

“Why Does the Free Market Have Such a Bad Press?”

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There is a striking contrast between the record of performance of the free market and the attitudes held toward the free market by both the public at large and especially by the intellectual community.

So far as I have been able to determine, the common man has experienced a sustained rise in his well-being only in societies that have used free market techniques as the primary means for organizing economic activity. This is true in the broad survey of history—of ancient Athens and Rome as well as of Britain, Scandinavia, Western Europe and the United States in the nineteenth and twentieth centuries. It is true around the world today: contrast West Germany with East Germany; Malaysia and Singapore with India and Indonesia; Thailand with Burma; Hong Kong, Formosa, and Japan with Red China; pre-Castro and post-Castro Cuba. I do not know of a single example of a predominantly collectivist and centrally planned society in which the ordinary citizen has achieved a major and sustained improvement in the conditions of his everyday life, or a real hope for the future of himself or his children—though many such a society has produced impressive monuments, ranging from the Pyramids of ancient Egypt to the steel mills and international airline of modern Egypt which demonstrate the power of centralized authority to wrest resources from the populace for purposes of its choosing. To avoid misunderstanding, I hasten to add also, first, that the free market has proved only a necessary, not a sufficient, condition for a relatively high level of living for the masses, and, second, that in societies that have been successful in improving the conditions of the masses, government has always played a role and sometimes an important one, though it has never been the primary source of economic organization.

Despite this impressive record of performance, the free market is almost everywhere on the defensive. It is scorned by the intellectuals as materialistic and chaotic, blamed for any and all bad things that occur, and regarded as at best a necessary evil which can be permitted to exist, if at all, only under close and continuing government control.

A striking example of this contrast between facts and attitudes was impressed on me some years ago when I was in Malaya. Malaya and Singapore are islands of prosperity in a sea of misery. On the one side is India, on the other side, Indonesia. Both have relied on the techniques of central planning as the primary instrument to achieve economic growth. Both have failed. In Indonesia, there has been an absolute deterioration in the condition of the people since independence; in India, at best, minuscule growth if not stagnation. The ordinary people in Malaya and Singapore have a level of living four or more times as high as the level in India or Indonesia. And this high level has been produced entirely through free market arrangements. Singapore is a free port, and owes its prosperity to that fact. Malaya's main industries are tin and rubber. The tin mines were developed entirely by private enterprise. And rubber offers an even more striking testimonial. The rubber tree is not even native to Malaya and none grew there 70 years ago; rubber trees were

imported into Malaya from South America and their cultivation developed entirely by private enterprise.

Malaysia recently became independent (and even more recently has split again). Whose policies is it imitating? It has already established a central bank and a central planning board, has begun to impose tariffs, give subsidies to particular industries, and so on. It is apparently determined to turn its back on its own past and imitate the policies of India and Indonesia! One could hardly ask for a more striking example of the problem I want to discuss in this paper. Why is it that the free market has such a wonderful record and yet such a bad press? I have no full answer, but I should like to suggest a number of partial answers.

In his classic, *Lectures on the Relation between Law and Public Opinion*, A. V. Dicey discusses this issue in terms of English experience. In the nineteenth century, individualism was dominant in England and determined its policies. Simultaneously, Britain experienced its golden age—rapid economic growth at home plus an expanding world empire and unquestioned status as the world's leading power. Yet, toward the end of the nineteenth century, just when it appeared that individualism was achieving everything its proponents had claimed for it, the intellectual tide turned away from individualism and toward collectivism. Why, asks Dicey, should this have been so?

One answer he gives is that the argument for intervention is simple whereas the argument for nonintervention is subtle. If something is wrong, it is easy to argue that a law should be passed to set things right. It is more subtle to argue that such a law is likely to have indirect harmful effects that will more than offset any good done directly. Almost all economic fallacies arise because of the neglect of indirect effects. People favor a tariff because they see that it helps a specific industry. They do not see the harm it does. Men who are out of work because of a tariff do not even know that they are out of work because of the tariff—they are the men who would have a job in the export industries that would exist in the absence of the tariff but do not exist in its presence. In consequence, said Dicey, in order for laissez faire to be accepted in any large measure, there must be a strong general presumption in its favor on the part of most people. Once the general presumption slackens, the pressure for specific interventions will be irresistible. In a way, the interesting question is not why the tide shifted from individualism to collectivism, but how there ever developed a general faith in individualism. That is the rare event in history. Dicey's point is surely part of the answer to our query, but it can hardly be a complete answer.

