

# FOCUS



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**ON  
MILTON  
FRIEDMAN**

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**PART I**

**AN ADDRESS BY DR. MILTON FRIEDMAN**  
to the  
**ANNUAL GENERAL MEETING**  
of  
**THE FRASER INSTITUTE**

**MARCH 23, 1982**  
**VANCOUVER, B.C.**

**INTRODUCTION**  
**BY**  
**DR. MICHAEL WALKER**  
**DIRECTOR, THE FRASER INSTITUTE**

Thank you, Mr. Chairman, Ladies and Gentlemen. Our honoured guest today is Professor Milton Friedman and history will undoubtedly record that Professor Friedman was the greatest economist of our time and perhaps the greatest economist of this century.

In coming to this most appropriate conclusion, history will have much to assess. Professor Friedman's scholarly writings on economics alone encompass some 245 publications including 26 books. To give a flavour of the range and depth of this intellectual bounty would be entirely impossible in the few minutes I am going to take today. However, I can perhaps give some indication of the fundamental impact which Professor Friedman has had by telling you that in the very small period of five years between 1953 and 1958 he published in three separate areas of economics, three studies which had ultimately the effect of totally changing the perspective of the economics profession - even amongst those who would say that they are neither conservatives nor Friedmanians, if I can use the term. The three works were **A Theory of the Consumption Function; The Quantity Theory of Money, A Restatement; and The Methodology of Positive Economics.**

While gigantic in their separate effect on the evolution of economics, these writings do not particularly stand out amongst Professor Friedman's accomplishments. They don't stand out because they are now the orthodoxy. We have pretty well forgotten them because they are a part of

everyday economics. And the second reason is because they have been lost in the deluge of ideas which Professor Friedman has subsequently produced.

While history will undoubtedly accord to Professor Friedman the position he deserves he has not been without recognition in contemporary society. In addition to the Nobel Prize which he received in 1976, Professor Friedman has been awarded virtually every honour which could be bestowed upon him. These include the John Bates Clark Medal; The Gold Medal of the National Institute of Social Sciences; Educator of the Year; Chicagoan of the Year; seventeen honorary doctorates of law, literature, and science; the presidency of the most prestigious associations, including the American Economics Association and the Mont Pelerin Society. He is a Fellow of the American Statistical Association, the Econometric Society, The Institute of Mathematical Statistics, and a member of numerous academic and professional societies around the globe.

An advisor to presidents and governments on many continents, Professor Friedman has collaborated with his wife Dr. Rose Friedman, whom we are very fortunate also to have here today, in writing two of the most influential books of our time. The first, **Capitalism and Freedom**, was written in 1962 during a period which was roughly equivalent in economic terms to the dark ages. The sequel, **Free to Choose**, published in 1980 will be seen in the future as a cornerstone of the Renaissance in economic thinking which we are currently experiencing. A measure of the Friedmans' contribution to the level of economic literacy is to be found in the fact that **Free to Choose** was simultaneously on the best seller lists in every English speaking country in the world. A measure of their influence on the future is to be found in the fact that it has just been translated into Chinese for publication in the People's Republic of China.

Currently Senior Research Fellow at the Hoover Institution, Paul Snowden Russell Distinguished Service Professor of Economics at the University of Chicago, and a member of the research staff of the National Bureau of Economic Research, Professor Friedman is also an editor of Newsweek



magazine. Notwithstanding his great accomplishments, Professor Friedman is one of the most genial and approachable individuals that I have ever had the privilege to meet. Ladies and Gentlemen, I would ask you to join me in providing Professor Friedman with a warm Canadian welcome to Vancouver, Professor Friedman.....

## **CURRENT ECONOMIC AND POLITICAL DEVELOPMENTS IN THE UNITED STATES**

### **I. INTRODUCTION**

Mr. Chairman, I'd like to thank you very much for that warm introduction. As usual, you know, advertising always exaggerates, but I am delighted to be here with all of you in Vancouver even though it took my wife and me 42 years to get here. We first started out to visit Vancouver in 1940 but our automobile broke down between Jasper and Banff and given the difficulties of repairs we had to spend ten days extra in Banff. So we were delayed a few years but we have finally made it and the wait, I think, is almost worth it because of the warmth and hospitality we have been receiving here from everybody we have been in contact with. I am pleased also to be speaking under the auspices of The Fraser Institute because I think it and institutes like it have an enormously important role to play in the development of an understanding of the problems that we face today.

In talking today, I am going to proceed from some very broad statements painting with a very broad brush and come back down to a rather narrower focus. I shall try to be brief because I would like to leave as much time as possible for questions and replies to questions since you know better than I do what you are interested in. But I would like to start by

sketching in broad terms what I think to have been the major intellectual and policy developments in the western world over a very long period of time and then ask some questions about why those problems have occurred and what role ideas have to play in their development. I shall then turn to the more specific and immediate situation in the United States.

## II. IDEAS AND THE ROLE OF GOVERNMENT

### Laissez-faire beginnings

I'm not sure we shall learn everything from history that Mike said - but one fascinating thing I know we do learn from history is that there tend to be long swings in the general direction of opinion and policy. One of the great books on this subject is by an English constitutional lawyer, A.V. Dicey on **Law and Public Opinion in the 19th Century**.<sup>1</sup> He points out, what is clear to anyone who looks at it, that currents of opinion once they get started tend to go for a long time in the same direction and only rarely turn around. In general, the turning point is characterized by great uncertainty because that turn is induced by conflicting counter-currents of opinion. In the English-speaking world Adam Smith in 1776 with **The Wealth of Nations**,<sup>2</sup> the United States in the same year with the Declaration of Independence launched one of those very long trends. Throughout most of the 19th century the trend was away from mercantilism, away from centralized government, away from state planning toward free enterprise, laissez-faire, democracy, human freedom as well as economic freedom. Eventually and predictably, that trend started changing. It started changing in Britain at the end of the 19th century. On this side of the ocean, we, particularly in the United States, were about 20 years behind Britain. But in both countries the change in opinions came first and the change in policies came later.

## **The trend toward bigger government**

In most of this century the policies that have been followed have been policies of moving toward ever bigger government, of moving in the direction in which individuals have less and less to say about their own lives and in which we have been assigning more and more control over our lives to people who supposedly represent us in either an elected or appointed fashion. You can trace that very readily and very directly in the fraction of the nation's income that is spent by government. In the United States until 1929, total government spending, federal, state, and local, never exceeded about ten to eleven per cent of the national income. Interestingly enough that was also true in Great Britain until the early part of the 20th century. At the time of Queen Victoria's Jubilee at the end of the 19th century in Great Britain, government spending was roughly ten per cent of the national income. (I might add, as a side point, that if you add to those two items the biblical injunction to tithe, the conclusion you reach is that ten per cent is about the right amount that government should be spending.) Today in Great Britain, government is spending somewhere between 50 and 60 per cent of the national income (depending on how you calculate it) and in the United States government is spending well over 40 per cent of the national income at all levels.

## **The anatomy of government growth**

It is easy to see why there is a bias in the direction of government spending more and more. The benefits from an expansion of government spending tend to be concentrated. That is, there tends to be a small group of people who have a great deal to gain from a particular program being passed. Maybe each one of them will receive \$10,000 - \$20,000. It therefore pays them to lobby very heavily in order to get their pet programs passed.

The costs of the program, on the other hand, are spread very thinly. Suppose it's going to cost the average taxpayer an extra dollar to provide a program from which a small number of people will benefit handsomely. It doesn't pay that

taxpayer to spend his money and his time lobbying against it or even finding out about it. The imbalance in cost and benefit produces a warp in the balance of political interest. As a result there is an obvious bias in the direction of more spending and hence, of course, ultimately of more taxing.

The interesting historical question that emerges is, why didn't it happen earlier? Surely that bias was present in the 19th century. Why is it that in the United States for something like a hundred and fifty years, government spending except in time of major war, did not exceed about ten or twelve per cent of the national income? Why didn't this bias work earlier? The answer, I think, is to be found in the power of ideas.

### **The power of ideas**

Let me quote something many of you may have heard before that is one of the most eloquent statements I know on this subject:

...the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else....I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.

The author of that quotation, as economists in this room will immediately recognize, was John Maynard Keynes whose own influence on the course of events is an excellent illustration of the point he made. That is the final paragraph of his famous book published in 1936, **The General Theory of Employment, Interest and Money.**<sup>3</sup> That book was received

with enthusiasm by the young and with a good deal of scepticism and dissatisfaction among the older people. But, as he predicted, it came to dominate the world and had a great deal to do with the development of economic policy in the decades after the war.

### **The idea of big government**

The reason, in my opinion, why the self-interest of people before the early 20th century did not lead to an indefinite expansion of government was because those self interests were not in accord with the general ideas of the public. It was taken for granted at that time; it was part of the constitution whether of the written constitution or not, that government's role was narrowly circumscribed. Back in the 1880s or 1890s an American president, President Cleveland, in response to a request from some people that the government should assist the victims of unemployment during a commercial depression wrote to them, "It is the duty of the people to support the government, it is not the duty of the government to support the people." Can you imagine any modern president or prime minister saying that? That shows the power of ideas. That was the idea of the time and it was this belief in restricting narrowly the scope of government that kept government within the bounds that prevailed.

### **The Socialist influence**

Fabian socialism in Britain by the end of the last century was starting to change that pattern of ideas. Socialist ideas first captured the intellectuals and then they came to dominate policy. In Britain the policy changes began about 1908 with the movement toward old age insurance. In the United States, the ideas did not find fertile ground until the Great Depression in the 1930s with the election of Franklin Delano Roosevelt and the beginning of The New Deal. In both countries the public at large came gradually to accept, indeed embrace, those ideas. It came to be taken for granted then in contrast to what had been believed earlier that if there was a problem the way it should be solved was to have

government step in and do something. The doctrine of individual self-reliance, of individual responsibility gave way to the doctrine of social responsibility - that if something bad happened to somebody you couldn't blame him - it was society that was at fault.

