

The Fragility of Freedom

Milton Friedman

Thank you very much. It is a special pleasure for me to be introduced to you here today by Dallin Oaks, who was not only a colleague at the University of Chicago, but a tower of strength in our times of trouble during the late 1960s when many universities in this country were subjected to disturbances and disruptions. The University of Chicago handled them particularly well, and one of the main reasons we were able to do so was because of the willingness of Dallin Oaks to serve as chairman of a committee which played a very important role in those events. We regret very much losing him, but our loss has been your gain.

Dallin Oaks referred to the Bicentennial. I trust you know that 1976 is a double Bicentennial. It is a Bicentennial of the publication of *The Wealth of Nations*, that great book by Adam Smith which is a bible of economic freedom and is closely related to political freedom. And, indeed, almost everything I am going to say today could be found in one form or another in that book.

Those of us who have been fortunate enough to be born in the United States in the twentieth century naturally take freedom for granted. It seems to us that a relatively free society is the natural state of mankind. But that is a great misconception. Freedom is very far from being the natural state of mankind. On the contrary, it is an extraordinarily unusual situation. If you look back through history, in any place on the globe, you will find that the natural state of mankind in most periods in history has been tyranny and misery. If you look over the globe geographically at any point in time, you will find that most of the people in the world at that point of time were living in a state of tyranny and misery. The periods and places in which there has been something approaching a free society have been few and far between. There was a small example in the fifth century B.C. on the Peloponnesian Peninsula in Athens, but that was only a partly free

A forum address delivered 11 December 1975 at Brigham Young University.
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society. It was a society that was free for the citizens of Athens, but not for the slaves who also inhabited the city. There was a brief spurt of freedom during the Renaissance in the Middle Ages. The most extended period of freedom has been the period in the eighteenth and nineteenth and early twentieth centuries in Western Europe and the United States. Yet, look at how fragile that freedom has been. The countries in the world that have been able to maintain during that period something roughly approaching a free society are few in number. They consist almost entirely of the English-speaking countries and the Scandinavian countries.

This fragility of freedom was brought home to me dramatically last April when I spent a week in the small country of Chile in South America. I was in Chile for a week as part of a group that was examining and considering the economic problems which Chile was then facing—problems which you and I have in our future (I hope in a very distant future). Problems which were epitomized by the fact that they had managed after great effort to bring the rate of inflation down from 900 percent a year to 400 percent a year. But I don't want to talk about Chile's economic problems; I want to talk about the problems of freedom.

Chile, of course, is a very different country than the United States, and a very much poorer country than the United States. Yet the history of Chile is highly relevant to our present situation and our future problems. Of all the South American countries, Chile had about the longest history of a reasonable degree of democratic government and a reasonably free society. That history dates back to the nineteenth century.

The origin of the present problems in Chile, which has lost freedom and which today is governed by an authoritarian regime, in my opinion, goes back some fifty or sixty years. Chile was not only one of the countries in South America that had the longest history of freedom and political democracy, but it was also one of the earliest countries in South America to institute a welfare state and welfare state measures. I was surprised to find in reading about Chile that, like Great Britain, the class of measures that we today associate with Welfare Statism, the New Deal, and the Fair Deal, got their start in Chile about 1906, 1907, or 1908, at about the same time that these processes started in Great Britain.

The present state of Chile, in my opinion, is the end result of an expansion in the role of government over the lives of people. The important thing about that development and the main lesson I am going to try to elaborate on in this talk, is that the measures that led to that result were done by good people for good objectives. The measures that

led to Chile's problems were not bad measures that were taken by bad people with the aim of grinding the poor under their heels. On the contrary, the problems of Chile derived from the attempt to use the State and the political mechanism to achieve good objectives. That development led to an increasing expansion in the role of the State in the society. It led to an increasing accumulation of legislation in which the government controlled what people could do. The obvious numerical counterpart of this was an increase in government spending until, by the time Mr. Allende came to power in Chile, government spending had reached something like 40 percent of the national income.

