

“Who Protects the Worker?”* In *Milton Friedman Speaks* (videotape publication). New York: Harcourt Brace Jovanovich, 1980. Excerpts published as: (1) “The Two Classes of Unprotected Workers,” *San Francisco Chronicle*, 6 March 1979. (2) “The Real Source of a Trade Union’s Power,” *San Francisco Chronicle*, 27 March 1979. Lecture delivered before a live studio audience at WQLN-TV, Erie, Pennsylvania, 29 September 1977.

Thank you very much. It has been a great pleasure working with Bob these past months. Over the years, as we have once a year made the journey from our winter quarters in Chicago to our summer quarters in Vermont, we have driven through Route 90 right past Erie, so I’m glad for a change to be able to find my way into the center of Erie and not simply pass you by.

The subject that was put out for tonight’s talk is the subject of “Who Protects the Worker?” If you were to have a Gallup poll go around and ask people that question or if someone were to go around and ask people in this audience the question of “Who Protects the Worker,” I strongly suspect that you would get one out of three possible answers. Some people would say, “Oh, of course, it’s the unions that protect the worker.” Some other people would tend to say, “Oh no, the government protects the worker.” And I suspect most people would say, “It’s nobody who protects the worker.”

All three answers are under some circumstances correct, but all three answers are misleading. They cannot really be the right answer. One obvious bit of evidence that they cannot be the right answer, that there’s something missing from that sequence of three answers, is the history of the United States over the past two hundred years. Over that period, if we at least take the first 150 years, the period from 1776 to 1914 or thereabouts, it could not very well have been unions that were protecting the worker since there were almost no unions. Craft unions developed fairly early, but even by 1914 there must have been a very tiny fraction of all workers in the United States who were members of unions. It could not have been the government that was protecting the worker, because over that period

government was very small. Total spending by the Federal government over that period never amounted to more than 3 percent of the national income except for the period of the great wars, of the Civil War and before that, of course, the War of 1812. During ordinary times Federal spending amounted to 3 percent, state and local spending amounted to about twice that much, mostly for schools. So it could not conceivably have been the government that was protecting the worker. Moreover, not only was spending low, but there was very little government involvement in the economy in any way. And it could not have been nobody who was protecting the worker because that was a period of enormous progress for the ordinary worker. If we take that period, it was a period which saw the growth and development of the United States from a backward area. Even from the very beginning Adam Smith, in his great book *The Wealth of Nations* published in 1776, remarks about the conditions in America, and he says that although America is at the time much less populous and much less wealthy than Great Britain, the worker in America is more expensive because there were at the time, as he argued, fewer workers relative to the demand for them.

Over the period from 1776 on, the average conditions of the ordinary worker in the United States improved enormously. In the latter half of the nineteenth century you had millions on millions of people, of penniless immigrants, come to this country. My parents came during that period; probably the parents or grandparents of many of the people in this room came during that period. Why did they come? They came in order to improve their lives and to make a better life for their children and their grandchildren, and they succeeded. It would be very hard to find a century in human history in any country anywhere during which the ordinary man, the ordinary worker, the man who came to this shore from abroad, or the people who were here and grew up here—it would be hard to find a century in which the worker achieved a greater increase, a more widespread increase, in his standard of life and his level of living. So neither of these three answers can possibly be the right answer for a large part of American history.

Before trying to go on to what the correct answer in my opinion is to the question, I would like to consider with you each of the answers that people give and see where they are right and where they are not, and why they are right and why they are not.

Let's start with the unions because that gets the most publicity and the most attention and is the most misunderstood in my opinion of the three answers. Now unions do protect some workers. Unions protect two classes of workers, those of their members who are employed and the officials who run the unions. But, if you're going to look at this as a general answer, you have to recognize that only about one-fifth of all the workers in the United States are members of trade unions and many of those are members of wholly ineffective trade unions, of trade unions that have had very little effect on the wages of their members or the working conditions of their members.

It's very interesting to consider the actual experience of unions and compare it with the talk about unions that emanates from union leaders, union headquarters, and defenders of unions. If you listen to the talk, you will get the impression that unions exist to protect the workers who are way down on the income scale. The talk is always about the necessity of protecting or helping the low-skilled workers against exploitation by employers. But suppose I were to ask you, which are the strongest unions in the United States? Which unions in the United States are strongest in the sense of having been most successful in raising the wage rates, the earnings, of their members? The answer is very clear and very definite: probably the single most successful union in the United States from this point of view is the Airline Pilots Union. Now this is a union whose members typically receive salaries or wages somewhere around \$50,000 to \$100,000. They are hardly the poor, deprived, exploited workers of union literature. They have been very successful because they have been able to have a very strongly organized union and they, for reasons which I will come to later, have been in a position to limit entry into the union and into the occupation.

In my opinion, the next strongest union in the United States is an organization that the people in this room will not regard as a union, but that's what it is. In my opinion the next

strongest union in the United States has been the American Medical Association. The American Medical Association is not a traditional union, but it is a union from an economic point of view. It is an organization of people pursuing a particular trade which has tried to control the practice of medicine in such a way as to improve the conditions of its members. If you ask a union leader what is the function of a union, he will emphasize, and rightly, that the first and primary function of a union is to improve the working conditions of its members. Well from this point of view, the American Medical Association has on the whole done very well.

Let me emphasize, I do not mean in any way to be invidious.

I am not criticizing the airline pilots, I am not criticizing the members of the American Medical Association, I am only trying to understand and analyze the situation. Adam Smith, in that great book on *The Wealth of Nations*, brought home to all of us that the way in which the world runs is mostly by people seeking to pursue their self-interest, and there's nothing wrong with that. That's the way in which we act, and he pointed out that in the right kind of structure and the right kind of world people in pursuing their own self-interest would also promote the general interest. So I'm not complaining or criticizing at the moment but only analyzing. If there is any fault to be found, the fault is not to be found with the members of the pilots union or the members of the AMA but with the rest of us for letting them get away with it.

The third strongest groups of unions are undoubtedly the craft unions—the carpenters, the plumbers, the plasterers, and the like. And they again are a group that have always been extremely high paid, that have always been among the elite of the working community. And finally, as my fourth class, and this is a newly developing class, the strongest unions have in recent years, in the past decade in particular, become the municipal unions, the unions that have played a considerable part in reducing New York City to its present state of bankruptcy—the garbage workers unions, the school teachers unions, all of the unions of municipal employees. These municipal unions illustrate a very important general case that we

will expand more. Why are they so strong? Because the people who arrange employment with them are not the people who pay their salaries. It's the taxpayers of New York who pay the salaries of the people, but it's the officials of New York City who make the deals with the unions. That illustrates a general principle which has reached its most extreme form in Great Britain. Unions are much stronger in Great Britain than they are in the United States, and one of the major reasons they are stronger is because the government of Great Britain has nationalized a great many more industries, in particular coal mining, railroads, public utilities, telephones are all nationalized industries. The worst labor problems in Britain have almost invariably been in those industries which are nationalized by the government, just as in the New York City and other municipal cases. The growing role of government has tended to expand the importance and the role of the unions. One of the strong unions in the United States for the same reason is the postal workers union, and so we go down the line.

The most important thing about all of these is that the strong unions tend to be among the high paid workers. You have to ask yourself, are they highly paid because they are strong unions, or are they strong unions because they are highly paid? It's a very important distinction, and the fundamental answer is: the people who are in a highly paid position are in a far better position to have a strong union and the strong unions then reinforce their position. So both things are true. Part of their highly paid position derives from the existence of strong unions, but they have been able to have strong unions because they are highly skilled people, relatively few in number, and therefore far more effective in being able to organize in such a way as to raise their pay. You must recognize that the only way in which any group of workers, through union organization, can increase the amount of its pay is to make sure that there are fewer jobs available. There is no way in which a union can simultaneously increase the number of jobs and the pay.

