

COMMANDING HEIGHTS

Milton Friedman

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A protégé of the Chicago School and a leading monetarist, Milton Friedman was awarded the Nobel Prize in Economics in 1976 and has served as advisor to Presidents Nixon and Reagan.

This wide-ranging discussion moves from free-market economies to communism, covers the Great Depression and the New Deal, and offers Friedman's personal insights into Keynes, Hayek, Nixon, Reagan, and Pinochet.

On Freedom and Free Markets

INTERVIEWER: Why are free markets and freedom inseparable?

MILTON FRIEDMAN: Freedom requires individuals to be free to use their own resources in their own way, and modern society requires cooperation among a large number of people. The question is, how can you have cooperation without coercion? If you have a central direction you inevitably have coercion. The only way that has ever been discovered to have a lot of people cooperate together voluntarily is through the free market. And that's why it's so essential to preserving individual freedom.

INTERVIEWER: Marxists say that property is theft. Why, in your view, is private property so central to freedom?

MILTON FRIEDMAN: Because the only way in which you can be free to bring your knowledge to bear in your particular way is by controlling your property. If you don't control your property, if somebody else controls it, they're going to decide what to do with it, and you have no possibility of exercising influence on it. The interesting thing is that there's a lot of knowledge in this society, but, as Friedrich Hayek emphasized so strongly, that knowledge is divided. I have some knowledge; you have some knowledge; he has some knowledge. How do we bring these scattered bits of knowledge back together? And how do we make it in the self-interest of individuals to use that knowledge efficiently? The key to that is private property, because if it belongs to me, you know, there's an obvious fact. Nobody spends somebody else's money as carefully as he spends his own. Nobody uses somebody else's resources as carefully as he uses his own. So if you want efficiency and effectiveness, if you want knowledge to be properly utilized, you have to do it through the means of private property.

The Economic Logic Behind Black Markets

INTERVIEWER: Tell me why you can see the black market as a positive thing.

MILTON FRIEDMAN: Well, the black market was a way of getting around government controls. It was a way of enabling the free market to work. It was a way of opening up, enabling people. You want to trade with me, and the law won't let you. But that trade will be mutually beneficial to both of us. The most important single central fact about a free market is that no exchange takes place unless both parties benefit. The big difference between government coercion and private markets is that government can use coercion to make an exchange in which A benefits and B loses. But in the market, if A and B come to a voluntary agreement, it's because both of them are better off. And that's what the black market does, is to get around these artificial government restrictions. Now, obviously you'd like a world in which you obey the law. The fact that the black market involves breaking the law is something against it. It's an undesirable feature. But this only exists when there are bad laws. And nobody, nobody believes that obeying every law is an ultimate moral principle. There comes a point, if you look back at the history of law obedience—think of conscientious objection during wars—I think you will see that everybody agrees that there is a point at which there is a higher law than the legislative law.

On Friedrich Hayek and the Mont Pelerin Meeting

INTERVIEWER: Do you remember reading Hayek's *Road to Serfdom*? Did that have an impact on you?

MILTON FRIEDMAN: Yes, it certainly did have an impact. It was a very clear, definite statement of certain fundamental ideas. It was a passionate plea by a passionate man, and so it was very well written, and for those of us who were concerned about these kinds of issues, I think it had a tremendous impact. In fact, I've often gone around and asked people what determined their views. I've asked people who were in favor of free markets and free enterprise, people who formerly had been of a different view, what caused them to change their mind. I'm talking particularly not about economists, not about professionals, but generally ordinary people, most of whom had been socialist or in favor of government control at one time and had come over to free markets. And two names have come up over and over

again: Hayek on the one hand, *The Road to Serfdom* from Hayek, and Ayn Rand on the other, *Atlas Shrugged* and her other books.

INTERVIEWER: You were invited to Friedrich Hayek's first Mont Pelerin meeting in 1947. Why?

MILTON FRIEDMAN: Well, I was invited primarily because of my brother-in-law, Aaron Director. He was an economist teaching [at] the University of Chicago, and when Hayek's *Road to Serfdom* was submitted to American publishers, one publisher after another rejected it. He was finally published by the University of Chicago Press, partly because of Aaron Director's intervention. He wasn't at Chicago at the time, he was in Washington, but he knew the director of the press, and he also was very close to Frank Knight, who was a professor at Chicago. And so Aaron had a considerable role in getting *The Road to Serfdom* published.