Since Chile was a poor country, it was difficult to impose explicit taxes to generate revenues of 40 percent of national income. As a result, taxes were imposed indirectly in the form of inflation. There is a great misconception about what happened. Mr. Allende, who produced the great confrontation and was clearly seeking to turn Chile into a communist dictatorship, was only carrying out the laws that had already been enacted by his predecessors. He introduced very little that was different. He just continued in the same direction that policy had been proceeding, ever more rapidly, during the past thirty or forty years. However, the end result was the tipping point at which the willingness of the public to put up with increasing involvement in their own lives was exceeded. There was first, the Allende regime with its threat of a left-wing dictatorship; and then a counterrevolution with the military taking over and a military junta being established, which also is very far indeed from a free society. It, too, is an authoritarian society which denies the liberties and freedoms of the people in the sense in which you and I conceive of them.

Lest you think that this tale of the history of Chile need not concern us, let me ask you to consider a case much closer. Cast your eyes across the Atlantic to the home of most of the ideas of freedom that we cherish—to the United Kingdom. The United Kingdom is a much richer country than Chile. It has a far stronger tradition of a belief in freedom and in democratic rights. Yet, the United Kingdom is going down the same path as Chile and I fear is headed for the same end. It is almost impossible for any one of us who was brought up in the great traditions emanating from Great Britain—the great tradition of freedom and of democratic rights starting with the Magna Carta and coming down through the whole list of famous Englishmen who have written and taught us about free institutions—it is almost impossible for anyone brought up in that tradition to utter the words that Britain is in danger of losing freedom and democracy, and yet it is a fact! I was

in Britain a little over a year ago. It was precisely because I had spent some time in Britain and had seen what was happening there that I was so much reminded in Chile this spring that I was seeing the same scene over again. It was like a continuous movie and this was where I came in. Or maybe I should say this was where I went out. What has been happening in Great Britain?

About the same time as Chile, Great Britain started on the welfare state line. In 1913, a great English constitutional lawyer, A. V. Dicey, revised and published a series of lectures he had given in this country under the title, *Relation Between Law and Public Opinion in the Nineteenth Century*. In its preface, referring to the measures that Britain had already taken by 1913, particularly in the area of old age benefits and of the treatment of people in institutions, he said, "This is a road on which no reasonable man can refuse to enter, but once entered nobody can tell where it is going to lead." That was an extraordinarily prescient prediction of what was in store for Great Britain because the role of the government has, from that point to this, expanded until today (again by that simple numerical measure that I used) total government spending in Great Britain (central and local) amounts to 60 percent of the national income. And yet, there is enormous pressure for still more government spending. Nobody is satisfied; everybody is dissatisfied. Society is being polarized. It is hard to see how Britain can avoid the fate that Chile experienced. Lest I seem alarmist, I can quote (I was amazed to hear it I must confess), from one of our modern oracles, Eric Sevareid, who in one of his little pieces of wisdom over the network after a visit to Britain, made exactly this analogy and said Britain is on the verge of the Allende period of Chile. And so it is. I fear very much that within the next five years the odds are at least 50-50 that British freedom and democracy as we have seen it will be destroyed.

But again, I need not go that far away. Let me come closer to home. Consider at the moment New York City. New York City displays precisely the same trends as Chile and the United Kingdom. New York City has the dubious distinction of having the most welfare state oriented electorate in the country. New York City has been following the same policy of ever-growing governmental involvement in the affairs of its citizens and the result has been exactly the same. Wherever this path has been followed, whether in Chile or in the United Kingdom or in New York, it has two consequences. The first is financial crisis. Certainly that characterized the situation in Chile. Certainly that characterizes the situation in the United Kingdom

where the rate of inflation has reached something over 25 percent; where the government budget is enormously in deficit; where Britain is able to survive primarily by borrowing from overseas. Similarly in New York, the first effect—financial crisis—is obvious.

The second effect is less obvious. This path leads not only to financial crisis, but also to a loss of liberty and freedom; and New York City has lost its liberty and freedom. New York City is no longer being governed by the citizens of New York City or by people elected by the citizens of New York City. It is now being governed by a committee of overseers appointed by the State of New York with power to overrule the elected officials of the City of New York. This loss of self-government and freedom has been concealed by the shift of power from one democratic institution, the City of New York, to another democratic institution, the State of New York. But the principle is the same: financial crisis leads to a loss of self-government. There is only one important difference between New York City on the one hand and Chile or the United Kingdom on the other and that is that New York City does not have one of those printing presses on which you can turn out green pieces of paper that people call money. It cannot issue its own money. Chile and Britain could issue their own money and, therefore, the financial crisis took the form of inflation; whereas, in New York it degenerated more promptly to bankruptcy.

