
**Rush:** It is an honor, sir, to speak to you. Now, you have been a proponent of the flat tax for decades. I read your February 9 Wall Street Journal piece, that you originally wrote in 1962.

**Friedman:** Right.

**Rush:** Finally, the flat tax idea has emerged; it’s now at the forefront of American political debate. Would you take us through the philosophy behind it? Because there are so many people who are scared to death of losing their deductions—people who would otherwise benefit from it — that it’s having trouble garnering support.

**Friedman:** The main argument for it is that it’s difficult to manipulate. Whatever tax system you have, whether it’s good or bad, it will do less harm if it stays the same for a period of time, than if you change it every two or three years. But if it were to stay the same, the lobbyists wouldn’t have anything to lobby about.

**Rush:** What do you think the purpose of a tax code is? Or should be?

**Friedman:** The purpose of a tax code should be to raise revenue to finance necessary government expenditures. The actual purpose of the present tax code is to provide a means whereby members of Congress can raise funds for campaigns. That’s the actual purpose, not the intended purpose, not the desirable purpose. And that is also the reason why I am very pessimistic about Congress ever passing a flat tax.

**Rush:** How does the changing tax code raise campaign funds?

**Friedman:** People in Washington lobby to have special provisions added in for the company they’re lobbying for; to get a Congressman to listen to them, they pay him money. As a result, the Congressman gets campaign funds. If you look at the PAC [political action
committee] funds, they go to the Congressmen in committees that deal with their issues. The House Ways and Means Committee is the main House committee that deals with taxes. And if you look at the PACs that support the members of that House Ways and Means Committee, they are all pacs representing firms that have a very strong interest in getting a special provision for their company or their kind of income in the tax code. That is why our tax code is littered with deductions and exemptions and provisions that have no business being there.

**Rush:** Plus the social architecture power that they have to redistribute the income, which is also geared toward buying votes.

**Friedman:** Well, it’s very dubious whether any redistribution of income is going on in a meaningful way, outside of redistribution between one special interest—corporate, labor union, or other interest—and another. If you look at the actual structure of the graduated tax, the so-called progressive tax, it isn’t progressive at all. It’s just arbitrary. Some people pay high rates, some people pay low rates. But it isn’t true that typically the people who pay the high rates are the well-to-do, and the people who pay the low rates are the poor.

**Rush:** But it is true that the middle class and the poor think that the wealthy are paying higher rates, and this is supposed to make them feel better about their own situation. This is pure class envy, that these other people are being gotten even with.

**Friedman:** True. But the facts are very different from what they believe them to be. The only way to change the system is by getting strong enough public support for a flat tax, or a tax without all these gimmicks, to make it impossible for Congress to refuse to pass it. I don’t think that’s very likely.

**Rush:** We conservatives think we’re in the midst of a conservative revolution. Is it your opinion that a conservative majority in the U.S. Congress will not pass a flat tax law?

**Friedman:** Yes. As you know, I am not a conservative; I’m a libertarian. Many of those who call themselves conservatives are not. They’re politicians, trying to make a career out of politics. I don’t blame them; they’re pursuing their own interests, which is what we want them
to do. But it’s our business as citizens to set the rules of the game so that when they’re pursuing their own interests, they’re also pursuing the nation’s interests. One of the best ways to do that would be by enormously simplifying the tax system, to have a simple, flat tax with the same rate on everybody.

Rush: You say that it is therefore necessary for the people to lead this, that the power of the people is what will persuade elected officials: Let’s talk then about the media. Because I have read and seen news reports on the flat tax. The whole concept is dismissed with comments such as: “most economists agree” that it will increase the deficit; or that “economists agree” that it will benefit the rich and hurt the middle class; or that “economists say” that it’s a completely stupid idea, it’s a fantasy. Now you’re a Nobel laureate. You’re one of the nation’s most accomplished economists. Have any of these reporters asked you what you think?

Friedman: Not a one. And besides, whenever the newspapers use the term “economists,” God knows what they’re referring to. The question of whether it will increase or decrease the deficit depends on two things: what rate you’re talking about, and what you’re going to do about spending. My view is that what’s really important is how much Congress spends, and that the only way to get the amount of spending lower is by reducing taxes. Congress is no different than your child. If he spends too much, you’ll lower his allowance. Congress will spend whatever the tax system will raise, plus as much more as they think they can get away with in the form of a deficit.

Rush: So one of the reasons for fewer taxes is there’ll be less to spend.

Friedman: That would be a desirable result. However, a flat tax at the moment could be designed that would raise as much money as the current system does. The question of whether it will or not depends on what rate you give to it.
**Rush:** In your 1962 piece, just reprinted in The Wall Street Journal, you proposed a rate of 23½ percent. At that time, the top marginal rate was 90 percent. Would you revise that rate today?

