I am going to talk tonight about some very broad issues, but issues that I believe have a direct bearing on the prospects of much of the world over the coming decade. My comments will be divided into three parts. I want to talk, first, about the changing trends that have dominated developments in the world over the past several centuries, and that I think foreshadow the developments that we shall see in the coming decades. I want then to examine a bit more carefully the nature of the forces that produced those trends; finally, I want to conclude by looking at what developments are likely in coming decades in response to those forces.

In 1899, a famous British constitutional lawyer, A. V. Dicey, gave a series of lectures at Harvard University, which were later collected and published in a book under the title: *Lectures on the Relation between Law and Public Opinion in the Nineteenth Century*. That book contains a profound analysis of the forces that determine the government policies and of the role of public opinion in shaping those policies. Dicey’s main thesis was that legislation affecting public policy follows public opinion but only after a long lag. If public opinion moves, then some ten or twenty years later, that movement in public opinion is reflected in policy. This idea was expressed later in a famous paragraph by John Maynard Keynes when he talked of "madmen in authority … distilling their frenzy from some academic scribbler of a few years back."

Though Dicey developed his thesis in terms of the experience of Great Britain, his analysis has a much wider relevance. He argued that, once a trend in public opinion develops, it tends to gather momentum, to have a great deal of inertia, to continue for a long time. Similarly, when it is affecting legislation, the legislation to which it gives rise has a similar inertia and produces a long trend in the same direction. However, throughout a period when
such a trend in opinion is developing and later when it is translated into legislation, there are always crosscurrents, always people who feel a bit different, always opposite views that are being developed. And there generally comes a point at which the crosscurrents become stronger and stronger, at which the dominant view is roughly balanced by an opposing view. Those are the only times, he argued, when a fundamental change in the trend of policy is possible. That change, in turn, takes some time, but it does occur.

The trend in Britain in the eighteenth century, at the time of Adam Smith that Dr. Goh referred to, had led to a pervasive governmental influence. That was the period of mercantilism, of government restrictions on imports, of controls over prices and wages—indeed over every aspect of life. Though nobody in this room is old enough to have lived in that period of mercantilism, we have all lived in a similar environment—the much later period of mercantilism. Adam Smith’s *Wealth of Nations* was a reaction against mercantilism. It was one of those crosscurrents Dicey talked about, and it started or encouraged a trend of opinion that became dominant many years later. In the nineteenth century, opinion shifted away from the belief that benevolent kings, benevolent monarchs were the way to run society and toward belief in a free market, in *laissez-faire* and in the avoidance of central control. That trend developed first in Great Britain, where it dominated most of the nineteenth century. But it was worldwide, and now I am going beyond Dicey’s specific analysis to show how his thesis has much broader scope. The same trend toward a fundamentally free enterprise, *laissez-faire* society affected the United States and the continent of Europe, somewhat later in both cases than in Britain. However, the most dramatic example of its worldwide scope was the experience of Japan. In 1867, when the Meiji Restoration occurred, the new men who ruled Japan were automatically infected, as some would say, or affected, as I would say, by this trend in opinion. The policies they adopted were predominantly those of capitalism, of private enterprise, of free markets.

By the late nineteenth century, though *laissez-faire* apparently dominated policy and had been highly successful, the trend of opinion in the world was turning the other way. Fabian
socialism was on the rise. Dicey dates the turn in opinion as occurring in Britain around 1880 to 1890. However, the new trend did not have any appreciable effect on policy until the early part of the twentieth century.

Many people have argued that the growth of the welfare state, of centralized government in Britain, was a result of World War I. That is wrong. A second edition of Dicey’s book published in 1914 contains a lengthy preface that Dicey wrote specially for that edition. In that extraordinarily prescient preface, he foresaw the developments that took place later on. He pointed to the enactment of measures for old age pensions and unemployment insurance as the first steps in response to the changing tide of public opinion. And he predicted that the coming decades would see a trend towards socialism and towards governmental involvement and intervention. He was, of course, entirely right. No doubt, World War I speeded up the process, but, with or without World War I, the same general trend of policy would have been produced by the change that had occurred in public opinion.

What happened in Britain in the first decade of the twentieth century again was part of a worldwide trend. In my own country, the United States, the trend of opinion developed some twenty years later than in Britain. However, by the 1920s, the same views were dominant among the intellectual classes. After the Great Contraction of 1929 to 1933, public opinion became crystallized in the policies that were introduced under the presidency of Franklin Delano Roosevelt.

To go farther afield, the Communist Revolution in Russia, no less than the emergence of the welfare state in Britain and the New Deal in the United States, reflected fundamentally a response to that turn of opinion. That was an extreme response but it illustrates how widespread it was. Similarly, the move in Italy toward the corporate state under Mussolini, in Germany to national socialism under Hitler, was part of the same trend. So also, later on, were the adoption of central planning by the new rulers of India after it achieved independence in 1948, and the coming to power of communism in China shortly thereafter. As Dicey pointed
out, once such a movement gets under way, it is for a time almost impossible to stop it; it has an inertia that is nearly irresistible.

However, as he said, crosscurrents do accumulate. And so they have in this case. In the past several decades, the trend of opinion has been changing again. Beginning in the 1950s, on into the 1960s, and increasingly in the 1970s, as Dr. Goh said, public opinion and the opinion of intellectuals have been moving away from belief in the virtues of collectivism, as Dicey termed the view that came to dominate, and toward more emphasis on individualism and free markets. This turn in public opinion was no doubt fostered by intellectual argument, but it was produced primarily not by argument but by the facts of experience. Welfare state policies failed repeatedly to achieve the results that had been hoped. “Stagflation” emerged throughout the world as inflationary policies led in their turn to economic stagnation. Even more dramatically, experience in the communist countries revealed the ugliest face of collectivism. Stalin, Khrushchev, and Mao, inadvertently, and Solzhenitsyn, by an incredible display of heroism and genius, played as great a role in changing the trend of public opinion in the West as did experience in their own countries, or as did Western intellectuals. Now, after the same kind of a time lag that Dicey pointed out, policy is following public opinion.

Singapore was one of the first countries in the world to reflect the new tide of public opinion. It calls itself socialist, but much to the credit of its farsighted leaders, it has essentially followed capitalist principles. It has promoted a free market. That free market has enabled Singapore to thrive, despite extensive interventions of government.