The law of demand in economics is inescapable; you can't get out of it. Raise the price of anything and fewer people will want to buy it. Make labor more expensive in any area: make carpenters more expensive, the number of jobs available for carpenters will be less; make

physicians more expensive, the number of jobs available for physicians will be less; make airline pilots more expensive, the number of jobs available for airline pilots will be fewer. As a result, the gains of the group of workers I have been talking about or other union workers are at the expense of other workers. The only way, as I say, in which they can get a higher pay is by arranging things so that there end up being fewer jobs and that means that other people who might be perfectly competent, who might be perfectly available for such jobs, are denied those jobs. So the effect of the higher pay of unions is lower pay for all other workers.

I once made the estimate—this was twenty-odd years ago, but since there have been a number of studies that have confirmed this judgment—that on the average about 10 to 15 percent of the workers in this country had been able through union organization to raise the level of their pay by something like 10 to 15 percent, that this had been at the cost of a roughly 4 percent reduction in the wages earned by the other 85 percent. So the effect has been to raise the pay of highly paid workers and lower the pay of lowly paid workers.

And of course as consumers, all workers pay for this, because the effect of this higher pay on the one hand and fewer jobs on the other is to make it more expensive to produce all consumer goods, to make the allocation of labor—the distribution of labor—less efficient, to mean that the standard of life of everybody is a little lower. Houses are more expensive for everybody.

Union leaders, of course, talk about taking higher wages out of profits. And if I were to be talking to a group of union leaders or if there are union people in this audience, they will reproach me by saying: “Why do you insist that it comes at the expense of the other workers? Why can’t it come out of those greedy, profit-seeking employers?” Of course they are greedy and profit-seeking; so are we all. So are the workers. Do you know somebody in this world who is not greedy? Well, of course, I’m not greedy, but everybody else ... But the point is that you cannot get something out of nothing. I’m sure you’ve all heard the old story about John D. Rockefeller, one of the wealthiest men in the country. People would come up to him and tell him how inequitable it is that he should have so much money and other people should

have less, and he would say to them, “Well, suppose we took all the wealth I have, would you like to have the share that would be available for you?” And they would say yes, and he’d take out a dime and give it to them. That was roughly the amount that would be available if you took his wealth and spread it all over all the people of the country.

In the same way, suppose you just look at the numbers, out of the total national income today roughly 80 percent goes to the payment of employees directly or indirectly in the form of fringe benefits. These are the statistics of the national income statisticians. Roughly 80 percent of the national income now goes for the payment of workers. Of the remaining 20 percent, something over half of that goes for the payment of rents—rent on land, rent on property, and so on—or for the payment of interest on loans. Profits of corporations—they’re the people whom it’s always supposed you can squeeze the money out of—profits of corporations amount to less than 10 percent of the national income. That’s profits before tax. If you take off the taxes they paid, profits after tax amount to something like 6 percent of the national income. Well, there isn’t much leeway there to raise wages. And you can realize also that every-time you go in and try to extract from that small amount to add to the amount received as wages, you are reducing the incentive for capital formation which has been the major source of increased productivity.

Why is it that the ordinary worker of the United States has been able to get an ever-higher income until the last few years when that potentially higher income has been extracted off and diverted down to Washington? For over 200 years the worker was always able to get a higher income because people had an incentive to put up factories and machines and invest money and enable the worker to be more productive. This is not something that’s a question of ideology, it’s a question of arithmetic. There just is no large sum which can be tapped by the so-called unions.

The question is, what is the source of power of the strong unions? Where does it come from? Most people in talking about how unions get their way are inclined to focus their emphasis on strikes, which are very newsworthy, or on featherbedding, which is also very

newsworthy, or on seniority rules, or apprenticeship arrangements, and the like. These are not the important things. The fundamental source of power of the union is power, however obtained, to force a higher wage rate. If somehow or other—and I'll come back in a moment to how they can do it—a union can put employers in the position where they cannot or will not offer less than a certain wage rate, they can make them offer a higher wage rate, that's the fundamental source of power.

All of these other devices we're talking about are ways in which you ration the limited number of jobs available at that high wage rate among the people who seek it. If you succeed in saying that no contractor is going to pay less than eight dollars an hour for a plumber or a carpenter, that reduces the number of jobs available; it also increases the number of people who would like to get that job. But now, let's suppose for a moment you can enforce that wage rate. Somehow or other there has to be a device for deciding who shall get the job. That's the role of seniority arrangements, that's the role of apprenticeship arrangements, that's the role of featherbedding, to find a way to allocate and distribute the gravy. It's also, I may say, the source of the kind of discriminatory policies that unions have followed. There have probably been few more important sources of racial discrimination in the United States or discrimination against minority groups than discrimination by skilled craft unions. That's because, if you're going to have a limited number of jobs and you're going to ration them, you have to have some way to ration them. And irrelevant considerations and appeals to prejudice are a way in which you can get support for certain kinds of rationing. It's an interesting phenomenon. Before the Civil War, during the period of slavery, the fraction of carpenters, plumbers, and so on who were blacks, especially in the South, was very high. Forty or fifty years later, after slavery had been abolished, the fraction of carpenters, plumbers, and so on who were blacks was smaller than it had been before. Why? Because successful trade unions, limiting the number of jobs, had to find a way to ration those limited jobs, and this was a way of rationing them which would enable their members to be loyal and

to stick by it and at the time could get support from the rest of the community. So the real power is to force higher wages.

How can they do it? One of the obvious ways they do it is by threatening to beat up employers who pay a lower wage or threatening to beat up—or actually beating up—workers who offer to work for a lower wage, and that’s why union wage arrangements and negotiations have so often been accompanied by violence. That’s a device for enforcing a higher wage. But an easier way to do it and a way which is sort of more respectable is to get government to help you out. The AMA has been able to do it by having government licensing of physicians so that nobody can become a physician unless he is licensed to be a physician by a government licensing board. Now I ask you, who do you suppose is competent to decide who should be a physician? Only other physicians, so the membership of licensing boards of medical groups is always composed of physicians. That has in fact been a key element in restriction of entry into medicine and in keeping the number of physicians to a lower level than it otherwise would have been.

This happens to be a subject in which I once did an enormous amount of work. I wrote a book some thirty-odd years ago on *Income from Independent Professional Practice* in which I examined in great detail the practices of the American Medical Association, the American Dental Association, and other organizations, and I decided at that time that the effect of limitation of entry into medicine had been to keep down the number of physicians and to increase the average income of physicians, at that time by something between 17 to 30 percent. The recent figures would probably be in the same direction.

Of course, if you talk to physicians they will say, “Why the reason we are in favor of licensing is in order to have a very high quality of medical practice.” But then if you look at the rules they have followed, some of them have no relationship whatsoever to quality of medical practice. After you had the Nazi regime take over in Germany and there was an attempt by Jewish physicians and other persecuted groups from Germany to come into the United States, all of a sudden the American Medical Association started to require that people

be citizens of the United States in order to practice medicine, in order to be licensed. It's a very nice thing to have people citizens of the United States, but will you tell me the relationship between that and the ability to practice medicine? I could go on at great length.

Again, I am not criticizing people. I don't mean to say that the physicians aren't sincere when they say this; of course they are sincere. That doesn't mean they aren't wrong. That doesn't mean that they aren't rationalizing in the name of improving quality a great desire to improve their economic status. During the Great Depression they were open and above board about that. The Medical Association said we have to keep down the number of physicians in order to keep up their incomes because otherwise if they have low incomes they will be tempted to engage in unethical practice. If anybody has ever been able to establish any correlation between the level of income and the state of personal ethics, I would like to see that evidence and so would you.

Of course licensure is used much more broadly. I mention the medical example because it seems the best justified, and it is in a way. It is harder to argue against than almost anything else. But you go down the line. Have you ever looked at the number of licensing arrangements? In almost every state—I don't know about Pennsylvania—I am sure you have to get a state license to be a barber, and in most states in order to get that license you have to supposedly have taken courses on the biology of hair, on care of skin, and all sorts of things. And of course, again, who is it who licenses the barbers? It's not the customers. Plumbers license plumbers. If you really want to know the real function of licensing all these occupations, all you have to do is go and see who goes down to the state legislature to lobby in favor of licensing. If the real true function of licensing is to protect the consumers, you would expect the consumers to be lobbying for licensure. But you will discover that it is always the plumbers or the beauticians or the morticians or anything you can name. There isn't an occupation you can name which hasn't been down at the state house trying to get licensure.