### **The intellectual reaction**

And, we have been seeing in the past 50 years, the working out of the change in ideas. We have been observing the social and political consequences of the new view of man and society. Although its effect has been pervasive, indeed perhaps because it has been that, it has been generating its own opposition, and, the first sign of opposition is to be found in the intellectual area. Ideas of a very different kind started to be considered and developed some 35 years ago. Friedrich Hayek's **Road to Serfdom**<sup>4</sup> played an enormously important role as, in a popular vein, have the writings of Ayn Rand. Moreover, there were in the universities, small pockets of scholars who had never accepted the socialist ideology.

### **Tax revolt and the Neo-Conservatives**

As the first predictions and observations about the effect of the socialist ideas began to be obvious to all, intellectual opinion began to waver, to question, and eventually to reject that ideology. They became "Neo-Conservatives." More important from the point of view of actual changes in policy, there began a reaction among the people at large because the public came to see that the great promises that had been made were not being fulfilled. All of those great government programs that held out the hope of eliminating poverty, producing plenty, eliminating inequality, injustice, and so on were not working. People could see that government did not really solve problems "by throwing money at them" to use an expression that is becoming a standard part of political platforms in the United States. And, more importantly

people began to realize that the money which was being ineffectually thrown at the problems was their money.\*

### **The rise of a new ideology**

As the burden of taxes rose it began to generate a tax revolt. But this reaction by people who feel oppressed by high taxes and who do not think they are benefitting from programs, would in and of itself not be adequate if it were not supported by the power of ideas. And, therein lies the importance of a group like The Fraser Institute, and its efforts to advance public understanding of what really is behind the problems that they face. If people are to reject the once new but now old ideas they must understand why all of the high minded programs inspired by the old ideas have turned to ashes. Why the programs designed in the United States to eliminate urban blight have only created bigger slums; why the programs designed to promote the welfare of minority groups have reduced the opportunities open to them; why the war on poverty did little but increase the wages of the poverty warriors in Washington. Even more importantly, if people are to reject the ideas upon which they have been reared, they must be offered something to replace them. They must feel that rejection of "poverty programs" doesn't mean rejection of the poor. They must have confidence that elimination of housing programs won't mean that some people are condemned to live in the street. Herein lies the essential role of ideas - to provide people with an insight or even a vision as to the way the world could and would be under alternative arrangements. In the case of eliminating social programs in particular, ideas provide the essential nobility of purpose to an enterprise that might otherwise seem niggardly.

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\* Editor's Note: While Professor Friedman is too modest to say it, the University of Chicago "School of Economics," of which he is the acknowledged head, was almost single-handedly responsible for the intellectual core of the revolution against the new orthodoxy.



### III. CURRENT DEVELOPMENTS IN THE UNITED STATES

#### **The young versus the old**

Now let me turn to our present situation and come down closer to home in this general broad setting. We are currently, as you know, in a state of flux both with respect to ideas and policies and in many ways the conflict is, as Keynes wrote, between the old and the young. He was quite right that people seldom change their ideas after they get to the age of 25. That is dramatically evident in the United States where every time you read a strong defense of the New Deal you will find the author is of the older generation and with the exception of a few kooks like myself, most of the people who are writing the stories and the articles in favour of cutting down the size of government are from the younger group.

#### **Taxation, stagflation, and the growth of government**

The problem that currently besets us is that the increase in the size of government and its demands on the purse of private people has led to a situation of high inflation accompanied at the same time with a decline in productivity and with something approaching economic stagnation. Stagflation, a thoroughly modern term, is the unpleasant word that was coined to describe our present situation. While the various economic miseries which constitute our condition have different sources, they are all connected with the growth of government. Inflation has risen because of an excessive rate of increase in the quantity of money and that in turn has largely reflected the pressure to finance government spending without imposing taxes. Taxation without representation was said to be the cause of the American Revolution. Taxation without representation is a major reason why we have had inflation. The attempt in the first case to avoid it and in the second case to seek it.

The stagnation, the declining productivity is in many ways attributed to similar sources. Heavy tax rates com-

bined with inflation have made it profitable for people to use their energies and to invest their wealth in unproductive ways. The biggest growth industry in America in the last 30 years has been the industry of producing tax shelters. I suspect that may not be different in Canada. The people who produce the tax shelters are generally very able, intelligent, hard-working people but the tax system induces them to expend their efforts in socially unproductive ways. In addition, governmental regulation has forced much investment to take non-productive forms.

We are in a situation in the United States in which for the first time in our history the average real personal disposable income is lower than it was some nine or ten years ago. Such a decline is unprecedented in American history and I believe it is a result of the growth in government and the inflation that has accompanied that growth. The recognition that the problem was being created in large part by government gave rise as you all know to the electoral change last year.

### **False prophets**

But many people are still not persuaded that government is the real problem as always happens when you are at a turning point. Ideas are in a stage of flux. Recently, in the **Wall Street Journal** one of our leading statesmen, Arthur Schlesinger, the historian, wrote that the problem, "is that economists are baffled, the favorite models no longer work, no one knows the answers."

I submit that is not the problem at all. The problem in that area is rather that there are so many self-proclaimed experts who know things that aren't so. Arthur Schlesinger is not the only one in that large group. The reason they know things that are not so is because, as Keynes was saying, they are reflecting the ideas that they learned when they were young which are now obsolete. Of course in Schlesinger's case he never studied any economics so he didn't have any ideas to unlearn. And, it would be no problem if it were only Mr. Schlesinger.

A more striking example in the United States comes from the business community. The Business Roundtable, an organization composed of leaders of the major businesses in the United States recently undertook to give some advice to President Reagan and the **Wall Street Journal** described the advice they gave as follows, "one way to narrow the deficits, reduce pressures on interest rates and thus speed the recovery is to push for less federal spending. Also you might do well to consider raising federal excise taxes or agreeing to a minor stretch-out in personal income tax reduction." The only thing I can say about that is that it shows that at least outside their own businesses, businessmen learn very fast. Can you recall any recession in history in which people came along and said the way to solve the recession is to increase taxes? The way to solve the recession is to cut spending! I personally have never been a believer in fiscal policy as being effective in offsetting cyclical fluctuations. I have never believed that you could contribute to expansion by creating a deficit because that deficit has to be financed and it crowds out private spending just as taxes do. But at least I would certainly not accept the opposite view. And yet what these businessmen are doing is to stand on its head what is regarded as conventional wisdom. The reason is very simple. They are not experts in the field of economics.

### **Everybody is an expert in economics**

Everybody believes he is an expert on economics because economics deals with things that everybody knows about such as income, money, spending, consumption, taxes. They all affect us individually - we're all experts on them in our personal lives. The fascinating thing about economics and the reason so many fallacies float around is because what is true for the country as a whole is almost always the opposite of what's true for the individual. If you really want to make economic analysis, I suggest that you take any proposition people state that is true about themselves as individuals and reverse it and you'll have the right answer for the country as a whole.

## **Intuition not a good guide**

This is not an accident. For example, the corner grocer believes that he fixes his price. You believe that when you go into the grocery store you can buy all the strawberries you want at the price he's fixed, but suppose everybody together tried to buy more strawberries, would there be any more strawberries to buy? No. For the country as a whole the quantity is fixed and the price is variable while for each individual separately the price is fixed and the quantity is variable. Another example, the automobile industry thinks that the way to create jobs in the country is to keep out Japanese imports. But the only effect of that would be to deny jobs to people who are producing things that are sold abroad.

## **The source of automotive trouble**

Why is the automobile industry in the United States in trouble? The main reason is because the average wage of automobile workers is twice as high as the average wage of all American production workers. A secondary reason is because we have been so successful in subsidizing and exporting agricultural products. I am not recommending this but if you really wanted to help the automobile industry, far better than imposing import quotas on automobiles would be to impose an export quota on food. I am not in favour of it - it would be a terrible thing to do but it would be effective because if we were not selling food abroad, foreigners would not need the dollars to pay for it and that would cause the exchange value of the dollar to fall so that the price of imports would go up and the volume of imports would be greatly reduced. I don't mean to give you a dissertation on the theory of comparative costs. All I am trying to suggest is that economics is a serious subject and that you don't want to pay too much attention to comments made by people who regard themselves as experts but are in fact pursuing their own immediate narrow self-interest in almost all cases.

But, I digress - back to the current economic and political situation. The problems I spoke of have accumu-

lated over a long period. Our inflation goes back decades, the growth of government goes back decades. There are no instant solutions to those problems. We are not going to turn them around overnight. Moreover, the problems that have accumulated over decades have been exacerbated very much in the past two years. The unfortunate villain in the piece is the Federal Reserve System in the United States which on October 5th, 1979 took one step forward and two steps backward.

### **The United States Federal Reserve: One step forward - two steps back**

There is a song I heard back in the 1930s in a musical comedy on Broadway called "Pins and Needles" in which one of the songs went (this was put on by the International Ladies Garment Workers Union, incidentally) "that's the way we advance, one step forward, two steps backward, that's the way we advance." In the past two years the money supply in the United States has been more erratic than in any other two-year period in our history. In those same two years interest rates have been more erratic than they have been in any prior period. In the past two years the economy has been more erratic than in any prior period. Those three phenomena are very closely related and in my opinion the first is the cause of the other two.

