

Bertrand Russell studied economics briefly but quit because it was too easy. Max Planck, the physicist whose break-throughs in quantum mechanics were as revolutionary as Einstein's in relativity, dropped economics because it was too hard. They were probably both right. That sort of paradox seems to agree with Milton Friedman—and to surround him. Friedman's own reputation, for example, as the most original economic thinker since John Maynard Keynes, is due in large part to his exhaustive criticism of the theories first set forth by Keynes. There are other contradictions. Even though he had an ambiguous advisory role in the Goldwater campaign and supported Nixon's re-election—despite the fact that Nixon has said he is now a Keynesian in matters of economic policy—Friedman calls himself a liberal. (In his book *Capitalism and Freedom*, he argues that "collectivists" have stolen the label.) He takes any number of positions that by themselves would appeal to the left, only to couple them with proposals that seem clearly right wing: He thinks we should close the tax loopholes—and eliminate the graduated income tax; and he is in favor of a negative income tax (in effect, a guaranteed income); but he wants to shut down Social Security.

If there is a single conceptual anchor for these proposals, it is Friedman's deep and abiding belief in free enterprise. In his view, the free market is the best device ever conceived for ordering human affairs, and he sees it everywhere threatened by the welfare state. Laissez faire and the intellectuals who support it had once sunk to such low esteem that John Kenneth Galbraith could joke that a meeting of free enterprisers held in Switzerland after World War II broke up in disagreement over the question of whether the British navy should own or lease its battleships. It is testimony to Friedman's tireless, good-natured efforts and the vigor of his arguments that economic ideas once regarded as hopelessly out of date are now being seriously discussed again.

In a way, Friedman is proof of his own assertions about the free market and the opportunities it affords. His parents immigrated to this country from eastern Europe and settled in Brooklyn, then in Rahway, New Jersey where Friedman grew up in working-class surroundings. Under a scholarship, he attended Rutgers University, where he studied math and was introduced to his life's work in a course taught by Arthur Burns, who is now the chairman of the Federal Reserve Board as well as a friend and student of Friedman's. He held a number of teaching and research jobs—encountering an occasional obstacle thrown up by anti-Semitism—before joining the faculty of the University of Chicago in 1946, the same year he took his Ph.D. from Columbia. The university has been the focal point of his life ever since, and the branch of economic thought that includes his ideas is called "The Chicago School."

Perhaps the best example of Friedman's migration from the wilds of economic theory to a position near center stage involves his approach to money. In his book *A Monetary History of the United States*, a classic in its field, he argues that the crucial factor in economic trends has been the quantity of money, not what the Federal Government is doing about taxes or spending at any given time. While not all economists were convinced, they were impressed. And early in the first Nixon Administration, Friedman's ideas were finally implemented as well as discussed. His official influence has waned somewhat since then—Nixon subsequently introduced wage and price controls, which are anathema to Friedman—but the 60-year-old economist says, "I like to be an independent operator, anyway."

When he's not teaching at Chicago or traveling to a debate or lecture or testifying before a Congressional committee ("a waste of time and I generally try to get out of it"), Friedman can be found in Ely, Vermont where he and his wife, Rose, who is also an economist and edits his books, have a home near the crest of a high, gently sloping hill that gives way to the Connecticut River Valley. Friedman spends almost half of each year on this hill, writing (he has a column in every third issue of *Newsweek*), skiing, relaxing and enjoying the good life—all pleasures to which few of us would have access, he would remind you, in a collectivist society. Senior Editor Michael Laurence, who is Playboy's resident financial expert, and Associate Articles Editor **Geoffrey Norman** visited Friedman at his hillside retreat to conduct this interview. Their report:

"Friedman is the sort of man who really lives for ideas. His home and office are piled with books, papers, manuscripts, journals and correspondence, and his talk is generally academic, though relieved by an occasional anecdote or aphorism. He clearly loves intellectual give and take—so much that in the three days of our interview, he took time out to instruct our photographer in the merits of free enterprise and to take several phone calls from people in Washington who wanted his advice on and appraisal of recent developments in international finance.