Let me come still closer to home. Consider the United States in general and Brigham Young University in particular. The United States has been following the same path. Again, to use a simple index which I have been using, for the period from the founding of this country to 1929, leaving aside periods of major wars such as the Civil War and the First World War and the Revolution, total government spending in the United States (federal, state and local), never exceeded 10 percent of the income of the people. State and local expenditure more immediately subject to the control of the citizenry was twice as large during that period as federal government expenditures. Total federal government expenditure in 1929 was 3 percent of the national income. In the forty-five years since, total governmental expenditures have risen to 40 percent of the national income in the United States and federal government spending is twice as much as state and local spending. Federal spending today is something like 25 percent of the national income, or roughly 10 times as large as it was in 1929. We have been moving in the same direction as Chile and Britain and New York, and we have been experiencing signs of financial crisis—the

emergence of inflation at a higher and higher rate. We have also been experiencing the second effect: the loss of freedom.

People always talk as if the problem is in the future; as if the problem is that individual freedom is threatened by the encroaching control of our lives by the State. It is not merely the future, it is the present! Freedom has been greatly reduced in many dimensions. After all, the spending of 40 percent of our income for us by government is a restriction on our freedom. We have nothing to say about that 40 percent except through the political process which is what I am going to come to in a moment. But put aside the question of income. Go to those more fundamental freedoms of speech, of belief, of personal behavior. They, too, have been severely restricted. Consider for a moment the simple question of freedom of speech. Let me ask you how often you read in the papers any statement on public issues by a major businessman or industrialist except where it immediately concerns his own enterprise.

A little over a year ago, President Ford constructed a program, hastily buried shortly thereafter, called the WIN Program for Whip Inflation Now. Now it was a program that had some good things and some bad things, but taken as a whole it was a pretty silly program. You will search every newspaper in this country without finding a single major businessman who made a public statement against that program. Why? Was it because they agreed with it? It is inconceivable. At least it is inconceivable that they unanimously agreed with it. Surely there was some businessman who didn't.

However, if you were a businessman at the head of a great corporation you would think three times before you spoke out on a major public issue. You would look over your left shoulder and see the IRS getting ready to come and audit your accounts and you would look over your right shoulder and see the Department of Justice standing only too ready to launch an antitrust suit against you. And then, if you had more shoulders than two, you would ask what is the FTC going to do about my advertising; and what is the FDA going to do about the products I produce; and what is the Safety Council going to do about this, that and the other thing? You are not free to speak if you are in that position.

Let me get closer to home. Let me get to my own area and your area—the academy. Is the scholar free to speak? I ask myself whether the professors who teach medicine at any medical school in this country, most of whose research is being financed by the National Institutes of Health, whether they really feel free to speak out against

socialized medicine and against further involvement of the government in medicine. Some of them obviously will. But is there the slightest doubt, to use those famous words of the Supreme Court, that their dependence for the major source of their financing on the Federal Government has a "chilling effect" on the freedom of speech? About the only people who now have full freedom of speech are people in the fortunate position that I am in—a tenured professor at a major institution on the verge of retirement.

Let me come down to Brigham Young University. The bureaucratic lash which has extended from Washington has even reached here with a proposal to impose on Brigham Young various requirements of Health, Education and Welfare—requirements that, in my opinion, would interfere severely and seriously with your performance of your selected mission. Every academic institution in the United States is threatened in exactly the same way. If it were not so serious, it would be humorous because there is no group in this country that has done more to bring this upon themselves than the academic community. We have been in the forefront in persuading the public at large that the doctrine of individual responsibility is a false doctrine; that the source of all good things is Big Brother in Washington. We only complain when it comes home and hits us.