The same trend is worldwide. The election of Margaret Thatcher in Britain was a dramatic example of the change in public opinion. The extent to which the Labour Party in Britain is now tearing itself apart in doctrinal fights is another example of the same thing. In the United States, the election that is underway is another example of that change in trend. I believe it was Oscar Wilde who said “hypocrisy is the tribute that vice pays to virtue”. The many people in the United States who have spent their lives in politics promoting big government and large spending, and who are now running for office proclaiming the virtues
of thrift, austerity, and smaller government, are striking examples of that kind of hypocrisy. But it is also a sign that the new “virtue” is greater freedom for the people and a smaller role for government.

Both candidates for the presidency—one because he has long believed it, the other because he finds it politically profitable—talk about restraining government expenditures and about reducing the extent of regulation. And I believe that the result of the election will again show the strength of the movement. I believe that Mr. Reagan will be elected, primarily because his views, which twenty years ago were held by only a small minority, today come close to corresponding with the views of the majority of the public. Beyond this particular presidential election, events in the United States over the past four or five years provide further evidence of the changing trend. There was the much publicized vote in California in favour of Proposition 13 which drastically reduced a major tax. That was only the tip of the iceberg. In state after state, there has been a movement to limit the size of government and cut it down to size. On the federal level, amendments have been proposed to the Constitution to limit total federal government spending and cut it back.

Again, I want to go beyond the familiar countries of Singapore, Britain and the United States, and point out that the same trends are affecting the communist countries. If you look at the Soviet bloc, the most dramatic example has been what happened recently in Poland. That could not have happened thirty years ago. It has happened because of the change in public opinion which cannot be kept from affecting everybody. Nations have been very successful at times in erecting barriers to the flow of trade and of people. They have never effectively succeeded in stopping the flow of ideas, good or bad. Hungary and Rumania have sought to introduce a greater role for the market mechanism in their societies. They have been trying to move away from a centrally directed society. Earlier than any of these, Yugoslavia moved away from detailed central direction in the Russian pattern and substituted a decentralized policy that includes a considerable role for the market.
My wife and I have just spent three weeks in China. I was astounded to receive an invitation from the Chinese Academy of Social Sciences to give some lectures in China. One of the topics they asked me to lecture on was the use of market mechanisms in connection with central planning. They, too, are responding to the worldwide trend of opinion and are making a serious effort to try to introduce at least some elements of a market mechanism into their own system. For the first time, they are allowing some farmers to have private plots, to sell the produce of those plots in what are called free markets; they are allowing some individual entrepreneurs, individuals, to engage in small-scale handicrafts or service. Just this morning in one of your local papers, I saw a story about a speech by a leading Chinese economist saying that there was nothing wrong with having small capitalist enterprises in China.

This trend of opinion has affected policy not only in the major democratic capitalist societies such as Britain and the United States, not only in the communist countries, but also that whole group of countries that are neither democratic nor communist: countries like many of the South American countries—Argentina, Chile. All through South America, one government after another is departing from the policies of autarky, of high tariffs, of restrictions, of protection, which they had been adopting under the mistaken so-called structuralist hypothesis of development during the 1950s and 1960s, and are turning in the direction of a greater reliance on free markets.

In my opinion, this change in trend of opinion and of policy is a major factor that will dominate the developments in the world in the 1980s. The crucial question is, will it succeed? Will a trend in that direction dominate the course of policy? How soon could it do so and to what extent?

Before making some comments on what I believe are the likely developments, I want to turn to the second topic I mentioned at the outset, the basic forces that underlie these trends. So far, I have been describing things that have been happening, not explaining, not getting at their foundations.
Throughout this whole period we have been observing a conflict between the invisible hand in economics and the visible hand of politics. Adam Smith, whom Dr. Goh quite properly referred to as the father of modern economics, had the great insight that it was possible to achieve order without central direction, that an ordered society could arise out of the activities of millions of individuals, each pursuing his own objective without anybody intervening. He used the famous phrase in which he said that an individual who “intends only his own gain” is "led by an invisible hand to promote an end which was no part of his intention." Adam Smith simultaneously poured scorn and derision upon the operation of the visible hand—in his time, the hands of the monarch, of the ruler of his country, who was preventing people from engaging in voluntary transactions through restrictions on trade, on the prices that could be charged, the wages that could be paid. His great book, *The Wealth of Nations*, was a political tract as well as a scientific economic document. As a scientific economic document, it was devoted to explaining how it could be that people, acting separately according to their own interests, without any central direction, could, through what he called a system of natural liberty, create a great society. As a political tract, it was devoted to explaining the bad consequences of government intervention. He himself, and this is an interesting illustration of Dicey’s thesis, was not very optimistic that it would be possible to replace the visible hand with the invisible hand. He wrote, “To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it.” Fortunately, he was wrong. But it took seventy years, from the time he wrote until the repeal of the Corn Laws in 1846, before that visible hand was eliminated.

The essence of Adam Smith’s thesis is extremely simple, and yet almost everybody finds it baffling to understand and to accept. The essence is simply that, if two people engage in a voluntary exchange, both parties must benefit; that if two people trade a good or a service between each other, so long as the exchange is voluntary and there is no force, that transaction
will take place only if both people are better off. There is no such thing as a fixed pie, so that one man’s benefit must be at the expense of the other man. That’s a great fallacy that bedevils the real understanding of economic affairs. What has enabled Singapore and every advanced country in this world to reach its present stage is that there is no fixed pie, that it is possible for everybody to benefit, provided the actions are voluntary.

Adam Smith went on to show how this simple insight of two people could be generalized to a much more complicated structure in which transactions were indirect, in which there might exist large business enterprises as intermediaries. I may say that one point on which he was wrong in this analysis was with respect to joint stock companies. He conjectured that such corporations could not survive the competition of private ownership because of the dilution of responsibility. However, his fundamental insight was correct and remains as important today as it was when he first enunciated it; that if people are responsible for their own actions, if people engage in transactions on a voluntary basis, everybody can be made better off.

That invisible hand was permitted to operate in Great Britain. The Corn Laws were repealed. Britain entered into a period of free trade, and in the latter half of the nineteenth century, *laissez-faire* produced everything that its proponents had claimed for it. Britain prospered and became the leading nation in the world, economically and politically. The level of well-being of the ordinary people in Britain rose at a rate and to a level that had not been seen before. And yet—and this is the fascinating part of Dicey’s story—just when that system was achieving its great successes, public opinion, the opinion of intellectuals, turned against it.

