

“Interview”

with Milton Friedman

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QUESTION: Dr. Friedman, will you give us your views on a voucher system of education and the value of having a free choice of schools?

FRIEDMAN: You are asking me, “Are you in favor of your child?” Yes, I am! I think the voucher system in education is enormously important. This system consists of an arrangement under which anybody who chooses to send his child to a non-governmental school can receive a voucher equal to part of what the government would otherwise spend on his behalf. It would not alter the taxes you are required to pay; it would simply enable parents to have some measure of choice over the kind of schooling their children get. It would not especially benefit the affluent, who can afford to pay “twice” for their children’s education (i.e., through school taxes and private school tuition.) It would benefit the poor in the ghettos who now have no choice but to send their children to governmental schools.

QUESTION: There is a current proposal to provide tax credits for parents who send their children to non-public schools. Could this be considered unconstitutional because it would provide aid to Catholic and other religious-oriented schools?

FRIEDMAN: Personally I believe that our present method of financing schooling is in contravention to the First Amendment of our Constitution. I think our present method is a violation of freedom of religion. Whose freedom is it violating? It’s not violating the freedom of those people who are able to pay twice and send their children to parochial and other schools, but it is fundamentally violating the religious freedom of those parents who would like to send their children to religious schools but are prevented from doing so because they can’t afford to pay for it. But if a voucher system did exclude religious schools, it would be the easiest thing in the world to make that inoperative in practice. All you would have to do would be to set up the same school as a nonprofit or as a commercial undertaking, take out the strictly religious activities of the school, and let those be conducted separately and independently as a Sunday school or after-school affair.

QUESTION: If you are interested in increasing the level of education in economics, from what base do you start?

FRIEDMAN: Let me go at that more fundamentally. The fundamental problem in education about economics is that you are trying to make a cat bark. Our educational system is predominantly a socialist system; it’s a governmental system socialist in character. Every system is going to operate according to its own structure; it has its own logic. How do you expect to have people who are in a socialist system teaching a philosophy of free enterprise? That’s the fundamental source of our problem. That’s one of the reasons why introducing a voucher system would indirectly promote a better understanding of economics because then the educational system itself would be constructed along free enterprise principles. You would have competition,

you would have a market, you would have alternatives, opportunities, and that demonstration itself in my opinion would do far more to promote a proper understanding of economics than any attempt to make the cat bark!

QUESTION: You have stated, Dr. Friedman, that you don't think government is worth 40% of our income. What percent do you think government is worth?

FRIEDMAN: It's hard to answer that question. But first, I know that the fraction of income now being spent through government is larger than desirable. Second, the beginning step in cutting it down is to stop it from continuing to increase. There is no objective standard as to what the percentage ought to be. That depends on how much you or I are willing to have done through government rather than other ways. If we look at the local community, in a small town there ought to be no limitation at all from a constitutional point. We are spending our own money on ourselves. But the larger the community — from the small town to the metropolitan city to the state to the federal government — the more it appears to people as if they can vote expenditures and have other people pay for them. Have you ever heard that wonderful comment by a French economist, Bastiat, 150 years ago that “government is that fiction whereby everybody believes he can live at the expense of everybody else”? Well, that's the fundamental problem!

QUESTION: How high do you think inflation will go this year and in the future?

FRIEDMAN: It's not too hard to say where inflation will be in 1978, because that's already largely determined. The rate of inflation in any year is largely a function of what happened to the quantity of money two years earlier. I have estimated that something like a 7 to 9% rate of inflation is what's probably in store for us in 1978. Beyond that in 1979 and later, whether it will be higher, and if so, by how much depends on the policies that are followed from here on out. All of this is not predetermined; we have a choice about the course of events. In my own opinion the likelihood is that sometime in the next two or three years inflation will get up to more than 10%.

Where we will go from there is more complicated. What has happened over the past several decades is that we have been on a roller coaster. Inflation rates have risen; when they get up to a high enough point, there's great public pressure to bring them down, they are brought down, then there's great excitement about recession and unemployment, and they are brought up again. But each peak is higher than the preceding peak, and each trough is higher than the preceding trough. Now we're on the upgrade of one of those roller coasters. The preceding peak was around 11 or 12%. If history continues to repeat itself, the next peak will be higher than that. Sooner or later the public will demand that it be stopped, and when that happens it will be stopped, because inflation is a disease that we know how to cure. What's needed is not the knowledge; it's the will. It's the political will and willingness to take the measures that are necessary to stop it.

Inflation is not produced by evil people; it's produced by you and me. It's produced by exactly the same political forces that have sent our government spending skyrocketing. It's because we say to government, “We want you to spend more and more, but we don't want you to tax more and more.” So Congress listens, it spends more, it doesn't tax more, and it pays for the difference by printing money. And that's why we have inflation!

QUESTION: I find income tax totally antagonistic to true free enterprise. Can we run the country without income tax?