Let me go from a description of the situation to an analysis. Why? What is the explanation of the tendency for the attempt to use the political market to achieve noble objectives to go awry and destroy our freedom. Why does it happen? In the simplest form, the fundamental fallacy of the welfare state which leads to both financial crisis and the destruction of freedom is the attempt to do good at somebody else's expense. That's the fundamental fallacy. First, nobody spends somebody else's money as carefully as he spends his own. That's why trying to do good at someone else's expense leads to financial crisis.

Second, if you are going to do good at somebody else's expense, you have to take the money away from them. So force, coercion, destruction of freedom is at the very bottom, at the very source, of the attempts to do good at somebody else's expense. About seven or eight years ago, in an article published in the *New York Times* magazine section, John Kenneth Galbraith said that there was no problem in New York City which would not be solved if the city government's budget were doubled. In the interim the city government's budget has been quadrupled and so have the problems. And the reason is straightforward. While the city government had more to spend, the

citizens had less to spend because the government can only get the money by taking it away from somebody else.

More fundamentally, to get beneath this simple description, what is at bottom of our problem is the failure to recognize the distinction between the political market on the one hand and the economic market on the other. This distinction, which I would like to develop, is one that can be expressed in various terms. You will pardon me if my professional background leads me to put it in economic terms. The political system is a marketplace; the economic system is a marketplace. These are two different kinds of market mechanisms and they have very different consequences. Though it may seem a paradox, the economic market is a freer, more democratic market than the political marketplace.

Let me at the outset put to one side a false distinction between the two markets. We tend to be misled by words. Because we speak of a person in the economic market as having a private enterprise, we think of him as serving his private interest. Because we speak of a government bureaucrat as being a public servant, we speak of him as serving the public interest. But that is an utterly false distinction. Almost every individual serves his own private interest. That interest need not be pecuniary; it need not be monetary, or physical, or material. The great saints of history have served their private interest just as the most money-grubbing miser has served his private interest. The private interest is whatever it is that drives an individual. A government bureaucrat is seeking to serve his private interest just as much as you or I or the ordinary businessman is serving his private interest. To make this point in the most extreme form, if you compare the manager of a Russian factory who is a public servant and the manager of an American factory who is supposedly a private employee, they both are serving their self-interests. The only difference is that the actions that will serve their self-interest are different. The American manager has to worry about getting fired; the Soviet manager has to worry about getting fired at! And that makes a big difference in what's in their self-interest.

In exactly the same way, the bureaucrats at HEW in Washington who are trying to extend their control and impose regulations on Brigham Young, on Chicago, on Hillsdale, on all the other colleges, are serving their private interest. They may believe thoroughly in what they are doing, but they are nonetheless serving their private interest in seeking to extend the scope of their power, their importance, and their influence. It is a myth that there is a difference between the

motives of the people who are employed in government and the people who are employed in the private sector. That is equally true of those who are competing for votes. The legislators are competing one with another. They are competing for votes and it is in their private interest to do those things which will get them enough votes to get elected.

A second myth about the political market is that as opposed to the economic market in which individuals vote with dollars, in the political market there is one person-one vote. That is true on a formal level, but it is obviously false on a realistic level. It is a system in which there is highly weighted voting; in which some people have an enormously greater influence on the political outcome than others. This is obvious in all sorts of ways. You need only look at the kind of thing that we have been talking about. Take the most dramatic example at the moment. We have a great dispute in this country about forced busing. Whatever may be said for or against it, there is not the slightest doubt that 80-90 percent of both whites and blacks in this country are opposed to forced busing. Yet we have it and we are going to continue to have it. How can you explain that on the basis of one person-one vote?

There is a highly weighted voting system and an analysis of the political market must investigate why there is such a weighted voting system. Is the problem with the political market that you have wicked people? No. The people who operate in the political market are just as wicked or just as noble as the people who operate in the economic market. They are the same people. The difference is the structure of the market. The difference is that the political market is a system under which all decisions have to be yes or no.

The fundamental difference between the political market and the economic market is that in the political market there is very little relation between what you vote for and what you get. In the economic market you get what you vote for. Let me give you a very trivial example of the kind of thing that I have in mind. Let's suppose the question at issue is whether neckties should be red or green. If that is going to be decided by a political mechanism, everybody votes. If 51 percent of the people vote that ties shall be red, 100 percent of the people get red neckties. In the economic market each one of us goes to the store separately. If 51 percent of the people vote that ties shall be red, 51 percent get red neckties and 49 percent get green neckties. Everybody gets what he votes for. Now this is a fundamental difference between the two markets.