The most interesting part of Dicey’s analysis is his explanation of why that happened. I will not try to summarize or repeat his explanation, because it is not my main purpose here, which is simply to lay the ground for examining likely developments in our time. However, one element is worth pointing out. A major reason why public opinion turned against *laissez-faire* was precisely because it was so successful. We always take the good things for granted.
We only get disturbed by the bad things. When we drive a motorcar and it is functioning well, few of us pay much attention to the complicated mechanism under the hood. But when it is three o’clock in the morning and the car stops running on a dark road, we suddenly pay a great deal of attention to what we have neglected before. In the same way, as \textit{laissez-faire} succeeded in Britain, the conditions of the ordinary people improved, but there remained evils. Perfection is not for this world. And the remaining evils were all the more visible by contrast with the affluence and the success that surrounded them. Naturally everybody wanted to do something about those evils. It is the most natural thing in the world to think that if something is wrong, you have to do something about it. Moreover, the success of \textit{laissez-faire} made it possible to do something about it by creating an efficient and honest civil service.

In the eighteenth century, as you will recall from your study of history, Britain was a corrupt nation. It was a nation of smugglers. It was a nation in which parliamentary seats were bought and sold; there were rotten boroughs. One of the greatest economists of all time, David Ricardo, sat in Parliament because he bought a seat. He made his money at the stock exchange, speculating. A very successful, a very able man, he wrote a great book on economics, and he also accumulated a great fortune, part of which he used to buy a home that entitled him to a seat in Parliament. (I must admit that there is something to be said for that system if it leads to a Ricardo in Parliament.) Bribery was widespread. The civil service could not be depended on. Indeed, that was one reason why public opinion turned against government control. It was one of the factors that gave \textit{laissez-faire} its appeal.

The economic reform was accompanied by a political reform—the Reform Act to abolish these corrupt boroughs and to widen the franchise. Even more important, as Britain increasingly relied on the invisible hand, corruption in government automatically declined because there was nothing worth buying from government. Why should anyone try to bribe a civil servant if government has little power and is devoted simply to doing things that everybody agrees on—to preserving law and order, preventing theft, murder, and violence, and defending the country? What is there to bribe anyone for if anybody can go into business

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From The Collected Works of Milton Friedman, compiled and edited by Robert Leeson and Charles G. Palm.
without a license from government, anybody can buy and sell in any country he wants
without a by-your-leave from government, if no one needs a permit to buy foreign exchange?
And so governmental corruption largely disappeared. Britain developed a worldwide
reputation for having an efficient, an incorruptible civil service—and so it did. People all over
said, aren’t the British wonderful, and forgot what scoundrels they had been in the eighteenth
century.

The existence of an incorruptible civil service, and an excellent one, made it possible to
achieve reforms that would not have been possible a century earlier, with the kind of civil
service that then existed. This is another respect in which the very success of *laissez-faire* and
the invisible hand of economics paved the groundwork for a change in opinion and policy in
the opposite direction.

In the twentieth century, we have been experiencing the development of the *visible* hand
in politics. The visible hand in the form of government intervention of all kinds, welfare state
intervention, regulation, nationalization, government ownership, government privilege. What
has been happening has been the converse of what was happening in the nineteenth century.
There is not only a visible hand in politics, there is also an invisible hand which was
undermining the objectives that were aimed for by the use of the visible hand. The objectives
of most supporters of the welfare state, of socialism, and of collectivism are fine; they are
noble objectives that almost all of us agree with. However, the results are terrible. The
extreme case is that of the communist countries, countries that were supposedly established to
eliminate the exploitation of man by man. I am sure you all know the famous joke that is
always for some reason told about Poland. One Pole says to the other: “Do you know the
difference between capitalism and socialism?” The other says, “No, what’s the difference?”
“Well,” says the first Pole, “you know, under capitalism man exploits man.” The other fellow
says, “Yes, that’s right.” “Well,” says the first, “under socialism it’s vice versa.” That is a
good joke, but it is wrong.
The fundamental principle of socialism is that it is appropriate to use force to organize society, to take from some to give to others. The government does not give anybody anything. The government has nothing to give. The government is simply a mechanism which has the power to take from some to give to others. It is a way in which some people can spend other people’s money for the benefit of a third party—and not so incidentally, themselves. So it is true that under socialism man exploits man because that is the character of the system.

On the other hand, under capitalism the fundamental principle is that transactions shall be voluntary and no force shall be used, which means that the exploitation of man by man is a violation of that fundamental principle. No doubt it occurs, but as an exception, not the rule.

Where in the world today are workers being exploited? Who are the exploited workers? Are they the workers in the United States or in Britain or in Singapore or in any other of the capitalist countries? Or are they the people who are objecting in Poland? There is no doubt about what the facts are and that is not an accident. It is in accord with the fundamental principles of a system that elevates the state above the individual.

As I say, the objectives of most of the supporters of these societies are noble, they are good. But those objectives are perverted by the operation of what I call the invisible hand of politics. Adam Smith said that in the economic sphere a person who “intends only his own gain” is “led by an invisible hand” to promote a public interest which was no part of his intention. In the political system, the situation is quite different. A person who intends only to serve the public interest is led by an invisible hand to serve private interests which it was no part of his intention to serve. That has happened over and over again if you simply look at the record of experience in those countries which have used the visible hand of government. And again it happens not by accident but for a very good reason. The invisible hand operates in politics because it is possible to use government to benefit some at the expense of others. In an economic transaction, everybody must be better off or the transaction will not take place. But that is not necessary in a political transaction.
In a political system, small concentrated interests have far greater power than widely dispersed diffused interests. I will take examples from my country because I know it much better; I suspect there are counterparts in yours. Here is a proposal to abolish urban slums. That is an excellent thing to do, it has an excellent objective. The U.S. adopted an urban renewal programme for this purpose. What happened? Those people who were clever and smart and had special interests, who owned property in these slum areas, were much more effective at getting the political authorities to buy up their properties than the poor people who lived in those areas were effective in preventing government from moving them somewhere else. So our urban renewal programme led to the destruction of low-income housing and the building of high-income housing. In area after area it came to be called the Negro removal programme. That was an accurate description. Those were its results, not its intentions.

Let me give you a different example, a more obvious example, the tariff situation. Here is the steel industry in the United States or, at the moment, the automobile industry. The steel industry feels that it is threatened by foreign competition; it wants a tariff. If it gets a tariff, that would make a big difference to a small group. Who will bear the cost? The population as a whole. Maybe the steel industry will benefit by several millions; the cost to me will be, maybe, a dollar or two dollars a year. It does not pay for me to go to Washington to lobby against the tariff. It does not pay for me to vote against my representative because he votes for the tariff. It is not even worth my time to find out about it. On the other hand, it means a great deal to the people in the steel industry who want tariffs.