Also, he had studied at the London School of Economics and had met Hayek [there] before. One of the people whom Hayek was in touch with when he was exploring the possibilities of having the Mont Pelerin meeting was there. And so Aaron organized a group from the University of Chicago. There was myself, there was George Stigler, there was Frank Knight, and there was Aaron Director.

INTERVIEWER: What kind of people gathered at Mont Pelerin, and what was the point of the meeting?

MILTON FRIEDMAN: The point of the meeting was very clear. It was Hayek's belief, and the belief of other people who joined him there, that freedom was in serious danger. During the war, every country had relied heavily on government to organize the economy, to shift all production toward armaments and military purposes. And you came out of the war with the widespread belief that the war had demonstrated that central planning would work. It reinforced the lesson that had earlier been driven home, supposedly, by Russia. The left in particular, or the intellectuals in general in Britain and the United States, in France, wherever, had interpreted Russia as a successful experiment in central planning. And so there were strong movements everywhere. In Britain a socialist [Clement Attlee] had won the election. In France there was indicative planning that was [in] development. And so everywhere, Hayek and others felt that freedom was very much imperiled, that the world was turning toward

planning and that somehow we had to develop an intellectual current that would offset that movement. This was the theme of *The Road to Serfdom*. Essentially, the Mont Pelerin Society was an attempt to offset *The Road to Serfdom*, to start a movement, a road to freedom as it were. Now, who were the people who were there? There were economists, historians, mostly economists and historians, but a few journalists and businessmen, people who, despite the general intellectual current moving towards socialism, had retained the belief in free markets and in political and economic freedom. They were those people whom Hayek happened to know, or whom he had met, whom he had run into in the course of his travels.

INTERVIEWER: What was Hayek's role at these meetings, and what was he like personally? This must have been the first time you met him.

MILTON FRIEDMAN: No, I had met him before that. I had met him in Chicago when he was in the United States lecturing on *The Road to Serfdom*. Hayek's role? Number one, he was responsible for the meeting. He organized it. He selected the people who were going to be there. He helped to line up some of the money that was used to finance it, though a considerable part of that came from a Swiss source. That's why it was held in Switzerland. So far as his role at the meetings was concerned, he gave a talk at the opening session which set out what he had in mind. Along with several other people, he set up the agenda and presided over some of the sessions, participated in the debates, and was a very effective participant from beginning to end.

INTERVIEWER: Some of those debates became very, very heated. I think [Ludwig] von Mises once stormed out.

MILTON FRIEDMAN: Oh, yes, he did. Yes, in the middle of a debate on the subject of distribution of income, in which you had people who you would hardly call socialist or egalitarian—people like Lionel Robbins, like George Stigler, like Frank Knight, like myself—Mises got up and said, "You're all a bunch of socialists," and walked right out of the room. (laughs) But Mises was a person of very strong views and rather intolerant about any differences of opinion.

INTERVIEWER: What was Hayek's personal style? What was he like personally?

MILTON FRIEDMAN: Oh, personally Hayek was a lovely man, a pure intellectual. He was seriously interested in the truth and in understanding. He differed very much in this way from Mises. There was none of that same kind of manner. He accepted disagreement and wanted to argue, wanted to reason about it and discuss it. He was a very cultured and delightful companion on any occasion. ... I must say, he undoubtedly was the dominant figure in all of the Mont Pelerin meetings for many, many years.

On John Maynard Keynes

INTERVIEWER: What impact did John Maynard Keynes have on you?

MILTON FRIEDMAN: Well, I read his book, of course, *The General Theory of Employment, Interest, and Money*, as everybody else did. I may say I had earlier read a good deal of Keynes. In fact, in my opinion, one of the best books he wrote was published in 1924 I believe, *A Tract on Monetary Reform*, which I think is really, in the long run, fundamentally better than *The General Theory*, which came much later. And so I was exposed to Keynes as a graduate student, and his *General Theory* was in the air. Everybody was talking about it. It was part of the general atmosphere.

