

“What is America?”\*

by Milton Friedman

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My lecture today is one of a series which we are giving as part of a television program that I will tell you about later. It is not chronologically the first I am giving but it is logically the first in the series, because I wanted the series to start out at the University of Chicago which is truly where it intellectually started and where its intellectual origins are.

With respect to that title, which I admit leaves you wondering what it’s all about, including me, I’ll tell you what I really had in mind. The title had to do with the question of whether America, by which I mean the United States of America, I mean our society—whether America is what it was, whether America is the land of opportunity which produced over the past two hundred years the greatest freedom and prosperity for the widest range of people that the world has ever seen, whether it still is the land in which people of many races, many beliefs, many origins, are free to cooperate together to achieve their separate objectives while at the same time retaining a diversity of values and opinions. Is that still America, or is America what it has seemed to be becoming these past few decades? Is America not what it has been, not the land of promise of the past two hundred years, but is it instead a land of growing bureaucracy and diminishing freedom? Is it a land of squabbling groups seeking to control the political levers of power, of divisive tendencies that are producing not merely variety, not merely diversity, but open conflict? Is it becoming instead a land of ethnic separatism rather than the land of the melting pot? That’s what I intended by this question and that is the theme of the whole series.

I believe the choice is still open to us, that we can still decide, you and I and our fellow citizens, which of these two directions we want to go in—whether we want to return to the path that made this the great land of opportunity for millions and millions and millions of people, or whether instead we want to continue down the road toward a destruction of both liberty and prosperity. I believe very deeply that we are nearing the point of no return, that we still have the choice, but that if we continue much longer along the road that we have been going we no longer shall have the choice, that we shall degenerate into a society which will lose that spark of creativity, that spark of independence, of freedom that we have all loved in our country.

In this lecture I want to touch briefly on the achievements of the United States and the problems it faces, and then probe more deeply into the fundamental principles that in my opinion we must rely on to get back on the right track. In other lectures of this series I shall consider other general topics but also specific problem areas. As I say, chronologically this is not the first, but logically it is.

If you look at the achievement of the United States, I think the most dramatic example of it is in the field of agriculture. If you go back to the founding of this country in 1776, something like 80 to 90 percent of the people were on farms. It took eight to nine people working full time—12, 16 hours a day—to feed themselves and their families and perhaps one other person. Today, fewer than 5 percent of the American people are on farms. One person today can feed himself and his

family and nineteen others and their families, and also have a great deal left to export abroad. That is really in a nutshell the miracle of America.

In the modern idiom, if you say what made that possible, the first tendency of somebody would be to say, “Well it must have been that there was a pretty smart and far-sighted government that was directing people what to do, that organized people’s resources.” But you and I know that the countries in the world where they have that kind of government organizing their agriculture still have 40–50 percent of the people on farms and indeed are relying on us to feed them. And you know and I know that certainly for the first 150 and more years of this country’s existence government played a negligible role in this process. After all, until 1928 total government spending in this country never exceeded 10 percent of the national income. Total Federal government spending never exceeded 3 percent of the national income, and most of that was for the army and navy. Of course government did play an important role in providing a framework within which individuals could pursue their own values and their own interests. It even contributed in some ways to agriculture in particular through things like extension service and the land-grant colleges, but surely the major source of that enormous achievement was simply the fact that people were free to pursue their own interests in their own ways without interference from government.

That’s the most dramatic and obvious exemplification of this miracle that was America, but you can look at it in a more general way. Here, over the nineteenth century, into the twentieth century, this country welcomed millions and millions of immigrants. I suspect that most of the people in this room today are descendants—first generation descendants as I am, second or third generation descendants—that most of the people in this room are descendants of those immigrants who came to the United States from foreign lands with empty hands. I suppose there is a substantial exception because I see a good number of you who are citizens of other countries and you are not descendants of those, but you are the modern wave that we ought to be welcoming as immigrants in the same tradition as the tradition which enabled the rest of us to get here.

We had a flood of immigrants, of millions of them coming to this country. What brought them here? It was the hope of a better life for themselves and their children, and in the main they succeeded. It is hard to find any century in history in which so large a number of people experienced so great an improvement in the conditions of their life, in the opportunities open to them, as the period of the nineteenth and early twentieth century. What was the source of this great achievement? Well, as has already been implicit in what I have said, the first and most important source was a set of values, a set of institutions that left people free to pursue their own interests according to their own lights.

But there was another factor of enormous importance that we no longer have today in the same degree, and that was the existence of two oceans that enabled us to follow George Washington’s excellent advice to steer clear of foreign entanglements. And that certainly played an enormous role in enabling us to have those institutions and those arrangements that could let people develop their capacities. The result of these two factors together was that tremendous growth in production of which I have already spoken. The freedom from foreign entanglements, the fact that we could devote our attention to our domestic problems, and the free institutions promoted

an outpouring of initiative, of innovation, of invention in every area. That's the achievement of the United States.

What is the basic problem of the United States today? The problem is that we are threatening to strangle this promise by government interference. Let me take as one example the feature I have already spoken of, free immigration. I have always been amused by a kind of paradox. Suppose you go around and ask people: the United States, as you know, before 1914 had completely free immigration; anybody could get on a boat and come to these shores, and if he landed on Ellis Island he was an immigrant—was that a good thing or a bad thing? You will find hardly a soul who will say it was a bad thing. Almost everybody will say it was a good thing. But then suppose I say to the same people: but now what about today, do you think we should have free immigration? “Oh no,” they'll say, “we couldn't possibly have free immigration today. Why that would flood us with immigrants from India and God knows where. We'd be driven down to a bare subsistence level.” What's the difference? How can people be so inconsistent? Why is it that free immigration was a good thing before 1914 and free immigration is a bad thing today?

There is a sense in which that answer is right. There is a sense in which free immigration in the same sense as we had it before 1914 is not possible today. Why not? Because it is one thing to have free immigration to jobs, it is another thing to have free immigration to welfare, and you cannot have both. If you have a welfare state, if you have a state in which every resident is promised a certain minimum level of income or a minimum level of subsistence regardless of whether he works or not, produces it or not, well then it really is an impossible thing. If you have free immigration in the way in which we had it before 1914, everybody benefitted. The people who were here benefitted, the people who came benefitted, because nobody would come unless he or his family thought that he would do better here than he would elsewhere; and the new immigrants provided additional resources, provided additional possibilities, for the people already here. So everybody could mutually benefit. But on the other hand, if you come under circumstances where each person is entitled to a prorated share of a pot—to take the extreme example—or even to a low level of the pot, then the effect of that situation is that free immigration would mean a reduction of everybody to the same uniform level. Of course I'm exaggerating. It wouldn't go quite that far, but it would go in that direction. And it is that perception that leads people to adopt what at first seem like inconsistent values.

Look, for example, at the obvious, immediate, practical case of illegal Mexican immigration. That Mexican immigration over the border is a good thing. It's a good thing for the illegal immigrants, it's a good thing for the United States, it's a good thing for the citizens of the country, but it's only good so long as it's illegal. That's an interesting paradox to think about. Make it legal and it's no good. Why? Because as long as it's illegal the people who come in do not qualify for welfare, they don't qualify for Social Security, they don't qualify for all the other myriads of benefits that we pour out from our left pocket into our right pocket, and so, as long as they don't qualify, they migrate to jobs. They take jobs that most residents of this country are unwilling to take, they provide employers with workers of a kind they cannot get—they're hard workers, they're good workers—and they are clearly better off. If you ever want to know what people prefer, the surest sign is how they vote with their feet, and there is no doubt how the braceros vote: they vote to cross the border with their feet, on their feet, or in any other way they can—by the thousands and perhaps millions for all I know.

Illegal immigration is fascinating because it shows not only the main point I am trying to bring out now: how interconnected are the various aspects of freedom, how interconnected is the problem of governmental arrangements for welfare and governmental arrangements for immigration and other things. But it shows a very different point that's kind of a digression, and that is how bad laws make socially advantageous acts illegal and therefore lead to an undermining of morality in general. This is an obvious example. So long as the migration from Mexico is illegal it's socially advantageous; it's doing everybody good. But there are many, many other examples. The standard example of economists, of course, is tariffs or price controls. If you have tariffs, smuggling is performing a socially virtuous and valuable act. And so you have smugglers who are now criminals, but they are people who are doing something that is good for everybody. Again you can go on and on. Price control and wage control have exactly the same effect, and so on down the line. If you have bad laws you create a situation in which it is socially virtuous for people to break them, and this in turn breaks down respect for laws in general and plays a not negligible factor in my opinion in the decline in the attitude toward law obedience and morality in recent decades.

