

- Hello, Instructional Dynamics Incorporated welcomes you to this weekly series of commentaries on the current economic scene. Reporting to you will be one of the nation's leading economists, Professor Milton Friedman of the University of Chicago.

- As I mentioned at the end of my tape last week I plan to spend most of this tape on discussing the consequences of the election. Like most of you, I am sure, I lost a good deal of sleep this week trying to stay with the newscasters in the course of that tortuous and long, drawn-out contest. I am delighted that it came out as it did, that Mister Nixon is now our president-elect, and will be in the White House after January. I personally believe that his election augurs well for the future of the country. But before discussing this election, I would like to comment briefly on a point that came up in the course of Professor Samuelson's companion tape in the series last week. Professor Samuelson referred to the fact that GNP growth decelerated slightly in the third quarter of 1968. He said that, with respect to the explanation of this development, he was inclined, himself, to be an eclectic, to be a person who gave weight both to the monetary forces and to the fiscal policy effect. He therefore attributed the slight slowing down in the third quarter to the effect of the passage of the surcharge, while emphasizing that the effect had been much less than most people had anticipated. What I want to point out is that the forces I mentioned in my tape last week can adequately account for that slowdown in the third quarter of 1968. I mentioned last week that from November of 1967 to April of 1968, the Federal Reserve did follow a somewhat tighter money policy. That is to say, they increased the quantity of money at a slower rate than they did before or than they have since. It takes about six months or more for these changes to have their effect. The slowdown in the third quarter, it was very slight. Professor Samuelson mentioned a GNP growth of \$18 billion a year instead of about \$21 billion a year in the second and first quarters. That slowdown might very well, and probably can be explained by the prior slowdown in the rate of monetary growth. There is no need to call into the picture the fiscal effects. Indeed, you will recall that Professor Samuelson referred to estimates made by persons at two banks, one in Chicago and one in New York. I'm sure that without fear of successful contradiction, I know who the people he called are, because they happened, both, to be students of mine. He referred to their having predicted a slowdown in the third quarter. Their prediction did not depend on giving any weight to fiscal effects. It depended entirely on the earlier slowdown in the rate of monetary growth. With this off my chest, let me turn to the more important question of the effect of the election of a new president. This is such a big topic, we'll refer to so many items, that I'm rather sure it will not be possible for me, in one tape today, to get through all of the items I would like to talk about, but let me, at any rate, outline in broad terms the various topics that it seems to me worth discussing in this connection, and that I have some ideas about. First, I would like to talk about, on the broadest level, the widespread tendency to misconceive the kind of effect that the election of a new president has. The tendency is to look at it in terms of radical changes rather than in terms of what I shall argue is much more important: the slight change in direction which it may portend. Secondly, still as background to a discussion of the strictly economic effects of the election, it seems to me worth saying a few words about the broader consequences of the election, not entirely non-economic, or not entirely without implications for the economy, the broader consequences on such matters as law and order, cohesiveness in the population, the use of violence, and so on, because I