"Whoever he was talking to, Friedman showed an almost childlike enthusiasm when his mind went to work on a subject, even if it was the formulation of a program he's been advocating since the early Fifties. There was also something about the very cogency of the man's ideas. The unity of his vision. His consistency. Whatever one thinks of his positions, we found it impossible not to admire the skill of his arguments and his nearly Socratic use of logic. Since neither of us had ever quite fathomed pure economics or been able to understand why economists—who wield such a profound influence over all our lives—have such difficulty in agreeing on anything, we began by trying that one out on him."

PLAYBOY: In every public debate on an issue involving economics, there seem to be nearly as many conflicting opinions as there are economists. Why can't you people get together?

FRIEDMAN: We do. But that seldom makes news. It's our disagreements that receive attention. For example, how much attention is paid to agreement between Galbraith and myself in opposing a draft and favoring an all-volunteer armed force, or in opposing tariffs and favoring free trade, or on a host of other issues? What is newsworthy is that Galbraith endorses wage and price controls, while I oppose them.

PLAYBOY: Yet in the past election, you supported Nixon despite his imposition of controls. Have you changed your mind?

FRIEDMAN: I haven't—and neither has Nixon. I'm still opposed to wage and price controls, and so is he. Incidentally, going back to Galbraith, in a note that I wrote to him shortly after Nixon imposed the controls, I said, "You must be as chagrined as I am to have Nixon for your disciple." So far, he hasn't replied. I regret that he imposed them; yet in doing so, I think he behaved the only way a responsible leader of a democracy could. He resisted controls for nearly three years when there was strong pressure for their introduction. He tried to make the case against controls, to educate the people about the causes of inflation and the best methods of fighting it—namely, reduced monetary growth and lower Federal spending. But he failed and finally gave in to the popular demand for some kind of immediate and extreme measure to halt rising prices, and controls were the measure most people seemed to agree on. As a leader, that was a proper thing for him to do, even though he felt it was the wrong solution. He behaved the same way with regard to the war.

PLAYBOY: Aren't you saying that there's been a large element of political opportunism in Nixon's reversals?

FRIEDMAN: One man's opportunism is another's statesmanship. There is a very delicate balance between the two in our society. Good politics is what we should demand from our politicians—to a degree. We don't want our leaders to charge off in every direction trying to satisfy the latest public whim, but neither do we want them to completely ignore the will of the people. I think Nixon acted properly. The real problem is educating the public, and there he was unsuccessful.

PLAYBOY: Isn't it possible that Nixon was wrong? Wasn't inflation at a level that demanded drastic action such as controls?

FRIEDMAN: No. Inflation was already tapering off as a result of earlier monetary and fiscal measures when the president imposed controls. In any event, controls are the wrong way to ease inflation.

PLAYBOY: Why?

FRIEDMAN: Because they never work. We've seen that throughout history, ever since the time of the Emperor Diocletian. If controls are administered with any real zeal, people find ways to get around them. The current controls cover only about one third of all prices. Suppose those prices were kept down by controls. That would simply mean people would have more money to spend on the products represented by the other two thirds and would drive up the prices of those goods and services.

In the case of wages, there are any number of ways of getting around the controls. If an employer wants, for some reason, to pay a higher wage, he can promote the wage earner, offer him fringe benefits, give him a car—all sorts of things. This takes place especially at the higher income levels, with corporate executives, and so forth. So the people who are hurt most by wage controls are those the program is said to protect: the hourly wage earner, the employee on a low salary—production-line workers and secretaries.

If the controls are tightened or expanded, people will find new and more ingenious ways of getting around them. And as the power of enforcement increases, you move farther and farther from a free society; this is the most damaging effect of controls. The apparatus required to make them effective in even a limited way will be unpopular in a free society. We saw that in World War II; even then, when there was fairly broad agreement on the need for controls, there was resentment and there were black markets.

PLAYBOY: Why does inflation seem to be such a perennially insoluble problem?