It was when I went back and looked at some memos that I had written while I was working at the Treasury that I discovered how much more Keynesian I was than I thought. (amused) So what was his influence on me? It was, as on everybody else, to emphasize fiscal policy as opposed to monetary policy, and in particular to pay relatively little attention to the quantity of money as opposed to the interest rate.

INTERVIEWER: On a personal level, what contact did you have with him?

MILTON FRIEDMAN: With Keynes? The only contact I had with him was to submit an article to the *Economic Journal*, which he was editor of, which he refused and rejected. I had no personal contact with him other than that.

INTERVIEWER: What did the rejection say?

MILTON FRIEDMAN: Well, it was an article that was critical of something that A.C. Pigou, a professor in London and at Cambridge, had written. And Keynes wrote back that he had shown my article to Pigou. Pigou did not agree with the criticism, and so he had decided to reject it. The article was subsequently published by the *Quarterly Journal of Economics*, and Pigou wrote a rejoinder to it.

INTERVIEWER: When did you begin to break with Keynes and why? What were the first doubts you had?

MILTON FRIEDMAN: Very shortly after the war, when I came to the University of Chicago and started working on money and its relation to the economic cycle. I cannot tell you exactly when, but very shortly thereafter, as I studied the facts, they seemed to me to contradict what Keynesian theory would call for.

INTERVIEWER: What was it that you studied that made you begin to feel that this didn't add up?

MILTON FRIEDMAN: Let me emphasize [that] I think Keynes was a great economist. I think his particular theory in *The General Theory of Employment, Interest, and Money* is a fascinating theory. It's a right kind of a theory. It's one which says a lot by using only a little. So it's a theory that has great potentiality.

And you know, in all of science, progress comes through people proposing hypotheses which are subject to test and rejected and replaced by better hypotheses. And Keynes's theory, in my opinion, was one of those very productive hypotheses—a very ingenious one, a very intelligent one. It just turned out to be incompatible with the facts when it was put to the test. So I'm not criticizing Keynes. I am a great admirer of Keynes as an economist, much more than on the political level. On the political level, that's a different question, but as an economist, he was brilliant and one of the great economists.

Now the crucial issue is, which is more important in determining the short-run course of the economy? What happens to investment on the one hand, or what happens to the quantity of money on the other hand? What happens to fiscal policy on the one hand, or what happens to

monetary policy on the other hand? And the facts that led me to believe that his hypothesis was not correct was that again and again it turned out that what happened to the quantity of money was far more important than what was happening to investments. The essential difference between the Keynesian theory and the pre-Keynesian, or the monetarist theory, as it was developed, is whether what's important to understanding the short-run movements of the economy is the relation between the flow of investments—the amount of money being spent on new investments, on the one hand, or the flow of money, the quantity of money in the economy and what's happening to it. By the quantity of money I just mean the cash that people count, carry around in their pockets and the deposits that they have in banks on which they can write checks. That's the quantity of money. And the quantity of money is controlled by monetary policy. On the investment side the flow of investment is controlled by private individuals, but is also affected by fiscal policy, by government taxing and government spending. The essential Keynesian argument, the basic Keynesian argument, was that the way to affect what happened to the economy as a whole, not to a particular part of it, but to the level of income, of employment and so on, was through fiscal policy, through changing government taxes and spending. The argument from the monetarists' side was that what was more important was what was happening to the quantity of money, monetary policy on that side. And so, as I examined the facts about these phenomena, it more and more became clear that what was important was the flow of money as compared to the flow of government spending, and when fiscal policy and monetary policy went in the same direction, you couldn't tell which was more important. But if you looked at those periods when fiscal policy went in one direction and monetary policy went in another direction, invariably it was what happened to monetary policy that determined matters. The public event that changed the opinion of the profession and of people at large was the stagflation of the 1970s, because under the Keynesian view, that was a period in which you had a very expansive fiscal policy, in which you should have had a great expansion in the economy. And instead you had two things at the same time, which under the Keynesian view would have been impossible: You had stagnation in the economy, a high level of unemployment. You had inflation with prices rising rapidly. We had predicted in advance that that would be what happened, and when it happened, it was very effective in leading people to believe that, maybe, there was something to what before had been regarded as utter nonsense.