Let me go back to my main theme because I want to show how important these things are by a very simple and personal illustration. If the United States in the 1890's had had the laws that we now have, the laws supposedly to protect the worker, supposedly to protect the poor, if I existed at all today I would be a citizen of the Soviet Union. That's not a prospect I would have relished. But my parents immigrated here in the 1890's, they were in their teens—my mother was 14 and my father was 16 or 17. They were able to immigrate here—why? Not merely because we had free immigration, but also for example because we had no minimum wage laws. Had there been minimum wage laws, there would have been no jobs for them to take. Minimum wage laws, like so many of these other interferences, though enacted in the name of helping the poor, in fact deny the very poorest opportunity. And you can go down the line. There would have been no entrepreneurs willing to provide employment under the only kinds of conditions and with the only kinds of jobs that they were qualified for. Now of course it's a very hypothetical thing, because if they couldn't have immigrated to the U.S. they might not have met over in Carpatho-Ruthenia where they came from, and if they had met in Carpatho-Ruthenia they might not have gotten married, and if they had gotten married they might not have conceived me, and if I had been conceived—and you can go on with all the rest of the ifs. But had I survived, that particular area which was at that time part of Austro-Hungary, later of Czechoslovakia, is now part of the Soviet Union.

Can we get back on what I regard as the right track, or have we been through a golden age? You know, I have always been fascinated by the story of golden ages in history. The fascinating thing about them is how brief they are. If you go back to the golden age of the fifth century B.C. in Greece, or go back to the golden age in Rome, or go back to the several Elizabethan golden ages, or to the Renaissance, in each case you have the same kind of phenomenon, a tremendous efflorescence, a flowering of culture, of art, of industry, of architecture, of what-not, for about 75, 100, 125, 150 years and then somehow or other it all disappears. It's the same people, the same Peloponnesian peninsula, same land that was there before the golden age came and that is there after the golden age disappears.

Have we been going through such a process? Was the nineteenth and first half of the twentieth century our golden age? Are we on the way down? Or is there still a possibility of our being able

to resume and have a renewed, a second, a repeated golden age? We have many great assets. We have the asset of great wealth accumulated as a result of 200 years of a large degree of freedom, we have enormous diversity in our population, we have great springs of initiative, and we have another feature that I can best bring out by referring to a crack that our chairman, George Stigler, made some thirty years ago.

Shortly after the war, he and I and as it happens a third person in this auditorium travelled together to Europe to attend a meeting in Switzerland. It was our first time in Europe, or his and mine, and we spent two or three days in England, in London, and two or three days in Paris, and then—you know, George is quick in learning—as we left Paris George remarked, “You know,” he said, “I’ve discovered the fundamental difference between the English, the French, and the Americans.” I should say we had been very much impressed in Britain by the extent to which England was being strangled by the law obedience of its people and the queues were everywhere, and so on, and we were impressed in France by how rampant the black market was. And so George’s conclusion was, “You know the fundamental difference is this: the English obey all laws, good, bad or indifferent; the French obey no laws, good, bad or indifferent; the Americans obey the good laws.” Now there’s a very important element of truth in that, because there probably is no more fundamental defense against tyranny than the ingenuity of the people in finding ways around laws that they don’t agree with. Our masters found that out when they tried to prevent people from drinking hard liquor, and the American people demonstrated their capacity. That is really an enormous source of strength and it’s in fact, I must say, my own main source of optimism.

But we also have great liabilities in trying to restore a new golden age. We already have gone very far in the direction of restricting our freedom. I need not go into all the details, but all of you are aware of the many ways in which you and I are not free to control our own lives in accordance with our own values. And there is a tremendous tyranny of the status quo. Each one of us will be very, very negative about the restrictions on freedom except for those that benefit us. Now that’s a different story. It’s far easier to get a law into effect than to repeal it as we’ve all found out, because you always establish vested interests which it is very hard to overcome.

So it’s not by any means an easy task but I think, and this is what I really want to talk mostly about today, to get back on the track we need an understanding of the real nature of freedom, economic and political and the interrelationship between the two. We need really to have a greater understanding than these general comments I have so far given of the kind of system, the kind of principles that have enabled us to get this great achievement of the past 200 years. We need to understand how it is that a free market works to enable millions of people to cooperate peacefully together.

I know no better way to bring this out than by a very simple example that I owe to an old friend of mine, Leonard Read, who once wrote a little article called “I the Pencil.” This is the only prop I have for this TV show; as you can see it’s a plain yellow pencil. Said Leonard Read in his article, “You know it’s a funny thing,” he said, “there’s nobody in the world who knows how to make a pencil.” Now that seems like a silly thing to say, isn’t it? This is just the most obvious thing. It’s only a piece of wood with something black in the middle and a little red tip at the end.

What do you mean, nobody knows how to make a pencil? Well suppose you were to start to set out to make a pencil. First of all you have to get some wood, don't you? Where do you get the wood? You have to go to the Pacific Northwest probably and cut down some trees. How do you cut down some trees? You have to have some saws to cut them with. Where do you get the saws? You have to have some steel. Where do you get the steel? You have to have a steel mill. In order to have the steel mill you have to get the iron ore, and you can add all the rest. So in order to know how to make a pencil, you would have to know everything there is to know about how to start from iron ore in coal and get iron and convert it into saws and cut down trees.

But that's only the beginning. This black stuff in the middle that we call lead isn't lead. It's graphite I think, I'm not absolutely sure, and I'm told it comes from some mines in South America. So in order to get that black stuff in between, you would have to take a trip down to South America and know all about how to extract graphite from the mines in South America.

This little red tip at the top, that's rubber. Where does it come from? Well, the major source of natural rubber is Malaysia. That's quite another distance, and I don't know how many of you know that the rubber tree was not native to Malaysia. It was originally imported into Malaysia by private enterprises trying to make some money. They transplanted it from somewhere in South America—I think it was Brazil but I don't guarantee that—and they brought it into Malaysia, established the plantations there, and got this rubber. So somehow or other, in order to make a pencil, you would have to know about the rubber.

There's a little brass tip around here and I have run out of my own technological knowledge. I don't have the slightest idea where that comes from, though there are probably people in the audience who could tell us.

Nobody knows how to make a pencil, but the miracle of this pencil isn't that nobody knows how to make it. The miracle of the pencil is how did it get made. Who told that fellow over in Malaysia to tap his tree and send a little bit of rubber over here to put at the end of this pencil so I could have a pencil in my hand? What is it that has enabled this little elementary transaction to take place? I'm not sure what the price of this thing is nowadays; these things change so fast. When I first started hearing about this story, it was a nickel pencil but that won't do anymore. It's probably two for a quarter or 15 cents apiece. But what happens when I go down to the store and I put down a quarter and get two of these pencils? I am trading with thousands of people all over the world, people in Washington State who are cutting down trees, people in South America, people over in Malaysia—I'm making a deal with them. I'm saying to them indirectly, "I'll give you two minutes of talk for two of these pencils." In fact I hope I've underpriced myself in that calculation.

How is that brought about? Is there some commissar sitting in some central office who is sending out orders to these people in Malaysia, to these people in South America, to the people in Washington? How is it that they are led to cooperate with one another? That's the miracle of the price system because, of these thousands of people who have been led to engage in this simple transaction with me, not one of them has been forced to do it, nobody has had a gun to his head, they've all done it voluntarily. Why? Because each one of them thinks he's better off in this transaction, and somehow or other I've done it because I think I'm better off. Everybody is benefitted, there has been no central direction. These people who have cooperated with one

another don't speak the same language, they are people of all different religions, they may hate one another in every respect, but this hasn't prevented them somehow or other from being led to cooperate together. It hasn't prevented some kind of wonderful machinery from bringing together these various components altogether into this little pencil.