I am afraid that the Federal Reserve is not about to mend its ways. It is a marvellous example of an institution that has no bottom line. It doesn't have to go to Congress for its budget. It prints its own money. The members of the Board are appointed for fourteen years and cannot be re-appointed. There is absolutely no bottom line. All of you in this room, I'm sure, have had experience with institutions that have no bottom line. The one thing that characterizes them above all else is that they know with certainty that the way they are doing things is the only way things can be done and they are not about to change their ways. So, I have no great hopes that the Federal Reserve will change its procedure in detail.

I am, nonetheless, quite optimistic about future developments in the United States. I am optimistic because we are finally beginning to face up to our real problems. So far as monetary policy is concerned, it is going to continue to be erratic I'm afraid, but I think the pressure to keep it moderate and not to have any lengthy monetary explosion will be effective. The average rate of growth of the money supply will therefore tend to be coming down. As a result, inflation will be coming down.

### **The budget and the deficit - a victory**

So far as fiscal policy and the deficits are concerned, there is as you know a great controversy in the United States about the projected large deficits. Everywhere one reads that the President is in great difficulty; that he is being stubborn and obstinate; that he doesn't want to compromise. Those with a taste for drama even suggest that the future of the United States depends on his reaching some kind of agreement with Congress about compromising and modifying his budget. Well, my own perspective on that is very different indeed.

I believe that all the discussion about the deficit represents a great triumph for President Reagan's political and economic policy. When before have you had a recession in which the cry hasn't gone up, "We've got to spend more and we've got to reduce taxes?" Nobody is saying that. When before in recent times have you had a recession when people haven't been saying, "Oh, my goodness we have got to have some job creating programs, we've got to have new job expansion programs, training etc.?" Almost nobody is saying that. Everybody is talking about the real problem which is how to cut government spending.

I wonder if there is anybody who is naive enough to believe that those members of our legislature, the old New Dealers, the Tip O'Neils who are talking about the importance of eliminating deficits - whether anybody really believes they are born-again budget balancers? They are what they always have been - big spenders and the reason they want higher taxes is to support higher spending levels. As Presi-

dent Reagan said in his State of the Union Message, "Higher taxes will not mean lower deficits....It will encourage more government spending and less private investment." The only reason they are making such a big fuss about having higher taxes is because they want to continue to have higher spending. The President by sticking to his guns, by taking a principled position has forced the discussion to take place on his own terms. As a result politicians are asking, "How do you cut spending?" They will be forced to follow through because the public at large is fed up with the level of taxation and the level of spending and is going to demand from its representatives that they get government spending under control. Again this triumph of Mr. Reagan's ideas represents the power of ideas over interests.

### **The real prospects**

I don't want to overstate my optimism. I am not going to say that our problems will be solved this year - maybe not. It is possible that political forces will defeat the President's current attempt. But, the problem will remain the same and the attitude will remain the same and I am absolutely confident that sooner or later we will get this problem under control. One of the most encouraging signs from this point of view is the rapid progress towards enacting a constitutional amendment called the Balanced Budget/Tax Limitation Amendment which will require the Federal government to limit its spending and balance its budget. It has 52 co-sponsors in the Senate. If this measure comes to a vote I have no doubt that it will get the necessary two-thirds votes in the Senate and it will then go into the House. Five years ago I would never have supposed there was a chance in a million that in the year 1982, we would be on the verge of getting a balanced budget/spending limitation amendment into the Constitution and yet we are in that position. So I am optimistic that the United States will move in the right direction.

The power of ideas is strong and the current of ideas has changed and that is a world-wide phenomenon. Mike Walker referred to the fact that the Red Chinese are

translating **Free to Choose**.<sup>5</sup> I have no great hope from that. They won't really read it and understand it and if they did, I doubt that they would follow it. But the very fact that they should be interested in doing so shows the change in the current of ideas. The upheaval in Poland, no less than the election of Mr. Reagan as President of the United States and earlier than that, the election of Mrs. Thatcher in Britain, shows the effect of the power of ideas once they are launched. And so, in closing, I want once again to wish the Fraser Institute continued success in spreading ideas. As my old teacher Frank Knight used to say, there are two sides to every question, the right side and the wrong side.

Thank you.





## QUESTIONS AND ANSWERS

This is a very large group and I would like to welcome questions from anyone. Who wants to throw the first stone?

### **Question: The role of military spending**

While we might all agree that President Reagan has taken some steps in the right direction, isn't it the case that the massive increase in military spending will undo much of the good which has been done?

### **Answer:**

There is no doubt whatsoever that a dollar is a dollar is a dollar and that a dollar of military spending crowds out private activity just as much as a dollar of any other spending. At the same time, you have to have a sense of proportion. The first duty of a government is to protect the nation against foreign enemies. That is its basic function. All the rest tend to be secondary to that and the United States can afford an adequate level of military defense.

### **Total defense commitment down dramatically**

Total defense spending in the United States today is running about five to six per cent of the GNP. Fifteen years ago before Viet Nam it was running about eight or nine per cent of the GNP and total defense spending in the United States was 50 per cent of the federal budget. Today it is less than a quarter of the federal budget while payments to the elderly account for 28 per cent of the federal budget. So, the real story on military spending in the past decade and a half is that it has been falling relative to other expenditures. This reduction in military programs has provided the leeway for a rapid expansion in transfer programs of various kinds.

I would like to see military spending reduced and I have no doubt that the United States could provide an adequate

level of defence even in the context of such reduction. The reason is that there is an enormous amount of waste in military spending. There is emerging in economics a new rule of thumb about government sector versus private sector expenditures. The rule, documented in areas ranging from fire protection to garbage collection, is that it costs government about twice as much to accomplish any given task as that same task would cost if done by private entities operating in a competitive environment.

While one would hope that military expenditure decisions or any other are not made in order to promote the interests of those who have the contracts, our system of government certainly predisposes events in that direction. And, of course, that is one of the reasons why government provision of services is so expensive relative to the alternatives. All of that having been said, I have used my ingenuity for years trying to figure out how to defend a country in a private enterprise way and I haven't succeeded in doing that yet. So, unfortunately, military spending is a necessary evil and since government is going to have to do it we're going to have some waste.

I'd like to see military spending trimmed as much as possible and certainly think it is desirable for us to cut our military spending. But reductions should not be made on economic grounds, not on grounds that we can't afford it but rather on grounds that we are not getting our money's worth. Let me say one more thing as I think it is very important and needs to be said.

### **The greatest threat to United States security**

In my opinion, the basic long-term threat to the national security of the United States does not come from the Russians or any other such adversary. The basic long-term threat to the United States comes from the welfare state. It comes from the expansion of programs which absorb taxable capacity and leave us in a position where, from a political point of view, it is not possible to provide the military strength we would need to avoid being overtaken. Look at

the state of Great Britain. Why is Great Britain a 14th-rate nation in the world today? It is certainly wealthier today than it was in the 1890s when it ruled the waves. It certainly has more economic possibility of supporting a navy today than it had then. Why is it that no potential enemy really has to contend seriously with Great Britain? As C. Northcote Parkinson pointed out years ago, it is because the welfare state has absorbed the taxable capacity of Britain so there is not much chance that Britain could in case of emergency double its military expansion. The same thing is getting to be true in the United States and that is why I think the problem that was raised is a very important problem but the terms on which it is being discussed are the wrong terms. It's absurd to talk about how equity requires that if you cut welfare spending you have to cut military spending. That's absurd. Military spending is a basic role of the government. There is no equity consideration involved in it.

**Question: The future movement of the interest rates**

Professor Friedman, would you care to hazard a guess at what the Federal Reserve interest rate will be toward the end of this year?

**Answer: Money supply the key**

Yes, I will be glad to but there is no such thing as the Federal Reserve interest rate. The Federal Reserve does not determine interest rates. The Federal Reserve determines the quantity of money. What it does to the quantity of money affects interest rates. I can assure you, sir, that if the Federal Reserve had the power to determine interest rates, the prime rate would never have been 21 per cent.

It baffles me how people can have the belief that the Federal Reserve can somehow determine interest rates and yet see that if they could they would not have done what they did. How do you reconcile the two? I will answer your question which is what do I expect will happen to interest rates over the next year, not the Federal Reserve interest rate but the market interest rate.

### Short-term interest rates

I expect that interest rates on average will be coming down over the next year. I expect that they will continue to come down in an erratic fashion with some false declines but that by the end of the year short-term rates will be decidedly lower than they are now. The prime rate, if you are interested in that, may very well be in the neighbourhood of ten to eleven per cent. Let me say one more word about the interest rate situation because in the United States you have to look at the long-term interest rate very differently from the short-term.

### Long-term interest rates

Long-term interest rates in the United States today for good quality corporate securities are about 15 per cent. Historically, over the past hundred years, interest rates have exceeded inflation rates by about three percentage points. That's what we economists call the real interest rate as opposed to the nominal interest rate. The other 12 percentage points is the average expected rate of inflation over the future period the bond is held. How these expectations are arrived at and what they are presently is a matter of speculation. But let me offer a plausible explanation.

If the Reagan program succeeds, if the Congress tackles the entitlement programs and cuts spending appropriately, if tax rates keep coming down, and if the Federal Reserve does not launch into a monetary explosion, then three to five years from now the rate of inflation will be under five per cent. On the other hand, if you take the experience of the past 20 years and extrapolate it, if you were to look at the roller coaster of inflation, up and down, up and down with every peak higher than the preceding peak, every trough higher than the preceding trough you would have a very different expectation. If you believe the roller coaster will continue, if we go back to our former policies which generated that inflation you would be expecting inflation three to five years from now in the 20 to 25 per cent range. If you average 20 and 5 you get 12½ which is a

potential explanation of where current inflation expectations come from.