Let me take a very different example. The Congress of the United States recently made the great mistake of voting to guarantee loans to the Chrysler Corporation. Why did we do so? Can anybody make any sense out of a policy which is designed to preserve jobs for a group of people who are making twice as much on the average as the people who are going to pay the taxes to preserve those jobs? Is that a sensible policy? Yet that is our policy. Who is paying the cost of bailing out Chrysler? The consumers throughout the country are going to have to pay a higher price for cars. The people in other industries will have to pay higher taxes in
order to finance the bad loan that we are guaranteeing for Chrysler. In addition, of course, no jobs are being preserved. What would have happened if Chrysler had gone bankrupt is that those facilities would have been taken over by more efficient enterprises, maybe Volkswagen, maybe Datsun, maybe some other enterprise—maybe they would not be used for automobiles. But the bankruptcy of a firm does not mean that machines are destroyed or factories fall to the ground. They would have been taken over and used. Why then was the guarantee voted? Because a concentrated interest was arrayed against a diffused interest. The workers in Chrysler, the automobile dealers—to them this was a matter of real importance. The cost is going to be spread very widely. Therefore, a political system is one which tends to give excessive power to small groups of special interests at the expense of the general public interest. That is why the invisible hand in politics works the way in which it does. That is why there is the extraordinary sharp contrast between the rhetoric of these policies and the reality.

No person proposing a governmental programme ever defends it on the grounds that it is for his self-interest. Oh no, it is in the national interest. And every one of us is a member of one or more of these special interests and we do the same thing. We must not blame other people, we have to look in the mirror. Everyone of us knows that what is good for him is good for the country.

One of my favourite quotations comes from a speech made by a deputy at the French National Assembly at the time of the French Revolution in 1790, not quite two hundred years ago. He was dealing exactly with the question I am dealing with—the difference between intentions and results. And he wrote and said, “Gentlemen, it is a disagreeable custom, to which one is too easily led by the harshness of the discussions, to assume evil intentions. It is necessary to be gracious as to intentions; one should believe them good, and apparently they are; but we do not have to be gracious at all to inconsistent logic or to absurd reasoning. Bad logicians have committed more involuntary crimes than bad men have done intentionally.” I think that is a very important statement, because I must emphasize, I am not questioning
anybody’s intentions; I am not criticizing the objectives which were sought by the people who promoted these measures, I am talking about the results.

I come to the third major part of my talk. I believe you will agree with me as you look about the world that there has been a reaction against centralization, against the welfare state, against governmental control and government involvement. The crucial question is, will it be possible to cut down the size of government and to restore a greater measure of individual control over people’s own destinies? Here, it is not possible to be certain about the outcome. Once government gets involved in things, it is very hard to reverse course. In all manner of things, whether it be personal illness or governmental programmes, it is almost always easier to prevent than to cure once you have allowed the illness to develop. It is easier to keep government from getting involved, in something than it is to get government out once it gets involved, because vested interests are created that are extremely difficult to dislodge, not least the vested interests of the civil service.

Great Britain currently offers an excellent example. Margaret Thatcher and her government have specified excellent goals of policy. They have stressed that they want to restrain monetary growth in order to control inflation. They have set targets for monetary growth to achieve that objective. They have said they want to reduce the size of government, to get rid of nationalized enterprises, to widen the scope of free markets. The difficulty in carrying out these excellent policies is not coming from opposition from the Labour Party. The Labour Party is disorganized and is offering no opposition. The greatest obstacle is the civil service. The government has set targets for reduced monetary growth, but actual monetary growth has grown. Why? Because those policies are carried out by the civil servants in the Bank of England, who have been there for a long time and are imbued with methods of operation that are not appropriate to the new policies. The civil servants in other areas of the government have resisted curtailment in government spending. Government has set cash limits, maximum amounts that any agency can spend. So the civil servants have used the obvious recourse. They have proceeded to cut down on those activities that are most visible
and that the public most objects to eliminating. I am sure there are many civil servants in this
room and you all understand this very well. Again, I am not blaming them or you. I am sure
the British civil servants are doing what they think is right. But the vested interests of the civil
servants help explain the difficulty that the Thatcher Government is having in reversing
course.

Moreover, in predicting the likely developments, one must recognize that there are
uncertainties that are outside the realm that I have been talking about. What happens to the
next two or three decades depends very critically on international political developments.
Whether there is a major war will be far more important fundamentally in affecting our
destinies than some of the things I am talking about. And obviously, I am incompetent to
make any confident judgements about that. Similarly, economic developments over the next
few decades will be greatly affected by what happens in the Middle East with respect to the
situation in oil. Will the Iraq-Iran war spread? Will other countries have revolutions like
Iran’s? Will we have further major disruptions in oil supplies? I am going to put all of these
matters to one side because I do not see any way of saying anything sensible about them,
except “maybe it will happen” and "we trust not."

If we put those to one side, the major problems which face us and which are a
consequence of the trend of the past fifty or sixty years are inflation and slow economic
growth. These two problems are closely related; yet they are also distinct problems.
Historically, all combinations have occurred: high inflation along with high growth and with
slow growth; no inflation with high growth and with slow growth; deflation with high growth
and with slow growth. However, under current circumstances, inflation and slow growth are
related because they are both consequences of the same basic cause—namely, the excessive
growth of governments. As government has grown, so has resistance to ever higher taxes.
When the welfare state was starting, it was possible to finance considerable benefits to a few
by small taxes on many. As the welfare state grew, everybody had to pay taxes to benefit
everybody. A famous French economist, Frédéric Bastiat, said nearly two centuries ago that
“The state is that fiction by which everybody tries to live at the expense of everybody else.”

The growth of government and the pressures for more and more government spending led in country after country to resistance to imposing additional taxes. And the easiest way to avoid the pressure was to permit inflation, which is a way of imposing taxes without anyone having to vote for it. It is taxation without representation.

Similarly, the growth of government along with the rise of inflation has reduced incentives for individuals to work, to save, to invest, to innovate. Government intervention in the form of detailed regulations, controls, tariffs, and the like has led to a distortion in the use of resources. As a result, both major problems—inflation and slow growth—are a consequence of the triumph of the visible hand over the past fifty years; and in my opinion, both require for their solution restraint of government. Curing inflation requires a slower rate of monetary expansion and a lower level of government spending. Curing slow growth requires a reduction in government spending as a fraction of income, in government regulations, and in government intervention.