What is that machinery? What is it that has induced people to do this? How has it been brought about? That machinery is the price system, that machinery is what the story is all about, that machinery is what enabled the United States to develop as it did, because it's this price system which has the great virtue that it doesn't require any central direction, it doesn't require any commissars, it doesn't require people to be able to talk the same language, it doesn't require people to be of the same religion. In fact, the beauty of the price system is that when you buy this pencil you have no idea of the religion of the people whose work went into it. When you buy your daily bread you don't know whether the wheat was grown by a black man or a white man, by a Chinese or an Indian or anybody else, and as a result the price system enables you to have cooperation among millions of people peacefully, cooperating on one little phase of their life while each one goes about his own business in respect of everything else. It works so well, it works so efficiently, that ordinarily we are not aware of it. It's like your car. It never occurs to you what a complicated business it is until three o'clock in the morning on a dark road it stops functioning, and then you suddenly realize it's a complicated mechanism. And it's the same way with the price system. So long as it is working, so long as it is operating, so long as it's bringing people together, it doesn't even occur to you that it is this kind of complicated mechanism.

How is it that it achieves this bringing of people together? Fundamentally at bottom, the essential idea of the price mechanism is that both parties to a transaction can benefit provided it is voluntary and not coerced. There is a terrible tendency, and most economic fallacies derive from that tendency, to think of everything as what the game theorists have come to call a zero sum game, to think there's a fixed pie, and if I get more you must get less. If somebody was able to make a fortune for himself, he must have done it by grinding under his heel the poor people because the pie is fixed and he takes a bigger part. The great insight behind the free market, the great insight of Adam Smith's great book *The Wealth of Nations*, was that it is not a zero sum game, that it is possible for both people to a transaction to benefit, and that this insight can be used to organize people's activities over a very wide area. It's very easy to see that principle operating if you think of two people under any circumstances making a voluntary deal—I'll trade my penknife for your roller skate. Clearly that isn't a deal unless both people are better off. It's much harder to see how that same principle is involved in the far-flung transactions that went into making this pencil, and yet the same principles are there.

The price system operates in this way because it doesn't require orders. It operates in this way because it can transmit information in a very efficient way without any person having to send an order. What happens if you or the rest of us want to get some more pencils? The people who are manufacturing pencils suddenly discover that they are making some money and they say, "We better make some more pencils." Nobody has told them about that, they've just discovered it down at the corner drugstore, and they in turn send out some orders to people who are producing the wood, to people who are producing the rubber. The effect of this is to raise the prices a little all the way down the line for the particular items in demand, and that higher price becomes a signal to people all over the world that there is a greater demand, a greater desire, for this particular object.

The beautiful thing about that signal is that the information is transmitted in a very efficient way, because only the important item is transmitted. The people who are in the market for producing wood don't have to know why more wood is demanded, they don't have to know whether the demand for pencils has gone up because there have been 14,000 more government regulations that have to be filled out in pencil or whether maybe the demand for pencils has gone up because the Post Office has said if you address your letters in pencil we'll only charge you a 13-cent stamp. They don't have to know why there are more pencils or whether it's because there is a baby boom and more children are going to school and writing. All they have to know is that somebody is willing to pay a little bit more money for some more wood and some more graphite and some more rubber. That information is spread, and the only people who have to know about it are the people who are in a position to provide the additional wood or the additional graphite or the additional rubber. So the information is transmitted economically and efficiently, and it's transmitted to those who need it from those who need it.

In the second place the information combines with it an incentive to act on the basis of that information. It's no good sending out a message to people, "we need more wood but we're only going to pay you the same amount we did before"; you're not going to get anything out of it. Well, so you need more wood, fine. That's the end of it. The beauty of the price system is that along with this information, and this is the second stage, goes an incentive to act on the basis of it because the man who is selling wood, if the price has gone up a little, he figures he can make a little more money in that way, and so he has an incentive to act on it. And that incentive is there because his income is ultimately going to be determined by the prices of the things he sells.

The price system can operate to coordinate the activities of millions of people around the world because it combines three functions: the function of transmitting information, of providing an incentive for people to act on the basis of that information, and last but not least, a mode for distributing the product of that activity. These three are enormously important but it's very tempting to try to separate them. Most great schemes for social reform come hoist on the attempt to separate them. I remember once being at a conference which brought together economists from the East and economists from the West, economists from behind the Iron Curtain and economists from the West, and there was a brilliant economist from behind the Iron Curtain. This fellow had all by himself rediscovered Adam Smith. That was a pretty brilliant thing to do, Adam Smith was a pretty brilliant fellow, but the one thing that stopped him—and this was someone from Hungary as it happens—was that they kept trying to figure out how they could get the benefits of the first two functions of the price system without the benefit of the last, how you could get the benefits of the information and the incentive effects of the price system without also using it to distribute the income. You will see that I have come back full circle to my paradox about immigration, because that's exactly why, in the modern kind of welfare state, free immigration is not really feasible because in that kind of state we have gone too far in eliminating the function of the price system for distributing the income as well as providing information and incentive.

In any event, the main point I want to bring out is that this is the way in which the market system works. It's a system—people tend to think that you can only have a system if some human mind designs it, if some single person controls it, that it's otherwise disorganized, chaotic. That's the usual word, the chaos of the price system. But if you let your mind go over this simple example



and see how you have organized these many people around the world, you will see that it is really a system not simply chaos, and a system which has laws of its own, dynamics of its own.

The typical thing that we always say when we talk about organizing economic activity is to say that there are two ways of organizing economic activity, command—the method of the army—or voluntary exchange—the method of the market. That’s really false as a practical matter. In practice, with any complicated modern society, it is simply impossible to organize it by command. There is no cybernetic system, there is no computing system powerful enough to enable somebody at the center or however you decentralize it through command to control the last detailed activity of everybody along the line.

You know that one of the standard devices for labor disputes is to throw the rule book at the employer or, as they sometimes say, to work according to rule. You simply instruct the workers, “You follow every single rule in the rule book precisely in detail.” That’ll bring any factory in the world to a halt. You cannot dispense with the separate knowledge and interest of the people at the bottom of the line.

We are all members of families, and the standard example that is ordinarily given about the simple command economy is the family. It used to be the father; it’s now the mother who is in control. All of us have been in families and you know you really can’t organize a family by command; you have to do it by voluntary agreement.

I don’t know how many of you have read Hedrick Smith’s splendid book on the Russians, but he discusses the Russian economy. There’s a case in which command has been carried perhaps to its highest extent in any country in the world, in any society in the world, but as he points out, mostly Russia is really organized through voluntary exchange of one kind or another. As you all probably know, to go back to my first example of agriculture, something like 3 percent of the arable land in the Soviet Union is in small private plots. The statistics are that something like a third of all the food of the country comes from that 3 percent of the arable land. I’m not saying it grows on it. I suspect it comes through it. The Russians are not without their ingenuity in getting around systems, too. But much more beyond that, Smith points out that if something goes wrong with your electric light fixture, the last thing you’ll do in the world is to call the government organization for the repair and maintenance of light fixtures. You will instead find a moonlighting fellow who will come around in the evening and for a private side payment fix your electricity, otherwise you’ll be without electricity for an indefinite length of time. There is a flourishing voluntary exchange economy but even more than that, within the factories, within the governmental arrangements, all the way down the line, you have to rely on people using their own initiative. In fact there is only one way in which any complicated society can be organized. But there is an enormous difference between a system in which that is permitted to be the dominant way and a system in which that way has to overcome the distorting influences of the commands. What you have in every society is fundamentally the use of voluntary exchange at the bottom but if it is accompanied by an excess of attempted command, the combination of the two is tyranny and misery. The command produces a tyranny and the most that voluntary exchange fighting against those commands can do is to prevent the misery from being absolute. It at least relieves the misery a little and allows the system to operate.