But that means these expectations are accompanied by enormous uncertainty. That is why the long-term market is so thin and is disappearing. Nobody wants to lend in that market, nobody wants to borrow in that market because of the enormous uncertainty. That's why I tried to distinguish sharply between the long-term market and the short-term market. I do not believe that there will be a sustained reduction in the long-term rate until the uncertainty about these two scenarios is resolved. At the moment I don't mean to suggest that I know when or if that will occur. I believe that the odds are a little better than even that the good scenario will come out. But not much better than even because of the short-sightedness and the impatience in Washington and Wall Street and because of the political pressures to do something at once. That is one of the reasons why I think the balanced budget Constitutional amendment I spoke of is so important. Its adoption would give the participants in the market some real reason to move their expectations in the direction of the first rather than the second scenario.

**Question: On the influence of communications technology on the spread of ideas**

Would you please comment on the following statement. Because of the technological developments in communications, the swings in public opinion and policy that you have identified will proceed on a shorter time scale or perhaps be circumvented by manipulation of the means of communication.

**Answer:**

Unquestionably, they have already been circumvented in various parts of the globe by manipulation. Poland is not in the state it is in because the people of Poland want to be in that state. Afghanistan is not in the state it is in because

the people of Afghanistan want to be in that state. So obviously around the world there is an enormous amount of manipulation. In our own countries, in the western countries, we have had some manipulation, unquestionably, but it has not been sufficient to dominate the situation.

As to the timing effects, I believe it is unlikely that improvements in communication will shorten the time span of these opinion swings because I believe the chronological lifespan of human beings have determined the length of these periods. In general, you will find wholly different attitudes among those people who were educated 15 years ago and those who were educated 40 years ago. That is a question of chronological lifespan not of the speed with which the television pounds them with ideas.

Another interesting thing, if you'll pardon me for going off to one side on this - look at trade in the world, look at markets around the world. There is no doubt that the speed of communication of information is vastly faster today than it was a hundred years ago. There is no doubt that the speed with which people and products move has dramatically increased making possible a much tighter integration of markets. Yet in an economic sense the world is more fragmented today than it was a hundred years ago. In a book that Anna Schwartz and I have just finished - the third of our monetary volumes is being published this summer - we have examined price behaviour in Great Britain and in the United States over the past hundred years and we have compared the ratio of prices in the two countries to the market exchange rate. In other words, we have compared purchasing power exchange rates to market exchange rates. We have tried to see in a word, not to get technical, whether in the course of that time the markets have become more integrated or more fragmented and the evidence is overwhelming. During the whole period of history leading up to the Great Depression - 1931 seems to have been the watershed - the market exchange rate didn't deviate more than ten per cent up or down from the purchasing power exchange rate. After 1931 it goes between a range of minus 30 and plus 50 per cent and the reason is very simple. Foreign exchange controls, manipulation of capital markets, import quotas, tariffs and all the rest

of the paraphernalia of government controls have done more to fragment the market than improvements in technology and communication have done to integrate it. So, the answer is that the effect of advanced technology can be entirely stymied by the policies of interventionist governments.

**Question: On the trade-off between inflation and unemployment**

It is widely believed that fighting inflation involves an increase in unemployment and fighting unemployment involves an increase in inflation. You seem fairly confident that we are going to win the fight against inflation but isn't it true that we are going to be increasingly hampered by the unemployment and hence political reactions to the policy.

**Answer:**

That is at once a correct statement and a misleading one. The reason is because of what I said before about time perspectives. There is no doubt that measures to slow down inflation do have, as a temporary side effect, a tendency to slow down economic growth and increase unemployment. I stress the words temporary side-effect because there is a great deal of misunderstanding. Unemployment is not a way of fighting inflation. I can tell you hundreds of ways to produce a lot of unemployment that will increase inflation. But, during the time the economy is moving from an inflationary period to a less inflationary period there is a short-term side effect of increased unemployment. However, from the longer-term point of view the relation is the other way around.

For the past 20 years we have been having a gradual upward drift in inflation and we have been having a gradual upward drift in the average level of unemployment. That has been true in the United States, it has been true in the United Kingdom and it has been true in almost every country around the world. It is not an accident that the growth of inflation tends to produce a higher level of unemployment. Inflation



introduces a great deal of noise or erroneous information into the economic system, disrupts its effective operation and reduces the amount of sustainable economic activity that can occur. Consequently there is a different relationship between inflation and unemployment in the short-run and in the long-run. And, the long-run is not as long as it used to be. That is so because one area in which the improvement in communication has been important has been in shortening the period in which markets react. It used to be true that if a monetary authority like the Bank of Canada or the United States' Federal Reserve Bank reduced monetary growth, that tended to increase interest rates for about six months. Today, a reduction in money supply causes rates to rise for only a few weeks at most because the markets have caught on. They understand that lower monetary growth means less inflation and less inflation means lower interest rates.

To go back to the basic question, I believe that there is a willingness on the part of the public at large to bear the side effects of temporary slow growth in order to get the benefits of a lower rate of inflation. So far as the United States is concerned I believe we have already borne the greater part of those side effects. I think that if President Reagan sticks to his policy, which I am sure he will, we may already have passed the bottom of the recession. But, this is an area in which prediction is very unreliable. Nevertheless, I would not be surprised if business cycle theorists, looking back, say that January of 1982 was the trough of this recession. In any event we will be expanding later on this year; unemployment is not going to stay high and as a result I believe that we are going to be experiencing very soon a period in which we can simultaneously have reduced inflation and reduced unemployment.

Let me say one more word about the problem of unemployment. I believe that the statistical data on unemployment are exceedingly misleading. Let me ask you a simple question. Do you know what the single biggest cash crop in California is? Reputedly, it is marijuana. It is supposed to have the largest cash value of any crop in California. The people who are growing it are for the most part measured as being unemployed. The same thing is true, I

might say, in Great Britain where there is a vast underground economy. Of course the most extreme case is Italy where the underground economy is booming and healthy and vigorous and the official economy is in a terrible state. So these figures on unemployment are all very misleading.

One of the views that one hears expressed in the United States is that we are headed for another depression. Some people are going around saying, "Aren't we headed for a depression along the lines of 1929 to 1933? Isn't there a great depression coming? Isn't that chance increasing? Isn't it possible that all the savings and loan associations are going to go bust and three or four big banks will go bust?" The answer to that is very simple. No, it isn't possible. I shouldn't say it isn't possible but it is one chance in a million. We are not going to have a big depression. There is nothing in the picture that would lead you to expect it. In 1953 I gave a talk in Stockholm under the title of Why the American Economy is Depression Proof. I have been right so far for nearly 50 years and I don't see any reason to change that prediction. I don't believe that there is much chance of that at all.

Thank you.

## Footnotes:

- 1 Albert Venn Dicey, Lectures on the Relation between Law and Public Opinion in England in the Nineteenth Century, (London: Macmillan, 1914).
- 2 Adam Smith, Wealth of Nations (1776), (London: Methuen & Co., Ltd., 1930).
- 3 John Maynard Keynes, The General Theory of Employment, Interest, and Money, (New York: Harcourt, Brace & World, Inc., 1935).
- 4 Friedrich A. Hayek, The Road to Serfdom, (Chicago: The University of Chicago Press, 1944).
- 5 Milton Friedman and Rose D. Friedman, Free to Choose, (New York: Harcourt Brace Jovanovich Inc., 1980).

**PART II**

**PRESS CONFERENCE WITH MILTON FRIEDMAN**

**Question: On Welfare Programs**

You suggested that cutting welfare programs is the way to go but aren't you heading for another revolution if we do?

**Prof. Friedman:** I didn't say cutting welfare programs, I said cutting spending on what are called welfare programs. Most of those programs don't help the poor. If you look at the cries of protest that are coming out, they are about programs that will not have any revolutionary effect at all. I don't believe that cutting the funds going to support PBS is going to produce a revolution. I don't believe that cutting the funds that are scheduled to go for subsidies to students at universities is going to cause a revolution. Nobody has proposed eliminating unemployment insurance. Nobody has proposed cutting the benefits to people who are really in poverty.

As you may know, I have for many years been in favour of the negative income tax precisely in order that such assistance as is given goes to the people who are really poor. And, that is less evident than is often supposed. For example, in the current situation, most unemployed persons in the United States are members of families in which someone else is employed. Moreover, the unemployed are often recipients of unemployment benefits that can amount to as much as 60, 70, or 80 per cent of their take-home pay when employed. In other words, you have to distinguish between the name of the program and the effect of the program.

**Question: On International Welfare Programs**

One of the greatest welfare programs was the Marshall Plan and you suggested that kind of plan was useless. I would disagree with you on that.

**Prof. Friedman:** The Marshall Plan is a very interesting case. In the first place, it wasn't a welfare program, it was a foreign aid program which is quite different. In the second place, Europe would have recovered with or without the Marshall Plan for which we got a great deal of credit. At the

time, I said we got a lot of credit for a very small amount of money -- however, I have changed my opinion on that because of what has occurred subsequently. Success has been inappropriately attributed to the Marshall Plan instead of to the activities of the Europeans themselves. This inference induced the United States to engage in foreign aid all over the world and it became a very expensive project.

**Question: On the Likelihood of Major Recession**

Prof. Friedman, you discount the possibility of a really major recession - at the same time surely we are coming into a psychological climate now where it is really possible. Everything happens in the mind as you pointed out.

**Prof. Friedman:** I don't think the psychological climate will produce a depression. There has never been a major depression unless there was a prior collapse of the financial system and a sharp decline in the quantity of money. There are no examples in history of any others. Neither of those things is possible now. And that is why there is not going to be a major depression.