Of course you might say that the plumbers know better than anybody else why the customers need protection, but I doubt very much that that's why they are down at the state house. They are down there because they want to be protected against "unfair" competition. You know what unfair competition is. It's anybody who charges less than you do. So licensing by government has been a major way in which unions have been able to be strengthened. That's very important for the pilots union, it's very important for the medical union, it's important for many craft workers.

A second set of governmental laws that have been greatly promoting union strength have been the Davis-Bacon, Walsh-Healey laws. These are laws under which any person who has a contract with the U.S. government—the Davis-Bacon has to do with construction, Walsh-Healey has to do with other kinds of activities—anybody who has a contract with the government must pay "prevailing wages." Prevailing wages are wages as determined by the Labor Department of the U.S. government, and by some strange chance prevailing wages always turn out to be the highest union wages in a very wide area. The result of this has been that in effect the government enters in as a partner to enforce trade union wage restrictions and in this way to enforce a restriction on the number of jobs available.

Another governmental measure is minimum wage laws. You will notice that the people who are currently lobbying in Washington for higher minimum wages are not low-income workers; it's the AFL-CIO and other high-income unions, unions whose members all receive much higher income than the minimum wage. Of course they say that the reason they are lobbying for a rise in minimum wages is to protect the poor workers at the bottom and keep them from being squeezed, but of course that's talk. The fact is that they want a rise in minimum wage to protect themselves from the competition of other workers. The minimum wage rate has the effect of denying jobs to people. It has the effect of reducing the opportunities available. The reason we have such enormously high unemployment rates among teenagers and particularly black teenagers is because it is illegal to hire anybody whose skills are not sufficient to be worth the minimum wage rate.

The minimum wage law is a law requiring employers to discriminate against low-skilled people. That's not the way anybody will describe it, but that is in fact what it is. Here's a person who has low skills, he's only worth two dollars an hour, and he would be delighted to work for two dollars an hour, because that's the only way he is going to acquire better skills and enable himself to get prepared for a better job. He's a 15, 16, 17, 18, 19 year-old person, for example, a handicapped person, a person who has poor education. No. It is illegal for you to hire him unless you are willing to give him charity, because you can only hire him if you pay him \$2.35. It's always been a mystery to me why a young man is better off unemployed at \$2.35 an hour than employed at \$2.00 an hour. Can you explain that to me? Ask Mr. Meany, he'll explain it to you.

Finally, a major factor strengthening unions, a factor which is changing, is the general attitude of the public which has been willing to tolerate in this area behavior which it would not tolerate elsewhere. If in the course of a labor dispute somebody's car is overturned, it is unlikely that anybody is going to go to jail or get punished or have to pay for that. If you or I go down the street and smash in windows of cars or turn them over, we'll get put in jail and we'll have to compensate the victim; but if this happens in the course of a labor dispute, much less likely to happen. And that's because the public at large has felt that somehow that was a noble activity and should be protected. As I say, I believe that position is changing.

A final source of power has sometimes been collusion between the unions on the one hand and the employers on the other to monopolize not labor but the product. We have antitrust laws in this country which make it illegal for employers to get together on price-fixing agreements, and some unions have been strong by offering in effect their services to employers as a way to hold up prices and fix them in a way that is legal and gets around the antitrust act. The most important historical case of that was back in the 1930's when John L. Lewis used his coal miners' union as a way to enforce, with the aid and consent and agreement of the coal mine operators, a high price on coal. He was perfectly willing to see the number of members of his union go down and in return to compensate those who remained by

sharing with the employers the returns from monopolizing the coal industry. Another very important case of this has been the teamsters union which in various places has produced a monopolistic situation in brewery and beer by enforcing fixed prices on beer through union activity.

Well now, enough for unions. What about government? Here again government protects some workers, and I have already mentioned some of the measures whereby they do. All of these measures which strengthen unions—such as the Walsh-Healey, Davis-Bacon Acts, such as licensing, such as minimum wage laws—are all governmental measures which do protect some workers by strengthening the unions. Again the high paid workers, not the low paid ones. In addition, the government also protects government workers. Let me ask you, what do you suppose is the richest county in the United States? What do you suppose is the county that has the highest per capita income? Most people would say, “Well maybe that’s Westchester County, the high-income county near New York,” or “Maybe that’s DuPage County north of Chicago, where the wealthy people live around Chicago,” or “Maybe it’s one of the counties in Connecticut, the bedroom community for the executives of New York.” All of those are high income counties, but that isn’t the highest county in the country. The highest income county in the country is the county in Virginia adjacent to the District of Columbia which is a bedroom community for government employees. That’s the highest income county in the country.

There was an article in the *Wall Street Journal* just within the last week from which I cannot resist quoting something. Said the *Wall Street Journal* in its article about the Federal Civil Service,

As the [Civil Service] regulations have ballooned to fill twenty-one volumes some 5 feet thick, government managers have found it increasingly difficult to fire employees. At the same time, promotions and merit increases have become almost automatic. The result is a bureaucracy nearly devoid of incentive and largely beyond anyone’s control.

Of the one million persons eligible last year for merit raises, only 600 didn’t receive them.

Now I have no reason to suppose that a lot of those million workers didn't deserve merit increases, but do you really think that 999,400 of them deserved merit increases? If so, you've had better experience with Federal employees than I've had. The *Wall Street Journal* goes on:

Almost no one is fired; less than 1 percent of Federal workers lost their job last year.

Life is pleasant in the bureaucracy. The average annual salary is \$15,343 and most employees are due to get a 7.05 percent raise in October.

Well, that's a group of workers whom the government protects. The states and cities, of course, offer other examples. But once again you should ask, at whose expense? And the answer is obvious: at the expense of people in the main who have lower incomes; it's at the expense of the taxpayer. It's because of this that 40 percent of the income of the American people today goes to pay for the costs of government at state, local, and Federal levels—about 26 percent at the Federal level and about 14 percent at the state and local levels.

What about the much bruted and the much noted and numerous laws that range from workmen's compensation to child labor, minimum wages, Fair Employment Practices Commission, affirmative action, hour and wage laws, OSHA, and you pick out any other four letters from the alphabet and you'll have another one? Some of these measures have had some effect and sometimes they have had a favorable effect on workers, but most of the favorable ones—for example, workmen's compensation laws, child labor laws—have been an embodiment into law of practices that have already become widespread before they became law, and most of them have simply extended to certain fringe areas practices that had already developed independently. Most of the rest of these measures benefit bureaucrats at the expense of the rest of us rather than benefitting the workers. The OSHA has a very large bureaucracy and an increasing one, but it hasn't been very effective in improving the lot of workers and so down the line.

What about the third answer that nobody protects the workers? Again, that's true for some workers, but who? There are two classes of workers who are not protected by anybody: they are those workers who have effectively only one possible employer and, second, they are

those workers who have no possible employers. Who are those with only one possible employer? Obviously that applies to all the workers in a country like Russia or China or Cuba. If you have a totalitarian country in which the government is the only employer, then there is nobody who protects the worker. He's at the complete mercy of that government, and the result has been perfectly clear. The ordinary worker in these totalitarian countries is very badly off; his level of living is low, his conditions of work are poor, his freedom is limited. Some of the bosses in those countries do very well. The people in charge, in the Politburo, the people at the top in the bureaucracy—some of them do extremely well, but the ordinary worker has nobody to protect him.

In our own society it's very interesting. Again you have a paradox like the union paradox. The people who have only one possible employer tend to be very high paid people. The classical example that we always used to give in our economics courses was Babe Ruth. Babe Ruth, the great homerun king, was, as you know, the most popular and the most widely known baseball player of his time. It so happened that the Yankees had the largest stadium of any of the baseball clubs at that time, and so they were the only people for whom Babe Ruth could work and really get the full value of his work because he could fill Yankee Stadium and he could also fill any of the other stadiums. But the Yankees had a great advantage over any other team in hiring him because they had the biggest stadium. As a result he really only had one potential employer in the sense that the next best was way down. That doesn't mean he didn't do very well, but it meant that nobody was protecting him except himself. He was protecting himself through his skills, but it was a matter of bargaining with the employer. And the same way today, until recently when you had a considerable degree of unionization in the professional athletes. The baseball-football players had only one potential employer because the employers had arranged to get an exception through the law whereby you had essentially a slave contract with a baseball or a football player. Once he was signed up with one team he couldn't freely negotiate to go and play with another team and as a result he had very little protection. Similarly, if I have a highly skilled man whose skills are so great that only one

company can use him—he has other possibilities but they are at a much lower level—nobody protects him.

