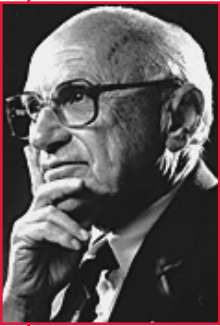


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Free to Choose: A Conversation with Milton Friedman

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MILTON FRIEDMAN is a senior research fellow at the Hoover Institution at Stanford University and a professor emeritus of economics at the University of Chicago, where he taught from 1946-1976. Dr. Friedman received the Nobel Memorial Prize for Economic Science in 1976, and the National Medal of Science and the Presidential Medal of Freedom in 1988. He served as an unofficial adviser to presidential candidate Barry Goldwater and Presidents Nixon and Reagan. He is the author of numerous books, including *Two Lucky People* (with Rose Friedman).

*The following is an edited transcript of a conversation between Hillsdale College President Larry Arnn and Milton Friedman, which took place on May 22, 2006, at the Ritz-Carlton Hotel in San Francisco, California, during a two-day Hillsdale College National Leadership Seminar celebrating the 25th anniversary of Milton and Rose Friedman's book, *Free to Choose: A Personal Statement*.*

LARRY ARNN: In *Free to Choose*, in the chapter on "The Tyranny of Controls," you argue that protectionism and government intervention in general breed conflict and that free markets breed cooperation. How do you reconcile this statement with the fact that we think of free markets as being competitive?

MILTON FRIEDMAN: They are competitive, but they are competitive over a broad range. The question is, how do you make money in a free market? You only make money if you can provide someone with something he or she is willing to pay for. You can't make money any other way. Therefore, in order to make money, you have to promote cooperation. You have to do something that your customer wants you to do. You don't do it because he orders you to. You don't do it because he threatens to hit you over the head if you don't. You do it because you offer him a better deal than he can get anywhere else. Now that's promoting cooperation. But there are other people who are trying to sell to him, too. They're your competitors. So there is competition among sellers, but cooperation between sellers and buyers.

LA: In the chapter on "The Tyranny of Controls," you seem gloomy about the prospects for India. Why?



MF: I was in India in 1955 on behalf of the American government to serve as an economic adviser to the minister of finance. I concluded then that India had tremendous potential, but none of it was being achieved. That fact underlies the passage you are referring to in *Free to Choose*. Remember, *Free to Choose* aired in January 1980, and as of that time there had been no progress in India. The population had grown, but the standard of living was as low as it had been in 1955. Now, in the past ten or fifteen years, there has been movement in India, and maybe those hidden potentials I saw in 1955 will finally be achieved. But, there is still great uncertainty there.

LA: In that same chapter, you wrote the following about China: “Letting the genie of . . . initiative out of the bottle even to this limited extent will give rise to political problems that, sooner or later, are likely to produce a reaction toward greater authoritarianism. The opposite outcome, the collapse of communism and its replacement by a market system, seems far less likely.” What do you think about that statement today?

MF: I’m much more optimistic about China today than I was then. China has made great progress since that time. It certainly has not achieved complete political freedom, but it has come closer. It certainly has a great deal more economic freedom. I visited China for the first time in 1980 right after the publication of *Free to Choose*. I had been invited by the government to lecture on how to stop inflation, among other things. China at that time was in a pretty poor state. The hotel we stayed in showed every sign of being run by a communist regime. We returned to China twice, and each time, the changes were tremendous. In 1980, everybody was wearing the dull and drab Mao costume; there were bicycles all over the place and very few cars. Eight years later, we started to see some color in the clothes, there were things available for sale that hadn’t been available before, and free markets were breaking out all over the place. China has continued to grow at a dramatic rate. But in the section of *Free to Choose* you refer to, I talked about the political conflict that was coming—and that broke out in Tiananmen Square. The final outcome in China will not be decided until there is a showdown between the political tyranny on the one hand and economic freedom on the other—they cannot coexist.

LA: Let me ask you about demographic trends. Columnist Mark Steyn writes that in ten years, 40

percent of young men in the world are going to be living in oppressed Muslim countries. What do you think the effect of that is going to be?