FRIEDMAN: Technically, inflation isn't terribly difficult to stop. The real problem is that the favorable effects of inflation come early, the bad effects late. In a way, it's like drink. The first few months or years of inflation, like the first few drinks, seem just fine. Everyone has more money to spend and prices aren't rising quite as fast as the money that's available. The hangover comes when prices start to catch up. And, of course, some people are hurt worse than others by inflation. Usually people without much political voice—the poor and retired people on fixed incomes. Some people aren't hurt at all. And others profit enormously.

When you start to take some action *against* inflation, on the other hand, the bad effects are felt right away. People are out of work. Interest rates go up. Money gets tight. It's unpleasant. Only later do the good effects of an end to rising prices show up. The problem is getting through the painful cure without wanting another drink. The greatest difficulty in curtailing inflation is that, after a while, people begin to think they'd rather have the sickness than the cure. What they don't realize is that once the cure has taken effect, it's possible to have both economic growth and price stability. But as we saw with Nixon, there is terrible public pressure to junk the cure and go back to being sick—or drunk, to continue the metaphor.

PLAYBOY: Why is it so difficult to make the public understand this?

FRIEDMAN: That has to do with the rather complex causes of inflation. When a shopper goes to the grocery store and sees that the price of meat has gone up 10 percent or so, she screams bloody murder and demands that something be done about it. She writes her congressman. Well, perhaps she's been admonishing that same congressman to vote for Medicare and increased Social Security and Federal housing assistance. And, naturally, for no increase in the income tax. The congressman has voted for all these things and the Federal Reserve Board has made it possible for her congressman to pay for these measures, without increasing taxes, by

expanding the money supply. Those are the basic sources of inflation and they are hidden. The shopper thinks the butcher is stealing and she wants it stopped. The butcher thinks his landlord is stealing when he increases the rent by 15 percent. The landlord, in turn, is upset about the increased costs of maintaining his building, and so on.

PLAYBOY: But why have costs and prices risen?

FRIEDMAN: Not because of greedy wage earners or avaricious businessmen. Prices have risen by 25 percent in the past five years because of what 19 identifiable men, sitting around a table in Washington, did with respect to such arcane subjects as reserve requirement, discount rates and purchases on the open market.

PLAYBOY: You're talking about the Federal Reserve Board?

FRIEDMAN: Of course. Now, I'm not talking about any kind of conspiracy, or even dereliction of duty. These men did what they thought best for the country. They would have acted differently had government expenditures gone up less rapidly, had the deficits been lower.

PLAYBOY: But how does the Federal Reserve System cause inflation? Isn't it simply the government's bank?

FRIEDMAN: That "simply" covers a lot of ground. The Fed, because it's the government's bank, has the power to create—to print—money, and it's too much money that causes inflation. For a rudimentary understanding of how the Federal Reserve System causes inflation, it's necessary to know what it has the power to do. It can print paper money; almost all the bills you have in your pocket are Federal reserve notes. It can create deposits that can be held by commercial banks, which is equivalent to printing notes. It can extend credit to banks. It can set the reserve requirements of its member banks—that is, how much a bank must hold in cash or on deposit with the Federal Reserve Bank for every dollar of deposits. The higher the reserve requirement, the less the bank can lend, and conversely.

These powers enable the Fed to determine how much money-currency plus deposits—there is in the country and to increase or decrease that amount. The men with this power are appointed by the president and approved by the Senate and are leading financial experts. But this is tremendous authority for any small group of men to have. These men have attempted for the past 60 years to predict where the economy is headed and to keep it on an even path of growth. I have studied the monetary history of the United States and written a book on the subject, and it's my opinion that there have been more severe crises in the years since we've had a Federal Reserve System than in the years from the Civil War until 1914. Even if you leave out the years covered by the two World Wars, the Fed seems to have failed in its mission of keeping the economy on a steady plane.

PLAYBOY: Why?