Who are the people in our society who have no possible employer? In our society, most of the people who have no possible employer are the result of governmental measures. The minimum wages have been the most important factor that have created a large class of people who have no possible employer, and the adverse effects of the minimum wages have been greatly exacerbated by the poor education which is provided by the government. We start out with having governmental schools in Harlem that are terrible, that for a variety of reasons provide lousy education, so we end up with people and dropouts from schools and kids coming out from schools who have no skills. And then we say to them and we say to employers, “Hmpf, you can’t remedy our defects by hiring these people and teaching ‘em, because we won’t let you hire them unless you are willing to pay them more than they’re worth.” So the effect of the double whammy of poor governmental educational arrangements on the one hand and a minimum wage on the other is to create a class of people who have essentially in fact no possible employer.

I believe that what I’ve just said about the case in which nobody protects people shows the way to the right answer. Who protects the worker? Workers are protected by employers. Not by his own employer, because the man who has only one possible employer has no protection. The employers who protect the worker are the people who would like to hire him but for whom he doesn’t work. The real protection that a worker gets is the existence of more than one possible employer. That’s what gives him freedom, that’s what enables him to get the full value of his services. It’s competition, it’s a free market in which you have a diversity of sources of employment which provides the effective protection to the worker.

This is a very general feature of the free market which applies in every area and in every direction. A worker is protected from exploitation by his own employer by the existence of alternative people for whom he can go to work. The employer is protected from exploitation by his employee by the existence of alternative people he can hire. Again, if I as an employer

had only one man who could do the job I needed to have done, I'd be at his mercy. He could take every penny up to the point where I went out of business. If I'm an employer what protects me is that there is more than one person I can hire. The consumer in his capacity as a purchaser of goods and services is protected by the existence of alternative sellers.

Why do we have lousy postal service? Because there's only one place you can buy it. Why do we have terrible schools? Of course there are some good schools. Here's an example of a good auditorium, but I don't know that it's a good school. It's a marvelous auditorium. I suppose it was paid for by the people who use it. Was it? Who paid for it? Did the people who paid for it have a choice? Well, you can answer those questions yourself; they're too obvious for me to spend any time on them. But in general the reason why schooling is backwards and we have not had the kind of technological advance in schooling, the reason why SAT scores have been going down and educational performance has been going down, is because we don't have any large number of alternative schools. So in every area what protects the worker, what protects the employer, what protects the consumer, is always the existence of variety and alternatives.

Of course, every group in our society that wants to get a privileged position tries to protect itself from competition by others. The workers try to protect themselves from competition from other employees by forming unions, getting government licensure, having arrangements under which they can limit the number of people who can get certain kinds of jobs. Producers try to get protection against competition by having employers' organizations, forming monopolies, cartels, or by getting the government to impose tariffs or restrictions on imports, or to give them special advantages of other kinds. So all of us, we are all of us the same way. We want to avoid competition and yet it is, the competition that effectively protects us in our various forms: it protects the worker by providing alternative opportunities for employment, it protects the employer by providing alternative employees, it protects the consumer by providing alternative products.

The conclusion which I would suggest to you is that the real way to make sure that the worker continues to be protected, that the gains in our standards of life that we have had as workers over the past 150–200 years continue, the real way is to make sure that we preserve the existence of competition in a free market. Unions can and do serve many useful purposes, but they also can do great harm if they interfere with competition and freedom of markets. The same is true of organizations of employers. Employers' associations can and do serve many useful purposes provided there is free entry. In all cases, we must try to preserve freedom for alternatives, try to preserve the freedom of workers to join or not to join a union, the freedom of employers to contract with a union or not to contract with a union, and to keep the government neutral in this business. Let the government attend to the things it ought to be attending to and not get involved in establishing positions of privilege either for workers on the one hand or for employers on the other. Thank you.

Questions and Answers

Speaker: I believe you just recently returned from Israel and you were a consultant to the conservative government on economic policy. Could you relate the subject of tonight's discussion here to recent events in Israel and the policies which are being followed by that conservative government?

Prof. Friedman: I would be very glad to do that, because Israel is a fine example exactly of the false road we have been following. Israel has been following what has been largely a policy moving toward socialism; it's much farther along that road than we are. The ideology of the leaders of Israel from the earliest stages was fundamentally socialist. A labor organization called Histadrut is both the largest labor organization and the largest industrial organization in Israel. And the thing that is absolutely fascinating is the extent to which you have complete disillusionment among the people of Israel with this approach and this policy. The Begin government was elected— you call it a conservative government. I don't call it a conservative government. It isn't a conservative government. I'm not a conservative. A

conservative is somebody who wants to keep things the way they are. Mr. Begin wants to change things; I want to change things. Mr. Begin is a liberal in the true sense of the word; I'm a liberal in the true sense of the word. The word is now used in a distorted way. The modern liberal is only liberal with other people's money. The word liberal means of and pertaining to freedom, and I believe in freedom, and a true liberal is somebody who believes in freedom. It isn't freedom for the government to take 40 percent of my income out of my pocket and spend it on things that we through our political mechanism have decided on but nonetheless that I as an individual and you as an individual have no control over. So I will not agree with your description of Mr. Begin or his government as conservative; they are not. They are a liberal government. In fact, you see the word liberal still retains its nineteenth-century meaning in most of Europe and if you take the parties which together make up the Begin government, a major party is the Liberal Party of Israel.

With respect to the problems, the problem has been that as a result of the socialist tendency in Israel you now have an enormous fraction of national income in Israel being spent by the government. You have a wide range of government and quasi-government enterprises; over half the workers in Israel are employed by either direct or indirect governmental enterprises. You have subsidies everywhere, for industry, for labor, for you name it. The result has been that you have a very great degree of dissatisfaction on the part of the public at large, in respect of the inefficiency which develops out of this kind of thing, in respect of the restrictions on people's lives and activities, and that's why there is no sentiment within Israel today for a continuation of a socialist government.

The papers here made the election of Begin hinge primarily on international affairs. It didn't at all. It was dissatisfaction with the domestic policy and this socialist-developed policy in particular that led, in my opinion, to a change of government. Now I am not very optimistic that they will be able to resolve things or to change them. Their intentions are fine, but it is extremely difficult once you get very far along this road to turn around and it's difficult

because everybody under those circumstances gets a vested interest in continuing it, because everybody is being subsidized.

I met, when I was in Israel, with the leaders of the manufacturers association, of the agricultural association, of the banking group—all of the various groups, the private groups, the groups that were the strongest supporters of Mr. Begin—and I opened my session with them by saying to them, “You gentlemen are the greatest obstacles to a sensible economic policy for Israel.” And they are. The manufacturers say, “Oh, of course, we’re in favor of cutting out subsidies, but you should start with agriculture.” Then the agricultural people say, “We’re in favor of cutting out subsidies, but you start with industry.” And the effect is that you get stymied. But I wish them luck.

Speaker: Will they go to a truly competitive ...

Prof. Friedman: That is the objective of many of the leaders of the new government, but I have my fingers crossed as to whether they will succeed in doing so. I hope so.

Speaker: Well thank you very much, and I could not have answered better on the question of liberal versus conservative. I agree absolutely with you.

Prof. Friedman: Well thank you very much. Can we get some more questions here?

Speaker: Dr. Friedman, first I’d like to thank you on behalf of all of us of having Bob Chitester talk you into doing this program ...

Prof. Friedman: You thank Bob for talking me into it. Don’t thank me.

Speaker: Well, I’ve already thanked him. I think you’ve put your finger on what really concerns me and many other people in the business community, and that is this whole area of increased government regulation, the four-letter words you were talking about. I don’t share the optimism that you appear to have of being able to do something about this, and I wondered if you could perhaps disclose some of the reasons why you feel that this can be changed, and perhaps at the end of that comment on the whole to me, as an example of this regulations, what’s currently going on in the Senate and in this whole area of gas deregulation

because it seems to me that it's all backwards; they've got the whole regulatory thing backwards, because I've always felt that if you somehow deregulated gas the opportunity for producers to get more for their gas, they would go on out and search for more, and then we'd have more, etc., etc.