believe that there is a very close relationship, and a very important relationship between the kind of governmental and economic policies followed, on the one hand, and the attitudes about these other matters in the country at large, on the other. Passing from these background matters, we come to the major economic problems. The major economic problems for this administration for the coming year, and they are the same as the problems that would have faced Mr. Humphrey had he been elected, are clearly threefold: the problem of inflation, how to control it, how to keep it from getting out of hand, how to bring it down to a lower level without introducing unacceptable levels of unemployment. Next, the problem of the balance of payments: how we can check the tendency that has persisted for many years now for our foreign payments to exceed our foreign receipts for there to be pressure on the dollar. And, as the third of these main economic problems, how to get control of the government budget: how to achieve the objectives which Mr. Nixon has expressed, of keeping government expenditures from rising, of bringing down taxes, and yet at the same time keeping taxes in line with expenditures. These are the main topics I would like to comment on. I will go as far as I can today, and then I will take up where I leave off today on my next tape. Let me turn to the first topic mentioned: what kind of an effect, in very broad terms, the election of a new president will make. Let me go back and cite the example of the election of Franklin Delano Roosevelt in 1932. If you look at what Roosevelt said in his campaign speeches, his policy was identical with that of Hoover's. Indeed, he berated Hoover in the course of the campaign for being so profligate with the government's money. He called Hoover irresponsible because of the large deficits that had emerged in the past years, and he promised that the new Democratic administration would inaugurate a period of fiscal responsibility. True, after he got elected there was a very great spate of legislation. The first hundred days saw many items enacted which have remained with us. But if you ask yourself, what was the major effect of the election of Franklin Delano Roosevelt, I do not believe that you will find that that major effect comes from the laws which were passed in the first hundred days, or indeed from the laws that were passed in the whole first four years of his administration. The effect of FDR's election has to be sought in a very different direction. His election started a new trend, a new tendency, a different path for general government policy, a different attitude toward economic arrangements. There had, of course, earlier than this, been many cases in which the government had interfered with the economy, had stepped in to control one thing or another, but there had been a general philosophy prior to this, of free enterprise and laissez-faire, that the government's role was to be in the background, to provide a framework, that it did not have the role of running the economy. The most extreme expression of this goes back still earlier. You may recall a statement by President Grover Cleveland at an earlier date that the government has no business supporting the people. That it is the business of the people to support the government. Now, that was a view which was as widely different from the view that has developed by now as one can possibly imagine. The thing about the Roosevelt administration was that this shift in emphasis, which in the early days had only a minor effect on the course of the economy, on the structure of the society, on everything else, in the course of 35 years has accumulated to an enormous difference. It has accumulated to the point where the government now plays a role in the economy that would have been unthinkable, even to Franklin Delano Roosevelt himself, let alone to any of his predecessors during the prior decades. This is a very, very general proposition. Start two lines diverging at a very, very slight amount, continue them far enough, and sooner or later they will be very far apart. So, the effect of FDR was to start the line of government policy diverging from where it had been and over 35 years it had accumulated. In exactly the same way, the tendency on Nixon's election is to look at the dramatic, radical things that he is going to do. That seems, to me, to be the wrong thing to look at. The thing

you wanna look at if you wanna know what's going to happen over the course of decades is look at whether Richard Nixon will be successful in instilling a new direction to policy, whether he can start things going off at a slightly different angle. The very fact that it was he who was elected reflects, to some extent, a dissatisfaction on the part of the public at large with the direction in which policy had been going, a great dissatisfaction with centralization of government in Washington, a dissatisfaction with the paternalistic attitude on the part of government, with government handouts, government controls, government regulations. Mr. Nixon, time and again, expressed the sentiment, and there is no doubt that this corresponds to his basic underlying views, that the strength of America lay in its people, and that the strength of America lay in the freedom of individuals to pursue their own destinies with government, perhaps, lending a helping hand, but not taking things over and running the lives of people for them. There is no doubt that he will make every effort that he possibly can to move things in a different direction. He will make every effort to reduce the extent to which government exerts control over individuals, over business community, over various groups. You will recall his letter on the stock exchange that appeared during the campaign and caused so much discussion. This reflected the general philosophy I am speaking of. There is no doubt that he will try his best to turn control of matters from the central government over to state and local governments, to decentralize. He will try to emphasize the idea of individual responsibility as opposed to social responsibility. In my opinion, it is in this direction that the major effect of his administration is to be found. If he succeeds in starting a new trend, in getting things moving off in a slightly different direction, then, in the course of decades, that will accumulate and make a major difference in the structure of the society. This comment ties in very closely with my second point, which has to do with the relation between this general attitude about the role of the government, the relation between economic policies, broadly conceived, and such matters as appear not to be economic, as the law and order in the community, the extent of violence, of crime, and things like that. Now, obviously, very many things come in to affect these matters. Crime has been with us for a very long time. It's not a new thing that aggrieved wives should murder their husbands or vice versa. It's not a new thing that there should be violence and riots on the streets. During the Civil War in the United States you had draft riots in New York that exceeded anything we have seen in recent years. So that I don't mean to say that the points I'm going to mention comprise all of the factors that affect the disgraceful developments that have occurred in this country, the disgraceful rise of violence and of crime, and a lack of respect for the law, but I do believe that one of the major factors that has produced this tendency has been the widespread substitution of political mechanisms of solving problems for market mechanisms, of governmental arrangements for private arrangements. This tendency to use political mechanisms in place of market mechanisms affects the climate of law and order, affects the use of violence in quite a number of different respects. One very obvious effect is that as soon as government starts doing a great many different things, this diverts the energies and the attentions of government officials from the things that are the proper function of government. One reason why police matters and things of this sort have been neglected is because the glamorous things to do in government are in Washington. The glamorous things to do are in the area of economic and social control, not in the area of setting up a good, efficient, first-rate police force and directing it, and the really able people tend to have their ambitions centered in Washington, not on the local scene. The second factor that has worked in the direction of decline of law and order and a rise of violence is the point I mentioned earlier: the growing acceptance of the idea of social responsibility, as opposed to individual responsibility, the growing acceptance of the idea that if there is anything wrong with the life of an individual, that's to be found in the