It is easy to state the problems and it is easy to state the cures. To that point, there is not much dispute about what I have just been saying. Every government that has been faced with these problems, whether it is the Thatcher Government in Britain, the coalition government in Sweden, the Democratic Party in the United States, or the Republican Party in the United States, the military juntas in Chile, Brazil, and Argentina, the emerging government of Portugal, has ultimately had to agree that the cures are the ones that I have discussed. The question is: will it be politically possible to carry them out? Here the situation differs from country to country. I am, I may say, not very optimistic for the short run, but I am very optimistic for the long run. And I am optimistic because I agree with Dicey’s view that public opinion will ultimately determine actual policy.

So far, the most successful attack on these problems has been in Japan, and its success is a good augury for the rest of the world. In 1973 Japan was experiencing a rate of inflation of something like 25%. That was just at the same time that the oil crisis erupted and the price of
oil was quadrupled. Many countries in the world blame their inflation on the oil crisis. That is wrong as is demonstrated by Japan’s experience. Just when the oil crisis erupted, Japan undertook a policy of monetary restraint. It cut the rate of growth of the quantity of money from 25 or 30% a year down to something like 10–12% a year. It had a difficult year in 1974 and early 1975, but since then it has been doing very well. The inflation rate has come down, for consumer prices, to somewhere in the neighbourhood of 5% a year, and real growth has been satisfactory. I have every reason to expect that Japan will continue to experience real growth and slow inflation.

As to Britain, I have a great deal of respect and confidence in Margaret Thatcher, Geoffrey Howe, Keith Joseph, the other people who are in the government. They have the great good fortune that I mentioned earlier, that the Labour Party is tearing itself apart. So, I believe that the Thatcher Government is likely to have a long enough period in office to be able to conquer the opposition of the civil service and to put its policies into effect, even though the first year and a half have in large part been wasted.

The United States too is a democracy in which the will of the people will be effective. The public is fed up with big government. There is no doubt about that; it is reflected in every poll, in every expression of sentiment. I believe, therefore, that we will succeed in the coming decades in curing the major problems. We shall not do so perfectly, not without costs, not continuously. We will experience backsliding; but I expect that by the end of this decade the U.S. will have a low rate of inflation, a satisfactory rate of growth, and a government sector that, while still too large for my tastes, will be decidedly smaller relative to the rest of the economy than it is now. So, on the whole, while I do not expect any miracles, I am optimistic that the trend I have described will carry things before it.

What about the communist world? That is much more difficult. China is making significant changes right now. I have no doubt that for a few years these changes will produce rapid growth. I am much more pessimistic about whether China can maintain a sustained, viable, long-term rate of growth with its present political and economic system. The Chinese
are a remarkable people. I have always said that if any country in the world can make communism work, China is the country, but I do not believe it can either. That is not a pessimistic conclusion. On the contrary, it is rather an optimistic conclusion—because of its implications for human freedom.

Needless to say, it is always far easier to see where we have been than where we are going, especially in the early stages of a change in direction. We are, I believe, in just such an early stage of one of those changes in trends that Dicey referred to. If I am right, we will find a similar course of events throughout the world, and a course of events that is capable of conferring untold benefits on the suffering masses as well as on the thriving minority. I trust that will be true in Singapore as well as everywhere else, and that it will enable you to convert your extraordinary success into an even more extraordinary success.

Questions and Answers

Question:

Would Professor Friedman care to comment on how, if his prediction concerning Governor Reagan comes true next month, this might influence the short-term economy of the free world and, in particular, Singapore? As Professor Friedman must have found out in his very observant, characteristic way, the subject of jeans is currently dear to the hearts of Singaporeans.

Friedman:

I take it that is spelt jeans and not genes. I do not know what will happen about jeans. Needless to say, I am strongly opposed to the imposition of any kind of embargo on jeans from Singapore or anywhere else. I am a free trader and I would like to see all tariffs and all restrictions on trade abolished by the United States and other countries. So I am on your side so far as that issue is concerned.
As to whether Mr. Reagan’s election, if it does occur, will affect that particular point, I really have no way of knowing.

I may say that I believe that the election in the United States will be important less in terms of whether it is Mr. Reagan or Mr. Carter who is elected than of the effect it has on the composition of the Congress. The President of the United States has a great deal of influence and visibility but not much power. He cannot accomplish very much on his own, on domestic policy, though he can do some damage. He has more of a free hand in international relations. In terms of domestic economic policy with respect to such terms as tariffs, restraints and so on, the most he can do is to propose measures to Congress. We have seen that in the past four years. To those of you in this country or those of you in the British tradition who are accustomed to party discipline, it must seem very strange, that a President who is a member of the Democratic Party, who has what was supposed to be a veto-proof Congress—that is, more than two-thirds of both houses are Democrats—none the less has many of his vetos overruled. That is because we do not have real party discipline in the United States.

The important thing is not what happens to Congress in terms of Democrats or Republicans, the important thing is what happens in terms of the views of the people who are elected. Politics is a market like economics. However, the payoff is in votes instead of dollars—that is, the immediate payoffs. So, the question is what turns out to be politically profitable for candidates to do. I may say, regardless of whether Mr. Carter or Mr. Reagan is elected, I believe that this election will show that it is politically profitable to move in the direction of reduced government controls and intervention, and a stronger military force. So I do think that the election will have a significant influence on American policies. I do not want to make any judgement about so specific an item as blue jeans.

Question:

Professor Friedman, you made the point that one of the things that revolutionized the nineteenth century was the repeal of the Corn Laws. This raises an interesting point to me, in that, in the last three years through the intervention of the common agricultural policy, and
the loan programmes, and reserve programmes in the United States, we have seen the price of feedgrains, and foodgrains and oilseeds doubled. Now, I honour your optimism relative to the thought that we are seeing a change in opinion moving away from government intervention in policy and in the economy towards one of freer markets. But how does one square the circle facing the reality? Today the price of corn is $3.64 a bushel; two years ago, it was a dollar and a half a bushel.

Friedman:

As I said, legislation follows opinion with a considerable lag. In the case of Adam Smith and the Corn Laws, it was seventy years. I think the world has speeded up since then. The improvements in means of transportation and communication have greatly shortened that lag in my opinion. But none the less, there is a lag. It is true that the United States and European countries have followed agricultural policies that are very undesirable and unfortunate and have led to higher prices for many products. As a digression, if you really want to know the difference between a developed country and an underdeveloped country, you can find out very easily: underdeveloped countries underpay their farmers; developed countries overpay their farmers. Our language is a funny thing. Developing countries are those countries that are not developing; developed countries are, in general, those countries that are developing.