INTERVIEWER: Was stagflation the end for Keynesianism?

MILTON FRIEDMAN: Stagflation was the end of naive Keynesianism. Now obviously the term "Keynesian" can mean anything you want it to mean, and so you have new Keynesianism, but this particular feature was put to an end by the stagflation episode.

INTERVIEWER: Talking about Keynesian policies, John Kenneth Galbraith, when we talked to him a few days ago, said that World War II "affirmed Keynes and his policies." Do you agree?

MILTON FRIEDMAN: No, I don't agree at all. World War II affirmed what everybody knew for a long time. If you print enough money and spend it you can create an appearance of activity and prosperity. That's what it confirmed. It did not confirm his theories about how you preserve full employment over a long time.

The Great Depression

INTERVIEWER: You've written that what really caused the Depression was mistakes by the government. Looking back now, what in your view was the actual cause?

MILTON FRIEDMAN: Well, we have to distinguish between the recession of 1929, the early stages, and the conversion of that recession into a major catastrophe. The recession was an ordinary business cycle. We had repeated recessions over hundreds of years, but what converted [this one] into a major depression was bad monetary policy. The Federal Reserve system had been established to prevent what actually happened. It was set up to avoid a situation in which you would have to close down banks, in which you would have a banking crisis. And yet, under the Federal Reserve system, you had the worst banking crisis in the history of the United States. There's no other example I can think of, of a government measure which produced so clearly the opposite of the results that were intended. And what happened is that [the Federal Reserve] followed policies which led to a decline in the quantity of money by a third. For every \$100 in paper money, in deposits, in cash, in currency, in existence in 1929, by the time you got to 1933 there was only about \$65, \$66 left. And that extraordinary collapse in the banking system, with about a third of the banks failing from beginning to end, with millions of people having their savings essentially washed out, that decline was utterly unnecessary. At all times, the Federal Reserve had the power and the knowledge to have stopped that. And there were people at the time who were all the time

urging them to do that. So it was, in my opinion, clearly a mistake of policy that led to the Great Depression.

INTERVIEWER: How did the Depression change your life and your career plans? You started out [with plans] to become an insurance actuary; instead you became an economist.

MILTON FRIEDMAN: Well, I don't think that's very hard to understand. It's 1932. Twenty-five percent of the American working force is unemployed. My major problem with the world is a problem of scarcity in the midst of plenty ... of people starving while there are unused resources ... people having skills which are not being used. If you're a 19-year-old college senior, which is going to be more important to you: figuring out what the right prices ought to be for life insurance, or trying to understand how the world got into that kind of a mess?

Why are you not, and why have you never been, a communist?

INTERVIEWER: A lot of people in the '30s were drawn to the left. So why are you not and why have you never been a communist?

MILTON FRIEDMAN: (laughs) No, I've not, never been a communist. Never even been a socialist—[though] it may well be that I harbored socialist thoughts at the time when I was an undergraduate. But undoubtedly [the fact that I'm not a communist] is tied in with the accident that I went to the University of Chicago for graduate study and at the department of economics at the University of Chicago, they were classical liberal economists. Classical economics, which begins with Adam Smith, with his book *The Wealth of Nations*, published in 1776, the same year as the American Revolution and the American Declaration of Independence, emphasizes the individual as the ultimate objective of science. And the question of economic science is how to explain the way in which individuals interact with one another, to use their limited resources to satisfy their alternative ends. The emphasis is on the fact that there are many objectives that people have. There are limited resources to satisfy them. What's the mechanism whereby you decide which ends are to be satisfied for which people in what way? And the emphasis in the classical liberal economists is on doing that through free markets.

Did you support Franklin Roosevelt's New Deal?

INTERVIEWER: Now at the time of the Depression, did you personally support New Deal policies?

MILTON FRIEDMAN: You're now talking not about the Depression, but the post-Depression. At least the bottom of the Depression was in 1933. You have to distinguish between two classes of New Deal policies. One class of New Deal policies was reform: wage and price control, the Blue Eagle, the national industrial recovery movement. I did not support those. The other part of the new deal policy was relief and recovery... providing relief for the unemployed, providing jobs for the unemployed, and motivating the economy to expand... an expansive monetary policy. Those parts of the New Deal I did support.