FRIEDMAN: There's a sense in which all taxes are antagonistic to free enterprise ... and yet we need taxes. We have to recognize that we must not hope for a utopia that is unattainable. I would like to see a great deal less government activity than we have now, but I do not believe that we can have a situation in which we don't need government at all. We do need to provide for certain essential government functions — the national defense function, the police function, preserving law and order, maintaining a judiciary. So the question is, which are the least bad taxes? In my opinion the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago. The next least bad tax is a flat-rate tax on income above an exemption. If I could design my ideal tax system it would contain an income tax, but it would not be the kind of monstrosity we have now. It would be a flat-rate tax on all income, from whatever source derived, less only a personal deduction and strict occupational expense, and that kind of income tax I think would be the least inconsistent with a strong free enterprise system.

QUESTION: Dr. Friedman, you have been quoted as saying the Social Security tax is the worst tax on the books and should be abolished. What would you use as a substitute?

FRIEDMAN: There are different levels on which that question can be answered: one, dealing with the Social Security System as a whole; the second, dealing simply with the financing of present Social Security benefits, so-called, without going into the question of whether those benefits themselves should be changed. Let me limit the question to that second level.

First, you must understand that the Social Security system is not an insurance program. The taxes that people are paying under the system are not in any relevant sense financing the benefits they themselves will ultimately receive. The Social Security system is a combination of a bad tax and a bad expenditure program. I have never heard anybody who would defend either half separately, and taking two bad things and putting them together doesn't generally make something good. But combining the two, and giving the impression that the system is self-financing, tends to support the fiction that Social Security is really an insurance system. It's not an insurance system at all. What it is is a scheme whereby people today are paying taxes today to provide payments and benefits to other people today. There is a relationship between the amount beneficiaries receive and the amount they themselves pay, but that relationship is very small. Insofar as there is that relationship, you can justify an element of payroll tax; but insofar as a large part of Social Security benefits are properly to be understood as subsidies, welfare payments, there is no justification for financing them out of a payroll tax. In my opinion, if you are going to finance them, they should come out of federal revenues.

Now you will say to me, "Oh, but that's terrible. Does that mean that you're proposing that we increase other taxes?" No! Let me go back to the fundamental principle: Government is going to spend whatever the tax system will raise plus a little more — lately a good deal more. The only effective way to keep down government spending is to keep down the amount of money available to government to spend. There is no other way you can do it. The effect of giving the impression that Social Security is an insurance system by using the payroll tax, and implying that what each individual pays is linked to what he receives — the effect of that has been to make the American people willing to bear a larger tax load than they otherwise would bear. I argue the

other way: Reduce taxes whenever you can! Remember my main point that the deficit is not the thing to worry about. What you should worry about is total spending. If you reduce the payroll tax and throw the burden on the general tax level, that will be an effective way of stopping even worse programs.

QUESTION: Can you give us your concept of the welfare situation today?

FRIEDMAN: There is only one word to describe the welfare situation and that's one of our famous four-letter words: MESS! The so-called welfare program is a collection of a large number of separate programs in which most of the money that is spent does not go to the people whom you would like to get it. The major beneficiaries are intermediaries — the bureaucrats who administer it, the agencies or organizations that benefit from it — and that is also the major obstacle to reform. Have you read the book by Pat Moynihan, presently senator from New York, on what happened when President Nixon through Moynihan proposed a reform of the welfare program that would have involved a kind of negative income tax? Moynihan describes in that book the combination of forces that defeated it, and he attributes the major force to the welfare bureaucrats who understandably did not want to lose their jobs. They persuaded themselves that what's good for them is good for the country and therefore the right thing to do. So I'm not very optimistic about a substantial improvement in the welfare mess. As of the moment we have too many separate vested interests that have a great deal at stake.

QUESTION: Dr. Friedman, do you believe that we should have an audit of the gold in Fort Knox?

FRIEDMAN: No, I believe we ought to sell off the gold in Fort Knox at a public auction at the highest price we can get. I do not see any reason why the storage of gold should be a nationalized industry. I believe private people should be free to own gold to do whatever they want with it. I do not see any justification for the U.S. government having a large stock of gold in Fort Knox. You might justify a small, strategic reserve, but beyond that I see no justification.

Don't kid yourself into thinking that we're going to have a gold standard again. My remarks are not to be interpreted as saying that an honest gold standard might not be a good thing; it might be. The kind of gold standard we had in the 19th century had something to be said for it, but we haven't had that kind of gold standard since 1914 and we aren't about to have it again. Therefore, in my opinion, the right thing to do with the gold in Fort Knox is to auction it off to the highest bidder.

QUESTION: Do you believe we should have an audit of the Federal Reserve System?

FRIEDMAN: If you are going to ask me about the Federal Reserve System, my ultimate solution is to abolish it and that would eliminate the necessity for an audit. But that isn't going to happen tomorrow. The problem with the Federal Reserve System is that it is following the policy which Congress imposes on it, and in my opinion what we want is not a more independent Federal Reserve System; what we want is to require Congress to be responsible for setting forth more specific rules for the conduct of monetary policy. I believe we need a more responsible monetary policy and I do not believe that an audit of the Federal Reserve System would in any way contribute to that more responsible policy.