To go back to your point, let me point out that in the prior Republican Administration, in the United States administration when Mr. Nixon was President and then Mr. Ford, we managed to get rid of all price controls on farm products. Prior to that time, there had been controls on farm products and there had been allocations and restrictions on the production of farm products and they were abolished. Now we are backsliding. But if you look at the movement of agricultural policy in the United States in the past twenty years, in that particular area it has been moving towards greater freedom of markets rather than in the other direction. The agricultural policy that was begun with the Agricultural Adjustment Act in 1934/5, or whenever it was, has petered out and been dismantled. So, I regard this as a temporary backsliding so far as the United States is concerned. So far as the Common Market
is concerned, that common agricultural policy is going to break under the effects that it will have on surpluses. So, while I do think that you have problems at the moment, they are not going to preclude a movement toward a greater degree of freedom in that area.

Of course, you realize the Corn Laws were symptomatic: they were not by themselves the essential thing; they were only a highly visible side of a much more extensive series of controls. At that time, tariffs were a much more important factor in governmental involvement than they are now. Today, government involvement is far more extensive than that and that is not necessarily the leading edge where government controls will be reduced.

**Question:**

Professor Friedman, I speak as a businessman with very little knowledge of economics or business for that matter. But I would like to ask two naive questions: first, you talked about a lot of expenditure, excessive expenditure by civil servants who work for governments. In Singapore, I have only observed very efficient expenditure by civil servants. I have observed very successful government expenditure on housing, on infrastructure and on what someone calls seed capital—I think it was Dr. Goh himself actually—in big projects where entrepreneurs may not be able to get enough money or withstand a long period of gestation before they get their rewards. I am not sure, when you talked about excessive government spending, that you are referring to this. May I also bring in a second point. You have talked about the success of Japan; and here I speak in great ignorance. It is my suspicion that there are some areas in which it is very difficult to export materials and goods into Japan because of certain regulations.

**Friedman:**

Let me start with the second first because it is the easier question to handle. First of all, Japan at the moment has very extensive governmental intervention, of course, and it does have restraints on trade. Those are doing Japan harm. The Japanese would be far better off if they eliminated them. Japan has been doing very well *despite* those interventions, not as a
result of them. One piece of evidence for that is that if you go back to the nineteenth century that I referred to, from 1867 to the end of the century, Japan had no restraints on imports, no subsidy on exports and had complete free trade; it had a very small government sector, and yet, during that period, it managed to make enormous strides towards becoming a prosperous, highly developed, modern, important country. So it was perfectly possible for it to develop without these restraints.

At the moment, Japan does have a mixture, as every country does. There is no such thing as a pure all one thing or all the other. We are talking about the degree of the mixture. You know, the question is rather like the old joke about German Hasenpfeffer: half horse, half rabbit; or one horse, one rabbit. The question is, what is the mixture? In Japan, while you do have a great deal of governmental involvement, you also have a very broad area of essentially market operations. Market forces are exceedingly important. We get a misleading impression, precisely because the political hand is visible and the market hand is invisible. And as a result we tend to grossly overestimate the importance of the visible hand which we can see, and underestimate the importance of the invisible hand which we cannot see.

Let me illustrate in a very simple way with Japan. Most people regard Japan as a country which is enormously dependent on exports and imports. Total exports of Singapore are something like 150% of its income; total exports of Japan are 13% of its income. Japan is predominantly a self-contained economy and not predominantly an export economy. The United States is about 8%, so Japan and the United States are not very far off in that league.

Now, let me turn to your first question. Needless to say, there are exceptions to every rule, and perhaps Singapore is an exception. I am certainly not going to comment on the details of Singapore; I know too little and there are too many people around here who know too much. But if I may convert your question from a question about Singapore to a question in general, I do believe all of the kind of expenditures you described are excessive expenditures. I do not believe civil servants make excessive expenditures in the sense of
anything scandalous or anything like that. It is only that if there is a venture which private enterprise does not undertake, presumably it is because it is not worth undertaking.

Let me put this in a different way, in a more sophisticated way. I see no reason why government officials should not be just as smart, just as intelligent about what projects they undertake as private individuals. People often refer to an enterprise system as a profit system. That is a great mistake. It is a profit and loss system, and the loss part, in my opinion, is more important than the profit part. The crucial difference is not in what ventures are undertaken. The crucial difference is in what ventures are continued and which ones are abandoned. In any dynamic society which is growing and developing, there are bound to be risks, uncertainties, in what is done. The crucial requirement for maintaining growth and progress is that successful experiments be continued and unsuccessful experiments be terminated. In a private enterprise, you do not have any choice about whether to terminate an unsuccessful experiment unless you can get government to come and bail you out, as Chrysler did. But in a governmental venture, the one thing you could be sure about an unsuccessful experiment is that it will be expanded. So, the crucial difference, in my opinion, is that the excessive expenditure occurs because there is no effective mechanism in general for terminating unsuccessful experiments. Certainly, this is true in most cases.

As I say, Singapore may be an exception. You are a very small society, it is much more nearly possible for you to keep an eye on what is going on and to have judgements on this, and you have done a very excellent job. But, in general, if you look around and take a broader range of experience, the problems of excessive expenditures arise because unsuccessful experiments are not, in fact, terminated.

You talked about a project having a longer time span than private enterprise can undertake. Again, if you look at experience, the most short-sighted people in the world are governments. In democratic societies, no government looks beyond the next election. We talk and this is again one of those examples of the diversion between rhetoric and reality—we talk about the possibility that government can have a long view. In the kind of societies that I am
acquainted with like the United States, like Great Britain and so on, the situation is quite the reverse. There are private enterprises which undertake investments that they do not expect to bear fruit within ten, fifteen, twenty years. Government enterprises will undertake ventures only if they think they are going to be fairly immediately profitable in the political sense. So I do not really believe it is true that government has any role on grounds of the unavailability of private enterprise, or of private capital or private foresight.

Governments have a very important role, do not misunderstand me. I believe you need governments, but their role is in respect of those items that private enterprise cannot undertake. And those are in general the tasks such as providing for the national defence, providing for law and order, establishing the rules under which we operate, and protecting some people, particularly children, and other irresponsible people from being mistreated by other people. Those are the areas of government responsibility, not the erecting of buildings, not the building of houses, in my opinion.

