly attribute the residual discrimination to the market.

PJN: Ideally, what are specific things which government should be doing right now?

MF: A government which maintained law and order, defined and modified property rights and other rules of the economic game, adjudicated disputes about the rule interpretation, enforced contracts, promoted competition, provided a monetary framework, engaged in activities to counter technical monopolies and to overcome neighborhood effects regarded as important to justify government intervention, and which supplemented private charity and the private family in protecting the irresponsible—such a government would clearly have important functions to perform.

Such a government would have clearly limited functions and would refrain from activities now undertaken by federal and state governments. Here are some activities which cannot validly be justified in principles of a consistent, genuine liberalism:

1. Parity price support programs for agriculture.
2. Tariffs on imports or restrictions on exports, such as current oil import quotas, sugar quotas, etc.
3. Governmental control of output, such as through the farm program, or through rationing of oil as done by the Texas Railroad Commission.
4. Rent control, such as practiced in New York, or more general price and wage controls such as were imposed during and just after World War II.
5. Legal minimum wage rates, or legal maximum prices, such as the legal maximum of zero on the rate of interest paid on demand deposits by commercial banks, or the legally fixed maximum rates paid on savings and time deposits.
6. Detailed regulation of industries, such as the regulation of transportation by the Interstate Commerce Commission. This had justification on technical monopoly grounds when initially introduced for rail-roads. Now it has none for any means of transport. Another example is detailed regulation of banking.
7. An example which deserves special mention because of its censorship and violation of free speech is control of radio and television by the F.C.C.
8. Present social security programs, especially the old-age and retirement programs compelling people in effect: (a) to spend a specified fraction of their income on the purchase of retirement annuity, (b) to buy the annuity from a publicly operated enterprise.
9. Licensure provisions in various cities and states which restrict particular enterprises, occupations, or professions to people who have a license, where the license is more than a receipt for a tax which anyone who wishes to enter the activity may pay.
10. So-called "public-housing" and other subsidy programs directed at fostering residential construction such as F.H.A. and V.A. guarantee of mortgage.

11. Military conscription in peace-time. The appropriate free market arrangement is volunteer military forces, hiring men to serve. We should pay whatever price is necessary to attract the required number of men. Present arrangements are inequitable and arbitrary, seriously interfere with the freedom of young men to shape their lives.

12. National parks.

13. The legal prohibition on carrying mail for profit.

14. Publicly owned and operated toll roads.

This is a far from comprehensive list.

PJN: *How does government intervention relate to depreciation of the American dollar and our inflationary economy that plagues the American public today?*

MF: There is no doubt our industry is less productive than industries of other nations. This makes for a depreciation of the dollar.

But inflation and depreciation of the dollar are not always contradictory in reality. Suppose we were efficient, there was no problem with American productivity, but we had inflation. That would depreciate the dollar, wouldn't it? During the 1960s and 1970s Korea was one of the most rapidly growing countries in the world with productivity going up in leaps and bounds. The same was true of Israel in the 1950s and 1960s, and Brazil in the '60s. Those countries simultaneously had inflation with rapid economic growth.

Under certain circumstances, in Western nations, inflation can be adverse to productivity and growth. But there have been circumstances where this wasn't true. Looking at American history from 1879 to 1896, prices fell at something like two to three percent a year. From 1896 to 1913, prices rose three percent per year. The economic growth rate in those periods showed no difference whatsoever. So the relation between economic growth and inflation is sophisticated and complex.

The fundamental point where economic prosperity and political freedom are concerned is that there be a change in this country in the effective political constitution which greatly limits the power of government.

We need an economic Bill of Rights parallel to the traditional Bill of Rights preventing our government from interfering in activities where it presently interferes. We should:

- Insist on a steady and gradually declining rate of monetary growth on the part of the Federal Reserve instead of moving from one extreme to another.
- A restraint on federal government spending in an attempt to achieve a reduction of government spending as a fraction of our income.
- Dramatically reducing the top rates of the personal income tax, and indexing personal and corporate income tax against inflation.
- Abolishing the Council on Wage and Price Control, and the Department of Energy.
- Proceed on all fronts to deregulate as far as we can.

***PJN:** And how do you view gold?*

MF: As a highly speculative commodity. I am in favor of individuals being free to buy and sell and trade—which will rise in price and decline in price. Under current circumstances it cannot and should not serve as the basis for the monetary system of the United States. Gold served a useful function in the Nineteenth and early Twentieth Centuries. If we could restore the situation of government spending ten percent of the national income instead of 40 percent you could establish conditions under which an effective gold standard could be restored. It's interesting that South Africa is not willing to have a gold standard either.

***PJN:** What is the scenario you see for the American dollar and the inflation rate over the next 12 months?*

MF: What happens to the American dollar depends on what happens in other countries. It also depends on the outcome of the Presidential election. A Reagan election would be more favorable to the American dollar than a Carter reelection.

As for inflation over the next 12 months, on a year to year basis it will probably be coming down to something like nine or ten percent by mid-1981. It is very difficult to say beyond that because it will depend on policies between now and then.

***PJN:** One final question: How do you see things turning out; are you an optimist or a pessimist?*

MF: Our basic structure of values and the interwoven network of free institutions will withstand much. I believe that we shall be able to preserve and extend freedom despite the size of the military programs and despite the economic powers concentrated in Washington. But we shall be able to do so only if we wake to the threat that we face, only if we persuade our fellow men that free institutions offer a surer, if at times a slower, route to the ends they seek than the coercive power of the state.

The glimmerings of change that are already apparent in the intellectual climate are hopeful.