Prof. Friedman: Well, I quite agree on the final thing. But it's very interesting; that's in a microcosm what's happening all over and what the problem is. Let me say first, I am by no means persuaded that we're going to turn the corner and go in the other direction. It may be that we are on the downslide and we are not going to recover. If you look at most societies over the ages, if you look at most golden ages, and we've been through a golden age, they tend to be short—100 to 150 years at the most—and to be followed by a period of deterioration and decline. That's what happened to Rome, that's what happened to Greece, no reason why we shouldn't follow the same steps. So we may go in the same direction, but the reason mostly for the major source of hope I have frankly is because government is so inefficient. That's the real hope. If government were spending the 40 percent of our income, that it now spends, efficiently I'd give up hope, but thank God they waste most of it. People complain about waste; I don't complain about waste. Tell me, would you people in this room really like the IRS to be spending its money efficiently? Obviously in general we don't like waste, but one of the effects of this is that government doesn't have as much control as you might think it would. Because you and the other businessmen, you see, have a war: you have a few hundred thousand or a million bureaucrats and you have 200 million people figuring ways to get around the bureaucrats, and generally we mostly can outsmart them. That wastes our substance and makes us poorer, but at least it preserves some element of our freedom. That's a major source of hope because it gives us time for maneuver and it also means that the public learns that government is inefficient.

The greatest source of danger, in my opinion, is in large part the business community. Don't make any mistake about it, to be pro-free enterprise is not to be pro-business. They are two very different things. And again, I am not blaming people but only trying to understand

them. Go to the oil and gas regulation, who are the lobbyists for keeping the controls on oil? If you read the newspapers you'd think it was consumers. It's a bunch of nonsense. The major source of pressure for keeping oil controls on is one part of the oil industry. Consumers don't benefit from the decontrol of the price of oil or gas. We pay the full cost of oil and gas. We're importing oil from abroad and we have to pay for it, don't we? I assure you the sheiks of Araby aren't paying for it; we're paying for it. And if we don't pay for it directly at the gas pump or at the fuel pump, we pay for it indirectly through taxes. So we're paying for it. Where is the pressure against deregulation? The fact is that right now we have a system under which you have through price control a heavy tax on domestically produced oil which is used to pay a subsidy to those people who refine oil at home and also to pay a subsidy for importing OPEC oil. To tell the full story gets too complicated, but that's the essence of it. It's one part of the oil industry versus another part of the oil industry. Similarly, there is a great deal of discussion right now about steel. The steel industry isn't in favor of free enterprise: it wants tariffs, it wants import quotas. Again, I don't blame them. They're trying to protect their own interest, but the rest of us are fools if we let them get away with it.

So I am not fully optimistic that we are going to solve this problem, but the reason I have some optimism is because what fundamentally determines what happens are the attitudes and philosophy of the people at large. Washington has been doing these things because the public has been telling them to, and the only hope is that the public changes its views and attitudes and comes to recognize what's going on. And there's been a big change there. You no longer have the immediate belief on the part of the public at large that the way to solve the problem is to have government impose more controls. The public at large is fed up with that, and you have more and more examples. Don't you think it has been a very good example for the public at large to have Freddy Laker destroy the pricing system for trans-Atlantic flights which has been maintained by the Civil Aeronautics Board for these many years? Well, I think as those examples come along, the case for deregulating airlines is going to be very

strong and I think you may be able to get something done. That's why I have some optimism.

Yes ma'am?

Speaker: With the deficit spending on the part of the congresses in the past and the present Congress, and President Carter and the previous presidents, and they have continued the deficit spending, they have continued with more regulatory agencies like OSHA, EPA, that are closing some of our major industries and even some of our smaller businesses, do you think the signs are there for an economic collapse?

Prof. Friedman: Signs for an economic collapse? No. Signs are not there for an economic collapse. You know, I keep citing Adam Smith because he was really the greatest man of all time, the greatest economist, and in fact on my tie I carry a picture of Adam Smith. But Adam Smith once had somebody come up to him after the Battle of Yorktown in the American Revolutionary War, and he said to Adam Smith that this was going to be the ruin of England. Adam Smith replied to the man, "Young man," he said, "there's a deal of ruin in a nation." That's a very important thing. This is a very strong, wealthy country. We're not on the verge of economic collapse, not a chance of it. We may have economic difficulties; that's a very different thing from economic collapse.

We have to keep a sense of proportion. I'm not in favor of deficits, goodness knows; I think they're a bad thing. But I do want to urge on you that the real problem is not deficits. The real problem is spending. The deficit is a very complicated notion. We keep on having deficits every year and yet the Federal debt is lower today, as a percentage of national income or in terms of what it would purchase, than it was twenty years ago. Why? Because we have repudiated it through inflation. We only have a deficit because we do not include the tax through inflation as part of tax proceeds. When you call it a deficit, that is only a form of taxation—the taxation through inflation. The real problem we have is not deficits. The real problem we have is that government is spending too much and that too large a fraction of our income is being spent for us. Now that would be alright if we were getting our money's worth. But I suggest that you go around the country and ask people: Did you know that about

40 percent of your income is being spent for you by government? Are you getting your money's worth? Now I will tell you who will say yes—government employees. Yes?

Speaker: You have advocated in the past a steady growth of the monetary supply—3 or 4 percent, something like that. Firstly, wouldn't the effects be nullified by just, well, relative prices basically staying the same? And secondly, do you think the monetary supply could still be controlled with the electronic transfer of funds?

Prof. Friedman: I think the electronic transfer of funds really has been grossly overplayed as having any effect on the possibility of controlling monetary supply or on the desirability of doing so. You are getting into an area of monetary analysis which is sophisticated and complicated, and I don't want to get into the technical area. Let me only answer your question by saying that we have had many, many technical changes over the past 100–200 years in the conditions of supplying money. We developed banks which replaced in large part currency, we have developed credit cards, we are developing electronic transfer. None of that over a two-hundred year period has altered the basic relationship between the quantity of money on the one hand and the level of total income of the country and of prices on the other. So I don't believe that's going to make a major change.

On the first part of the question, a steady rate of monetary growth would in my opinion be capable of producing both relatively stable prices and relatively prosperous conditions, and I don't believe that it would be nullified by changes in either relative or absolute prices. Yes ma'am?

Speaker: Previous speakers have asked about energy and regulation; I'd like to combine the two. The industry that's historically regulated are the electric utilities not only as to price, but how, when, and where and so forth they can do this. Is it time to consider totally deregulating them and if so, would you deregulate the nuclear gas industry for the safety aspects at the same time?

Prof. Friedman: Well now, you have raised a series of very complicated problems which cannot really be answered in simple yes or no terms. Let me go to the very end one. What we need is not regulation of safety aspects; we don't need regulation of safety aspects. We need responsibility. I am not in favor of our present system under which the U.S. government provides insurance to nuclear power plants against catastrophes, because if the U.S. government is going to assume the costs of such things, then it is going to have to impose the controls. What you ought to have is a system under which a nuclear power plant would be responsible financially for the consequences of any accidents that occur.

Of course, as you and I know, the problems in this area have been enormously exaggerated. Nuclear power has been incredibly safe. It has been far safer than coal power or oil power or even water power in terms of actual experience over the past twenty years. But nonetheless it is highly desirable to have arrangements, to have a set of rules of the game, under which public utilities or companies that produce nuclear power are held responsible for any effects of their behavior. They ought to be responsible for compensating people just as, if you drive an automobile, you ought to be required to have insurance which will enable you to be responsible if you hit somebody. It is an appropriate role of government to make sure that third parties are protected from things that they could have had nothing to do with. In that respect I think that you ought to eliminate many of the specific safety controls and regulations but substitute requirements for responsibility on the part of power plants, whether nuclear or otherwise, for compensating people for any injuries that are imposed on them.

