

"The Fragility of Freedom"\*

by Milton Friedman

In *Milton Friedman in South Africa*, edited by Meyer Feldberg, Kate Jowell and Stephen Mulholland, pp. 3-10. Cape Town and Johannesburg: Graduate School of Business of the University of Cape Town and The Sunday Times, 1976.

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I am going to talk about freedom today primarily in terms of the United States. Unfortunately I have so far been in South Africa only two days and long experience has demonstrated to me that you have to be in a country three days to become an expert. Of course, if you stay beyond three days you discover that your expertise has disappeared.

We in the United States, and many of you in this country, who have been fortunate enough to be born in a society with a large measure of freedom, tend to take freedom for granted and to regard it as the natural state of mankind. This is a little less so for people in countries like South Africa than it is for people in the United States, Great Britain and other Western countries, and I speak therefore mainly from the standpoint of my own country. We take freedom for granted. The fact is, however, that the natural state of mankind is not freedom but tyranny and misery. A minority of the world has historically enjoyed freedom and that area of freedom has been declining and not growing. It consists today only of Western Europe, the United States, and a few former European colonies such as Australia and Canada.

The fragility of freedom from this aspect was brought home to me very forcefully about a year ago when I spent six days in Chile. Chile is a small country but it is a country whose experience is very pertinent and teaches a very important lesson about the fragility of freedom. Of all the countries in South America, Chile has probably the longest history of a relatively free and democratic society. Now there are some interesting parallels between Chile and other societies with historical backgrounds of freedom and democracy such as Great Britain and the United States. The emergence, for example, of the welfare state began in Chile at about the same time and in roughly the same way as it did in the United Kingdom – in the first decade of this century.

In Chile the State grew inexorably and ultimately reached a level of spending that came to be so large that it was impossible to finance it without producing substantial inflation. The Government incessantly spread its influence giving rise eventually to the Allende regime, which threatened to bring about totalitarian rule of the left. The subsequent economic and social chaos led to a military takeover by the Junta which now governs Chile. Chile is no longer a relatively free country. It is now a country which is ruled by the armed forces and in which individual freedom is far more restricted than it was before.

The downfall of freedom in Chile did not arise because evil people tried to do evil. The downfall of freedom in Chile arose from good people trying to do good, but trying to do good in the wrong way, that is, with other people's money. The welfare state derives from generous impulses but the consequences as it develops are bad and ultimately include the destruction of freedom.

If you try to do good with somebody else's money you have to get the money with which to do good and that means you have to take it away from other people. The welfare state thus has

extortion and coercion at its very centre, because in order to do good the welfare state must use force to take people's money away from them.

Nobody spends somebody else's money as carefully as he spends his own. The result is that in practice, when you try to do good with other people's money, then you do not do good, you simply waste the money. Once there is money to be obtained, many people other than those whom the state intended to help in the first place will make a bee-line for the money and demand a piece of it. The end result is a proliferation of welfare state measures which do not achieve the initial objectives. Their initial well-meaning proponents are frustrated, and demand still more measures of this kind, which ultimately cause the breakdown of a free society.

At the beginning, the process usually goes rather smartly because the state is imposing small amounts of taxes on large numbers of people to render concentrated benefits to a small number of people. As time passes, the number of people on whom the state is trying to bestow benefits becomes larger and larger, while the number from whom it can extract taxes does not grow, with the result that a situation arises in which half the people are trying to extract funds from the other half. Because Chile is a poor country, the breaking point came as a result of government spending about 40 per cent of the national income. At that point the amount that could in fact be extracted in taxes was about 30 per cent of the national income, so the balance had to be financed by printing money and Chile entered into a violent inflation. At the end of the Allende regime inflation was raging at the rate of something like 800 per cent a year. When I was down there a year ago the inflation was running at 20 per cent a month. It has now been reduced to single digit figures – per month – not per year. That is a situation in which it is almost impossible to maintain a free and democratic society.

It may be suggested that I have chosen a bad example in Chile which is a poor, backward country in a region that is not renowned for its political freedom and liberty. Let me try an example that would be more meaningful to you. Consider the United Kingdom, a nation which has been following precisely the same direction as Chile and, I fear, could be headed for a similar fate. The United Kingdom, too, started down the welfare state road with an expansion in the role of government in the 1900's. It again proceeded smoothly to begin with as the state could impose taxes on a large number of people to benefit a smaller group. But today government spending in the United Kingdom has reached 60 per cent of the national income. The effect of welfare state policies and of the expansion of government has been to undermine the political stability and economic strength of Great Britain, creating the classic division between the recipients of government funds and the people who pay the taxes.

The results of this process in Great Britain have been an undermining of the productive potentiality of the country to the extraordinary extent that, whereas before World War II, in 1939, the average income in real terms per person in Britain was double that of Germany or France, today the average income per person in Germany or France is double that of Britain, an almost incredible reversal.