Let me close by emphasizing that I have been discussing the role of the market and of free exchange, the role of freedom, economic freedom, and its connection with political, human, religious freedom. The point I'm making about the market enabling you to separate the economic activities from the other activities is what's essential to the maintenance of political and social freedom. I am emphasizing that because I think that's what we need more of. I'm not arguing that government does not have a role; of course it does. I'm not an anarchist, but I am persuaded that the problem of our society today is too much government not too little. Indeed I am persuaded that government is failing to perform the functions which it alone can perform because we are trying to have it perform functions which it cannot perform. In Walter Lippmann's phrase, which I may say goes back to the 1920's, we are an over-governed society. I believe we can get back on the right track only as the public at large comes to recognize that the direction we have been going in is a false direction, a direction that will lead us not where we want to be but where we do not want to be, and that we can get back on the right track only by stopping and then reversing that trend. Thank you.

### Questions and Answers

**SPEAKER:** How would you reconcile your advocacy of open immigration with your support of a negative income tax program which would in effect have a minimum income for every American?

**FRIEDMAN:** That's a very good question because, of course, in that form they are incompatible I agree, and that leads back to the question of the negative income tax. If you were starting from scratch, if you did not have any welfare programs at all, if you were back in the situation when you did have open immigration, I am very dubious that I would be in favor of a negative income tax. I am not in favor of a negative income tax as a good thing in and of itself. I am in favor of it as superior to the present welfare mess and as a way in which we can possibly move from where we are now to a situation under which you could have open immigration.

I agree, today you could not have open immigration. You could not have open immigration because do have essentially a guaranteed minimum income, whatever you call it. You have a guaranteed minimum income in the form of a large number of very varied and different kinds of programs whether you include food stamps, Aid to Dependent Children, SSI, and so on. They are a mess. They mean that people who are in the same position may get very different benefits depending on how many programs they can qualify for. It means that many people have a strong incentive not to work and that by working they only make themselves worse off, and so on down the line.

At the same time, you cannot abolish all those programs overnight. You have some millions of people whom you have led to become dependent on those programs. If you hadn't had the programs they wouldn't have been dependent, but there they are now; you cannot simply turn your back and say, "We're going to pull out the rug from under you." You have to have some kind of transitional device. I have always viewed the negative income tax as a way in which you could have a program that would be far superior to the present structure in that it would help people who are poor because they're poor, it would help them in a way which would retain an incentive for them to work, and at the same time, over time you could gradually get out of the business by holding the amounts relatively steady while the economy grew and grew away from

them. And then if you started in that direction, maybe you could eventually come to a position where it would be possible to have free immigration.

**SPEAKER:** Thank you.

**SPEAKER:** Mr. Friedman, how much government intervention do you think is necessary to prevent the rise of monopoly and oligopoly under the free enterprise system, or would it take care of itself?

**FRIEDMAN:** I believe if you examine the sources of monopoly and oligopoly, you will find that almost all those sources are government intervention. I think the situation is almost precisely the reverse. Let me put it in a very simple way. Suppose I were to ask this audience my favorite question along these lines: you have one law you can pass, its only purpose is to reduce the extent of monopoly—that's its only purpose, you have one law—what law would be most effective in achieving that end? What law would you pass? I don't mean any gimmicks. It's not going to be something in which you can have a law with four thousand different parts. I'm not asking you a very complicated question. What would you do?

**SPEAKER:** Limit the size of the market that they could ...

**FRIEDMAN:** Well, that's one proposal, the limitist proposal. But you will agree with me, I'm sure, immediately that mine is the much better one, and that's free trade. Eliminate all tariffs and all restrictions on foreign trade and you enable the world to come in as competition to prevent domestic monopoly. Wouldn't that do a great deal more good in preventing monopoly than would a limit on the size of enterprises, with much less restriction in human freedom?

**SPEAKER:** Hmmm huh.

**FRIEDMAN:** If you ask yourself where do monopolies come from, in the United States the most important and the strongest monopolies are unquestionably those that derive from governmental privilege. The monopoly of a TV license, granted by the government at a zero price—that's a source of monopoly privilege. It also has been a source of wealth for some notable Americans. The grant of a tariff protection—would the steel industry in the United States have any kind of monopoly or oligopoly position if it weren't able to get government to impose restrictions on imports of foreign items and so on? Trade union monopolies; they get their strength and their support from the Davis-Bacon Act, Walsh-Healey Act, other governmental measures that interfere with competition by others. It's very hard and in fact I have tried to consider, and George Stigler is a greater authority on this than I so maybe we ought get him in to add to this, what private monopolies there are that have been able to maintain themselves over any long period of time without government assistance, and I have myself only been able to construct two. One is an international one, the DeBeers diamond monopoly. I don't understand it and maybe George can tell us the answer, but it has been successful over a very long period. And the second was the New York Stock Exchange, not more recently because since 1934 it's had the help of the SEC, but before 1934, from about the Civil War to 1934, so far as I know it had no government support and yet it did maintain an effective monopoly. But almost every other case you have temporary monopolies developed, and if the government doesn't come in to shore them up they fall to pieces. The railroads became a monopoly only because they were able to get the

Interstate Commerce Commission established. Trucking is a monopoly because the ICC keeps out competitors, and you can go down the line and find that one hypothetical monopoly case after another derives from governmental assistance and support. So I think the answer to your question, and you and I have the same objective here, is less government intervention not more.

**SPEAKER:** Mr. Friedman, in your talk earlier you mentioned about government in the early part of America's history as being a framework within which we can interact and trade. You also mentioned an important fact that we had other factors that made that framework, our isolation from the rest of the world, and the oceans, and everything. Now bringing that up until today, you're still saying that the government's only function, or major function, should be to be a framework. But now since we do not have those isolating factors, shouldn't the government's role in maintaining the framework be much greater and include protective tariffs and immigration laws?

**FRIEDMAN:** Why?

**SPEAKER:** Because ...

**FRIEDMAN:** I can see why the government ought to maintain, would have to maintain a larger military and defense force, but why should we maintain protective tariffs?

**SPEAKER:** Because that function was carried out by our geography before.

**FRIEDMAN:** Oh no, no, no-no! As a matter of fact, the one area in which we did have a good deal of intervention in the nineteenth century, which did us harm, was government protective tariffs. We did have those in the nineteenth century, and it is true, of course, that geography by imposing costs of transportation did sort of give small protected areas. But that was not a source of strength but of weakness. One of the great virtues of the improvements in communications and transportation is that they have fundamentally reduced the area of possible monopoly. Now that you can draw on the whole world there are many more possible sources of competition, and therefore, in a way, it's almost the reverse. At a time when we had poorer transportation, poorer communication, there were many more cases of possible local monopoly that might have justified doing something to try to break them down. Now the problem only arises if you can argue that these measures are essential or necessary to enable us to defend ourselves against foreign enemies and, of course, that argument is made, but you have to distinguish excuses from reasons. If the steel industry did not have the excuse of military defense, I guarantee you they would find another excuse to try to get protective tariffs and import quotas. It would be far cheaper in almost every such case to provide for our military needs by stockpiling than it is to do so by tariffs and maintaining an expensive domestic industry.

**SPEAKER:** My problem with that is, how is it going to work with a worldwide economic community—I guess it was what? Free trade in the whole world?—when there isn't one framework for the entire world being presented but many different ones with different viewpoints?

**FRIEDMAN:** Well, we fortunately cannot—although we sometimes act as if we could—do much about the frameworks of other countries. They have to go their own way; we ought to go our way. If other countries interfere with free trade, that hurts them, it hurts us, but we only hurt

ourselves even more if we then impose restrictions in response to it. That's the fallacy in the kind of arguments you hear from the steel industry and the like. They say, "Well that's okay, we believe in free competition provided the other country is also engaging in free competition." I can sympathize with them as individuals and human beings but Adam Smith two hundred years ago demonstrated the fallacy of that argument, and there's nobody who has restored it since. If Japan wants to make us a gift by taxing its citizens to send us cheap steel, why should we be so stupid as to refuse the gift? Yes sir?

**SPEAKER:** Mr. Friedman, I very much enjoyed your example about the pencil, but it raised a very serious question in my mind in that there's only so many trees to get that pencil from and there's only so much steel to be mined. Now how would a free enterprise system go about creating more trees? They only grow so fast, or steel can only be discovered ...