Now we come to the utility industry in general. It is grossly over-regulated. It would be highly desirable to reduce the amount of regulation. There is no problem in reducing the amount of regulation. A colleague of mine, George Stigler, made a study many years ago of the effect of regulation on the prices of electric utilities and others, and he did it by comparing different states, some of which did have regulation at one time, some did not; and lo and behold, regulation did not lower the price or affect the charge to customers.

You might ask, well if you don't have regulation of utilities, what does limit them? Won't they go and raise their prices sky-high? The answer is that there are always alternative sources of energy. You may have only one electric line but you have other ways of getting power: people can live in different areas, if you raise the price they will buy less, and so on. So that on the whole I am very strongly in favor of a wide scale reduction in the extent of regulation of utility pricing. Again, that's the kind of change that ought to be done gradually over a period of time and not necessarily overnight.

There are two kinds of changes. Some ought to be done overnight. The regulation of the price of oil or natural gas ought to be eliminated tomorrow. No gradualism; that's a bunch of nonsense. All it will do is do harm. If you eliminated the regulation of the price of oil and gas tomorrow, it would not affect in the slightest the prices that anybody paid at the gasoline pump or for oil and energy; it would only redistribute funds within the oil industry. On the other hand, the regulation of the prices of electricity and so on ought to be eliminated gradually over a period of time, because people have adjusted their arrangements to them and they ought to have a chance to adapt. Yes sir?

Speaker: Dr. Friedman, is there an economic system now or historically that has allowed free enterprise alone to determine which direction the economy goes? Secondly—I have a three-part question.

Prof. Friedman: Okay, fine.

Speaker: Secondly, in economics you have resources and how to best use these resources is a value judgment, but it seems to me you can have either free enterprise decide or government decide or some combination. Then don't you think a combination would be the best alternative? And thirdly, if I can remember it, isn't there some benefit to having the government steal our money? Which is what they do effectively; they'll hold a gun to our head and say pay us 40 percent of your income or go to jail. They take this money and they give it mostly to government employees. Well, the government employees spend it. The marginal propensity to consume is pretty high. So the people who were robbed have to do

something creative to get the money back, and isn't this creative activity the real wealth of ...?

Prof. Friedman: Well I take it that they would have to be still more creative if 98 percent were being spent by the government. No, the third part of your question is just pure fallacy from beginning to end, because if those people who are now government employees were employed in creative activity and productive activity they would also be spending their money, and we would have a greater total around.

Take the extreme case, that that 40 percent is being used just to have people sit around. The fact that they spend their money doesn't alter the situation. The only product there is is what the 60 percent produce, and that 60 percent is divided among 100 percent. If those 40 percent were also producing goods, then there would be more goods to go around among everybody. You are just involved in a fallacy of looking at dollars, which is important sometimes, instead of looking at the real products—the goods and services—that people produce and people consume. Spending isn't good; what's good is producing. What we want to have is more goods and services. As I say, the obvious indication is that if your logic were right, it would apply for 50 percent, 60 percent, 70, 90, 98, 100 percent, and obviously you would see that that would be a bunch of nonsense at that stage.

It is desirable to have some money spent by government for those things, those services, that we believe we can get more usefully and more effectively through government. If people are getting their money's worth, fine. That's why it's very desirable to have governmental expenditures take place at as local a level as possible, because you as a citizen of a small community can judge whether you are getting your money's worth. You can decide that you want to spend it. But when it comes to the Federal government you tend to think that you are spending somebody else's money, and you are in a way, but he's spending yours.

Now let me go back to the first two items. Is there any example of a society in which the fundamental determination of the direction of activity was determined by free enterprise, by free competition? Of course, most of history, most of the societies today. Government does

have 40 percent of our income that it spends, but it wastes half of it, so that as an effective matter 80 percent of our resources are being determined by free enterprise now. And if I go back to the whole period of the nineteenth century, to the whole period of the great growth of the U.S.; to Britain in the nineteenth century, the period when Britain emerged as a leading nation, at the height of Britain's power as the leading nation in the world, at the time of Queen Victoria's jubilee—in 1899 I think it was, celebrating the fiftieth anniversary, the golden jubilee of her reign—when Britain ruled the waves and had an empire on which the sun never set, total government spending in Britain was 10 percent of the national income. So of course there have been many examples over time in which free enterprise has dominated and predominantly been the major source of determination. Today it's true in Hong Kong, in Taiwan, in many countries around the world.

Your second question is, does not the allocation of resources involve value judgments and isn't it better to have the value judgments shared by government and the people? Who is government? What's government? Is that something other than you and me? Is that something other than us operating through a different mechanism? Who can make value judgments? Only people. Resources don't make value judgments; governments don't make value judgments; people make value judgments. And the question is, what is the most effective way in which we as people can jointly, cooperatively express our values? We express some of them individually in the family at home, separately, people, you and I alone. We express some of them by doing things for ourselves. We express some of them through voluntary groups—Boy Scouts, churches, charitable organizations. We express some of them through cooperation on a broader scale in a free market through business enterprises that serve as intermediaries between people selling their productive services, producing products and selling the products. We express some of our values through doing things through government, and there is nothing wrong with doing that, provided we keep in control and don't let government become the master instead of the servant.

The real problem is, in my opinion, that as we move from the local community to the state, from the state to the Federal government, it becomes increasingly difficult for us to control the mechanism we have established and that mechanism tends to control us. That was the great wisdom of the founding fathers of this country, of the people who wrote the Constitution. That constitution was designed to limit government's powers in order to preserve the freedom of the individual, and what has happened in the past fifty years is that the fundamental character of the Constitution has really been changed. We have broadened enormously the conception of what is a governmental power and what is not, and have departed from that limited government until we have created a Frankenstein, an unlimited government that threatens to destroy us. Let's go to the next question. Yes ma'am?

Speaker: I understand, Dr. Friedman, that between 1776 and 1914 we were really developing in this country, correct?

Prof. Friedman: Oh, we've been developing since, too.

Speaker: Well, right.

Prof. Friedman: I was just citing that as a period in which we were developing when you obviously could not attribute it to government.

Speaker: Alright, in 1913 though, Congress delegated this power to the Federal Reserve System. And the way that I look at economics, according to the Constitution this is violation, you know. At the top of your dollar you'll see "Federal Reserve Note," correct?

Prof. Friedman: Sure.

Speaker: Under constitutional money it will be "United States Notes." Now the Constitution says, article 1, section 8, clause 5: "Congress has the power to coin money and set the value thereof." Now what if we all liked to buy a house at 1 percent interest rather than 9 percent or whatever, or buy a car at 1 percent rather than 15 percent, so that we all can buy the produces and the goods that go into making a home or a car? Now, is there any possible chance to wake up the public—who is all greedy and me too, you except you—

Prof. Friedman: Thank you.

Speaker: ... to ever get Congress—and I know they're making a despicable job of ...

Prof. Friedman: Yes, but go slowly, because I want you to come to your point and your comment. What is it that you want Congress to do?

Speaker: I want to know if we can ever wake up the public to return back to the Constitution and United States money which is interest-free at the point of origin?

Prof. Friedman: Well, I hope not.

Speaker: Why not?

Prof. Friedman: I know this is a reform that many people think of, but it's really an intellectual confusion. Interest is not the price of money. Interest is the price of credit, and the Constitution does not give the power to the Federal government and should not give the power to the government to have a zero interest rate. The Federal Reserve money is government money. The Federal Reserve is a government institution. It is set up technically as if it were owned by the member banks. They have shares of stock but they have no powers whatsoever. They cannot vote. The only thing they do is get 6 percent on the share of stock that they have. They have no power. The chairman of the Federal Reserve Board and the members of the Federal Reserve Board are named by the President with the aid, advice, and consent of the Congress. Now, remember, I yield to no one as a critic of the Federal Reserve System. I have been a critic of the Federal Reserve System for forty years so I'm not trying to defend the Federal Reserve System, but we've got to get things straight and not get them confused. The Federal Reserve System is a government system; Federal Reserve money is government money.