Wesley Mitchell, in his famous essay on *The Backward Art of Spending Money*, emphasized another fact that I think is also an important part of the answer. That is the asymmetry between our interests as producers and as consumers. As consumers, we consume a million and one things, and seldom have a concentrated interest in any one. As producers, our interests tend to be concentrated; we get most of our livelihood from one activity or occupation. Therefore we tend to be much more single-minded in promoting our interests as producers than as consumers. We may get temporarily worked up over a particular issue and join forces to pass a law, but once the law is passed, as consumers we forget about it and go back to our personal concerns. But the producers do not forget. They are perennially active, and will generally manage to turn the law to their own purposes. An excellent example in American experience is the Interstate Commerce Commission, which was established in the late nineteenth century supposedly to protect consumers of railroad services from exploitation by the monopolistic railroads. Very shortly, the

Commission came under the domination of the railroads and has been used ever since as a device for strengthening monopoly power and protecting the railroads from the competition of trucking, barges, and so on.

Two other characteristics of human beings reinforce the asymmetry between the interests of men as producers and as consumers in fostering government intervention and an unfavorable attitude toward the market: our tendency to regard anything favorable that occurs as no more than our just due but anything unfavorable as the result of other peoples' malevolence, and our capacity to rationalize. The first leads us to take credit personally for the good things that happen rather than to give credit to general institutional arrangements such as the market and also to be only too ready to demand a "law" when anything bad happens. The second enables us to persuade ourselves that the law we think we need for our own interests is also in the social interest, and so to summon sincerity and benevolence in its support. "What is good for General Motors" may be "good for the United States"—and indeed generally will be when the law does not interfere with the free market's invisible hand. But it seldom will be when the "good" is to be achieved by legislation that gives special treatment to the automobile industry. Yet the tendency to rationalize on these lines is well high universal. I have often heard my academic colleagues berate businessmen for their hypocrisy and special pleading when they ask Congress for tariffs or other similar measures and claim that they ask it for the "general interest." Yet these same colleagues do not even see the humor when in the next breath they plead for greater subsidies from Congress for higher education—they *know* they are promoting the "general interest."

A third, and in my opinion, very important reason why the free market has such a bad press is that it has no press agent. An unimportant yet illuminating example is a small item about the shortage of small coins in the United States that I came across recently in the *Wall Street Journal*, which of all papers one might expect to be a press agent for a free market. It stated that the U.S. Treasury Department was greatly expanding its production of coins, that it was increasing the number of presses at the mints, and that it had asked Congress to legalize its putting the same date on coins for two years in a row to discourage numismatists and speculators. The newspaper item then went on to say that some private concerns were "taking advantage"—these were its words—"of the coin shortage by accumulating coins and selling them at a premium."

Correctly written, that story might well have been as follows: "The U.S. Treasury Department, which has a monopoly on producing a product that it sells at many times its cost, has been so inefficient that it has not produced the amount demanded, even though it could have made a sizable profit by doing so. The harmful effects of the shortage produced by the inefficiency of the government mints has been somewhat mitigated by the free market. Private enterprises have been accumulating coins and selling them at a premium. The market price for this service is 5 per cent." The impression given would certainly have been very different; yet the second statement is correct.

This is not an isolated example. There are always government officials who give out press handouts to glorify the agencies they represent or to take credit for what occurs. There is no press agent who gives out handouts about the anonymous workings of the free market, and no group that has a strong personal interest in hiring such press agents. And who can blame the harried newspaper reporter who takes advantage of the official story? Where government or private

monopoly exists, there is both more “news” generated and more press agents to give it shape than where competition reigns. We all know in the United States about strikes in the steel industry, the unions that call them, the interventions by Washington and so on. Who knows about the nonexistent union of domestic servants which presumably is responsible for the very rapid rise in the wages of domestic servants in the past decade?

The absence of press agents for the market cannot be the whole reason why the market has such a bad press, but I do believe it is an important one.

It has often seemed to me that the two greatest enemies of the free market are businessmen and intellectuals, for opposite reasons. The businessman is always in favor of free enterprise—for everybody else; he is always opposed to it for himself. The intellectual is quite different: he is always in favor of free enterprise for himself, always opposed to it for everybody else. The businessman wants his special tariff or his special governmental commission to interfere with free enterprise, in the name, of course, of free enterprise. The intellectual, too, wants such commissions to control the rapacious businessman; indeed, he wants to run them; but he is aghast at the idea of any interference with his academic freedom, or his freedom to teach what he wants and direct his research as he wants—which is simply free enterprise as applied to him.

These comments suggest the final reason I want to mention why free enterprise has such a bad press, especially among intellectuals. The role of the intellectual is much more limited in a free society than it is in a controlled society. I was most impressed with this as I talked to the able, intelligent people at the University of Malaysia. In a planned, collectivist society, they are the ones who are going to sit in the seats of power and to whom the businessmen are going to have to come for import permits, licenses and so on. They are the ones who are going to attend the international conferences and meetings. Let Malaysia follow the path of a free society and their role will be very different. The minority Chinese in Malaysia are the most effective and energetic businessmen and hence will be in the positions of power in a free market society. The intellectuals will be reduced to being their advisers or simply teachers in a university. Of course, no intellectual will say this explicitly, but implicitly he knows well that he can run the country better than “they” can.

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