**Supplementary Question:** But everyone is pulling back as far as investments are concerned.

**Prof. Friedman:** Well, that may be but then they will pull forward in some other area. Total outlays on goods and services -- or GNP -- is determined by the quantity of money. And, since there is unlikely to be a major collapse in the supply of money, there won't be a collapse in total outlays. We have, incidentally, been very bad at predicting the composition of outlays, much better at predicting what is going to happen to total outlays. The episode which everybody worries about, 1929 - 1933 in the United States, was produced by a 33 per cent reduction in the quantity of money. Critical as I am of the Federal Reserve System, I don't believe they would make a mistake of that magnitude again - in fact the opposite possibility is much more of a threat as I have indicated.

**Question: On Canada Pursuing an Independent Economic Policy.**

Forgive me for getting back to the Canadian scene.

**Prof. Friedman:** Sure, you may get back -- that's where you are. I forgive you.

**Supplementary Question:** Do you think, in general principles, it would be better for the Canadian economy to swim with the American economy, as our policymakers seem to want to do, or pursue an independent course?

**Prof. Friedman:** I really don't know how to answer that because I don't know what either swimming-against or going-along-with in general terms means. If you want me to discuss this in general principles, I believe that it would be sensible for the Canadian economy, as for the United States economy, to reduce the size of government, to reduce the extent of intervention, to have a stable monetary policy, to let markets work, and to have a freely fluctuating exchange rate. But those are general principles and you are really asking me about details of Canadian policy that I am not knowledgeable about.

**Question: On a "Made in Canada" interest rate**

What is your opinion of a "Made in Canada" interest rate - something which is being proposed politically?

**Prof. Friedman:** There is no way you are going to have an administered "Made in Canada" interest rate except by having extensive exchange controls. Without controls on capital you will not be able to enforce even partially such an interest rate policy. And even at that you will not, in fact, be able to enforce an administered "Made in Canada" interest rate for long. However, you can have any interest rate you want in Canada. If you want to have a much lower rate in Canada than in the United States your government must follow a monetary policy that produces a much lower rate of inflation in Canada. The lower inflation rate will produce a

lower interest rate just as your high inflation rates currently are producing high interest rates. In turn, the lower inflation rate will put upward pressure on your exchange rate as the Canadian dollar increases in intrinsic value. This underlying strength in the Canadian dollar's value would render unnecessary the current policy of tracking United States interest rates simply to maintain the value of the dollar. So it is perfectly possible for you to have a "Made in Canada" interest rate but only by those policies, not by deliberately trying to peg the interest rate.

**Question: On Privatization**

Dr. Friedman, some years ago you wrote an essay published by the Fraser Institute in which you suggested that "publicly-owned" companies be given back to the people. We have done just that in British Columbia but the result was not that positive.

**Prof. Friedman:** Well, that experiment isn't over. You have to ask what would have been happening if you had continued to have government control of the British Columbia Resources Investment Corporation as I think you called it. I thought that was a very good idea and I am delighted to see it in existence and I think we will just have to watch and see what happens to it.

**Supplementary Question:** It is the only such thing in North America that has ever happened.

**Prof. Friedman:** Yes, it is and it is a fascinating example and therefore all of us on the outside have been watching it with great interest. But, I am not an expert on it, Mike Walker is much more of an expert on it than I am.

**Supplementary Question:** The only thing I can tell you is the stock went out at \$6.00 and it is now \$3.50.

**Prof. Friedman:** That's all right. We have a profit and loss system. Were people yelling about it when the price of the stock rose to \$8.00 or \$9.00? Anybody who thought it was a



bad project had the opportunity to get rid of it then. If he didn't, it's up to him to keep it. You know if you are going to socialize the losses you're not going to be able to keep private profits. You have got to have it the same way both ways!

### **Question: On the Behaviour of the Stock Market**

Sir, to continue on that -- in a general sense, what is the matter with the stock market now where virtually all of the good companies are substantially undervalued in terms of their real assets?

**Prof. Friedman:** If you think they are substantially undervalued in terms of their real assets you have an opportunity to make some money. I am not going to second guess the stock market. I have a very simple answer that I always give when people ask me what is going to happen to the stock market. I repeat the answer John Pierpont Morgan used to give and his answer was, "It will fluctuate." I think that is a very good answer don't you?

### **Question: On the Principle of Deficit Finance**

The principle of deficit budgeting -- is that essentially wrong?

**Prof. Friedman:** There is no such thing fundamentally as deficit budgeting. If the United States federal government spends \$750 billion and takes in \$650 billion we say it has a deficit but tell me who pays the \$100 billion difference? Are you people in Canada going to send some money down to pay that \$100 billion or are we going to get it from the Arab Shieks? The American people pay it, of course. What is called a deficit is simply a hidden form of taxation. The real issue is should government spending be financed openly and above board or in concealed ways. I am in favour of doing it openly and above board.

You must never depart from the fundamental point that the cost of government to the people is what government spends not just the receipts which they label taxes. The rest of the cost is either a concealed tax in the form of inflation or a deferred tax in the form of borrowing. I am not in favour of a policy of concealed financing and therefore I am in favour of a balanced budget on the average. That is why I am in favour of the present Balanced Budget/Tax Limitation Amendment which is making its way through the Senate.

### **Question: On Balanced Budgets**

If we had a balanced budget should we do what we can to keep it?

**Prof. Friedman:** Absolutely, you should. But the balanced budget doesn't necessarily mean it's balanced every day or every week or every month or every year but that it is balanced on the average over a period of time and that is what our amendment would really produce in the United States.

### **Question: On Government Spending in the United States**

Dr. Friedman, how much could President Reagan cut present government spending?

**Prof. Friedman:** Mr. Reagan cannot cut government spending. The Congress controls total spending and Congress should cut total spending as much as possible and there are many many places they could cut it. I can give you a whole list of cuts. In fact, if I had my way I wouldn't have any difficulty cutting spending in ways that wouldn't cause anybody to march in the streets, as you put it.

In some ways I have great difficulty understanding the sanctity which attends government spending. Is there some way in which when government spends a dollar that produces good results but when private people spend a dollar it

doesn't? Cutting government spending means leaving private people with more to spend. In my opinion, cutting government spending by \$100 billion and enabling private people to spend \$100 billion will produce far better results and leave far fewer people to march in protest than the other way around.

If government spending was the solution to all problems we should have solved all problems long ago. We have been tripling and more than tripling the amount of money spent on programs labelled to help the poor but we haven't eliminated the poor. Why? Because that money hasn't been going to the poor. The people who are really yelling and screaming about not getting rid of these programs are mostly the bureaucrats who administer them or the private research agencies and pressure groups that have proposed them.

If you asked me for my list of things to eliminate I would eliminate the export-import bank, I would eliminate subsidies to tobacco and to sugar and to milk. I would also eliminate the outrageous expenditures of our federal Department of Energy, industrial subsidies, and the extensive counter-productive outlays in various departments on regulation. At the state and local level one need only mention the vast array of services which are provided, as I indicated, at twice the cost of private production. There are lots of things which can be eliminated to save money without imposing on people who are in trouble.

### **Question: On Unilateral Free Trade and Oil Price Controls**

You have mentioned your support for free trade -- but in the real world some countries have tariff walls and subsidize their exports. How can you propose that the United States engage in free trade with countries like Canada and France which have such arrangements?

**Prof. Friedman:** If France and Canada want to hurt themselves with trade barriers that's their problem not ours. I don't think we should hurt ourselves because you want to hurt yourself. Moreover, we should be happy to import subsidized

products and benefit at your expense. I am in favour of free trade on a unilateral basis so far as the United States is concerned because it is in the interest of the United States.

In another area of trade, I am in favour of our government not getting involved in price fixing. Look at what happened a year ago when President Reagan eliminated control on the price of crude oil. All sorts of cries went up - the consumer is going to get hurt, the price of gasoline is going to go up, you are just benefitting the fat cats at the expense of the poor people. What actually happened? The price of gasoline went down, not up.

**Supplementary Question:** But surely that was not because controls were released.

**Prof. Friedman:** Well, here you have another example of what I was saying before about economics and what seems to be common sense. The general feeling was that removal of the price controls on crude oil would be followed by a permanent rise in the price of oil. After all, controls were the only thing protecting the American public from the usurious Arab Shieks and their multinational corporate agents weren't they?

In 1973 when the Arab oil embargo was first imposed by OPEC I predicted it would not last. I predicted that the cartel would break up. I couldn't know that governments in North America would be so foolish as to respond to the supply restriction by restraining the price rise. The consequence was that there was no great reduction in the demand for oil and hence no pressure imposed upon the cartel to revise its position.

The removal of price controls has begun to have precisely that effect. Faced with the true cost of the oil they are using, consumers are reducing their demand. The attempt by the members of OPEC to maintain their revenues and hence production in the face of demand reductions has produced an oil glut and pressure for prices to stabilize and fall. The reason oil prices could rise so high and remain there was because the governments of North America elected to

become the unwitting agents of OPEC in restraining the natural consequences of OPEC's actions.

Though some ten years late, the cartel is beginning to exhibit all the signs that economics would predict with happy consequence for consumers.

### **Question: On Monetarism**

There are economists who say that the monetarist policy you have been preaching for at least a decade and now has been implemented by the United States and Great Britain isn't working -- would you care to comment?

**Prof. Friedman:** First of all, it hasn't been implemented by either the United States or Great Britain. There have been movements in that direction. There has been a lot of talk but as I said earlier, so far as the United States is concerned, there has not been an actual policy of monetarism. That policy as I have proposed it for many years, involves a steady rate of monetary growth. The rate of monetary growth in the past two years in the United States, for example, has been more unsteady, more volatile than at any time in the past 40 or 50 years. There has been a 10 to 12 week cycle in which the rate of monetary growth has gone from something like plus 20 - 25 per cent to minus 15 per cent. Those are not the precise numbers but the variation is of that order of magnitude.