INTERVIEWER: But why did you support those?

MILTON FRIEDMAN: Because it was a very exceptional circumstance. We'd gotten into an extraordinarily difficult situation, unprecedented in the nation's history. You had millions of people out of work. Something had to be done; it was intolerable. And it was a case in which, unlike most cases, the short run deserved to dominate. I want to emphasize that you're talking about a long time ago. I was very young and unsophisticated, inexperienced, and I can't swear to you that what I'm saying now is actually what I believed then. I don't have any record of what my specific attitude was toward the New Deal policies. I must confess that probably I was thinking at that time more about my own interests and position than I was about these broader issues. So I think this is somewhat retrospective thinking rather than thinking at the time.

On Richard Nixon

MILTON FRIEDMAN: Nixon was the most socialist of the presidents of the United States in the 20th century.

INTERVIEWER: I've heard Nixon accused of many things, but never [of being] a socialist before.

MILTON FRIEDMAN: Well, his ideas were not socialist, quite the opposite, but if you look at what happened during his administration, first of all, the number of pages in the Federal Register, which is full of regulations about business, doubled during his regime. During his regime the EPA, the Environmental Protection Agency, was established and the OSHA, the Occupational Safety and Health Administration, the OECA [the Office of Enforcement and Compliance Assurance of the EPA]—about a dozen, a half-dozen alphabetic agencies were established so that you had the biggest increase in government regulation and control of industry during the Nixon administration that you had in the whole postwar period.

INTERVIEWER: Tell us how Nixon decided to adopt wage and price controls.

MILTON FRIEDMAN: Nixon, as you know, had been in the price control organization during World War II and understood that price controls were a very bad idea, and so he was strongly opposed to price controls. And yet, in 1971, August 15, 1971, he adopted wage and price controls. And the reason he did it, in my opinion, was because of something else that was happening, and that had to do with the exchange rate; that had to do with Bretton Woods and the agreement to peg the price of gold. The United States had agreed in 1944, at the Bretton Woods Conference, on an international financial system under which other countries would link their currencies to the U.S. dollar, and the United States would link its currency to gold and keep the price of gold at \$35 an ounce. And because of the policies that were followed by the Kennedy and Johnson administrations, it had become very difficult to do that. We had had inflationary policies, which led to a tendency for the gold to flow out, for the price of gold to go above \$35 an ounce. And the situation had become very critical in 1971. Nixon had to do something about that. If he had done nothing but close the gold window, if he had said the United States is going off the gold standard and done nothing else, every headline in every newspaper would have been, "That negative Nixon again! Just a negative act." And so instead he dressed it up by making it part of a general economic policy, a recovery policy, in which wage and price controls, which the democrats had been urging all along, became a major element. And by putting together the combination of closing the gold window and at the same time having wage and price controls, he converted what would have been a negative from a political point of view to a political positive. And that was the political reason for which he did it.

INTERVIEWER: There is a photograph of you and George Shultz with Nixon in the Oval Office. What did you say to him on that occasion? What did you tell him?

MILTON FRIEDMAN: Well, I don't know what occasion that particular one was, but the one that's relevant to your question is the last time I saw Nixon in the Oval Office with George Shultz. What we usually discussed when Nixon wanted to talk was the state of the economy: what monetary policy was doing.

Nixon was a very, very smart person. In fact, he had one of the highest IQs of any public official I've met. The problem with Nixon was not intelligence and not prejudices. The problem with him was that he was willing to sacrifice principles too easily for political advantage. But at any rate, as I was getting up to leave, President Nixon said to me, "Don't blame George for this silly business of wage and price controls," meaning George Shultz. And I believe I said to him, I think I said to him, "Oh, no, Mr. President. I don't blame George; I blame you! " (laughs) And that, I think, was the last thing I said to him. Now, the interesting point of that story is that the Nixon tapes are now available, and I have been trying to get that part of the Nixon tapes, but I haven't been able to get them yet. I want to make sure I didn't make this up.

On Ronald Reagan

INTERVIEWER: Tell us briefly how Paul Volcker set out to squeeze inflation out of the economy.