**Friedman:** I have not made the calculations, but my guess is that 19 percent would be plenty.

**Rush:** Would you take away deductions like the home mortgage interest?

**Friedman:** I would take them all away.

**Rush:** Okay, so we’re down to no deductions and a flat rate of 19 percent. What mechanism would be necessary to prevent future Congresses from raising that rate to whatever they wanted in future years?

**Friedman:** Nothing would prevent them—except that the people wouldn’t bear it. Today Congress can raise taxes because it can persuade a large number of the populace that somebody else will pay. With a flat tax, a rise in rates will affect everybody. So you will have a unified political objection to it.

**Rush:** Would you support a mechanism such as a two-thirds majority required by both Houses to raise taxes?

**Friedman:** Yes. I have said over and over again that I am not in favor of a balanced budget amendment unless it contains such a provision. What’s important is spending, and you’ve got to keep spending down. Right now, government spending at the federal, state, and local level is about 43 percent of the national income. If you include the impact of government regulations on private spending—you have to have anti-pollution devices on your car, businesses have to provide for the disabled, etc.—if you include all those mandates, the total fraction of the national income which the government decides upon is over 50 percent. We’re more than 50 percent socialist. And I don’t think we’re getting our money’s worth. If you asked people, “Is half of your satisfaction coming from what the government does for you?”, how many would say yes?
Rush: I’m afraid a surprisingly larger number than you and I would hope. And I think that’s one of the problems that we have in reforming this. Look at when the government shuts down: meaningless government tasks are no longer being done, and you’ve got sheer panic. You’ve got people who actually fear for their future when the government shuts down in limited ways. I worry that this dependence on government is far more deeply rooted than anybody thinks.

Friedman: You may well be right. I hope you’re not.

Rush: Is balancing the budget necessary, is it crucial to our economy?

Friedman: No, siree. I would rather have a budget of $1 trillion with a $500 billion deficit, than a budget of $2 trillion with no deficit. The burden borne by the American economy is measured by what government spends and disposes of, not by whether it calls its receipts “taxes” or “proceeds from bonds.”

Rush: I have been fortunate enough to talk with trained economists, people like you, Dr. Sowell, friends at the University of California at Davis, and they have explained complex economic questions in the simplest and most commonsensical terms. It’s led me to believe that basic economic education in this country is woefully inept, that so much of what is common sense to you could be common sense to many, if their foundation were properly built. Why isn’t it?

Friedman: You are quite right. But I think economic education is not so much to be blamed as education in general. We have an elementary and secondary school system which is a government monopoly; 90 percent of kids go to government schools, only about 10 percent go to private schools. It’s the largest socialized enterprise in the United States, other than perhaps the military. Expenditures on education are beginning to surpass expenditures on the military.

That monopoly power is being exercised by the teachers unions. They are running the schools to promote their own objectives, not to promote the objectives of the students they
teach. That’s not true of individual teachers. They are very different. I’m talking about the unions. The result is that we have a school system that teaches the wrong values. A socialist school system is going to teach socialist values.

**Rush:** And it has been doing so for a long time.

**Friedman:** Yes, but under very different circumstances. In the beginning, schools were decentralized. They were controlled by the local community. A decentralized, competitive socialism isn’t the same as monopolistic socialism—just as decentralized, competitive capitalism is very different from monopoly capitalism. I went to a public school, my wife went to a public school, and it wasn’t the way it is now. But the school system has been progressively centralized. In the 1930s there were probably ten times as many school districts as there are now—even though the population was much smaller. The only way to make a real dent in that area, I believe, is to provide competition in the school system by enabling parents to choose the schools their children go to. At the moment, about 10 percent of the parents do that, but it involves their paying double for their kids’ education. They pay first through taxes, then they have to pay through tuition. The parent who doesn’t want to send his child to a government school should be able to get a rebate of the taxes he’s paid to support it. This will not increase total expenditures on schooling; it will lower them. Because as you and I know, there’s no activity government engages in that private enterprise can’t do for half the cost. So what you see as economic ignorance is really the teaching of socialist values—because the school system is today a socialist institution. If we’re going to convert it into a market institution, into a competitive institution, we have to give parents the right to choose the school their children go to.

**Rush:** School choice initiative was defeated last time it was in the ballot in California—by people who you’d have thought would be totally in support of it.

**Friedman:** That’s right. I’ve been working on this issue over 40 years, so I’ve seen it happen many times. If you approach people in the abstract before the unions get to work on them, there’s a majority in favor. Last time in California, the unions spent $16 million—about
five times as much as the proponents of that voucher measure were able to raise—and they persuaded the public that whatever was good about vouchers in general, this particular voucher proposal was somehow bad. They have done that over and over again. We’re trying again to get a school choice initiative, educational freedom initiative, on the ballot in California this year. We’re out collecting signatures for it now. But I cannot express certainty that it will be either on the ballot or that it will be adopted, because there’s no doubt that the teachers’ unions will once again spend a very large amount of money in trying to defeat it.