**FRIEDMAN:** That's a very, very good question. I remember once, about 15 or 18 years ago, I was on a private farm in which they were planting a crop which was going to have a yield a hundred years from date. That crop was trees. It was a farm in Sweden which was a tree farm, and they were planting trees, and they were doing it for private enterprise purposes. And now you will say to me, "How in the world can the market do that? There's nobody who is going to live a hundred years." Ah, but if I plant a tree and it's one year old, its value will be a little higher than if it isn't there at all. If it's two years old it will be worth still more; if it's three years old it will be still worth still more. So I as an individual planting those trees don't have to look to my length of life. I am creating value every year as those trees mature, and the closer they come to the time when they can be used for the purpose of making pencils the greater the value they have. So I have a strong incentive to invest in those trees.

When it comes to the time when I want to use that money that I have been saving and accumulating—I say money, I mean those resources, those physical assets—I will sell it to somebody else. Maybe he'll hold it another five years. In the same way, if you go back to the tree example, if you own a tree farm, how fast does it pay you to cut it? Does it really pay you to cut it down to the ground right now? Not at all. That depends on what's going to happen to the price of wood in the future. The price system is a very subtle and sophisticated thing because it also gives you information about whether you should save things for the future. If it looks as if something is going to be very scarce, then it will be to your incentive to hold on to it and not to let it go, and that will drive up its price immediately, and that will give people an incentive today to consume less of it. Take trees. The fact is that the total amount of trees is not finite. The total amount of trees is infinite because you can plant them, you can grow them, you can harvest them, and unless I am mistaken there are more trees being harvested today than there were 50 or 75 or 100 years ago. The volume of wood production has gone up not down.

If you'll pardon me, you're involved in the same mistake I mentioned before of the fixed pie idea, the zero sum game idea. There isn't a finite amount of trees out there. How much trees it will pay people to grow depends on what they expect the future demand for trees to be. If somebody discovers some way of having a substitute for trees that is half as expensive, then the forest will disappear for that purpose. If on the other hand trees become more valuable, well then they will be planted and grown. The same thing with iron ore and other things. You know, this kind of nonsense that you hear from the Club of Rome and similar engineers about finite physical resources setting a limit to economic possibilities is really a bunch of nonsense. Most of

the value of our product, most of our output, doesn't consist of raw materials at all. The total cost of the raw materials in our national income is under 10 percent of the total national income. Most of that value comes from here not from there.

**SPEAKER:** Okay, thank you.

**SPEAKER:** Mr. Friedman, you seem to advocate free trade in the steel industry today. Well, what's going to happen to the steel industry in the United States, a very important industry in the United States, if this continues—the cheaper steel coming in from overseas, the unemployment problem, and the other industries that rely on steel?

**FRIEDMAN:** Well, first of all, you're making again a fallacy of composition; you're only looking at steel. If we buy more steel from abroad, what do the people abroad do with the dollars they earn? Do they eat them in the form of paper? What do they do with them?

**SPEAKER:** They buy goods with them.

**FRIEDMAN:** Maybe they won't buy in America, maybe they'll buy in Brazil or somewhere, but whoever gets the dollars they're going to come back. So to save the jobs in the steel industry by a high tariff will lose the jobs in the export industries that would otherwise have been able to export goods to Japan and elsewhere. On net you're not going to save any jobs by protecting steel. You can save those jobs but you're going to lose others, and everybody is going to be worse off because you're going to make the use of labor less efficient; you're going to be using labor to do things when we have other labor which is more efficient. So, as I say, you are engaging in a fallacy of composition.

What you're illustrating is what is really a basic fallacy behind so many economic mistakes, the visible versus the invisible. The fact that down here in Gary there will be a defined number of people who will lose their jobs if we import more steel from Japan—that's visible, you can see them, they're named. The people who will lose their jobs if we don't import steel from Japan—they are invisible because they are spread all over. You don't know what industries they are in; it won't be a single industry. Japanese will buy a little less of this and a little less of that, maybe it's a Brazilian who will buy a little less because of the roundabout route, and therefore the loss of employment through protecting the steel industry is invisible. And that's how we get almost all our mistaken policies, by overemphasizing the visible effects of policy compared to the invisible.

**SPEAKER:** Thank you.

**SPEAKER:** Mr. Friedman, as you noted from your quote from Walter Lippmann in the 1920's, this question of government intervention has been around for a long time, and while a lot of us certainly would say that there's more of it today, you could easily go back, say to the 1890's, and find the activities of state legislatures, protectionism in the international field, local cartels that existed in profusion, and so on. And I was curious if you could kind of rigorously define why it is that you feel that it's a much greater threat today than it was there. Is it, you know, quantitative government spending and the like, or is there some other aspect of it?

**FRIEDMAN:** I think there are two features that make it a far more serious problem than it was, say, in 1890: first is the greater extent; second is the greater centralization. Government spending is not per se an ideal measure of the extent of government intervention. You can have a lot of government intervention with no spending. For example, the minimum wage law is a tremendous government intervention, but the budget of the minimum wage agency is not very large and it doesn't really measure the importance of that intervention. And yet as a crude measure, I think total spending is a pretty good measure. In the 1890's, total government spending in the United States was 10 percent of national income. Of that, two-thirds was state and local and one-third was Federal; Federal spending was 3 percent, and state and local spending was about 6 or 7. Today, two things, total spending at all levels is 40 percent of the national income and two-thirds of that is Federal. It's about ten times as large as it was then. So that's one measure, that you've moved into a different dimension, a different order of magnitude.

A second important measure is just to consider the number of activities within which you are no longer free to move, the number of areas which have been largely taken over and preempted by the government. You cannot set up a bank without getting a certificate of convenience and necessity, you cannot become a physician, a lawyer, a beautician, a mortician, a dental technician, you name any one of a hundred—this varies from state to state—and you've got to have a license. You can't run a taxicab without getting a license from the city. There are an enormous number of activities in which you are now restricted where you weren't before. In the 1890's the scope of government was much more narrowly restricted. There were some tariffs of course, there were some local ordinances, in fact there may well have been more local interventions in government. I mentioned in the course of my talk about the importance of seeing how people vote with their feet. The crucial thing about local measures is that they are things people can vote against with their feet. If you don't like what your community is doing, you can move to another one. But once this is done centrally, from the central government, you can't. So I would say that the two things I would cite in answer to your question as most important are the growing fraction of our national income, the use of which is being mandated by the government, and the growing centralization of that activity.

**SPEAKER:** Thank you.

**SPEAKER:** You said something like in the past decade you have a little more hope for change. Well, how do you think people our age can help effect that change?

**FRIEDMAN:** There's only one way you can effect that change in my opinion, and that is by trying to form your own opinions and persuading your fellow citizens of your age and others of the same opinion. This is fundamentally a democracy. We've been moving in the direction we've been moving in not because there have been some bad people or some evil conspiracy that has been moving us in that direction. We've been moving in that direction because the public at large has believed that's a desirable direction to move, because the attitudes of the public in the course of the past 60–70 years moved away from a belief in laissez-faire, a belief in individual responsibility, and toward a belief in collective responsibility, moved away from the idea that the role of government should be as an umpire to the idea that the role of government should be to take care of people. It's only as the public at large recognizes that that's a mistake and recognizes where it leads us that we're going to get a chance. Moreover, it's only your generation that can lead it. You know it's a terrible thing to say but it's true, the hardest thing in the world is for

people to change their opinions. Once people are past thirty, they are almost hopeless. I agree with that slogan of a few years back, "Don't trust anybody over thirty," because it's really only when people are in your age, in their formative age, that they are forming their basic values and beliefs. Indeed, that's why I believe there's real hope, because I believe people of your age are coming to a different view and a different recognition, and I think the problem for the rest of us is to try to hold the tide back until your generation comes along and really pushes it back.

**SPEAKER:** Thank you.

**SPEAKER:** In your opening comments, sir, you made some reference to ethnic separation and the melting pot. Well, it seemed that you spoke in disparaging tones as to ethnic solidarity. Would you please comment on that?