There are some things for which the vote has to be yes or no. Those are the things which are the appropriate function and role of government. There is no way in which 51 percent of the people in the United States can be at war in Viet Nam and 49 percent of the people can be not in war. That is precisely the kind of a decision that has to be decided through a mechanism which permits a yes/no vote. The problem is that we have extended the political market beyond things of that kind and to the kind of things where it is possible for each person to get what he votes for, where we do not have to have a yes or no decision. If you have a yes or no decision, then there is almost always a very loose or no relation between your vote and the result. As a consequence, you do not in general have any incentive to examine the issue you vote on thoroughly, i.e., to vote intelligently. In the political market, this phenomenon leads to weighted voting in favor of special interests and opposed to the general interest. If I have some piece of legislation that is going to benefit a small group a great deal, the members of that small group have a real incentive to learn about the issue, to bring pressure on their legislators to lobby for it in Washington. The rest of us? Here is something which is going to mean millions of dollars separately to each of a small number of people, but to you and me it means fifty cents extra on our tax bill. What incentive do we have to find out about it or to spend any time voting intelligently, or to bring pressure on our legislators.

Let me give you a few very simple examples. About three or four years ago President Nixon tried to eliminate a program under which the federal government had for many years been subsidizing people who tasted tea. This is literally true. This is a program under which the government graded tea for the benefit of importers and you and I paid taxes to hire people to taste the tea and decide what grade it should get. It is very hard to see any general public interest in that. After all, the tea industry can provide those people. Mr. Nixon made the simple, obvious proposal that we should eliminate it. We still have that program because the people in the tea industry got up in arms about it. They didn't want to have that little thing taken away from them. Is there anybody in this audience who would take his vote away from a representative because that representative voted to keep the tea tasting arrangement?

Let me give you a more important case. We have a post office which I would hardly suppose is distinguished for its efficiency. For many years I have been trying to propagandize for eliminating the monopoly privileges of the post office—for opening it up to

competition. About a dozen years ago, I talked to a good friend of mine who was then in Congress to urge him to introduce a one sentence bill eliminating the monopoly privileges of the post office. He said to me, "You know I agree with you completely, but can you name me an organized group that will come and testify in favor of that bill? I know about the organized groups that will be there to testify against it. There will be the postal employees union; there will be the organization of newspapers and of magazines who will testify against that bill," and he went down the list. All of those organized groups would testify against it. The people who are benefited don't even know that they would be benefited. If you eliminated the monopoly on the post office, there would develop a viable active private industry carrying mail. Some of you people in the audience might at some time be employed in such an industry, but do you know it? Are you going to go down to Washington to campaign in favor of that bill? Not a chance of it. "So," he said, "there is not a chance in the world of getting that bill through. It's just a waste of my energy and time to move in that direction."

We mustn't suppose that this favoring of special interests only applies to others. Brigham Young University may be an exception in that it relies to a very limited extent upon governmental subsidies, but most institutions of higher education in this country are very much subsidized by the government.

Some of you may remember that years ago a former president of General Motors testified before Congress and was so injudicious as to make the statement, "What's good for General Motors is good for the country." My colleagues at the university hooted and scorned him for such a self-serving statement. But then the next day they were taking airplanes to Washington to testify before Congress that what was good for higher education was good for the country. And not one of them saw the irony and the inconsistency.

Each of us separately will try to use this government mechanism to get special benefits for ourselves. Again, going back to that episode last September before the WIN Program was instituted, President Ford had a summit meeting at which people from around the country came together on the subject of inflation. I heard one representative of special interests after another get on the platform and say, "What this country needs to stop inflation is to cut down government spending and the way to cut down government spending is to spend more on me." That was a universal refrain from the farmers, the trade unions, the business representatives, the representatives of the universities.