Rush: Because you’ve been working on it so long is probably why you’re pessimistic. How have you stayed enthusiastic for the task, given the pessimism attached?

Friedman: Because it’s so important. Because we have to do it sooner or later. Moreover, you have to take a long view. I’ve seen over and over again in my life ideas that were initially completely rejected, get adopted. But it takes a long time to persuade anybody.

Rush: With your experience you know what doesn’t work, and you’ve obviously been involved in things that have worked. What would you advise those carrying the torch to do?

Friedman: To keep at it, to talk about it, to work on it, to write about it, to do what you’ve been doing about it, to say honestly and clearly and in as simple language as possible what’s wrong with having the government control half your income.

You mentioned earlier the rising conservative tide. There is a rising tide of belief in free markets and freedom, stimulated very much by the collapse of the Soviet Union. But if you look not at opinion, but in practice, we’ve moved in exactly the opposite direction. Forty years ago, the government had a much smaller role in our lives than it does now. We’ve gone from the War on Poverty, to increased welfare, to the Americans with Disabilities Act, to the Clean Air Acts—every one of which had good intentions—but the results are not good. They’re had in the most part.

The only thing saving us is the inefficiency of government. People complain that the government is inefficient. I say, thank God. If government were really spending its money
efficiently, there’d be no hope for us to restore a free market. What killed the Russian communists? It wasn’t the bankruptcy of their ideas that brought down the Soviet union; it was the inefficiency of their bureaucrats. And while government disposes of half our income, it does it so inefficiently that its actual control is much less.

**Rush:** It’s still way too much.

**Friedman:** The only way you will bring it down, in my opinion, is by a wide-moving public opinion. I think the most promising thing on the horizon right now is the term limits movement.

**Rush:** AT&T has laid off 40,000 employees, and other companies have had similar sizeable layoffs. Senator Kennedy makes a speech to a democratic club in Washington, D.C., and he proposes that government bestow tax breaks on “good citizen” corporations, which do not lay off employees. My perception is that many will applaud his approach, because there has been a successful effort to demonize corporations. It’s a horribly wrong idea, putting the government in control of business—and it’s shocking to think how many Americans would support that.

**Friedman:** Just ask Senator Kennedy where the new developing businesses would get their employees if there were no layoffs. Let me put it another way. At the time this country was founded, 19 out of 20 people were on farms. It took 19 farmers to feed one other person. Today, 2 or 3 percent of the population are able not only to feed themselves and the rest of the population, but to export food. If there had been no layoffs in that time, you’d still have 19 out of 20 people on farms. Where would you have manned the great development, the great revolution in output and industry over the intervening 200 years? The only way you can get new companies established is by being able to hire people. And if nobody ever had any layoffs, there’d never be anybody for hire.
One more thing on the flat tax. The rate on the upper income groups might be less. But they would pay more tax. The evidence is overwhelming that every time the top rate has been reduced, the fraction of all taxes paid by wealthy people has gone up, not down.

**Rush:** That information is out there. Why some refuse to believe it is beyond me, but they do.

**Friedman:** It’s because of the difficulty of distinguishing between intentions and results. People talk about what they intend to do, but the contrast between intentions and results is universal. It happens in our own individual lives—New Year’s resolutions, for instance. I have often asked people if they can find any government program that has produced what its well-meaning sponsors intended it to produce. It’s very hard to find any.

**Rush:** You find the exact opposite. You find demonstrable failure. Let me ask you about NAFTA and GATT. Were you in favor of them?

**Friedman:** I was, as a second-best solution. The best solution would be to unilaterally eliminate all our tariffs, quotas, etc., and have complete free trade. But politically you’re not going to get that. NAFTA and GATT were at least a step in that direction.

**Rush:** Many feel they’re not working.

**Friedman:** Of course they’re not working. Nothing works exactly as specified or intended. The claims for them were overdone as they always are, but the objections to them were also overdone as they always are. The fact of the matter is, they have made a small contribution to the sharp rise in both our exports and our imports as a fraction of income. Total international trade has been rising, and it’s in small part due to NAFTA and GATT. But it’s due much more to the technological revolution which has made it possible for a company located anywhere in the world to use resources anywhere and sell its product anywhere. I wonder if people who talk about preventing imports of Japanese cars or things like that have ever considered what it means to say, “This is an American car.” If you examine that, you’ll
find that a large fraction of the cost of that car consists of ingredients that were bought from other countries. There is no such thing as an American car. Or for that matter a Japanese car.

**Rush:** Do you believe that we are headed to significant slowdown in economic activity, recession, perhaps?

**Friedman:** I don’t know. The record of economists in predicting such short-term changes justifies only humility.

**Rush:** You’re very wise; this has been worth a semester in college to me.

**Friedman:** Great talking to you. I think your public performances are serving a very important public function. Keep ‘em up.