

Champion of Economic Freedom

A year before his death in November, Nobel laureate economist Milton Friedman sat down for a wide-ranging conversation with Dallas Fed President Richard Fisher. The following excerpts capture Friedman's belief in free enterprise and limited government.

Fisher: You wrote *Free to Choose* in the 1980s, when we had this titanic struggle between capitalists and communists, with the Soviet Union still in place, the Berlin Wall still standing and a very different kind of regime in China. Today, where is the battleground for ideas?

Friedman: The battleground for ideas is where it has always been—in the minds of the people in the U.S., Britain and the rest of the world. But the place where you have had the major changes has been, not in the U.S., not in what's known as the West, but in the former Soviet Union, China and East Asia. That's where practice has been changing and along with it, we hope, beliefs.

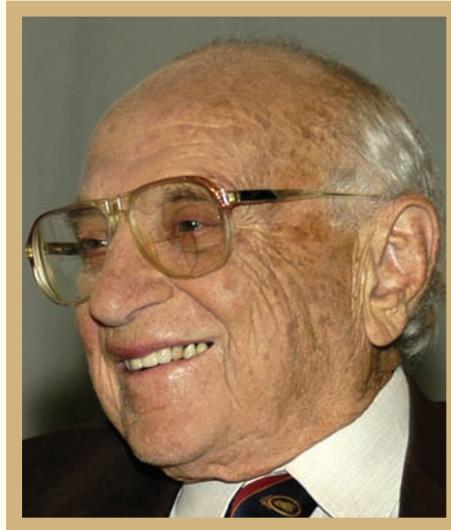
Fisher: Why did that happen? Was it good luck? Was it good ideas?

Friedman: What really brought about that change and recognition was the collapse of the Soviet Union and the fall of the Berlin Wall. That was as strong a demonstration as you could have of the fact that a totalitarian state, controlled from the center, was not an efficient way to run a country. And certainly was not a way that was consistent with human freedom.

Fisher: So now today we have some new competitors in the system?

Friedman: Not new competitors. We have new resources, new cooperators. In the last 20 years, there's been an enormous increase in the number of laborers available for cooperation with capital through private enterprise means. That's what's happening in Asia, in India and in much of the former Soviet Union.

The really remarkable thing about the world is how people cooperate together. How somebody in China makes a little bit of your television set. Or somebody in



Malaysia produces some rubber. And that rubber is used by somebody in the United States to put on the tip of a pencil, or in some other way. What has happened, has been an enormous expansion in the opportunities for cooperation.

Fisher: You've often talked about political freedom as well as economic freedom—a government that is the least intrusive. How will this resolve itself in China?

Friedman: I do not believe that China can continue to move as it has been moving in expanding the range of the market and at the same time continue with its wholly, fully centralized government. Let me emphasize that there has been considerable increase in not political freedom, but civil freedom. I have decided that it was important to separate and distinguish three categories of freedom. Economic freedom, the freedom to buy and sell, to make transactions. Civil freedom, the freedom to speak freely, the freedom to write and have freedom of speech. And then political freedom, which was the freedom to elect your leaders.

Fisher: Do you worry about the fiscal deficits that we now have in this country that have been accumulating over time?

Friedman: The problem is not the deficit, the problem is the spending. Which would you rather have: government spending of \$10 billion, completely paid for by taxes, or government spending of \$5 billion, completely paid for by borrowing?

Fisher: What's your answer to that question?

Friedman: Oh, I'd rather have \$5 billion paid for by borrowing. What matters is not whether the money that pays it is borrowed or taxed, but whether the spending takes place. What really uses up resources is the spending. In fact, borrowing and taxing are really two different forms of taxation. The borrowing is an indirect form of taxation. One of the reasons I have always been in favor of tax cuts is because it seemed to be the only way that you can keep down government spending.

Fisher: Has it worked?

Friedman: Not completely, not 100 percent. But I think it has worked. I think that if we had not had those tax cuts, government spending today would be higher than it is. We spend close to 40 percent of our national income through government. That's a very high number. But it's lower than all of the European countries. It's lower than most countries in the world.

We would be much better off if we could cut down on that spending. Most entitlements, in my opinion, are not justified. They do not serve a useful function. Take Social Security for a moment. What Social Security is, is a Ponzi game. People put money into a pot, people take money out of the pot, and the whole thing is dependent on new entrants coming in and feeding that pot. The money is not invested. The money that comes in, the government spends routinely. It does not accumulate any assets. Everybody talks about how the aging popu-

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lation is raising difficulties for Social Security. I haven't heard anybody ask, why doesn't it raise difficulties for life insurance companies? It doesn't because the aging population means that life insurance companies have larger reserves because people bought insurance in their youth.

Fisher: You have been a staunch advocate of free trade.

Friedman: Somebody asked me to write a letter or statement in support of the recent trade bill with the CAFTA. I decided I would look up this CAFTA bill. No one who read that bill could be in favor of it. It's a very long piece, a thousand pages. You get free trade on a thousand pages of rules and regulations? It's the opposite of free trade. The best thing that we in the United States could do, there's no question in my mind, would be unilateral free trade. We have nothing to lose by trading freely with every other place in the world.

Fisher: Even if other countries do not embrace free trade and subsidize farm products?

Friedman: If they want to waste their money, why should it bother us? And in particular, if they waste their money in a way which benefits us, if they make their agricultural products cheaper to us, why should we refuse the gift? We think it's OK for us to give foreign aid. Isn't it OK for us to receive foreign aid? You must regard foreign subsidization as a form of foreign aid.



Fisher: We've had many shocks to our system in recent years—a huge stock market reversal, the Sept. 11 terrorist strikes, natural disasters, energy price developments. And yet we continue to increase our productivity. Why is that?

Friedman: The economy has behaved remarkably well over the past 10 years, particularly over the period since 9/11. It's been fluid, it's been adjustable, and I think a very important part of credit for that does go, in this case, to the Federal Reserve and to the stable monetary policy.

Fisher: It is remarkable to hear you say that because you've been a frequent critic of the Fed.

Friedman: I have not been afraid to criticize it when I thought it deserved criticism. But having once adopted the view that its fundamental objective was to maintain stable prices, the Fed has been able to do so. And over the period of about 1990 to now, you've had close to stable prices. It's been about 2 or 3 percent inflation, on and off, up and down. And that has provided a stable background, which has facilitated adjustment to these other changes that have come along.

Not only has there been greater price stability, but there has been greater stability of the economy. The accepted doctrine among monetary economists was that there was a trade-off between price stability and economic stability—to get greater stability of the economy, you had to have more instability in prices. You had to use ups in prices and downs in prices to keep the

economy straight. And that has turned out to be wholly false. It's just the opposite. The stability of prices facilitates the stability in economic output.

Fisher: What do you worry about in terms of the future of America?

Friedman: Well, I am basically, innately an optimist. So I see a great future for America. I think we have the right kind of a basic government if we can keep it. And what I worry about most for America is that we will not control the propensity for government spending to increase.

If freedom is going to be lost in America, it will be lost by excessive government involvement. It's hard to say, but it's true. We are much wealthier today than we were in 1950, but we are less free today than we were in 1950. If you think of all the regulations that have been imposed in the period since then, all of the organizations—Medicare, Medicaid, aid for disabled people, you can go down the line—there are hundreds of them. There's less regulation on business, but there's more regulation on people. From the long-run point of view, the one and only thing I'm really worried about is that government will grow too large.

Video clips of this conversation and other information about Friedman can be found on the Dallas Fed's web site at <http://dallas-fed.org/research/friedman.cfm>.