FRIEDMAN: Basically, I think because it's a system of men and not of rules, and men are fallible. The decisions of the people who run the Fed, as I said, are made in good faith. They want to do the right thing. But the state of our knowledge is incomplete. Often they don't have all the facts or they see one particular phenomenon out of proportion. In the Great Depression, they managed to shrink the total money stock by a third. They did this for the most honorable of reasons, but it was exactly the wrong thing to do. Just as banks all around the country were closing, the Fed raised the discount rate; that's the rate they charge for loans to banks. Bank failures consequently increased spectacularly. We might have had an economic downturn in the Thirties anyway, but in the absence of the Federal Reserve System—with its enormous power to make a bad situation worse—it wouldn't have been on anything like the scale we experienced.

PLAYBOY: Has the Fed's recent record been this bad, or have we learned from past mistakes?

FRIEDMAN: We've learned a great deal from past mistakes. Two decades ago, I argued that the U.S. was depression-proof because the monetary authorities would never again permit a collapse of the monetary system like the one that occurred from 1929 to 1933. But I went on to say that the danger now was a swing in the other direction, that in attempting to avoid recession and unemployment, the system would overreact and produce inflation. Unfortunately, that is exactly what's occurred. Even so, the record for the post-World War II period as a whole is enormously better than for the prewar period. We've had a quarter of a century without a really serious recession or depression, and our inflation, while we regard it as serious, has so far been mild by world standards. We've done better, but not as well as we easily could have done.

PLAYBOY: What's the answer? Should we junk the Federal Reserve System and go back to private banking?

FRIEDMAN: No. But we can take some of the discretionary power away from the Fed and make it into a system that operates according to rules. If we're going to have economic growth without inflation, the stock of money should increase at a steady rate of about four percent per year—roughly matching the growth in goods and services. The Fed should be required to take the kind of limited action that would ensure this sort of monetary expansion.

PLAYBOY: Wouldn't the Fed lose its emergency powers—powers that would be useful in a crisis?

FRIEDMAN: Most so-called crises will correct themselves if left alone. History suggests that the real problem is to keep the Fed, operating on the wrong premises, from doing precisely the *wrong* thing, from pouring gas on a fire. One reason we've so many government programs is that people are afraid to leave things alone when that is the best course of action. There is a notion—what I've called the Devil Theory—that's often behind a lot of this. The Fed was supposed to take power out of the hands of the conniving bankers, who were supposed to profit when the economy fluctuated wildly. The idea is to pass a law and do something about it. Put good men in

charge: that's one line. The competing line is that there are problems in the world not only because of bad men but also because it's an imperfect world. People are imperfect. There are scarcities. Shortages. You can let things work themselves out or try to do something about them by passing a law. Of course, you know which idea is easier to sell.

PLAYBOY: But you prefer the laissez-faire—free-enterprise—approach.

FRIEDMAN: Generally. Because I think the government solution to a problem is usually as bad as the problem and very often makes the problem worse. Take, for example, the minimum wage, which has the effect of making the poor people at the bottom of the wage scale—those it was designed to help—worse off than before.

PLAYBOY: How so?

FRIEDMAN: If you really want to get a feeling about the minimum wage, there's nothing more instructive than going to the Congressional documents to read the proposals to raise the minimum wage and see who testifies. You very seldom find poor people testifying in favor of the minimum wage. The people who do are those who receive or pay wages much higher than the minimum. Frequently Northern textile manufacturers. John F. Kennedy, when he was in Congress, said explicitly that he was testifying in favor of a rise in the minimum wage because he wanted protection for the New England textile industry against competition from the so-called cheap labor of the South. But now look at it from the point of that cheap labor. If a high minimum wage makes unfeasible an otherwise feasible venture in the South, are people in the South benefited or harmed? Clearly harmed, because jobs otherwise available for them are no longer available. A minimum-wage law is, in reality, a law that makes it illegal for an employer to hire a person with limited skills.

PLAYBOY: Isn't it, rather, a law that requires employers to pay a fair and livable wage?