**FRIEDMAN:** Sure, I'll be glad to. I believe it's highly desirable for people to be able to pursue their own values, to have whatever ethnic values they want, provided they do it voluntarily and do not interfere with the freedom of others to do it also. We want a society of variety and diversity, we want a society in which people can celebrate their own special ethnic backgrounds, but that's a very different thing from a society which somehow takes ethnic characteristics as a criterion for preference or lack of preference, for a society which moves away from the doctrine of color-blindedness to the doctrine of so-called affirmative action. That's the problem. You see, this is one component of a very much broader problem. You cannot achieve in general good ends by bad means. The end, the desire to correct past discrimination, the desire to improve the conditions of people and to enable people of all colors, creeds, and backgrounds to have an even start, is an admirable end. But that end is corrupted when you use the wrong methods to achieve it, and the methods of force and coercion are in my opinion the wrong method that do corrupt it, and often react against you.

**SPEAKER:** Don't you think it's through ethnic solidarity that many minority groups were able to make advances in the American society?

**FRIEDMAN:** Not in the slightest. If you look at the way in which ethnic minorities made advances, it was not through ethnic solidarity; it was through the free market. You can take any group you want to. For example, the group obviously I've been closest to are the Jews. How did the Jews make their way? Only in the competitive areas of the American economy. How did the blacks make their way? Only primarily in the competitive areas. Where are the areas where the blacks have been most hampered? In those areas where government has supposedly been doing something for them. There is no area in American life in which the blacks are more disadvantaged than the kind of schooling they can get. Why? Because it's provided by the government. The minimum wage laws are supposed to be to help the poor, to help the disadvantaged. They are the most anti-Negro laws on the books. Why do we have unemployment rates of 40 to 50 to 60 percent for black teenagers? Because the law says it is illegal for an employer to hire them at a wage which corresponds to their productivity and to their worth, that he can only hire them if he is willing to pay them charity. It's a law that he must discriminate against people with low skills. First, we give them lousy government schools so they have no skills and then we make it impossible for them to get job training, training on the job, by saying to employers, "it's illegal for you to hire them."



You know this is a recent phenomenon. If you go back to the immediate post-war period, before the minimum wage was binding, the unemployment rate for black teenagers and white teenagers was roughly the same. Today it's two or three times as high for black teenagers. If you go back to that period, the fraction of black teenagers in the labor force was higher than of white teenagers; today it's lower. Why? That's almost entirely a result of the minimum wage law plus the very inferior form of governmental education.

Again, what has been the source and the focus of racial discrimination? The craft trade unions. Why? Because they have gotten governmental monopoly power essentially that has enabled them to keep people out. What is the commercial activity which has had the greatest degree of exclusiveness of blacks and, in this case also, of Jews? No doubt, for decades it was banking. Why? Because banks had a franchise from the government. You will search long and hard before you find any minority that has effectively had its rights protected or its opportunities expanded by government intervention in its behalf. Try to find an example.

**SPEAKER:** But isn't it often through solidarity of a group that they are able to fight government interventions or any group's intervention in their rights, such as overthrowing quota systems like ...

**FRIEDMAN:** Let me separate issues. I have no quarrel with ethnic solidarity, of course, in the sense of helping one another, and no doubt by a feeling of identification and of assisting one another they have helped one another of course. But the particular aspect you are taking of it is to say that one evil erases another evil. I agree with you that once you start on the route where you turn to government to control the conditions of entry, then people who want to fight against bad government discriminations have no other choice but to go through the same political mechanisms. So I agree with you that they have, but that's as a lesser evil not as a positive good. Okay?

**SPEAKER:** Thank you.

**SPEAKER:** Dr. Friedman, in relation to your statements as far as Mexican immigration go, I'd like to make the following comment, and that is that it seems to me that Mexican immigrants have a choice between, on the one hand, staying in Mexico and getting what life they can which to me seems like trying to evade starvation as long as possible, or crossing the river and then taking the job that they have available. And what I'm wondering is, is this choice a choice at all, and is it not equivalent to the gun against the head that you were talking about as absent from the ... ?

**FRIEDMAN:** Who is holding the gun?

**SPEAKER:** The capitalists in Southern California who own land ...

**FRIEDMAN:** On the contrary, in your image it would be the Mexicans who are holding the gun. What denies them the opportunity in Mexico?

**SPEAKER:** There aren't enough capitalists in Mexico as opposed to ... not enough jobs available.

**FRIEDMAN:** Obviously they have two bad choices. That doesn't mean that one isn't better than the other. You must distinguish sharply between somebody giving you a choice, which is not a very satisfactory one, and somebody imposing something on you. Nobody is holding a gun to the head of these people and saying they should come to California. They are coming there because they believe that they can have a better life for themselves and their children.

**SPEAKER:** They can have a better one, yes. But, as you said yourself, no American would like to do these jobs. ...

**FRIEDMAN:** No, it's not that no American would like to. Many Americans would be perfectly willing to, if that were their only alternative, but the Americans have better opportunities, fine. How did the Americans get to have those opportunities?

**SPEAKER:** By being American citizens. Is that the point you ...

**FRIEDMAN:** No, no, by initially going through stages similar to that which the Mexicans are going through. You know, people don't come full-blown into the world. The nations don't come full-blown into the world with skills and capital and so on; that all has to be derived through a long historical process.

**SPEAKER:** I agree.

**FRIEDMAN:** Then what's the alternative? If you say, "Well, we're willing to have the Mexicans in only if they can be supported at the level at which the Americans are supported," then you're condemning them to stay in Mexico.

**SPEAKER:** Hm huh, but isn't it true ...

**FRIEDMAN:** So don't hurt them in order to help them.

**SPEAKER:** Isn't it true that the wine growers in Southern California would prefer to have these Mexicans working at the rate they are working at than to have Americans come in and demand higher wages because of the alternatives they have?

**FRIEDMAN:** They would prefer to pay lower wages rather than higher wages. You'd like to pay lower prices for the things you buy rather than higher prices. Of course, that's the whole system; that's exactly the system. If you say to the Mexicans, "You may not offer to work for lower wages," then you are denying them the only weapon they have.

**SPEAKER:** But aren't you also ...

**FRIEDMAN:** That's why equal pay for equal work laws are a source of apartheid. You know, the basic source of apartheid in South Africa was the insistence by trade unions on equal pay for equal work. The women who go around today urging equal pay for equal work are being anti-feminist. They don't intend to be, but that is the effect of their policy because if there is any activity in which for any reason a male is preferable to a female, or vice versa, the only weapon the less productive sex has is to offer to work for less. And if you deny them that opportunity,

you are assuring yourself that you are going to have all male jobs or all female jobs or all white jobs or all black jobs.

**SPEAKER:** But aren't you also condemning them to stay that way?

**FRIEDMAN:** Not at all, not at all. If you go back to American history, by taking these low-paid jobs a great many people, not all but a great many people, were able to develop skills in activities, accumulate a little skill, a little capital, a little knowledge, improve their lot, become advanced in the stage, get to a higher level of productivity, and get a higher income. That's been the typical way up the ladder for most of the people who came here. It was the way up the ladder for my parents, for your parents or grandparents or great-grandparents—I don't know which—and unfortunately there is no way in which you can immediately help people to the top of the ladder.

**SPEAKER:** Okay, thank you very much.

**SPEAKER:** Mr. Friedman, you seem to advocate a return to a market system that's controlled by competition and the laws of supply and demand, but hasn't the emergence of large oligopolies and trade unions, labor unions, made this impossible, and isn't some government regulation needed to counterbalance the forces that these organizations have on the market system?

**FRIEDMAN:** I think you are going back to an earlier question. In my opinion the oligopolies, the monopolies, the trade unions are largely a creation and a consequence of government intervention, and the government intervention is not an offset to them. On the contrary, the government intervention tends to promote them. After all, the political system is like the economic system: people are pursuing their own interests through the political system. It's a market in which what you are doing is competing for votes and political influence. The organized groups and the groups with power, the groups that have power, are in a better position to get the government to intervene on their side than the people who don't have power.

The image people have, and it's an image that cannot be defended in terms of the real world—they always have an image that somewhere or other there are some pure noble souls, a benevolent dictatorship, that have the powers of government in their hands and are going to manipulate them for the benefit of the poor and the downtrodden and the just. But that isn't the picture at all. The picture is that you have a market for political power in which people are searching to get political power, and the people who are able in the economic world are in general even more able in the political world—or rather that ability counts for more. In the economic world you can have many, many different competitors, many different sources of competition. In the political world power tends to be concentrated. So look at the facts. Has the government intervention prevented the ICC from exploiting the railroad rider, or has it been a way whereby it has done it? Has it prevented the trucker? Has it prevented the television networks from maintaining their monopoly power? On the contrary. So you're barking up the wrong tree. You are trying to cure the disease by a bigger dose of the same disease.