The motive was to help the people; the objectives were fine, but we all know that there is a very famous road which is paved with good intentions. We have to look, not at the motives, but at the result. The motives were to produce equality and well-being. The result has been to maintain inequality and to produce distress and a very low, although widely shared, standard of living. I

do not know where Britain is going to end up. She is now in a severe economic crisis and it may be that the outcome will be similar to that suffered by Chile: the destruction of freedom, of a democratic government, the resort to some type of a dictatorship. Of course it will be a peculiarly British type of dictatorship: they will be polite but in any dictatorship or any control by armed might, the iron fist will be inside the velvet glove. I hope I am wrong. After all, it is hard even to utter the words I am uttering. We have all of us been brought up on the great tradition of English freedom and respect for personal liberty. We in the United States derive our institutions and our respect for civil liberty from the British example. Countries around the world which have been able to maintain a free society derive from Great Britain more than they derive from any other source. That is why it is so peculiarly tragic to see the possibility, even in Great Britain, of the destruction of freedom and the emergence of a collectivist, totalitarian state. I hope that does not happen but it is very hard to see any other outcome of the course on which Great Britain is proceeding.

I now give you, from my own country, that great city of New York. New York is the most welfare state oriented city in the United States. It has proceeded along the same lines as Chile and the United Kingdom. There is one very important difference: fortunately, unlike Chile or the United Kingdom, New York does not have a printing press from which it can turn out pieces of paper that people can regard as money. As a result, the parlous state of the financial coffers of New York has come to surface earlier than it otherwise would. If New York were a sovereign state, with its own currency, you can be sure that by now you would have seen the emergence of rampant inflation as a result of the printing of money to finance the deficit. But fortunately New York cannot do that and so the crisis has emerged rather as the potential bankruptcy of the city with its assets less than its liabilities.

New York is again a marvelous example of how good intentions can lead one astray, of how trying to do good can lead to harm. About six or seven years ago, my distinguished colleague, John Kenneth Galbraith, wrote an article on the problems of New York in which he said: "There is no problem that New York City has which could not be resolved by the doubling of New York City's budget." In the interim the budget of New York City has quadrupled, and the problem, instead of being solved, has become worse. New York has taken money from the hands of people who will spend it carefully and put it into the hands of people who will spend it carelessly and as a result the problems have multiplied.

Having cited these examples, let us now seek the explanation. Why is it that the attempt to do good leads to these adverse results? I have already emphasized that the major defect is the attempt to do good with somebody else's money but on a more fundamental level you have to look at the difference between the political market as a way of arranging things and the economic market as a way of arranging things. What we call a political system is really a market system, except matters are determined by voting instead of by buying and selling. The politicians secure their positions by selling programmes and buying votes in what is essentially a market arrangement.

In considering the difference between the political market and the economic market, and considering why it is that the economic market provides a greater degree of freedom than the political market, please put to one side, right away, a distinction that is often made but that is utterly false. In discussing an economic market we are inclined to say that people pursue their

own interests, the essence of an economic market being self-interest. When we talk of a political market, we talk of public servants and this suggests that they are serving the public. That is an utterly false distinction. We are human beings and we all pursue our own interests. A government civil servant is pursuing his own interest no less than an employee in a private enterprise. The distinction between the political market and the economic market is not that in one case you have people pursuing their self-interest and in the other case you have people pursuing the public interest. The difference lies in what different individuals perceive their self-interest to be.

Another myth about the political market, a myth of which you people in South Africa are particularly aware, concerns the belief that somehow it provides one person with one vote. We have a democracy in the United States in that every person gets a vote but that does not mean that every person has an equal power to effect the outcome. Although the form may be one person, one vote, the fact is that it is a system of highly weighted voting. The United States is a country run by the majority, that is true, and yet people are always complaining about all the special interest legislation which we have. We have legislation which benefits the ship building industries which receive subsidies, and special legislation for the aircraft industry. We have special legislation to provide loopholes in the tax system, and so on.

A political system, in which you decide by a vote, is a system of highly-weighted voting in which special interests have far greater roles to play than does the general interest. It is again the natural tendency to say that mean and wicked people by some devious device are able to manipulate the Congress and get their way. It has nothing to do with mean and devious people. It has to do with the fact, rather, that in a political market decisions are made by a yes/no vote. As a result, concentrated interest has a far greater influence than general interest.

Let me illustrate that in a very simple way. We have a special programme in the United States whereby the Federal Government pays the salaries of people who taste tea, which is imported from abroad and graded. About five years ago the then President Nixon tried to get rid of this tea-tasting subsidy. He said, quite properly, that if the tea industry wants to grade tea, let them hire their own tasters. Why should the taxpayers in general pay for it? The tea industry immediately launched a vigorous campaign and the result was that we did not get rid of the tea-tasting subsidy. That is typical and demonstrates that the strongest group in a supposed democracy is not a majority but a small minority which wants something very much which has a very small effect on the rest of the country. A small group to whom some governmental action or other is going to be worth a million dollars will work very hard to try to get that through Congress, contributing to campaign funds and so on. To the ordinary citizen, it might mean 10 cents a year and it is not worth his while to investigate.