social conditions which underlay it. If indeed society is responsible for what happens to us, if society is responsible for the fact that the poor people in the slums are poor, that a Negro is discriminated against, if each individual gets to feel that the reason he's in a bad way is not because he didn't work hard, not because he's indolent, not because he may not be smart, but because some bad people have been discriminating against him, and have been taking his things away, why then who can blame him if he turns around and says, well, they did it to me; I'm gonna do it to them, and I think that a not-negligible share of the blame for the kind of developments in the slums that you have had has been the widespread acceptance, on every level of our society, from the lowest to the highest, of the doctrine that society is responsible for the ills of individual, rather than that individuals are themselves responsible. Another way in which the substitution of political for market mechanisms affect these matters is that it increases the amount of discontent. When people satisfy their needs in the marketplace, each person separately can get what he wants. If you and I and our neighbors buy automobiles, one of you may buy a Chevrolet, another a Ford, and each one picks his own model. When we buy ties, each person can buy the color of tie he wants. That's the characteristic feature of the market process. It's a process of proportional representation in which every voter who votes with a dollar gets whatever it is he voted for. The political mechanism is in sharp contrast. In the political mechanism, we tend, as a characteristic matter, to have a vote. If 51% of the people vote one way, and 49% of the people vote the other way, then everybody gets what the 51% of the people voted for, which means that 49% of the people do not get what they want. If we were to distribute automobiles or ties by the political mechanism, we would have a vote to decide whether there should be, whether all cars should be Cadillacs, or all cars Fords, or all cars Chevrolets, and then everybody would have to get whatever the vote was for. If we were to distribute ties, we'd have to vote what percentage of red ties, blue ties, and green ties, and then everybody would have to conform with that decision, regardless of what his own views were. Now, there are some matters where it's unavoidable to use a political mechanism of this kind. Unfortunately, there is no way in God's green Earth whereby one man can have the United States fighting in Vietnam, and another man can have the United States not fighting in Vietnam. For such issues, the economist calls them indivisible choices, it's necessary to use a political mechanism. We haven't been able to devise any way to use a market mechanism. But whenever you extend the area of governance of the political mechanism, you extend, just by that much, the area over which people are going to be discontented, and one of the major effects of the extension of governmental controls over the past three decades has been to widen the area with respect to which people feel that they are not getting what they want, so that the widespread use of the political mechanism has increased the amount of discontent in the society. The use of the political mechanism not only increases the amount of discontent, but it directs the discontent at persons. If a Robinson Crusoe on an island is not getting a very large income, if his crops aren't very large, he doesn't blame that on anybody else. It's impossible. He may rail at God for having put him off on such a miserable, low-quality island, but he has no other individual or person to blame. Similarly, in a really free enterprise market mechanism, if one man does not do well, if he does not have a high income, he has nobody to blame, as it were, but himself or the fates. The fates did not give him a sufficient skill, sufficient ability to be able to extract a high income from the marketplace. The market takes the place of the environment of Robinson Crusoe. He recognizes that scarcity is what's at work in keeping him from having a high income. On the other hand, as you increasingly use political mechanisms to distribute and produce goods, this discontent is directed, not at fate, but at people. If all that is necessary to improve my lot is to pass a law, why then obviously, the bad, evil, greedy people who refuse to pass the law that would have