MF: What happens will depend on whether we succeed in bringing some element of greater economic freedom to those Muslim countries. Just as India in 1955 had great but unrealized potential, I think the Middle East is in a similar situation today. In part this is because of the curse of oil. Oil has been a blessing from one point of view, but a curse from another. Almost every country in the Middle East that is rich in oil is a despotism.

LA: Why do you think that is so?

MF: One reason, and one reason only—the oil is owned by the governments in question. If that oil were privately owned and thus someone’s private property, the political outcome would be freedom rather than tyranny. This is why I believe the first step following the 2003 invasion of Iraq should have been the privatization of the oil fields. If the government had given every individual over 21 years of age equal shares in a corporation that had the right and responsibility to make appropriate arrangements with foreign oil companies for the purpose of discovering and developing Iraq’s oil reserves, the oil income would have flowed in the form of dividends to the people—the shareholders—rather than into government coffers. This would have provided an income to the whole people of Iraq and thereby prevented the current disputes over oil between the Sunnis, Shiites and Kurds, because oil income would have been distributed on an individual rather than a group basis.

LA: Many Middle Eastern societies have a kind of tribal or theocratic basis and long-held habits of despotic rule that make it difficult to establish a system of contract between strangers. Is it your view that the introduction of free markets in such places could overcome those obstacles?

MF: Eventually, yes. I think that nothing is so important for freedom as recognizing in the law each individual’s natural right to property, and giving individuals a sense that they own something that they’re responsible for, that they have control over, and that they can dispose of.

LA: Is there an area here in the United States in which we have not been as aggressive as we should in promoting property rights and free markets?



Gary S. Becker

University of Chicago



*DR. GARY S. BECKER is university professor of economics and sociology at the University of Chicago and recipient of the 1992 Nobel Memorial Prize for Economic Science. As a graduate student in economics, he studied under Milton Friedman at the University of Chicago. The following is an excerpt from “Economics and the Academy,” a speech delivered on May 23, 2006, at the College’s National Leadership Seminar celebrating the 25th anniversary of the publication of *Free to Choose* by Milton and Rose Friedman.*

Most economists in the 1950s, ’60s, and even the ’70s, were not strong believers in free markets. They may have taught free market economics, but they didn’t believe in it. I realize that seems strange, but, unfortunately, a lot of people who teach economics don’t believe what they’re teaching. I’ll give you one example: In the 1980s, a major economics journal conducted a survey of graduate students at major institutions teaching economics—schools such as the University of Chicago, MIT and Harvard. The survey asked the students two questions: First, do your teachers believe what they are teaching, and second, do you believe what you are being taught? At every institution but one, the University of Chicago—a result that makes me proud but depressed at the same time—the students said, first, they didn’t believe that their teachers believed what they were teaching, and, second, they didn’t believe it either.

Most economists at that time believed that a centralized economy would likely perform better than a free economy. They did not like the restrictions on political freedom that followed from this view, but they were willing to put up with that for the sake of the economic controls they championed. As late as the early 1980s, the highly regarded economist Paul Samuelson said in his famous textbook—probably the most successful economics textbook ever written—that central planning could lead to more economic output, but would do so at the expense of restrictions on political freedom. To be clear, the latter part of that statement is true. But the former part is completely wrong. More and more evidence surfaces all the time indicating just how poorly centralized economies perform. Samuelson later claimed he was merely reflecting the general beliefs of economists at the time. But that was precisely the problem: Those *were* the general beliefs of economists at the time.

In those days, there were only a few places where the opposite view was taught—Hillsdale College and the University of Chicago, for example. Although we were not the only ones, there were not many more who believed that free markets not only lead to more freedom, but are also the best systems ever invented for raising the standard of living of the poor, which is a goal of economics.