**SPEAKER:** But how can you go back to competition? You know the oligopolies and the labor unions still exist and they exert undue pressure on the market system.

**FRIEDMAN:** Well we have to ask where their power came from.

**SPEAKER:** But how are you going to get rid of them? They're ...

**FRIEDMAN:** The most effective way would be to reduce the role of government. There is no measure that would do more to reduce the power of the construction trade unions than to repeal Davis-Bacon and Walsh-Healey. Those are two acts which require contractors who have government contracts to pay what are called prevailing wages to their employees, and by some strange chance the prevailing wages declared by the Department of Labor always turn out to be the highest union wages in a very broad area. That's a pure accident, of course.

**SPEAKER:** Are you saying then, if they hadn't government regulation, say like the big three in autos are going to go away and they are going to have a lot of smaller auto makers and there'll be competition?

**FRIEDMAN:** Well, why do you have the big three in automobiles?

**SPEAKER:** Well it's an oligopoly. They can set prices.

**FRIEDMAN:** Yes, but why? Where did they come from? What is it that produced the oligopoly?

**SPEAKER:** If you stopped them at regulation, will they go away?

**FRIEDMAN:** No, no, they won't go away, but if I could make sure that I eliminated government intervention in that case, if I made sure that I adjusted the tax system, and if I didn't have any tariffs, they wouldn't have any monopoly power. They don't have any monopoly power now with the imports. Look at their great monopoly power. It hasn't enabled them to prevent imports from taking—what is it, 30 percent of the market now? You know, they wouldn't regard that as real honest-to-God monopoly power, so I don't really think they're a serious monopoly.

**SPEAKER:** No, but you can't say that they are totally responsive ...

**FRIEDMAN:** Of course they're not. They're not totally responsive. You know, perfection is for the next world; we've got to do the best we can in this one. People are always raising your question. They say, "What difference does it make if you have an organization as big as General Motors instead if you had a big government corporation, what difference would it make?" That's the kind of idea behind your answer. Well there's one enormous difference: General Motors cannot get a dollar from you unless you voluntarily hand it over. They don't have any policemen who can come around and take it out of your pocket. The Federal government does and that makes an enormous difference. That's why automobiles come closer to satisfying the tastes and wants of consumers than the Postal Service does.

**SPEAKER:** Thank you.

**SPEAKER:** You've emphasized the beneficial effects of self-interest. Isn't it the case that if individuals pursue their self-interests in the political realm, they'll in fact ignore what's going on, that the costs of paying attention to this wide variety of proposals and the costs of even voting are not adequately paid back by the small effect that they have on events?

**FRIEDMAN:** I don't want to say anything about the virtues of self-interest, I only want to say that you haven't got anything else. That isn't the problem. The problem isn't is self-interest a virtue. Everybody is going to pursue his self-interest. I always remember the wonderful crack by my friend Armen Alchian. He said, "You know there's one thing you can always depend on the other fellow to do; that's to put his interest above yours." Now self-interest need not be narrow; it may be broad and so on. The crucial problem is what set of institutional arrangements, what framework, will harness self-interest to promote the general interest. And what I was trying to argue was that the market arrangements—I was repeating Adam Smith's argument that market arrangements are a framework under which self-interest is harnessed in the pursuit of social interest.

I agree with you, the way to analyze the political system, and again this is an area in which my friend and colleague George Stigler has been in the forefront—the way to analyze the political system is as people pursuing their own self-interest in a different kind of market, in a political market. And you want to ask the question: does that market harness self-interest as effectively as the economic market does? And I agree completely with your answer; it does not. It is not in my self-interest to act in a socially responsible way through the political mechanism. It's not in your self-interest to do so. My favorite example of this, because it's so simple and so obvious, is a very topical one right now. It's the maritime industry; it's the proposal by President Carter that 9 or 10 percent of all foreign oil be imported in American-flag ships. If you take the maritime industry in general, there are roughly twelve thousand people who are involved in this area who are benefitting from total annual subsidies by the U.S. government of \$600 million. If my arithmetic is right—what is that, about \$50,000? Yes, \$50,000 per capita. You know, cut that in half and make it \$25,000 per capita. Each of them has an enormous interest to lobby for this measure and they do so. They contributed very substantially to President Carter's nomination campaign; they've contributed substantially to each of the members of the congressional committee that deals with this issue. But \$600 million divided by 200 million citizens is three dollars a person per year. Which one of us, to save three dollars, or even if it's a family of four, twelve dollars a year, does it pay to inform ourselves on all of the matters involved in that, to go down to Washington and say something? And who among you will let your vote for your congressman be decided on that issue? Not very many, and that's the reason why the political system is a distorted system. It has a bias in it which means that self-interest is not harnessed in the public interest.

**SPEAKER:** Well I wonder how you remain hopeful that we may still return to laissez-faire?

**FRIEDMAN:** Because, first of all, we have a long history of experience. Great Britain in the eighteenth century was in the same kind of dictatorial state. Those of you who have read that great book of Adam Smith's, *The Wealth of Nations*, will remember his saying that it was hopeless to suppose that you could ever have free trade in Great Britain—this was in 1776—because there were so many interests and such strong interests opposed to it. Sixty years later, seventy years later, you had it in Great Britain. Great Britain moved from the one condition to the other. The problem isn't that the political system is inevitably biased but that it's necessary to have the right structure of the political system, and that's why I have increasingly been hopeful that we could achieve our objectives by structural reform where we could not achieve it by trying to influence legislation. I think it's hopeless to try to solve the problem by knocking down every one of these bad special-interest laws. I think our founding fathers were on a firmer ground when

they said that the way to handle these problems was by setting up a framework, limiting the scope of what we permit government to do and what we keep government from doing. The constitutional amendments are intended to reduce government powers not to expand them, and that's the direction I think we ought to be going in. Thank you.

**SPEAKER:** Thank you.

**FRIEDMAN:** I think we have time for only a couple of more questions. Let's get a couple of more and see if we can make them fast.

**SPEAKER:** Mr. Friedman, assuming that we never did have government intervention to create these monopolies, wouldn't natural monopolies have developed anyway?

**FRIEDMAN:** How? Why?

**SPEAKER:** Well, because they're more efficient. They're ...

**FRIEDMAN:** What's your evidence?

**SPEAKER:** Well, if you look at their average cost curves, it's always going down. Therefore they ...

**FRIEDMAN:** Not at all. If you look at any industry, you will find no industry in which you don't have alongside a giant some pygmies. If you look at what has happened to the leading industries of this country, they've changed their role, they've changed their place, some have fallen, some have risen, and most of them started small. There is a natural life history of enterprises in which they start small, grow big, and decline again to small. We have a number of studies of the kind of question you are asking and I believe that the bulk of those studies argue that there is no natural monopoly tendency.

**SPEAKER:** What would you do with the telephone system or something like that where you need one system so that everyone can communicate?

**FRIEDMAN:** Well, there are a few cases of technical monopolies. The telephone may be a pretty good one, but I'll tell you what I would do with the telephone system very quickly. I would eliminate the public utility boards that set the rates and let the telephone company go. You see, in those cases you only have three alternatives, all of which are bad: either a private monopoly unregulated, a public monopoly, or a private regulated monopoly, and of these three I think the private unregulated monopoly is the least bad. And the reason it's the least bad is because technological change comes in and what was once a monopoly is no longer a monopoly. After all, the CB radios are destroying the monopoly of the telephone communications system. After all, you now have companies trying to make peripheral equipment, you have long lines coming in through radar, and so on, so that isn't anything like the kind of pure monopoly you might think. And I also know of a study which Professor Stigler and some of his colleagues did on public utility regulation in which they compared states at different stages with and without public utility regulation, and there was no evidence that the public utility regulation kept the prices down.