benefited me are the people who are to blame for my condition, and not the fact that nature is niggardly. Now, of course, for any particular ill you can always pass a law. If you or I could easily benefit ourselves, if we can get government to pass a law for us, but you can pass all the laws in the world, and you cannot thereby increase the total amount of goods that there are to go around, so it is impossible for everybody to be satisfied, and yet the idea that all that's needed is to pass a law causes an increase of dissatisfaction for the reasons I mentioned earlier, and directs that dissatisfaction at the particular persons who are regarded as responsible for preventing people from getting what they want, or what they believe would be their just desserts. So that the use of political mechanisms increases the amount of discontent and directs the amount of discontent at persons, rather than causing it to be directed at the forces of nature which limit the amount of the good things of life that are available to be parceled out among all of us. In addition, it not only directs discontent at persons in general, it directs discontent at particular, named, identifiable people. The interesting thing is how much more capable of being concentrated political power is than economic power. There are many people who have enormous fortunes, but few of them have anything like the amount of control over the lives of men in the world as do a small number of political figures. One of the reasons why people like myself have always been in favor of a small role of government and a large role for the market is precisely this reason: that political power is subject to far greater concentration than is economic power, and therefore, if you resort to the market, you produce a decentralization of power that is likely to avoid tyranny and dictatorship. This is illustrated dramatically in the United States. I used this example in a Newsweek column some months ago in the case of the Kennedy family. Joseph Kennedy, this is a tragic case, of course, but all the more dramatically illustrates the point I want to make. Joseph Kennedy accumulated an enormous fortune, which is measured in the hundreds of millions, yet he never had the kind of power or the kind of visibility that caused anybody to try to take his life or, very likely, ever gave anybody the idea of doing so, except, of course, in personal squabbles that he may have had with particular individuals in the course of his many business dealings. But here, two of his three sons have been tragically assassinated. Those sons, John Kennedy, as president of the United States, clearly had far greater power, far greater importance over the lives of people, than his father was ever able to have with his hundreds of millions except, of course, insofar as those hundreds of millions had some effect on establishing conditions under which John F. Kennedy could be president, and by having so much power, and more important, by being so visible and identifiable, he directed the forces of violence and discontent at him. Bobby Kennedy is another example. He was aiming for an office which would have had the same effect, which made him equally visible, and this is a tragic illustration about how the use of the political instead of the market mechanism will direct violence at named individuals. Let me go back to the reason I started talking about this. I am talking about what effect the election of Nixon to the presidency will have. If the election of Nixon to the presidency can start a new trend in thinking, can start us moving away from emphasis on social responsibility toward emphasis on individual responsibility, away from assigning these tasks to the government and toward a greater role for private individuals, for individual freedom and for the market, then I think it can have a dramatic effect on the kind of society, in the broader sense, that we can have. It can have a dramatic effect in eliminating the present extraordinary divisiveness of the country, the present emphasis on violence, on riots, as ways of getting what people think they ought to have, and indeed, in some ways this is, I think, the most hopeful augury from the election of the president. I do believe that he will try to set a tone along this line. I am optimistic enough to believe that he will be successful, and I am even more optimistic in believing that, if successful, you will see in the next few years a dramatic decline in

discontent in the population. Needless to say, in order not to overstate my case, I don't mean to denigrate the importance of other factors, and in particular, in the present circumstances, the importance of the Vietnam War, which has done so much to divide the nation, but even this case exemplifies my general point. Mr. Nixon has come out, I am delighted to say, for instituting a voluntary army. Vietnam would have been a far less divisive force in our society if the men who had been fighting in Vietnam had been volunteers rather than people recruited by the draft. In some ways that's another indication of how divisive it is to use political mechanisms instead of market mechanisms. The war itself must be decided by political methods, but the way in which we recruit men for the armed forces can be either political, on the one hand, or market, on the other. I hope Mr. Nixon will be able to institute his voluntary army as promptly as possible, because I can think of no single factor that would do more to reduce the amount of discontent among our young, particularly among those youngsters who are in college, and because of a combination of idealism and self-interest have been among the most violent and disruptive. Nothing can do so much to defuse that situation as the substitution of a voluntary army for our present inequitable and undesirable draft. I see that I have taken up much more time than I thought I would on these general background matters, and I have come to the end of my time, so I will have to leave to my next tape the more detailed discussion of the particular economic issues that are affected by the election. This is Milton Friedman.

- Thank you, sir. If you have questions or comments, or suggestions for topics you would like discussed in this series, please send them to Instructional Dynamics Incorporated, 166 East Superior Street, Chicago, 60611.