I believe the situation we saw in the early 1980s—economists who didn’t believe what they were teaching, and the preeminent place they gave to central planning—has changed greatly. What is more, I think Milton Friedman was one of the most important modern intellectual leaders who paved the way for, and led, this change. He achieved this by questioning the view that market economies do not do a good job providing for peoples’ wants or stimulating economic progress or aiding the spread of political freedom. At the end of the day, economic freedom and political freedom are inseparable. That’s a lesson that’s gradually sinking in to the economics profession, but preparing the ground for this change took a long, long time. It took the writings of people like Milton and Rose Friedman to make it happen.

The celebration of the 25th anniversary of *Free to Choose* is highly merited and deserved. It is a book that has had an enormous influence on the public at large and on economists in particular. It is not too much to call it a revolutionary book. I believe that its influence will increase, not decrease, as we look forward to the next 50 years.

continued from page 2

MF: Yes, in the field of medical care. We have a socialist-communist system of distributing medical care. Instead of letting people hire their own physicians and pay them, no one pays his or her own medical bills. Instead, there's a third party payment system. It is a communist system and it has a communist result. Despite this, we've had numerous miracles in medical science. From the discovery of penicillin, to new surgical techniques, to MRIs and CAT scans, the last 30 or 40 years have been a period of miraculous change in medical science. On the other hand, we've seen costs skyrocket. Nobody is happy: physicians don't like it, patients don't like it. Why? Because none of them are responsible for themselves. You no longer have a situation in which a patient chooses a physician, receives a service, gets charged, and pays for it. There is no direct relation between the patient and the physician. The physician is an employee of an insurance company or an employee of the government. Today, a third party pays the bills. As a result, no one who visits the doctor asks what the charge is going to be—somebody else is going to take care of that. The end result is third party payment and, worst of all, third party treatment.

LA: Following the recent expansion in prescription drug benefits and Medicare, what hope is there for a return to the free market in medical care?

MF: It does seem that markets are on the defensive, but there is hope. The expansion of drug benefits was accompanied by the introduction of health savings accounts—HSAs. That's the one hopeful sign in the medical area, because it's a step in the direction of making people responsible for themselves and for their own care. No one spends somebody else's money as carefully as he spends his own.

LA: On the subject of Social Security, let me read to you a passage from *Free to Choose*: “As we have gone through the literature on Social Security, we have been shocked at the arguments that have been used to defend the program. Individuals who would not lie to their children, their friends, their colleagues, whom all of us would trust implicitly in the most important personal dealings, have propagated a false view of Social Security. Their intelligence and exposure to contrary views make it hard to believe that they have done so unintentionally and innocently. Apparently they have regarded themselves as an elite group within society that knows what is good for other people

better than those people do for themselves.” What do you think of these words today?

MF: I stick by every word there. But there has been progress since then. Let me explain: *Free to Choose* was produced and shown on television for the first time in January 1980. President Reagan was elected in November 1980. To get a clear picture of what has happened since the publication of *Free to Choose*, we really need to look at what happened before and after the election of Ronald Reagan. Before Reagan, non-defense government spending—on the federal, state and local levels—as a percentage of national income was rising rapidly. Between the early 1950s and 1980, we were in a period of what I would call galloping socialism that showed no signs of slowing. Following the election of Ronald Reagan, there was an abrupt and immediate halt to this expansion of government. But even under Reagan, government spending as a percentage of national income didn't come down: It has held constant from that time to now. Although the early years of the current Bush presidency did see spending increases, national income has risen, too. We have achieved some success at our first task: stopping the growth of government. The second task is to shrink government spending and make government smaller. We haven't done that yet, but we are making some progress. I should also mention as a cautionary tale that, prior to Reagan, the number of pages in the Federal Register was on the rise, but Reagan succeeded in reducing this number substantially. However, once Reagan was out of office, the number of pages in the Register began to rise even more quickly. We have not really succeeded in that area.

There have been real changes in our society since *Free to Choose* was published. I'm not attributing them to *Free to Choose*—I'm not saying that's the reason—but in general, there has been a complete change in public opinion. This change is probably due as much to the collapse of the Soviet Union as it is to what Friedrich Hayek or Milton Friedman or somebody else wrote. Socialism used to mean the ownership and operation of the means of production, but nobody gives it that meaning today. There is no country in the world attempting to be socialist in that sense except North Korea. And perhaps Russia is moving in that direction. Conversely, opinion has not shifted far enough in terms of the dangers of big government and the deleterious effects it can have, and that's where we're facing future problems. This clarifies the task facing institutions such as Hillsdale

College: We must make clear that the only reason we have our freedom is because government is so *inefficient*. If the government were efficient in spending the approximately 40 percent of our income that it currently manages, we would enjoy less freedom than we do today.