**SPEAKER:** Okay.

**SPEAKER:** You spoke, a few times you mentioned distribution of wealth ...

**FRIEDMAN:** Sure.

**SPEAKER:** ... but most of what I've heard you talking about has been about distribution of income rather than about the distribution of wealth. Now you wouldn't argue, at least I hope you wouldn't, that the person in ... ,

**FRIEDMAN:** Don't be sure!

**SPEAKER:** ... let's say [inaudible], is genetically inferior, say, to the person in America; it's rather through the purely arbitrary circumstance of birth that he's in a country with a less-developed economy and/or in a family that doesn't have as large a share of the capital and that's not something that he is to blame for, ...

**FRIEDMAN:** Oh, I'm not blaming anybody.

**SPEAKER:** ... so that even if the free market system equitably works and everyone progresses an equal amount, that person who started out with a lesser share of the capital is still going to end up with a lesser share of the capital, ...

**FRIEDMAN:** That's right.

**SPEAKER:** ... and there's nothing in the free market system that's going to enable him to make up for what was a purely arbitrary deficit in the first place. And given that the kind of people who become successful capitalists do not become that way by giving away their wealth voluntarily, isn't it necessary to forcibly redistribute wealth before you can begin to operate under a capitalist system?

**FRIEDMAN:** No, it is not, but let's examine this argument because of course it's true; there's no justice in the distribution of income or wealth. I never would argue there is. Those who are wealthy don't deserve to be wealthy anymore than those who are poor deserve to be poor. It's pure accident, but if you start to look at things that way you're going to go down the wrong line, because you're going to get back into destroying the good things, destroying what is possible, in the search for an impossible ideal. The only way in which you can redistribute effectively the wealth is by destroying the incentives to have wealth. And the question is, what is the way, what is the system, which will offer those people who are so unlucky as to be born without positions—what is the system which will offer them the greatest opportunity?

**SPEAKER:** Well, one possible way of redistributing the wealth, without affecting the incentives to earn as much income as possible, is simply to have a 100 percent inheritance tax.

**FRIEDMAN:** But you've got to ...

**SPEAKER:** That wouldn't affect the incentives. It's only after the person has ...

**FRIEDMAN:** I beg your pardon, I'm afraid I don't know the family you come from, but as you grow up you will discover that this is really a family society and not an individual society. We tend to talk about an individualist society, but it really isn't. It's a family society and the greatest incentives of all, the incentives that have really driven people on, have largely been the incentives of family creation, of establishing their families on a decent system. What is the effect of a 100 percent inheritance tax? The effect of a 100 percent inheritance tax is to encourage people to dissipate their wealth in high living.

**SPEAKER:** [Inaudible]

**FRIEDMAN:** The harm in that is that where do you get the factories, where do you get the machines, where do you get the capital investment, where do you get the incentive to improve technology if what you are doing is to establish a society in which the incentive is for people, who if they have by accident accumulated some wealth, to waste it in frivolous entertainment? You know the thing that is amazing, that people don't really recognize, is the extent to which the market system has in fact encouraged people and enabled people to work hard and sacrifice in what I must confess I often regard as an irrational way for the benefit of their children. One of the most curious things to me in observation is that almost all people value the utility which their children will get from consumption higher than they value their own. Here are parents who have every reason to expect that their children will have a higher income than they ever had, and they scrimp and save in order to be able to leave something for their children. I think you are sort of like a bull in the china shop if you talk about a 100 percent inheritance tax having no incentive effects. It would destroy a continuing society; it would destroy a society in which there are links from one generation to the next.

**SPEAKER:** You are saying it would harm the family, but personally I don't see any particular harm to harm the family.

**FRIEDMAN:** Well let me ask you a different question. Are you really going to carry a 100 percent inheritance tax all the way?

**SPEAKER:** Yes, I would think so.

**FRIEDMAN:** Well, the major source of inheritance is the inheritance of human qualities not of physical assets. Your major inheritance was that you perhaps inherited some mental qualities from your parents. Should we impose a 100 percent inheritance tax on the proceeds of those mental qualities?

**SPEAKER:** Well, I guess you're getting back to ...

**FRIEDMAN:** Frank Sinatra inherited a funny voice. Should we impose a 100 percent inheritance tax on that inheritance?

**SPEAKER:** You're getting back to the judgmental question which in the argument that I said before that I hoped you wouldn't use, namely that it's all the result of genetic differences in people in the first place, which I guess is a judgment that I can't agree with.



**FRIEDMAN:** No, no, but that's a meaningless statement because the question of the contribution of genetics and the non-contribution of genetics really is irrelevant to this whole issue. Nobody will deny that people differ in in-born characteristics. You don't have to make judgments of better or worse. Some people are born blind. That's an inheritance; it's a negative inheritance; it's a great handicap. Some people are born with particularly good sight. That's an inheritance. Some people are born with musical skills, some people are born without them. Those are inheritances. And in point of fact, the most important factors that determine the place of people in the income distribution is not the physical wealth they inherit but the non-physical wealth they inherit; and more important, in societies where physical inheritance of wealth is reduced in significance, the inheritance of position and status, not genetic inheritance, is increased. To be born the son of a member of the Politburo in the Soviet Union means a great deal more because there is no effective inheritance. There still is inheritance of wealth, but it isn't the same kind of effective inheritance of physical wealth in the Soviet Union as in the United States. In the United States the inheritance of physical wealth enables you to offset to some extent the disadvantages of people with respect to their physical assets. I have a very good friend who has been accumulating wealth deliberately for one solitary purpose: he has a child who is mentally retarded and he wants to be able to provide for that child's life. Are you going to argue that he should not be permitted to do that, that it is socially desirable that his wealth should be taken away and he should not be able to leave an inheritance to his retarded child?

**SPEAKER:** What if he's doing that at the expense of the other parent who is poor but has an equally retarded child?

**FRIEDMAN:** How is he doing it at the expense of the other party? You're back in the fixed pie. He is not doing it at anybody's expense. In a market system he is getting his product; he is adding to it. Henry Ford did not accumulate his wealth at the expense of other people. He did it by enabling other people to be better off as well, by introducing the automobile, the car, a new mode of transportation, by opening up untold possibilities to millions of other people. Again, people keep going back to this basic fallacy of there is a fixed pie to be divided, and if one man gets more, another man gets less. In a redistributive system of your kind, yes. In a market system in which people's return comes from their productivity, no. We'll have to make this the last question, I'm sorry, but you go ahead.

**SPEAKER:** Mr. Friedman, referring to the statements that you made about women who advocate equal pay for equal work, ...

**FRIEDMAN:** Gee, I thought I'd get a rise out of that sooner or later! Delighted to have it.

**SPEAKER:** Um, yes, okay, I would just like to know if you are insinuating or perhaps, you know, point-blankly saying that women and other minorities' skills are inferior to those of those now holding those jobs and that they need to go through a period where their skills need to be improved and therefore deserve to be paid less?

**FRIEDMAN:** No, I don't think deserve has anything to do with it. First of all, I think deserve is an impossible thing to decide. Who deserves what? Nobody deserves anything. Thank God we don't get what we deserve! But I'm not saying that at all; I'm saying a very different thing. I am saying that the actual effect of requiring equal pay for equal work will be to harm women. If

women's skills are higher than men's in a particular job and are recognized to be higher, the law does no good because then they will be able to compete away and can get the same income. If their skills are less for whatever reason—maybe it isn't because it's their sex, maybe it's because they were out of the labor force, maybe it's for other reasons—and you say the only way you are able to hire them is by paying the same wage, then you are denying them the only weapon they have to fight with. If the unwillingness of the men to hire them is because the men are sexist—or what's the phrase, racist, sexist pigs or whatever?—if that's the only reason they won't hire them, nonetheless, you want to make it costly to them to exercise their prejudice. If you say to them, "Hmpf, you have to pay the same wage no matter whether you hire women or men," and here is Mr. Sexist Pig—it doesn't cost him anything to hire men instead of women. However, if the women are free to compete and to say, "Now look, I'll offer my work for less," then he can only hire men if he bears a cost. If the women are really as good as the men, then he's paying a price for discriminating. And what you are doing, not intentionally but by misunderstanding when you try to get equal pay for equal work laws, is reducing to zero the cost imposed on people who are discriminating for irrelevant reasons, and I would like to see a cost imposed on them. I'm on your side, but you're not.

Thank you.

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### Notes

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