MILTON FRIEDMAN: Well, by the time Paul Volcker came along—this was in 1968-69 [Volcker was undersecretary in the Treasury Department from 1969-74, president of the New York Federal Reserve Bank from 1975-79, and appointed chairman of the Board of Governors of the Federal Reserve Board from 1979-87]—inflation had gotten very high and had gone up close to 20 percent. He was at a meeting of the International Monetary Fund in Yugoslavia in 1979, when the U.S. came under great criticism from the other people there for our inflationary policies. And he came back to the United States and had got the open market committee to announce that they would change their policy and shift from controlling interest rates to controlling the quantity of money. Now, this was mostly verbal rhetoric. What he really wanted to do was to have the interest rate go up very high, to reflect the amount of inflation.

But he could do it better by professing that he wasn't controlling it and that he was controlling the quantity of money, and the right policy at that time was to limit what was happening to the quantity of money, and that meant the interest rate shot way up. This is a complex story. It isn't all one way, because in early 1980 President Carter introduced controls on installment spending, and that caused a very sharp collapse in the credit market and caused a very sharp downward spiral in the economy. To counter that, the Federal Reserve increased the money supply very rapidly. In the five months before the 1980 election, the money supply went up more rapidly than in any other five-month period in the postwar era. Immediately after him, Reagan was elected, and the money supply started going down. So that was a very political reaction during that period.

INTERVIEWER: How important was President Reagan's support for Volcker's policies?

MILTON FRIEDMAN: Enormously important. There is no other president in the postwar period who would have stood by without trying to interfere, to intervene with the Federal Reserve. The situation was this: The only way you could get the inflation down was by having monetary contraction. There was no way you could do that without having a temporary recession. The great error in the earlier period had been that whenever there was a little contraction there was a tendency to expand the money supply rapidly in order to avoid unemployment. That stop-and-go policy was really what bedeviled the Fed during the '60s and '70s. That was the situation in 1980, in '81 in particular. After Reagan came into office, the Fed did step on the money supply, did hold down its growth, and that did lead to a recession. At that point every other president would have immediately come in and tried to get the Federal Reserve to expand. Reagan knew what was happening. He understood very well that the only way he could get inflation down was by accepting a temporary recession, and he supported Volcker and did not try to intervene. Now, you know, there is a myth that Reagan was somehow simpleminded and didn't understand these things. That's a bunch of nonsense. He understood this issue very well. And I know—I can speak with, I think, authority on this—that he realized what he was doing, and he knew very well that he was risking his political standing in order to achieve a basic economic objective. And, as you know, his poll ratings went way down in 1982, and then, when the inflation seemed to be broken enough, the Fed reversed policy, started to expand the money supply, the economy recovered, and along with it, Reagan's poll ratings went back up.

INTERVIEWER: And the economy has been pretty solid ever since. [As of the year 2000.]

MILTON FRIEDMAN: Yes, absolutely. There is no doubt in my mind that that action of Reagan, plus his emphasis on lowering tax rates, plus his emphasis on deregulating ... I mentioned that the regulations had doubled, the number of pages in the Federal Register had doubled, during the Nixon regime; they almost halved during the Reagan regime. So those actions of Reagan unleashed the basic constructive forces of the free market and from 1983 on, it's been almost entirely up.

INTERVIEWER: What Reagan was doing is almost exactly mirrored in Britain by what Mrs. Thatcher was doing at about the same time. Are the two influencing to each other, or is it just a case of ideas coming into their own?

MILTON FRIEDMAN: Both of them faced similar situations. And both of them, fortunately, had exposure to similar ideas. And they reinforced one another. Each saw the success of the other. I think that the coincidence of Thatcher and Reagan having been in office at the same time was enormously important for the public acceptance, worldwide, of a different approach to economic and monetary policy.

On His Role in Chile Under Pinochet

INTERVIEWER: Tell us about some of the abuse you had to suffer and the degree to which you were seen as a figure out on the fringes.