LA: In *Free to Choose* you discuss Abraham Lincoln's "House Divided" speech, which you relate to the great task that the American people face. Like Lincoln, you argue that a house divided against itself cannot stand: America is going to be a government intervention country or it's going to be a free market country, but it cannot continue indefinitely as a mixture of both. Do you still believe that?

MF: Yes, I very much believe that, and I believe that we've been making some headway since *Free to Choose* appeared. However, even though it is real headway compared to what was happening before, we are mostly holding ground.

LA: What do you think are the major factors behind the economic growth we have experienced since the publication of *Free to Choose*?

MF: Economic growth since that time has been phenomenal, which has very little to do with most of what we've been talking about in terms of the conflict between government and private enterprise. It has much more to do with the technical problem of establishing sound monetary policy. The economic situation during the past 20 years has been unprecedented in the history of the world. You will find no other 20-year period in which prices have been as stable—relatively speaking—in which there has been as little variability in price levels, in which inflation has been so well-controlled, and in which output has gone up as regularly. You hear all this talk about economic difficulties, when the fact is we are at the absolute peak of prosperity in the history of the world. Never before have so many people had as much as they do today. I believe a large part of that is to be attributed to better monetary policy. The improved policy is a result of the acceptance of the view that inflation is a monetary phenomenon, not a real phenomenon. We have accepted the view that central banks are primarily responsible for maintaining stable prices and nothing else.

LA: Do you think the Great Depression was triggered by bad monetary policy at a crucial moment?

MF: Absolutely. Unfortunately, it is still the case that if you ask people what caused the Great Depression, nine out of ten will probably tell you it was a failure of business. But it's absolutely clear that the Depression was a failure of government and not a failure of business.

LA: You don't think the Smoot-Hawley tariff caused the Depression?

MF: No. I think the Smoot-Hawley tariff was a bad law. I think it did harm. But the Smoot-Hawley tariff by itself would not have made one quarter of the labor force unemployed. However, reducing the quantity of money by one third *did* make a quarter of the labor force unemployed. When I graduated from undergraduate college in 1932, I was baffled by the fact that there were idle machines and idle men and you couldn't get them together. Those men wanted to cooperate; they wanted to work; they wanted to produce what they wore; and they wanted to produce the food they ate. Yet something had gone wrong: The government was mismanaging the money supply.

LA: Do you think our government has learned its lesson about how to manage the money supply?

MF: I think that the lesson has been learned, but I don't think it will last forever. Sooner or later, government will want to raise funds without imposing taxes. It will want to spend money it does not have. So I hesitate to join those who are predicting two percent inflation for the next 20 years. The temptation for government to lay its hands on that money is going to be very hard to resist. The fundamental problem is that you shouldn't have an institution such as the Federal Reserve, which depends for its success on the abilities of its chairman. My first preference would be to abolish the Federal Reserve, but that's not going to happen.

LA: I want to talk now about education and especially about vouchers, because I know they are dear to your heart. Why do you think teachers unions oppose vouchers?

MF: The president of the National Education Association was once asked when his union was going to do something about students. He replied that when the students became members of the union, the union would take care of them. And that was a correct answer. Why? His responsibility as president of the NEA was to serve the members of his union, not to serve public purposes. I

give him credit: The trade union has been very effective in serving its members. However, in the process, they've destroyed American education. But you see, education isn't the union's function. It's our fault for allowing the union to pursue its agenda. Consider this fact: There are two areas in the United States that suffer from the same disease—education is one and health care is the other. They both suffer from the disease that takes a system that should be bottom-up and converts it into a system that is top-down. Education is a simple case. It isn't the public purpose to build brick schools and have students taught there. The public purpose is to provide education. Think of it this way: If you want to subsidize the production of a product, there are two ways you can do it. You can subsidize the producer or you can subsidize the consumer. In education, we subsidize the producer—the school. If you subsidize the student instead—the consumer—you will have competition. The student could choose the school he attends and that would force schools to improve and to meet the demands of their students.