If it were steady, you would have lower interest rates, you would have more predictability, people would know what was going on and could count on it. The economy would be steadier. As I said, monetary growth has been very unsteady, interest rates have been very unsteady, the economy has been very unsteady and those three are linked together.

Monetarism has to do with the relationship between changes in the quantity of money on the one hand and changes in interest rates, prices, and spending on the other. That relationship has been at least as stable, in the economy in the past two years as it had been earlier. The instability

has arisen because of the instability in the money supply itself. For example, from May to November 1980, in advance of the presidential election, the money supply rose more rapidly than in any other five-month period in the history of the Fed. That explosion was followed by a very rapid expansion in the first quarter of 1981 and a subsequent contraction.

The cure to economic instability is stability in the money supply -- that is my prescription. The cure has not been taken so it isn't quite fair to blame the doctor or the cure.

**Supplementary Question:** Would interest rates not rise even if the money supply were steady?

**Prof. Friedman:** Oh, interest rates might rise or fall but they wouldn't oscillate violently. It is the oscillation that I am attributing to the unsteadiness. Interest rates will ultimately reflect inflation on the one hand and the real return to capital on the other but they wouldn't oscillate wildly as they have been doing. The volatility is a direct result of monetary policy.

**Supplementary Question:** Why hasn't monetarism been adopted?

**Prof. Friedman:** I wish I could give you a really good answer. I have tried to discuss that issue at great length in an article that has just appeared in the February issue of the **Journal of Money, Credit and Banking** which goes over the history of some of this for the past 20 years. The best answer I can give you is that there is great opposition from the administrative people in the Federal Reserve and there is no bottom line in any sense which would force them to change their attitude. That is the best explanation I can give you.

**Question: On Unilateral Free Trade**

I'm still not sure I can accept your analysis of trade. Isn't unilateral free trade a bit like unilateral disarmament? How

do you encourage Japan or other countries to adopt free trade as well?

**Prof. Friedman:** I don't want to. I'd like all countries to adopt a policy of free trade. It is in their interests to have free trade. If the United States were to attempt to encourage Japan to have free trade by imposing tariffs on them both they and the United States would be worse off.

**Supplementary Question:** How do you encourage them then?

**Prof. Friedman:** I don't. I go about my business. The United States has control of its tariff. It doesn't control Japan's and we ought to pay attention to our business. We ought to set a standard. We are the leading nation. If we open up our markets, have complete unilateral free trade, we will benefit. If they impose restrictions, they are harmed and we are harmed. Both of us are harmed. But we only increase the harm to ourselves if in reaction to their restrictions we also impose tariffs. Moreover, the record has shown that the attempt to reduce barriers through reciprocal negotiations, going back to the whole policy of the 1930s has been a complete failure.

**Supplementary Question:** Sir, is that not a contradiction of President Reagan's current policy?

**Prof. Friedman:** I am speaking for Milton Friedman, I am not speaking on behalf of any administration. I believe that what has been done in the foreign trade area is to some extent different from what I would do, of course. I am speaking for me, expressing my own opinion. One of the great virtues of being someone who has been a tenured professor at a private institution and who is now retired is that I can speak my mind freely.

**Supplementary Question:** You don't feel unhappy with the contradiction then?

**Prof. Friedman:** Of course I am unhappy with it. And if you have seen my **Newsweek** columns you will know that I criticized very strongly the policy of trying to get the

Japanese to impose voluntary restraints on the export of automobiles. I believe that was a mistake. I also must say that I have been opposed all along to the embargo that President Carter introduced on wheat. Embargos don't work. They only hurt the countries imposing them and don't hurt anybody else.

I am not going to try to defend every iota of current United States policy. I am a strong proponent of President Reagan's general policies and he is a strong believer in free trade. However, he is operating in a political environment which I don't have to operate in, thank God.

### **Question: On the Corporate Sector**

At the close of your formal remarks you made what seemed to be an almost Galbraithian bifurcation between the corporate sector and the market sector of the economy. Is there some sort of meeting of the minds going on here?

**Prof. Friedman:** I am sorry I don't think there is any bifurcation there at all. I think the corporate sector when it operates in the market is fine. The corporate sector when it operates through the political world is terrible just as other people are when they operate through the political world. The bifurcation I have always said is between political mechanisms on the one hand and market mechanisms on the other. And you must realize I am not pro-business, I am pro-free enterprise - that is a very different thing. I opposed strenuously the government aid to Chrysler. I am against our bailing out Ford or any of the others but I don't believe that comes anywhere close to Ken Galbraith's views. I think his views are quite different. His views are that the corporations independently of government, or through government, but because of their market power, are in a position to determine the state of the economy and the world and I think that is wholly wrong. Corporations will be in constant search of avenues to increase their profitability. We must be sure that Pennsylvania Avenue, Wellington Street, and Douglas Street are closed to them in that pursuit.





**P A R T   I I I**

**JACK WEBSTER INTERVIEW**

**with**

**DR. MILTON FRIEDMAN**

**for**

**WEBSTER! - BCTV VANCOUVER**

**Wednesday, March 25, 1982**

**Webster:** Good Morning. Milton Friedman is the western world's greatest economic guru. He has all the qualifications, Nobel Prize Winner in Economics in 1976, every conceivable honour and distinction. He is a follower of Adam Smith. His is the only way, believes Milton Friedman, the economist brought to Canada this week by the Fraser Institute.

Professor Friedman, I was astonished at your optimism and the fact that you do not feel that we are on the edge of a major depression. What can make you say that in today's unhappy, unsure, psychologically unsound industrial climate?

**Friedman:** Only one thing. The fact that it happens to be true. We are not on the edge of a major depression. There was never an experience that I know of where there was a major depression without a prior financial collapse, and we are not on the verge of a financial collapse.

**Webster:** Is there no way we can go into a financial collapse as happened in 1929 - 1933 and bring forward the whole New Deal philosophy again to start to rebuild a shattered economy?

**Friedman:** If you ask me, "Is there a way?," of course, it is possible but there is only one chance in a million. I would say the odds are very heavily against any kind of a financial collapse of that kind coming along. In 1929 depositors in banks were not protected by federal deposit insurance. Depositors in savings and loan associations were not protected by federal savings and loan insurance. Today, depositors in these institutions are protected. Today there is no chance that if one bank were to fail, it would cause a run on other banks. That is what happened in the United States in 1930, 1931, and 1932 and what caused the Great Depression.

**Webster:** Are you worried by the incredible upsurge in government spending and by what you regard, I think, as the dangerous levels of the welfare state?

**Friedman:** Yes, I think government spending is much too high. In the United States, government at the federal, state, and local level is spending well over 40 per cent of our income. I

go around and ask people, "Tell me, are you getting your money's worth for the more than 40 per cent of your income that is being spent supposedly on your behalf?" I almost never meet anybody who says yes.

**Webster:** But surely government spending is absolutely demanded by the social consciousness we have today.

**Friedman:** The government spending is demanded by the small special groups that benefit from the government spending. But it is paid for by the large, wide-spread public that is not in a position to oppose those particular measures. In any event, most government spending is not going to people who are in real need or people who are in trouble. It is going to people who are in the middle- and upper-income brackets. That is where it is going. It is going to the bureaucrats who run the programs. We get some notion of who benefits from the programs by observing who it is that comes down and testifies in Washington against reducing these programs. By and large, it is the bureaucrats, the new class as Irving Kristol called them. Generally, it is not the people who allegedly benefit that complain about program reductions.

**Webster:** You don't think we need these welfare payments today - the Medicaid, the Medicare, the transfer payments, unemployment insurance?

**Friedman:** You've mixed a lot of different things. I'd be glad to take them one at a time. For many years poor people in the United States and in Canada or Australia have always gotten good medical treatment. The people who have difficulty in getting good medical treatment are the people from the lower middle class. The upper classes could pay for it, the poor people were taken care of by charitable arrangements.

In the United States, the major effect of Medicare (for the elderly) and Medicaid (for the poor) has been to increase the income of physicians and people attached to hospitals and health care centres. The programs have not demonstrably improved the medical care available to the really poor. However, some of the lower middle class have enjoyed an

amelioration of their position but at a staggering cost because the universal nature of the program has meant that there is much spillage or slippage of the benefits.

**Webster:** Surely you must be talking specifically about the United States.

**Friedman:** I am. In the United States for many years, spending on medical care was about four per cent of the national income. It has now gone up to ten per cent. That increase from four per cent to ten per cent is almost entirely explained by increasing government spending on Medicare and Medicaid.

**Webster:** Are you suggesting that if we went to the Friedman pure economics, your free markets - you define it for me - that people would be properly or sufficiently served by their own resources, without intervention of government?

**Friedman:** Government has a very real function to play. But it is not playing that function now very well. I would like to limit government to its appropriate function but if you limit government in these areas, people would be better served than they are now by far. Look, let's get to the hard core problem. Why is it that unemployment among Negro teenagers in the United States today is in the neighbourhood of 40 per cent?

**Webster:** I don't know. Why is it? Lack of education?

**Friedman:** Who provides the education?

**Webster:** Public school education system.

**Friedman:** Is there any respect in which the poor black in a slum in New York or Chicago or elsewhere is more disadvantaged than with respect to the kind of schooling his child can get? Why? Because the government provides it. If you could give them a voucher to spend where they wanted to spend it, they could get a lot better education. Poor blacks in Harlem can do better in buying groceries than they can in getting schools. Why? Because the one is provided by the private

market and the other is provided by the government. And in addition after the government fails properly to educate him the government then legislates that he may not be employed unless an employer will pay him more than he is worth. The minimum wage law is the major reason why the blacks are denied opportunity to work to get the training on the job that they don't get in school.