MILTON FRIEDMAN: Well, I wouldn't call it abuse, really. (laughs) I enjoyed it. The only thing I would call abuse was in connection with the Chilean episode, when Allende was thrown out in Chile, and a new government came in that was headed by Pinochet. At that time, for an accidental reason, the only economists in Chile who were not tainted with the connection to Allende were a group that had been trained at the University of Chicago, who got to be known as the Chicago Boys. And at one stage I went down to Chile and spent five days there with another group—there were three or four of us from Chicago—giving a series of lectures on the Chilean problem, particularly the problem of inflation and how they should proceed to do something about it. The communists were determined to overthrow Pinochet. It was very important to them, because Allende's regime, they thought, was going to bring a communist

state in through regular political channels, not by revolution. And here, Pinochet overthrew that. They were determined to discredit Pinochet. As a result, they were going to discredit anybody who had anything to do with him. And in that connection, I was subject to abuse in the sense that there were large demonstrations against me at the Nobel ceremonies in Stockholm. I remember seeing the same faces in the crowd in a talk in Chicago and a talk in Santiago. And there was no doubt that there was a concerted effort to tar and feather me.

INTERVIEWER: It seems to us that Chile deserves a place in history because it's the first country to put Chicago theory into practice. Do you agree?

MILTON FRIEDMAN: No, no, no. Not at all. After all, Great Britain put Chicago theory in practice in the 19th century. (amused) The United States put the Chicago theory in practice in the 19th and 20th century. I don't believe that's right.

INTERVIEWER: You don't see Chile as a small turning point, then?

MILTON FRIEDMAN: It may have been a turning point, but not because it was the first place to put the Chicago theory in practice. It was important on the political side, not so much on the economic side. Here was the first case in which you had a movement toward communism that was replaced by a movement toward free markets. See, the really extraordinary thing about the Chilean case was that a military government followed the opposite of military policies. The military is distinguished from the ordinary economy by the fact that it's a top-down organization. The general tells the colonel, the colonel tells the captain, and so on down, whereas a market is a bottom-up organization. The customer goes into the store and tells the retailer what he wants; the retailer sends it back up the line to the manufacturer and so on. So the basic organizational principles in the military are almost the opposite of the basic organizational principles of a free market and a free society. And the really remarkable thing about Chile is that the military adopted the free-market arrangements instead of the military arrangements.

INTERVIEWER: When you were down in Chile you spoke to some students in Santiago. In your own words, can you tell me about that speech in Santiago?

MILTON FRIEDMAN: Sure. While I was in Santiago, Chile, I gave a talk at the Catholic University of Chile. Now, I should explain that the University of Chicago had had an arrangement for years with the Catholic University of Chile, whereby they send students to us and we send people down there to help them reorganize their economics department. And I gave a talk at the Catholic University of Chile under the title "The Fragility of Freedom." The essence of the talk was that freedom was a very fragile thing and that what destroyed it more than anything else was central control; that in order to maintain freedom, you had to have free markets, and that free markets would work best if you had political freedom. So it was essentially an anti-totalitarian talk. (amused)

INTERVIEWER: So you envisaged, therefore, that the free markets ultimately would undermine Pinochet?

MILTON FRIEDMAN: Oh, absolutely. The emphasis of that talk was that free markets would undermine political centralization and political control. And incidentally, I should say that I was not in Chile as a guest of the government. I was in Chile as the guest of a private organization.

INTERVIEWER: Do you think the Chile affair damaged your reputation, or more importantly, made it harder for you to get your ideas across?

MILTON FRIEDMAN: That's a very hard thing to say, because I think it had effects in both directions. It got a lot of publicity. It made a lot of people familiar with the views who would not otherwise have been. On the other hand, in terms of the political side of it, as you realize, most of the intellectual community, the intellectual elite, as it were, were on the side of Allende, not on the side of Pinochet. And so in a sense they regarded me as a traitor for having been willing to talk in Chile. I must say, it's such a wonderful example of a double standard, because I had spent time in Yugoslavia, which was a communist country. I later gave a series of lectures in China. When I came back from communist China, I wrote a letter to the Stanford Daily newspaper in which I said, "It's curious. I gave exactly the same lectures in China that I gave in Chile. I have had many demonstrations against me for what I said in Chile. Nobody has made any objections to what I said in China. How come?"

INTERVIEWER: In the end, the Chilean [economy] did quite well, didn't it?