That is the fundamental defect of the political mechanism: it is a system of highly weighted voting under which the special interests have great incentive to promote their own interests at the expense of the general public. The benefits are concentrated, the costs are diffused, and therefore you have a bias in the marketplace which leads to ever greater expansion in the scope of government and ultimately to control over the individual. The way to get elected to Congress or to the presidency is not really to appeal to the general interest. A majority decides, but it is a special kind of majority. The way to get elected is by putting together a coalition of special interests. You go to a group that has 5 percent of the vote and say, "I will vote for what you want if you don't care what else I do." And, they say, "Oh, I don't care what else you do." You go to another 5 percent and in this way you assemble 51 percent.

The characteristics of the economic market are very different. The fundamental point is the one I mentioned before. In the economic market—the market in which individuals buy and sell from one another—each person gets what he pays for. There is a dollar for dollar relationship. Therefore, you have an incentive proportionate to the cost to examine what you are getting. If you are paying out of your own pocket for something and not out of somebody else's pocket, then you have a very strong incentive to see whether you are getting your money's worth. In addition, nobody can get money from you in the economic market unless you agree. There is nobody who can put his hand in your pocket without your permission. In the political market that is the standard way of financing everything. As a consequence, you have in the economic market true individual freedom and a true individual incentive to get what you vote for and, more importantly, the incentive to find out whether what you are getting is what you voted for and is proportional to the cost to you.

The fundamental problem of a major society, of a society like ours, is that millions and millions of people must cooperate with one another for their daily bread. Fundamentally, there are only two ways in which large groups of people can be induced to cooperate with one another. One way is the method of the army, through force and coercion and direct order. The general tells the colonel, the colonel tells the major, who tells the lieutenant, and so on down to the private. The other way is through voluntary cooperation among people, each of whom is separately pursuing his own interest. In fact, the first method cannot work. The world is simply too complicated. There are too many facts of special time and place for it to be possible to run any

complicated system on the basis of direct order. So that in fact, all systems of cooperation among large groups of people involve a mixture of these two. But, it makes an enormous difference what the mixture is. You know, it is like the joke about hasenpfeffer—half horse, half rabbit—one horse, one rabbit. The character of our society is fundamentally determined by whether the horse is the political market and the rabbit the economic market or the other way around. Paradoxically, therefore, the situation is that the economic market is a more effective means for achieving political democracy than is a political market.

Let me add one more word on that. When you think of the economic market and the political market you tend to think in narrow terms. You tend to think of the economic market as concerned with the mundane, material things such as producing bread or cheese, or automobiles or houses. But the principles I have described apply much more broadly. The private market, the economic market, is also the most effective means for doing good. If you go back to the period in the United States when we had the most unrestricted operation of the free private market, the nineteenth century, it was also the period of the greatest burst of eleemosynary and charitable activity in the history of our country. Brigham Young University, my own University of Chicago, many of the other colleges and universities of this country were established during the period of the nineteenth century. They were established by the private market arrangement; namely, by voluntary cooperation among people spending their own money for something they themselves believed in—to establish a university or a college. The great system of public libraries, the Carnegie Libraries, was established during that period. That was a period that saw the birth of the private eleemosynary hospital, of the foreign missions, of the society for the prevention of cruelty to animals. You name the charitable activity and you will find that in almost every case its origins go back to that time. So the private market (what I described as the economic market of voluntary cooperation), is in my opinion the most efficient and effective way of doing good as well as the most effective way of organizing economic activity.

The U. S. is coming to a crossroads. We cannot continue along the road we have been going. In going from 10 percent of the national income being spent by government to 40 percent it was possible to maintain a large element of freedom and individual liberty because it was possible to give large benefits to small groups at small costs spread over many people. But one thing you can be sure of: In the next forty

years we cannot go from 40 percent to 160 percent. So, we are coming to the crossroads. We are coming to the problem that faces Chile which as a poor country tipped over at 40 percent. Britain is wealthier, but appears on the verge of tipping over at 60 percent. We still have some ruin left in us, but pretty soon we are going to be forced to face up to the issue. Where we go from here depends on you, on the generation that is going to determine our future, on this generation, on whether in time to come you recognize that this is a false road which leads to tyranny and misery, and not to freedom. Let me propose to you that as you contemplate that future, you take as your major motto what I would like to see as an eleventh commandment—that everyone shall be free to do good at his own expense. Thank You.