LA: Although you discuss many policy issues in *Free to Choose*, you have turned much of your attention to education, and to vouchers as a method of education reform. Why is that your focus?

MF: I don't see how we can maintain a decent society if we have a world split into haves and have-nots, with the haves subsidizing the have-nots. In our current educational system, close to 30 percent of the youngsters who start high school never finish. They are condemned to low-income jobs. They are condemned to a situation in which they are going to be at the bottom. That leads in turn to a divisive society; it leads to a stratified society rather than one of general cooperation and general understanding. The effective literacy rate in the United States today is almost surely less than it was 100 years ago. Before government had any involvement in education, the majority of youngsters were schooled, literate, and able to learn. It is a disgrace that in a country like the United States, 30 percent of youngsters never graduate from high school. And I haven't even mentioned those who drop out in elementary school. It's a disgrace that there are so many people who can't read and write. It's hard for me to see how we can continue to maintain a decent and free society if a large subsection of that society is condemned to poverty and to handouts.

LA: Do you think the voucher campaign is going well?

MF: No. I think it's going much too slowly. What success we have had is almost entirely in the area of income-limited vouchers. There are two kinds of vouchers: One is a charity voucher that is limited to people below a certain income level. The other is an education voucher, which, if you think of vouchers as a way of transforming the educational industry, is available to everybody. How can we make vouchers available to everybody? First, education ought to be a state and local matter, not a federal matter. The 1994 Contract with America called for the elimination of the Department of Education. Since then, the budget for the Department of Education has tripled. This trend must be reversed. Next, education ought to be a parental matter. The responsibility for educating children is with parents. But in order to make it a parental matter, we must have a situation in which parents are free to choose the schools their children attend. They aren't free to do that now. Today the schools pick the children. Children are assigned to schools by geography—by where they live. By contrast, I would argue that if the government is going to spend money on education, the money ought to travel with the children. The objective of such an expenditure ought to be educated children, not beautiful buildings. The way to accomplish this is to have a universal voucher. As I said in 1955, we should take the amount of money that we're now spending on education, divide it by the number of children, and give that amount of money to each parent. After all, that's what we're spending now, so we might as well let parents spend it in the form of vouchers.

LA: I have one more question for you. You describe a society in which people look after themselves because they know the most about themselves, and they will flourish if you let them. You, however, are a crusader for the rights of others. For example, you say in *Free to Choose*—and it's a very powerful statement—a tiny minority is what matters. So is it one of the weaknesses of the free market that it requires certain extremely talented and *disinterested* people who can defend it?

MF: No, that's not right. The self-interest of the kind of people you just described is promoting public policy. That's what they're interested in doing. For example, what was my self-interest in economics? My self-interest to begin with was to



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continued from page 6

understand the real mystery and puzzle that was the Great Depression. My self-interest was to try to understand why that happened, and that's what I enjoyed doing—that was my self-interest. Out of that I grew to learn some things—to have some knowledge. Following that, my self-interest was to see that other people understood the same things and took appropriate action.

LA: Do you define self-interest as what the individual wants?

MF: Yes, self-interest is what the individual wants. Mother Teresa, to take one example, operated on a completely self-interested basis. Self-interest does not mean narrow self-interest. Self-interest does not mean monetary self-interest. Self-interest means pursuing those things that are valuable to you but which you can also persuade others to

value. Such things very often go beyond immediate material interest.

LA: Does that mean self-interest is a synonym for self-sacrifice?

MF: If you want to see how pervasive this sort of self-interest is that I'm describing, look at the enormous amount of money contributed after Hurricane Katrina. That was a tremendous display of self-interest: The self-interest of people in that case was to help others. Self-interest, rightly understood, works for the benefit of society as a whole.



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