People are always complaining that voters are ill-informed. Of course voters are ill-informed. It doesn't pay them to be well informed. Why should I spend many hours of my time to learn about something that is going to cost me ten cents a year? It makes no sense. As a result the essence of a political market is that concentrated interest will dominate the diffuse public interest. There is nobody in a political market who speaks for the public interest. The way to get elected is to find an item of interest to, say, 5 per cent of the voters and having little significance of the rest. The 5 per cent will be willing to give you their vote if you support that particular item regardless of what else you do. You've got that locked up. Then you get another 5 per cent and then another 5

per cent, and eventually you put together a majority which consists of a coalition of special interests.

There are some decisions which have to be decided by a yes/no vote. There is no way in which the United States, for example, can simultaneously be at war and not at war. Decisions of that kind have to be decided by a yes/no vote, and that is the appropriate role of the political mechanism. But the great mistake, in my opinion, has been the movement of the past 50 years in the United States, and in other countries, toward a greater and greater reliance on this simple mechanism. Today's great mistake is to use the yes/no system for items that do not have to be decided by a majority vote, rather than to leave each person to decide separately.

Consider, by contrast with this, the characteristic of the economic market, where voting is by dollars. It also is a system of unequal voting with one dollar worth one vote, because some people have more dollars than other people; but it is no more unequal than one man one vote, in the political system, where, as I have shown, you also have unequal voting; and the great virtue of the economic method of voting is that each person gets what he votes for.

Let us take a very trivial and foolish example: that the question is what colour of tie should people wear? If we decide it by a political vote and 51 per cent of the people vote for a red tie and 49 per cent of the people vote for a green tie, then 100 per cent of the people will get a red tie. By contrast, if we all go down to the stores and shop, if 51 per cent of the people want a red tie, and 49 per cent of the people want a green tie, 51 per cent of the people get a red tie, and 49 per cent of the people get a green one. The beauty of the market is that it is a system of effective, proportional representation. It is a system under which everybody gets what he votes for. The great defect of the political system is that there is very little relationship between what you vote for and what you get. In the first place, the minority is effectively disenfranchised. If 51 per cent of the people go one way, and 49 per cent go another, the latter don't get what they want. There is another sense in which voters, having voted, do not get what they want because the government they have elected may turn out to be something completely different from that for which they thought they were voting.

When you vote at the market place you vote for everything separately. You can have what you want in the way of food or clothing, or whatever particular item you vote for. Moreover, nobody gets money from you except with your consent. If you buy something it is because you feel you are getting a good buy for your money. There is a rand for rand relationship between what you spend and what you get and, therefore, you have the right interest and the right incentive to spend your money wisely whereas, in the voting booth, there is little relationship between how much it costs you and how much you get from your voting and this provides little incentive to vote intelligently.

While the essence of the political arrangement is coercion and force, the essence of the market arrangement is voluntary co-operation between people. It seems to me that perhaps the greatest obstacle in the way of effective development towards a harmonious multi-racial society in South Africa is the fact that your government exercises so much control over economic matters. Human freedom cannot be combined with centralized governmental control. The great virtue of a private, free market, is that everybody is at liberty to deal with whomever he wishes and on the terms that he wishes. This is the reason why the development of a free market in the 19th century

saw the greatest expansion of human freedom the world had ever seen. Unfortunately, the world has been moving away from these great principles. In the United States, 50 years ago, in 1929, total government spending amounted to 10 per cent of the national income and most of that was local with the federal government in Washington spending only three per cent of the national income. Today, total government spending is 40 per cent of the national income, and Washington alone is spending about 25 per cent of the national income – almost 10 times as large a proportion as it was spending 50 years ago.

The result has been a drastic restriction in economic, personal and political freedom, and unfortunately this has been the trend in many countries around the world. I do not believe that trend is inevitable. It has been reversed before. It was reversed in Britain in the early 19th century. It can be reversed again. I have a considerable hope that it will be reversed in the United States. There is an increasing tide of disillusionment with what can be accomplished by government, an increasing drive for greater personal and human freedom and so I have some confidence that we shall reverse the trend in the United States. But unless we do reverse the trend, we shall not have a free society. There should be an 11th commandment added to the Bible's present ten, which I think might stand as the model for a free society. That commandment is: "Everyone shall be free to do good at his own expense."

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### Notes

\* An address to 2,000 students and staff of the University of Cape Town, 22 March 1976. A similar address with the same title was given at Universidad Católica de Valparaiso, Chile, March 1975, and at Brigham Young University, 11 December 1975, and published in *Brigham Young University Studies* 16 (Summer 1976): 561-574.

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Excerpts printed in *University of Cape Town Graduate School of Business Journal*, 1975-1976, pp. 15-18.

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