If you go back to the Greenback Period, which is really what you want to go back to, it was not true under the Greenback Period when the U.S. was directly printing these greenbacks, these pieces of paper, that they were available to everybody to borrow at a zero interest rate. They were not and they could not be. And if you tried to have the government

print money and say to anybody, “You can borrow it at a zero interest rate,” the only effect of that would be an inflationary explosion that would destroy the whole monetary system and the whole society as well. Interest is the price of credit and interest is what you have to pay to people to have them willing to let you use the money instead of them using the money. There should be no usury laws which set a limit on interest; that’s price-fixing just as bad as any other kind of price-fixing. The notion of a zero interest rate is a snare and a delusion, and well-intentioned, well-meaning people like yourself are led astray if they think that that’s a way or a panacea of getting to nirvana; it isn’t

Speaker: I’m not looking for a zero interest rate, sir.

Prof. Friedman: Well, but that’s what you’re saying. You say you want the government to issue money at zero interest rate. I may say, so far as the interest that is being paid to the Federal Reserve, it all goes back to the Treasury.

Speaker: How come I never get a check? I’m the government.

Prof. Friedman: Of course, but you pay a check because you’re taxpayer; you’re not the government. And so far as the relation between the Federal Reserve and the Treasury is concerned, it’s a bookkeeping transaction. The government credits the Federal Reserve with interest on the so-called bonds which it holds. The Federal Reserve in turn returns the interest to the Treasury as a franchise payment for the privilege of issuing money. In fact I’m in favor of abolishing the Federal Reserve; on that score we have no difference of opinion, but it would not change this aspect of the thing at all. I am in favor of abolishing the Federal Reserve for a wholly different reason, because I believe that that’s too much power to have in the hands of a small number of people to be able to determine the rate at which the quantity of money increases or the rate at which the quantity of money decreases. But it has nothing to do really—let me urge on you not to go down this false path—it has nothing to do with the payment of interest.

Speaker: Professor Friedman, may I? ... Why is it that they take a pencil and they are allowed to transfer this credit over and get a bond for nothing, right? And then take that bond and demand the same amount of money, say \$5 or \$50,000. The bond is earning interest and the money is earning ten to twenty times. That's the racket! That's not ...

Prof. Friedman: No, no, no, I'm sorry, that really is not right.

Speaker: That's not right? Congressman McFadden said it and Abraham Lincoln said it and, uh, John Kennedy said it ...

Prof. Friedman: You know, I don't care who said it. Two and two is four ...

Speaker: ... even the Federal Reserve said it!

Prof. Friedman: ... no matter how many people say it's five. Now Abraham Lincoln was a great man, but I had never before realized that he was a monetary expert. Yes?

Speaker (new): Doctor, I didn't want you to forget the judicial branch of our government. Could you comment on equality? It seems to me that ...

Prof. Friedman: Equality?

Speaker: Equality. It seems to me that the use of equality in the country today, in terms of the preponderance of legal actions seen in the news today—the best word I have in my mind is entropy—it sort of takes everything down to the same level and it's really hard to make distinctions anymore between people who deserve more than other people. Could you comment on that? It seems to me when I think about it that that has a great deal to do with the tearing down of the free-enterprise system.

Prof. Friedman: It does, I agree with you. I had a great teacher, Frank Knight, now dead, wonderful man, and he used to make a statement which will go directly to your point which sounds paradoxical but is a very important and profound statement. He used to say, "The search for justice will destroy the world." That's your point. Justice is in the eye of the beholder. We can talk about freedom, we can talk about your being able to have voluntary

exchanges with somebody else, but if we are going to talk about justice somebody has to decide what's justice and what isn't, and somebody has to do justice. And if two people disagree about what's justice, they can resolve that only by fighting about it. So we want to withdraw a little bit from that and interpret justice and equality in a kind of different sense. You know, nobody is really in favor of equality when you come down to it. Nobody thinks that the way in which to have a horse race is to make sure that all horses come to the finish line at exactly the same time. That would not be a very interesting horse race. Nobody believes that a person who, let's say, is allergic to one kind of food should have identically equal food to a person who isn't allergic to that food.

Equality is a false god in my opinion, but it's a very tempting god and is one which we all in a sense are attracted to. And what's really involved there in the question you are raising is distinguishing the false god from the true god. What we really want to have, what we would really like to have, is a situation in which there are no arbitrary barriers to people. We believe it is undesirable, and I believe and you would believe it is undesirable that some people should have special privileges and special advantages for no particular reason. The best expression of what I think is the real approach and the real desired concept is a French expression. It's "carrière ouvert à les talents," a career open to the talents, that anybody who has the ability should be able to make his way. That's the right concept. We call it equality of opportunity, but that isn't right because there is no way you can have equality of opportunity really. Some people are born blind, some people are born with sight. What does it mean to say that those two people should have equality of opportunity? It doesn't exist. What we mean is that we should not have arbitrary barriers which prevent people from expressing their own values and their own capacities as fully as possible—the fullest possible expression of your capacities, and that will lead to inequality.

People want different things: one man wants to lie under a tree and have an easy life; another man has other interests—he would like to achieve something and he wants to get a different outcome. And true proper treatment, true justice in a sense, involves letting the one

man lie under the tree and letting the one go ahead. So I think I agree with the fundamental concept of your notion. The false idea is the idea that if you have a forest you should cut down the high trees so that they will be the same height as the low ones; and if you try to produce that kind of equality in the world, the effect of that is to eliminate the really great human achievements. Is it really undesirable that there should be a Shakespeare who writes plays that are enormously superior to the plays other people write? And is it wrong somehow that he should have an opportunity to do that? I don't think so. If some people have the capacity and the ability of Henry Ford, who was able to transform the country by providing a new means of transportation, a cheap means of transportation available to the world, the fact that he ended up with a higher income or a higher reward is a trivial price to pay for that kind of result. So I really agree with you that the overwhelming emphasis on egalitarianism—I'd put it in another way. If you seek for equality, you will end up with neither freedom nor equality. If you seek for freedom, you will end up with both freedom and a greater measure of equality than you would otherwise get.

The places where you have the greatest inequality today in the world are those societies which profess to be determined to create equality. There is far greater inequality in Russia than there is in the United States. If you look at the sources of inequality, they tend to come out of getting control of government power not out of being able in the economic world. We used to have three generations from shirtsleeves to shirtsleeves, because competition cuts people down. But if they can get the government to maintain their position ... You see almost all of these government measures, supposedly in the name of equality, like graduated income taxes, inheritance taxes, and so on—their main effect is to prevent people from becoming wealthy and enabling people who now are wealthy to preserve their position. So I go a long way with you that what we really need to search for is opening up opportunity, providing a career open to everybody, and not worrying if some people, some trees grow taller than others. May we have the next question?

Speaker: Dr. Friedman, in the past several months we've heard a lot of publicity about the size of our national trade deficit and the primary concern seems to be the number of dollars flowing out versus the number flowing in, but it seems there is a complete disregard for the number of goods coming in versus the number of goods going out, and I would like some of your opinions on this issue.

Prof. Friedman: I think the so-called trade deficit is an utterly false issue. It used to be an important issue when we had price-fixing of the price of the dollar. We had fixed exchange rates, when the U.S. government was committed to providing gold to foreign countries at \$35 an ounce. At that time a trade deficit was a very serious matter because it put the government in a position where it had to do something about it. But today a trade deficit is of no significance at all. How can we create it? People say, "Well now we're spending more money abroad, more dollars abroad, than people are buying American goods." How is that possible? What are the people who are getting the dollars abroad doing with it? Are they burning it up? If so, fine. There's nothing we can produce more cheaply than green pieces of paper; we can run the printing press. If the Japanese would send us over television sets and automobiles and take in return these green pieces of paper, gee, what fools we would be not to take up that deal! But of course they wouldn't be fools enough to do it. So in fact, there is no deficit in that sense. What's happening is that all of this trade deficit comes of looking at only some transactions and not at others. If foreigners are acquiring more dollars through selling us goods than they are spending on our goods, then they are using the remaining dollars either to buy services here or to buy stocks or to buy property or to buy capital or in some other way. They are not sitting on those dollar bills; they're not burning them up, you can be sure of that.