**Webster:** I hate to raise a sociological issue here but surely part of the problem of the poor black was the incredible discrimination that took place after slavery was abolished a hundred years ago.

**Friedman:** There is no doubt about that. There was a great deal of discrimination, a great deal of racial prejudice then as there is now. But that isn't the reason why today you have 40 per cent of teenage blacks unemployed, whereas in 1945 or 1946 or 1938 or 1939 the percentage of teenage blacks unemployed was much lower. It was then closer to ten per cent. Now, surely you can't say that it has gone from nine per cent or ten per cent to 40 per cent because racial discrimination has increased.

**Webster:** No. You can't say that but you had basic inequalities in the United States.

**Friedman:** Of course you did but they were being reduced. They have been reduced since then. Not thanks to the government but in spite of what government has done. What was it that enabled the blacks to avoid discrimination? It was job opportunities in the north. They came to New York, they came to Chicago from the south to get better jobs, to improve their condition - and they were not then impeded by the regulatory and legislative burdens that today seal their fate.

**Webster:** What do you think of John Kenneth Galbraith?

**Friedman:** Well, John Kenneth Galbraith is one of the Canadian exports to the United States that we might have done without.

**Webster:** He doesn't believe in Adam Smith's **Wealth of Nations** theory does he?

**Friedman:** Yes, he does, but you see John Kenneth Galbraith's great virtue is his ability to simultaneously believe in opposite views.

**Webster:** What, put simply, is the Adam Smith **Wealth of Nations** theory?

**Friedman:** The Adam Smith **Wealth of Nations** theory is that if you and I engage in a deal voluntarily - if you agree to trade with me - that won't happen unless we are both better off. The great virtue of the Adam Smith theory is that everybody must benefit or it isn't a good deal and that nobody must benefit at somebody else's expense.

**Webster:** Classic free enterprise. And you can apply that particular economic theory to every major dealing between individuals and throughout the world?

**Friedman:** No. I would not apply it to an individual who wants to hit you over the head and take your pocketbook. I believe government has a very important role to play in protecting you from coercion. Remember, Adam Smith was talking about the welfare increasing properties of voluntary agreements to trade. The basic role of government is to make sure that agreements are voluntary and not coerced, not forced. Now, after all if a man comes up to you and puts a gun at your head and says, "Your money or your life," that's hardly a voluntary exchange.

**Webster:** You are currently an advisor to Reagan, aren't you?

**Friedman:** I meet with Reagan from time to time. I am a member of his Economic Policy Advisory Board but let me make it clear that I am an informal advisor, an independent advisor. I hold no position with the government.

**Webster:** Well, after having whispered certain ideas in his economic policy council's ear, are you happy with what he is doing?

**Friedman:** I am very happy with what Mr. Reagan is doing. I am not very happy with what the Congress is trying to do with Mr. Reagan's policies.

**Webster:** But is it succeeding in any way, shape or form by following Friedman-type economics?

**Friedman:** Well, in the first place, there is no such thing as Friedman economics. There is good economics and bad economics. And he is following good economics. The thing which distinguishes Mr. Reagan from prior presidents is his consistency. If you read the statements he has made over the past twenty years - let alone more recently - if you read his campaign speech in September in Chicago in 1980, you will find that he has been sticking very closely to that policy. He had then and continues to have a four-point policy: reduce regulation, reduce government spending, reduce tax rates and have a steady and stable monetary growth. He has not been able to achieve the fourth because the Federal Reserve is independent and he doesn't control it. He has reduced regulation, he eliminated controls on oil for example and reduced a lot of other regulations. He has recommended reduced government spending. He has recommended reduced taxes. But it takes the cooperation of Congress to achieve these objectives.

**Webster:** You were talking today about a very important bill in Congress which you want to see. What is it?

**Friedman:** It's a proposal for a constitutional amendment that would require as a constitutional matter that Congress must balance the budget and restrain the percentage increase in government spending from one year to the next to be no greater than the percentage increase in people's income.

**Webster:** The liberals in the States of all shades will go crazy!

**Friedman:** Well.....that might not be too bad!

**Webster:** You said today, and I want to quote you exactly, "the biggest threat to the long-term security of the United States comes from the welfare state." Why did you say that?



**Friedman:** Because it's true, of course. And when I say it comes from the welfare state. I don't mean it comes from acts that benefit the poor. You see, the welfare state is a name for a whole collection of measures, most of which have effects opposite to those which their well-meaning sponsors wanted them to have. Let me give you some examples.

Part of the welfare state was to try to clear up urban slums by urban renewal. What was the effect of urban renewal? It destroyed far more low-income dwelling units than it built. It built middle class, upper-income group dwellings and shifted the poor from those slums to elsewhere. We have also had public housing programs. Again, more low-income dwelling units have been torn down under the programs than have been built. Who has benefitted from that? While a few poor people have gotten better housing, the main beneficiaries have been the people who built the new houses, and those who have sold the old houses. They are the ones who have benefitted. Perhaps the greatest scandal in my opinion is government assistance to higher education. Who are the people who go to the colleges and universities?

**Webster:** The upper classes.

**Friedman:** Absolutely! And some of the poor, but the abler of the poor. I am one of the beneficiaries of those programs. I went to college on a government scholarship. But I don't see why the poor people in New Jersey should pay for me to go to college. I don't see why I should reap the benefits from that. Effectively, like many programs, this program of aid to higher education in part taxes the poor to benefit the well-to-do and those of the poor most capable of improving their own circumstances.

I have often asked my liberal friends to name a single government program in which the people who get the benefits have lower incomes than the people who pay the taxes and the only program that qualifies is direct-relief aid to dependent children. But that is a very small part of total government spending.

**Webster:** Matter of fact, you would say that that was the only program that would be needed if we cut down government

spending and reduced taxes.

**Friedman:** Absolutely!

**Webster:** But would there not be a danger in going back to this business - you mentioned a phrase I just hate, sir with respect - charity medicine. In some countries, I wouldn't drag you into the Canadian scene, medical care is no longer a privilege. It is a matter of right supplied by the state.

**Friedman:** I would be glad to comment on the medical situation. In Britain the system is a disaster. Why is it?

**Webster:** Well, it's a hell of a lot better than it was in the depression in the 1930s.

**Friedman:** I believe that is very dubious indeed! In fact, if you look at the British health care system what has happened, and I am quoting now a careful study that was made by a physician who examined it, the number of people employed to provide medicine has been going up. The amount of care they give has been going down. Do you know that two-thirds of all the beds in British hospitals are in hospitals that were built before the turn of the century - before medical care came in?

**Webster:** Yes.

**Friedman:** Well, that is the way in which the state has been providing it. Another thing, why is it that one of the fastest growing businesses in Britain is private medicine?

**Webster:** You mean the British United Provident Association and the like?

**Friedman:** Yes, absolutely. That's hardly a sign of success of the British medical system. You talk to people as I have who have waited a year or two years for what is called optional, elective surgery. They don't think it is a good system.

**Webster:** Well, I don't want to be distracted from your economic genius, so let's go back to the beginning again and I

know there is no magic cure for inflation.

**Friedman:** Oh, yes there is. But it's not magic. It won't be instantaneous. But there is a cure for inflation.

**Webster:** I have been waiting all my life to hear this because most of us enjoy inflation as long as we are on the upper end of the scale and doing very well, thank you.

**Friedman:** You are absolutely right. I agree with you. I go around asking people, "Do you have any objection to a rise in the price of the things you sell?"

**Webster:** No. None whatsoever.

**Friedman:** That's why it is so hard to get people to take the inflation cure. And, there is only one way to cure inflation and that's not to print so much money.

**Webster:** You mean, your Federal Reserve Bank or our Bank of Canada, if they stopped printing more money tomorrow, the inflation rate would go down?

**Friedman:** Not tomorrow but it would in a year or so.

**Webster:** But why?

**Friedman:** Why? Because people wouldn't have the money to spend to bid for goods. Why do prices go up? Because people are trying to buy things and they have the money with which to buy them. If they don't have money, prices aren't going to go up.

**Webster:** All right. You would, if you could, stop printing money tomorrow.

**Friedman:** No. I have always been in favour of gradually reducing the rate of growth of the quantity of money because I think you have to give people time to adjust. I'm not in favour of hitting people over the head. I would like to announce to people that we are going to follow a policy which in three years is going to bring inflation down to zero. You

make your plans accordingly, adjust, that gives you time to adapt.

**Webster:** Are you telling me then, simplistically speaking, that if you stop printing money gradually but over a three-year period that interest rates correspondingly would come down?

**Friedman:** Yes, indeed. Why do you suppose interest rates in Japan are so much lower than they are here?

**Webster:** Don't know.

**Friedman:** Well, in 1973 Japan was having an inflation rate of 25 per cent. It stopped printing money. It cut the rate of printing money immediately and very sharply. It overdid it from my point of view but it cut it very sharply. By 1974 and 1975 inflation was falling. From that point to this inflation has moved down until it has been under five per cent most of the time and Japan has also had a very good rate of economic progress and has had very low interest rates.

**Webster:** Why can they do it and we can't do it?

**Friedman:** We can do it, of course.

**Webster:** Why don't we do it?

**Friedman:** Ah! That is a more complicated question. Why don't we? That is a political question that has to do with the vested interest of maintaining inflation.

**Webster:** Has Reagan done a little bit of it?

**Friedman:** Oh yes, he has and I believe we are going to do it. I believe the public at large is waking up to what is going on.