MILTON FRIEDMAN: Oh, very well. Extremely well. The Chilean economy did very well, but more important, in the end the central government, the military junta, was replaced by a democratic society. So the really important thing about the Chilean business is that free markets did work their way in bringing about a free society.

Where We Stand Today

INTERVIEWER: From your apartment, you can almost see Silicon Valley. How do you think information technology, the Internet, and the new economy, will affect the big issues of economics and politics that you've devoted your life to?

MILTON FRIEDMAN: The most important ways in which I think the Internet will affect the big issue is that it will make it more difficult for government to collect taxes. And I think that's a very important factor. Governments can most effectively collect taxes on things that can't move. That's why property taxes are invariably the first tax. People can move, so it's a little more difficult to collect taxes on them. States within the United States find it more difficult to collect taxes on people, but the United States as a whole can collect taxes on people more easily. Now the Internet, by enabling transactions to be made in cyberspace, not recorded, by enabling them to move so that somebody in Britain can order books from Amazon.com in the United States, somebody in the United States can do a deal in India, I think the cyberspace is going to make it very much more difficult for government to collect taxes, and that will have a very important effect on reducing the role that governments can play.

INTERVIEWER: So we're sort of marching forward to a kind of, the ultimate "Hayekian" state, are we?

MILTON FRIEDMAN: I think we are in that respect. Now, of course it has its advantages and disadvantages. It makes it easier for criminals to conduct their affairs, but, you know, you have to distinguish between criminals and criminals. We have as many criminals as we have because we have as many laws to break as we have. You take the situation in the United States. We have two million people in prison, four million people who are under parole or under supervision. Why? Because of our mistaken attempt to control what people put in their

bodies. Prohibition of so-called drugs, of illegal drugs, is a major reason for all of those prisons. And those are victimless crimes, which should not be crimes.

INTERVIEWER: More than half a century after that first meeting in Mont Pelerin, who's won the argument? Who's lost?

MILTON FRIEDMAN: There is no doubt who won the intellectual argument. There is no doubt that the received intellectual opinion of the world today is much less favorable towards central planning and controls than it was in 1947. What's much more dubious is who won the practical argument. The world is more socialist today than it was in 1947. Government spending in almost every Western country is higher today than it was in 1947, as a fraction of income, not simply in dollars. Government regulation of business is larger. There has not been a great deal of nationalization, socialization in that sense, but government intervention in the economy has undoubtedly gone up. The only countries where that is not true are the countries which were formerly part of the communist system. You can see that we won the argument in practice as well as on the intellectual level in Poland, in Czechoslovakia, in Hungary, in Russia, and throughout that part of the world. But in the West, the practical argument is as yet undecided.

INTERVIEWER: Are you hopeful?

MILTON FRIEDMAN: Oh, yes, I'm very hopeful about it. Don't misunderstand me. At the moment we have not won the argument in practice, but I think in the long run ideas will dominate, and I think we will win the argument in practice as well as on the intellectual level.

INTERVIEWER: Central controls have been discredited, the governments seem to have retreated remarkably, but are we becoming increasingly regulated?

MILTON FRIEDMAN: You have to distinguish different areas. Some kinds of regulations have declined. Regulations of prices, particular regulations of industries as a whole have declined. Other kinds of regulations, particularly regulations on personal behavior, have gone up. It's social control that has been taking the place of narrow economic control.

COMMANDING HEIGHTS

Milton Friedman

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INTERVIEWER: Do you feel some of those regulations are ultimately a threat to the free market?

MILTON FRIEDMAN: They're not a threat to the free market. They're a threat to human freedom.

INTERVIEWER: At the moment, governments everywhere are retreating from the marketplace, or seem to be. Do you think a pendulum could swing back the other way?

MILTON FRIEDMAN: The pendulum easily can swing back the other way. It can swing back the other way, not because anybody wants to do it in a positive sense, but simply because as long as you have governments which control a great deal of power, there always [will be] pressure from special interests to intervene. And once you get something in government, it's very hard to get it out. So I think there is a real danger. I don't think we can regard the war as won by any manner of means. I think it still is true that it takes continued effort to keep a society free. What's the saying? "Eternal vigilance is the price of liberty."