I know that this is a very unpopular view in Singapore, and I believe you have been very wise in the way in which you have done it, in the sense of promoting the selling of the houses to those who occupy them. That is a very wise policy and I do not know of any other country that has been successful in doing it. But do look beyond your particular situation, which is a very special situation, and look at the broader context. You have a neighbour over here, not very far from here, Hong Kong, which is operating under much more adverse circumstances than you are. You have a beautiful green island, and you have made it more beautiful over the past twenty years. But I ask you to contemplate what would have happened to this island if you had faced the population problem that Hong Kong has. In the course of the past thirty years, your population has gone up 50 to 60%, Hong Kong’s has multiplied tenfold. If you had experienced the population problem of Hong Kong, the population of Singapore today would be 15 million. So Hong Kong is operating under vastly more adverse circumstances. It has even less, or certainly no more, land or physical resources than Singapore. Yet in terms of the rate of economic growth, it has done as well.
Obviously, the conditions of living are much less satisfactory in Hong Kong than in Singapore. But that is because of the population problem and the scarce resources. Obviously, three-quarters of the people in Hong Kong, if they had a chance to move, would like to move somewhere else. And I think the United States would be well advised to offer a home for many of them. I am in favour of freer migration as I am of freer trade. But my point is a different one. From the economic point of view, given the problem it had to solve, while Singapore is a very great success, Hong Kong is an even greater success, in the sense that it had so much more difficult a problem. And yet Hong Kong did it without government involvement of the kind that you were describing. It has had complete free trade, it has had complete free exchange of monies as you do, it has had very few government ventures, and a much smaller government sector. So I do think you want to spread a broader net.

Question:

Professor Friedman, you talked much about the general opinion. What are the underlying forces shaping those general opinions? And would you think the elite lead the general mass or the general mass push the elite? In other words, what is the reaction between the elite and the general mass and would you think that the organized minority can easily shape the general opinion? That is one question.

The second question is about your theme on the tale of two cities—Hong Kong and Singapore. True, Hong Kong has a greater growth but Singapore has more social services in terms of housing and other facilities for the poor and middle-class. Hong Kong has much instability in terms of growth—double-digit growth in the last three years but a big dip in 1975/76. Hong Kong has more inflation and the gap between rich and poor is much wider in Hong Kong. And have you seen the slums in Hong Kong? Can you find a slum in Singapore?

Friedman:

If you had 15 million people, what do you think the situation would be? I think of course the differences you’re citing are there. But you have to look at the underlying problems, the
situations, and ask yourself the question: whether you would be as confident about those statements if you had 15 million people.

Comment:

You compared two cities which are in different circumstances.

Friedman:

Of course, the remarkable thing about Hong Kong is that despite its difficulties it has done as well.

Comment:

But we think more about the social aspects.

Friedman:

I think more about the well-being of the ordinary people. Why does Hong Kong have six million people? Because they have fled across the border voluntarily; they have voted with their feet. The average income of the ordinary person in Hong Kong has gone up fourfold in the past thirty years despite a tenfold increase in population. Now that is an absolutely remarkable achievement I find hard to duplicate anywhere else.

Let me take a different example, take Taiwan. Singapore, Hong Kong and Taiwan are a marvelous triplet to compare, because in all cases the racial composition is largely the same; they have benefited from the same forces, the extraordinary intelligence, and skill and inventiveness of the Chinese people. Both Hong Kong and Taiwan benefited from a great influx of Chinese skill and capital after the revolution in communist China. Taiwan again has much less difficult circumstances than Hong Kong. It has less than a doubling of population; it has a much larger land area and much more resources. Yet Taiwan, while it has done very well, has not done as well as Hong Kong. A fascinating comparison.

Comment:

I don’t think that you can compare in the absolute sense.
Friedman:

I agree. I am saying to you that obviously I would much rather live in Singapore than I would in Hong Kong. I am not questioning that.

Comment:

If you were a businessman, you would like to go to Hong Kong. If you are in the low-income group, you would like to stay in Singapore.

Friedman:

If you are right about that, that does not speak well for the future of Singapore. But let me go to your first question which is a very important question. I believe that the intellectual community largely does affect the trend of opinion. I do not believe there is any doubt that you have a relatively small class that tends to shape the general values and the opinions of the society. But that class itself is very much affected by experience as well as by the internal process of thought. I believe that the intellectual community of Adam Smith’s time was converted to his belief as much by their observation of the inadequacies of governmental policies, of the corruption of governments, and so on, as by the cogency of his arguments. In the same way, I believe that in the nineteenth century it was Dickens more than Marx who had a major effect on shaping the intellectual climate of opinion that reversed the course of public opinion and reversed attitudes.

Similarly now, I believe it is the reactions to the difficulties which Britain has gotten into, to the experiences of the communist societies, the difficulties that are now appearing in Sweden, the problems we have had in the United States with inflation and growth … I believe it is the experience of those problems more than the cogency of the arguments that people like myself have advanced in our books which accounts for the change in public opinion. It is not that the mass has pushed the elites; rather the intellectuals whom you are calling the elites are affected by the events they observe and by the circumstances of their times. And I say that they are also affected very much by their own position. It is not possible to explain policies
that have been followed in various countries without taking into account the effect which those policies have had on the positions of the opinion-leaders.

**Question:**

*Professor Friedman, I am a historian more than an economist and so therefore I am very much more conversant with the abolition of the Corn Laws, since it took place in my own country, than I am with, say, for instance, the principle of helping, or not, lame ducks. But what I should like to ask you and, as a Thatcher supporter and a Thatcher voter, I should like to find out from you is what you really propose doing about regional unemployment, because there are certain areas in Great Britain, for example, which suffer from a considerable pool of unemployed manpower and resources. It seems to me that, whilst I may agree, presumptuously perhaps, with your views, I do understand that these would take some time to come into fruition. For instance, it would take several years, perhaps, to get the Northeast England area to have lots of new industry and infrastructure. So, what I am concerned about is, what do you do about the unemployed sector during that interim period?*

*Friedman:*

There are two separate questions. As you may know, I do not propose that Britain abolish overnight its provisions for assisting people who are unemployed or who have low incomes. On the contrary, I have long been in favour of replacing the present system of welfare assistance, the kind that Britain has, with a negative income tax or, what is called in Britain, a reverse income tax, which would enable people with incomes below a certain level to get assistance.

But turning to your more important question, the question of regional unemployment, there is no doubt what the proper measure would be. But you will tell me whether it is politically feasible. The most important single thing you could do to eliminate the problems of regional unemployment would be to eliminate your rent control and restrictions on housing measures. The major factor that has enabled regional unemployment to continue in Britain is
the restriction on the effective mobility of people because of the difficulties of getting housing. And that is because the market has not been allowed to operate in the housing industry. It is not necessarily sensible to move industry to where people are. Very often it is much cheaper to move people to where the industry is. And people will voluntarily move, as we have observed, and you, as a historian, know from the great migrations that have occurred.