**Webster:** What about Maggie Thatcher? Is there anything she can do in that country?

**Friedman:** That is a very good question. Her policies are fine but she hasn't been able to carry them out. She had exactly

the same four-point program that President Reagan has: to cut regulation, to cut government spending, taxes and to stabilize the money supply. She has done quite a bit on the regulation side, as you know. She eliminated completely foreign exchange control which was a great plus, however, government spending has been going up and not down. Taxes have been going up and not down and the only element in which she has had some success is in holding down money supply growth. There has been a reduction in inflation. And whereas the average inflation rate is about 12 per cent, it is six per cent in the private sector and 20 per cent in the government sector.

**Webster:** No wonder! Indexed pensions for every civil servant.

**Friedman:** Absolutely!

**Webster:** We have them in this country, too. I know you don't want to comment but I would like you to know that we have fantastic growth in the federal government. We have indexed pensions for federal, provincial, and municipal employees and I know what your comment would be if you wanted to tell me, so I won't ask you what your comment would be. Fair enough?

**Friedman:** Fair enough.

**Webster:** And I would like you to know that our doctors are almost totally socialized but in a much better way than in Britain. In Britain they only get a per capita fee, capitation they call it. We give them fee-for-service and guaranteed payment if their fee changes. How is that for generosity?

**Friedman:** And what has been happening to the income of your physicians?

**Webster:** Oh, \$150,000 - \$200,000 a year is not unusual but they tell you, of course, that that is gross before the expenses of cheap labour which works for the medical profession, generally speaking.

**Friedman:** I will not comment on Canadian affairs, but I will predict that that won't last. You will get increasing controls over the fees and services of physicians because the costs will start to escalate out of control and there will be an attempt to bring the cost down and the only way you will be able to bring the cost down is by exercising control over your physicians.\*

**Webster:** Now, what about the side effects of cutting the money supply.

**Friedman:** They are not very good.

**Webster:** Unemployment?

**Friedman:** Absolutely. And what about the side effects of continuing inflation? Unemployment.

**Webster:** But just a minute. You said that inflation means unemployment. When we have inflation in the American market we can still sell our lumber at inflated prices so we are quite happy for the moment.

**Friedman:** Well, let's go back and look at the situation in the United States. Inflation increased gradually over 20 years. What happened to unemployment over those years? It went up. Unemployment rates used to be normally about four per cent. They gradually drifted up to five, six, seven, and now eight per cent is normal.

**Webster:** But are these true unemployment rates?

**Friedman:** They are a mixture. They were and are a mixture of fake and true unemployment. Some of the unemployed, like the people in northern California who grow marijuana, are working at some unrecorded activity and are getting unemployment insurance.

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\*Editor's Note: As this paper was being sent to press several provinces in Canada were experiencing hospital and doctor service curtailments because of government expenditure restraints.

**Webster:** Marijuana is the biggest cash crop in California you were saying.

**Friedman:** Yes, it is.

**Webster:** Tax free too.

**Friedman:** Yes. I suggested facetiously that the way we should balance our budget is by legalizing marijuana and imposing a tax on it. Now that wouldn't quite balance the budget but it would bring in some revenue.

**Webster:** But there is a side effect of unemployment.

**Friedman:** Absolutely.

**Webster:** And that we just have to suffer. The poor must suffer with unemployment for the sake of deflation.

**Friedman:** No. Poor and unemployment are not synonymous terms. The people who are really poor are those who haven't had jobs in good times. In most families in the United States which have a member unemployed, another member is employed. In most of those families, the unemployed member is receiving unemployment insurance benefits. Their take-home pay, their standard of living may be as high as it was. Now in some cases that is not true but I think it is a great mistake to identify unemployed and poor.

**Webster:** Does all of this kind of government pump-priming and this expansion of government go straight back to your old friend F.D. Roosevelt?

**Friedman:** FDR was responsible for a lot of it but it wasn't he, it was the circumstances. It was the fact that the intellectuals earlier than FDR had become persuaded that the right way to move was to give government greater power; that the depression was the result of the failure of the capitalist system (it wasn't, of course, it was the failure of monetary policy that caused the problem). You know, one interesting phenomenon - if you look at the platform of the

Socialist Party in the United States in 1928 - every plank in that platform has been enacted into law.

**Webster:** Do you find this abhorrent?

**Friedman:** Most of them, yes. Most of them are bad measures. Some of them are good but most of them are bad.

**Webster:** And you are telling me seriously that among free individuals following the principle of Adam Smith that wealth would be equally distributed and the venality and greed at the top would not deny the poor people their fair share?

**Friedman:** No, siree. Hold it. Go slowly. You have put a lot together. Wealth would not be equally distributed. Venality and greed would be present but venality and greed cannot do the damage which venality and greed can do when it gets control of government. Venality and greed in Adam Smith's system doesn't have a police force behind them. There would still be poor people but the greatest engine that has ever been discovered for converting poor people into rich people has been the free enterprise system. Look, my parents and millions of others like them came to the United States in the 19th century. They came poor with nothing but their hands. They were able to make a better life for themselves and there were no government programs to help them when they came.

**Webster:** But nobody wants to start at the bottom now. Surely the generation gap that exists between the likes of yourself and myself from a couple of generations below us is that their expectations of affluence are far greater than ours ever were and, therefore, if there is a bad turndown, there is going to be trouble in the streets.

**Friedman:** I think trouble in the streets is something a lot of people predict but that is not going to happen. But go back. Of course their expectations are higher and that is because the free enterprise system did such a good job of raising the affluence of the society. Remember the phrase from Newton, "People who stand on the shoulders of others look like giants." We are standing on the shoulders of our



predecessors who built this country. My country and yours. Both Canada and the United States have benefitted from that.

**Webster:** A couple of questions. Foreign aid? The generosity of the United States, in the form of the Marshall Plan, was the cause of the great resurgence of West Germany and other parts of Europe after the war, correct?

**Friedman:** No. That's an overstatement. I think the Marshall Plan contributed a small amount to the growth of Europe and the recovery of Europe. But I think the European countries themselves deserve major credit for the recovery of Europe. It was the fact that they went back to work, that they saved, that they invested. That is what produced the recovery in Europe.

**Webster:** Do you see the Friedman economics, and I will use that phrase broadly, being adopted by more western nations or are we so heavily encumbered by these evil bureaucrats that we'll lose our freedom?

**Friedman:** Let me say first that I don't think that bureaucrats are evil. I think they are human beings. As human beings the one thing you can count on them to do is to put their interests before yours. They are doing what you and I would do. I don't regard that as evil.

**Webster:** No, no. You couldn't be a bureaucrat, could you?

**Friedman:** Under proper circumstances, I am sure I could have been seduced to be a bureaucrat but I haven't been, fortunately. But let's go back. Why do you suppose Hungary is adopting these policies? When you ask about Friedman-type economics, I would rather say Adam Smith economics.

**Webster:** Adam Friedman, we'll call it.

**Friedman:** O.K. They are spreading throughout the world.

**Webster:** Hungary is adopting them.

**Friedman:** Of course, there has been a great increase in market arrangements in Hungary. Why do you suppose there has been so much uproar in Poland? Poland, like the rest of the world, has discovered that central planning doesn't work, that government controls don't work and they have been looking for a taste of freedom. Why have the people been having a taste of freedom in Red China? All over the world and not merely in western countries, there is a move towards greater reliance on market systems.

**Webster:** You didn't mention Chile. Didn't you sort of whisper in the post-Allende government's ear?

**Friedman:** I spent six days in Chile and I have ever since gotten full credit for the recovery of Chile. I think I got a lot of credit for very little input.

**Webster:** They had 400 per cent inflation or something.

**Friedman:** Close to 1,000 per cent inflation. They brought it down. And they have had very good results economically. In the last year they are in trouble. But I do not and never have approved of the political suppression in Chile. I am in favour of a free society both politically and economically. I have always been impressed by the double standard that applies to people. I have been criticized very badly for having gone to Chile and for giving them advice. A year and half ago I went to Red China and gave them a series of lectures, the same lectures I gave in Chile, and nobody has ever criticized me for that.

**Webster:** That is because Red China is now more socially respectable than it was 20 years ago.

You used a wonderful quote today and I want you to give it to me again. It referred to the change in attitudes in the last 100 years and was from one of your presidents.

**Friedman:** That was President Grover Cleveland.

**Webster:** When was that?

**Friedman:** Well, my history isn't good enough to give you an exact date but it was between 1880 and 1890. There was a recession and there was a request that the federal government should provide aid to the victims of the recession.

**Webster:** And what did he say?

**Friedman:** He replied, "It is the duty of the people to support the government. It is not the duty of the government to support the people."

**Webster:** How times have changed!

**Friedman:** How times have changed! Can you think of Mr. Trudeau saying that?

**Webster:** Did you mention Mr. Trudeau?

**Friedman:** Can you imagine Mr. Reagan saying that?

**Webster:** No. I cannot.

**Friedman:** So you can see I am being strictly bi-partisan.

**Webster:** As long as we are free to choose, deregulate, and keep the politicians in order.

**Friedman:** Not only politicians. You see, people have a great misunderstanding about my general conception. I'm not pro-business. I'm pro-free enterprise. The problem is that capitalists in every country have too much power and the question is how do you check their power. You know there is an old saying, "If you want to catch a thief, you set a thief." If you want to limit the power of the capitalists, set another capitalist on him.

**Webster:** But don't make him a civil servant.

**Friedman:** If you combine him with a civil servant you're through, because he is going to take over the civil servant and you're going to be in trouble.

**Webster:** Well, you know, I thought you were going to depress me thoroughly with tales of doom and gloom and all the neo-fascism and the rest of it. Are you as optimistic about the future, not only in the United States, but in the rest of the free world as you appear to be?

**Friedman:** I am very optimistic because I think ideas have been changing and I think ultimately as John Meynard Keynes said that it's ideas that control the character of the world. It may not happen next year; it may not happen three years from now but it is happening and it will happen.

**Webster:** Thank you.