In my opinion there is no problem that is less significant or less important than the so-called trade deficit, provided we allow the exchange rate of the dollar vis-à-vis other currencies to be determined in the free market and be whatever it may be. If people abroad decide that they are acquiring more dollars than they really want, well then that's very easy; then they will try to get rid of them. How can they get rid of them? Let's take the case that

people are most worried about, the Japanese. The Japanese are acquiring dollars and what they want is yen, so they will offer more dollars for yen. That means the price of the yen in terms of dollars goes up. That means Japanese goods become more expensive to Americans, American goods become less expensive to Japanese; that means we'll buy less from them and they'll buy more from us. So there's an automatic process in there that will adjust the trade, and over any considerable period of time we're going to sell as many goods abroad as people are going, to buy here and we don't have to worry about that problem. Yes sir?

Speaker: It seems to me that the United States has been getting gradually more socialistic. Would you agree with that statement as time has been going on over the last two or three decades?

Prof. Friedman: Yes.

Speaker: And also, from what I have been reading, there are certain organizations such as the Council of Foreign Relations, the Trilateral Commission, organizations that most people are not aware of, and I was wondering if in your travels to Washington and in dealing with top economists and so on, if you could tell us about the purposes of those organizations and whether or not ...

Prof. Friedman: A lot of people sort of have an idea that if something bad is happening it must be because some evil people are trying to produce it. You know people are always looking for a devil and some people have been trying to find the devil in the Council of Foreign Relations or in the Trilateral Commission or in the international bankers or in some other group of evil people who are planning it all this way. Frankly I think that's a bunch of utter nonsense from beginning to end. If you want to find the devil who is responsible for our becoming more socialist, go home and look in the mirror. We are all of us responsible because we really do have ultimately a democracy.

If Washington has been making us more socialist by going in for more and more programs, spending more and more money, imposing more and more taxes on us, it's because

we as citizens have been asking Washington to do it. Everybody says, "Well, of course I don't like people spending money but my program, that's different. I want them to spend it on me." And so far as the Council on Foreign Relations is concerned, it's an organization of well-meaning people. I happen to disagree with many of their views, I agree with others, but it's an organization of well-meaning people in New York and around the country who hold meetings, who publish a journal, who have discussion groups, and so on. They have been very much concerned particularly with foreign policy, they undoubtedly encompass many of the leading figures in this country who have been concerned with foreign policy, but there is no secret underlying conspiracy that is going on. You're just going down a wrong track in that way I believe.

Speaker: Now I didn't finish the question. I didn't mean to imply that there was any conspiracy or that there was any evil intention on the part of these organizations. It's not necessarily evil to believe in a political philosophy such as socialism; a lot of countries do. But is that not their position and have they not staffed the government with a lot of their members who subscribe to this such as, you know, Dr. Kissinger who is a member of the CFR?

Prof. Friedman: No, I don't believe they have. I believe that most people who are very much interested in foreign affairs will be associated with the Council on Foreign Relations or with some other foreign affairs organization, and those positions in government are likely to be filled with people who have had an interest in it. In the foreign relations area particularly socialism has not been their major objective at all. That hasn't been what has driven them. It's been a very different set of principles that have driven them.

The move toward socialism has been fundamentally sparked by the intellectual community. It has been sparked in this country, and I believe in many countries, by a fundamental change over the past forty or fifty years in basic philosophy. The fundamental philosophy used to be a philosophy of individual responsibility, that people were responsible for themselves, that it was up to them to use their resources as effectively as they could, that

they were to be blamed if they failed, that they were to be rewarded if they succeeded, if they inflicted harm on somebody else they were to be held responsible for it. Increasingly we have had a shift toward a doctrine of social responsibility, that people are not really responsible for themselves but somehow or other society in the abstract is responsible, that somehow or other if I don't succeed it's because people have been denying me opportunity or somehow haven't been providing the means, and I believe it's this shift from individual responsibility to social responsibility that has led to a belief, to a concept of using the government as a big brother to do things. There has been a change in the concept of government from a policeman to a big brother. Now that has been sparked by the intellectual community in general, by teachers, by writers, by literary people all over. And if there is to be a change, I believe it's going to be a change in that philosophy, and I believe there are signs that a change is coming in that direction. But I don't believe you'll get anywhere by looking for the influence of the Council on Foreign Relations or the Trilateral Commission or any of these other organizations.

I think we have time for just about one or two more questions. Let's make this the next to the last question. Yes?

Speaker: Dr. Friedman, in last year's presidential campaign a great deal of discussion was lent to the repeal of section 14b of the Taft-Hartley Act. Could you give us some indication of your view on that, in particular to the restriction of freedoms of individual workers?

Prof. Friedman: Well that's again the problem of right to work which is what's involved. It is a very difficult and complicated problem to discuss, but it's very relevant to the subject tonight and I'm glad you raised it. In principle, I am not in favor of laws either requiring workers to join a union or preventing workers from having a closed shop. There's a very interesting thing that on a level of principle you can no more justify the right to work laws than you can justify the law against yellow dog contracts. Both of them are wrong. The Fair Employment Practices Acts in my opinion are wrong because they interfere with freedom of contract. People should be free to contract as they wish. The right to work laws are in principle wrong because they are an interference with the freedom of employers to contract

with a closed shop, and yet on the other hand as a practical matter 14b prevents the imposition of a closed shop by governmental measures. What you've got is a situation here in which you have two wrong things and you've got to choose the lesser of the evils. The repeal of 14b would make it impossible for states to get out from under governmental regulations, Federal government regulations, which in effect have the effect, even though this isn't legally their wording—they have the effect of mandating closed shops even where both employers and workers might not want it, and 14b provides a loophole whereby the individual states can get out from under that requirement. As a result, what I'm really in favor of is not the repeal of 14b but a much more far-reaching change of Federal labor legislation which, instead of having the Federal labor legislation be as one-sided pro-union as it is, would make Federal labor legislation much more neutral than it now is, and under those circumstances I would not support right to work laws. Under the present circumstances I'm in a dilemma. I don't like to support them because they seem to me wrong in principle and yet they offset another evil, and on the whole the right to work laws seem to me the lesser evil of the two. So I think you have raised a very difficult position. Let's take the last question and then we'll let everybody go home.

Speaker: Dr. Friedman, I'd like to hear your answer to a very simple question that's often very persuasive and that's that the existence of big business requires the existence of big government.

Prof. Friedman: Well, the answer to that is that big government produces big business in part rather than the other way around. First of all, what do we mean by big business? Businesses have gotten larger in absolute size. An individual business on the average employs a much larger number of people than it did at an earlier stage, but in the main business has not gotten bigger in terms of the share of the market occupied by a small number of enterprises. The great developments in the past hundred years have been improvements in communication and transportation which enabled competition to operate over a much wider area. A hundred

years ago you had much more local monopoly. The small enterprise was much bigger compared to the local market than the big enterprise can be compared to the broad market.

Now what's the problem of big business? There's no problem of big business; there's only a problem of monopoly. The problem is to try to avoid a situation in which you have only one potential employer or one potential seller of a product. What would be the most effective way of doing that? The most effective way of doing that is to have complete free trade, to have competition from all over the world. That would almost assure that no company could be in a monopoly position. Under those circumstances, what do you need big government for? Moreover, if you look at the way in which government has become big, it hasn't become big that way. Look at the Federal government. What's made it big? What's the department in the Federal government today that spends the most money? Health, Education, and Welfare. The big growth has not been in anything whatsoever having to do with big business. It's been in taking money from some people and giving it to others; it's been in the transfer payments—Social Security, welfare programs, food stamps, all of the rest of it—not in anything having to do with big business. So I think the argument that big business requires big government is a bunch of nonsense. It just is not in accordance with the facts that if I subtracted from government those activities which have nothing to do with big business I would be left with a very small government.

Now people ask a very different question that is related to what you say and that's one I want to answer briefly, and then we'll have to terminate this. People say, "Well what difference does it make whether it's General Motors you are dealing with or the U.S. government you are dealing with? Both are big bureaucratic enterprises, aren't you just as badly off?" There is an absolutely fundamental difference: General Motors cannot get a dollar from you unless you are willing to hand it over. It cannot send a policeman to take a dollar out of your pocket; the U.S. government can. That's a fundamental difference and as a result I don't believe big business is the kind of threat that big government is. Thank you very much.

Notes

* Introduced by Robert Chitester.