America would not have 200 million people today if people were not willing to move to where opportunities were. One of the great defects of the Welfare State as it is developed has been that it has tended to restrict the mobility of people. You remember, that was the great objection made against the British poor laws in the early days of the nineteenth century. They tended to keep people fixed to their own parish so that they would not become charges of other parishes. Your housing legislation today is having somewhat similar effects. Beyond that, in so far as you are able to reduce the level of taxation, the level of government spending, you would provide a greater incentive for people to engage in investments wherever it is profitable to invest. I do not believe it is desirable to have a specific programme for regional unemployment. I believe it is desirable to try to establish a kind of a climate, an economic climate, in which you will have mobility of people and mobility of industry and effective incentives for investment.

Comment:

Some of my best friends are civil servants.

Friedman:

Some of mine are too. We’re in the same boat! My criticism is not of people as individuals.

Question:

You said that part of the blame for Britain’s lack of an economic miracle lies really with the civil servants for not really putting into effect what Margaret and the rest are trying to
bring about. Could you explain that a little but more closely for us, please, because I do not quite understand what you mean?

Friedman:

I would be very glad to. Let me go back for a moment to my own country because I know it better. The country is not run by the elected officials; the country is run by the permanent civil servants. They have all the details at their finger tips; they have been there for a long time; they were there before any new government comes in; they expect to be there long after any government goes out. It is incredibly difficult for newly elected people to enforce policies which do not have the internal support, not explicit but subconscious, of the civil service. And you will find, as everybody who has had experience with governments of this kind knows, that if the civil servants believe a certain policy is desirable, it will be knocked down. It will come up in another form; it will be knocked down, and it will come up in another form.

An elected government cannot operate without operating through the civil service. Now, the civil servants are obstructive not because they want to do bad things but because they honestly believe that the policies they are being asked to implement are not desirable policies. They are not being subversive, they are not being disobedient, but they know how to get things done and what things ought to be done. Moreover, it is very hard to ask a group of people to curtail their own scope and their own importance. Let us not kid anybody. There is no doubt that in any major government, whether it is the United States or Great Britain, if you could go down the line and discharge every third civil servant, the total amount of work done would go up. But no civil servant likes to be discharged. I do not blame them; I would not like to be discharged under those circumstances and you would not either. So it is very natural for every civil servant to find the excuses and the reasons why the function he is performing is essential and should not be curtailed. And it is just really as simple as that, I believe.

Question:
Professor Friedman, in a series of books, in particular The New Industrial State,
Professor J.K. Galbraith has his views on the giant corporations, the technocracy, forcing
their views and what we want to buy on us. In that sense, our will to consume whatever we
want cannot be translated by the invisible hand to the general good of the rest. Would you
care to comment on this?

Friedman:

I would be glad to. John Kenneth Galbraith is simply wrong. And there is much evidence
of that. As witness on my side, I call the fortunes of automobile companies in the United
States. To go back, you all remember the major case when Ford Motor Company decided to
introduce a new car, the Edsel. It undertook a massive advertising campaign. It was an utter
failure because the consumers did not like it. There is no way in which the automobile
companies in the United States are going to make consumers buy cars they do not want to
buy.

The fundamental defect with Galbraith’s view is that it does not make sense from the
point of view of the enterprise. Let us suppose you are a business enterprise. Which is easier
for you to do—to persuade the consumers to buy something they want or to persuade them to
buy something they do not want? Does it make sense for you in conducting your business to
go searching to produce things that consumers do not want, and then spend money trying to
make them buy these things? Or is it more sensible for you as a businessman to try to figure
out what things it will be easy to sell to people? Why do all the major enterprises, however
big they are, engage in extensive marketing surveys? Why do they test market products before
they bring them out? How is it that a very large fraction of all new products that are
introduced turn out to be failures? The so-called techno-structure that John Kenneth Galbraith
is talking about is a figment of John Kenneth Galbraith’s imagination. It is not a reality. And
he has a good imagination!

Question:
Mr. Chairman, Professor Friedman, in discussing the role of public opinion in moulding and changing policies and trends, has also cited China and recent changes in China. But in my opinion, changes in China were moulded more by the leadership’s opinion imposed on the people rather than by public opinion. How different is this to the former? And how effective will it be in terms of bringing about change? Related to this, Professor Friedman also mentioned that, in the final analysis, the governments will have to decide whether it is politically feasible. Now, in the case of China, is it just political feasibility or economic feasibility that brought about Professor’s pessimism as to its chances of achieving success?

Friedman:

The case of a communist country is a very extreme case and you are quite right that, in any direct sense, the new policy is imposed on the people and does not come from the people. But that does not mean that public opinion does not play a role. Moreover, it does not mean that the policies which the leaders impose upon their people are not themselves affected by public opinion of a broader kind.

Let me illustrate. The leaders of Japan after the Meiji Restoration had no interest whatsoever in democracy, freedom or anything like that; they only wanted to make Japan a great nation. But it was the fact that the climate of opinion in the world at large was a climate of opinion favorable to *laissez-faire* and free enterprise that led them to adopt that policy. They imposed it on the people. But they were themselves reflecting a broader range of public opinion.

When India gained its independence in 1948, the leaders of India were strongly in favour of freedom, democracy and so on. But the climate, the international climate of public opinion, was a collectivist climate and they were led to impose collectivism on their people. They imposed it on their people, but they did so as a result of a broader public opinion. That is one sense in which public opinion influences even the communist or dictatorial states. But the other sense is that even the ruling class in a country like Russia, or in a country like China,
must somehow or other bow to widespread public resentment and opinion, or there will be another revolution, another turnover, another change of power.

On the question of the future in China, let us see what we mean by economic feasibility. In a technical sense, there is no reason why China could not experience an enormous growth. The Chinese people are intelligent, able people. The Chinese who have come to Singapore have made a great success. The Chinese who have gone to Hong Kong have made a great success. The Chinese who have gone to Taiwan have made a great success. The Chinese who have gone to America have done very well. It cannot be that the Chinese can do very well everywhere in the world except in their own country. So, on a technically feasible level there is no reason why China could not experience a major economic growth. But I do not believe it will do so, because I do not believe that the political system is favorable to that kind of growth. I do not know any case in history in which a country has experienced long, continued growth which has benefited the majority of the people except through the mechanism of free private enterprise. I do not know of any counter example to that. There is no collectivist society that has succeeded in doing so. Now, maybe China will be an exception. But I am very pessimistic about that and that is the source of my pessimism.

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