FRIEDMAN: How is a person better off unemployed at a dollar sixty an hour than employed at a dollar fifty? No hours a week at a dollar sixty comes to nothing. Let's suppose there's a teenager whom you as an employer would be perfectly willing to hire for a dollar fifty an hour. But the law says, no, it's illegal for you to hire him at a dollar fifty an hour. You must hire him at a dollar sixty. Now, if you hire him at a dollar sixty, you're really engaging in an act of charity. You're paying a dollar fifty for his services and you're giving him a gift of 10 cents. That's something few employers, quite naturally, are willing to do or can *afford* to do without being put out of business by less generous competitors. As a result, the effect of a minimum-wage law is to produce unemployment among people with low skills. And who are the people with low skills? In the main, they tend to be teenagers and blacks, and women who have no special skills or have been out of the labor force and are coming back. This is why there are abnormally high unemployment rates among these groups.

PLAYBOY: How can you be sure that the minimum-wage law is the cause?

FRIEDMAN: In 1956, I think, the minimum was raised from seventy-five cents to a dollar—a very substantial rise. In the early Fifties, the unemployment rate among male teenagers was about the same for blacks as for whites. Both were about eight percent when the over-all unemployment rate was about four percent. In the late Fifties, after the minimum-wage rate was raised from seventy-five cents to a dollar, the unemployment rate of black teenagers shot up from eight percent to something like 20 to 25 percent. For white teenagers, it shot up to something like 13 percent. From that day to this, the rates for both black and white teenagers have been higher than before 1956. When they start to decline, a new rise in the minimum-wage rate comes along and pushes them up again. The black teenage rate has been very much higher than the white teenage rate, for reasons that are highly regrettable and that we ought to be doing something about: Blacks get less schooling and are less skilled than whites. Therefore, the minimum-wage rate hits them particularly hard. I've often said the minimum-wage rate is the most anti-Negro law on the books.

PLAYBOY: Couldn't those who are hurt by minimum-wage legislation be trained for more skilled jobs at better wages?

FRIEDMAN: The minimum wage destroys the best kind of training programs we've ever had: on-the-job training. The main way people have risen in the labor force is by getting unskilled jobs and learning things. Not merely technical skills: They learn such things as being at a job on time, spending eight hours a day at a job rather than standing around on street corners, having a certain element of responsibility, letting their employer know when they're not going to come in. All of those traits are very important. In an attempt to repair the damage that the minimum wage has done to traditional on-the-job training, you now have a whole collection of programs designed to take up the slack. The great proliferation of governmental programs in which employers are subsidized to provide on-the-job training gives employers an incentive to hire people and then *fire* them in order to get other people for whom they can get more subsidies.

PLAYBOY: Even if minimum-wage laws have been as counterproductive as you say, isn't there a need for some government intervention on behalf of the poor? *Laissez faire*, after all, has long been synonymous with sweatshops and child labor—conditions that were eliminated only by social legislation.

FRIEDMAN: Sweatshops and child labor were conditions that resulted more from poverty than from laissez-faire economics. Wretched working conditions still exist in nations with all sorts of enlightened social legislation but where poverty is still extreme. We in the United States no longer suffer that kind of poverty because the free-enterprise system has allowed us to become wealthy.

Everybody does take the line that *laissez faire* is heartless. But when do you suppose we had the highest level of private charitable activity in this country? In the 19th century. That's when we had the great movement toward private nonprofit hospitals. The missions abroad. The library movement. Even the Society for Prevention of

Cruelty to Animals. That was also the era in which the ordinary man, the low-income man, achieved the greatest improvement in his standard of living and his status. During that period, millions of penniless immigrants came in from abroad, with nothing but their hands, and enjoyed an enormous rise in their standard of living.

My mother came to this country when she was 14 years old. She worked in a sweatshop as a seamstress, and it was only because there was such a sweatshop in which she could get a job that she was able to come to the U.S. But she didn't stay in the sweatshop and neither did most of the others. It was a way station for them, and a far better one than anything available to them in the old country. And she never thought it was anything else. I must say that I find it slightly revolting that people sneer at a system that's made it possible for them to sneer at it. If we'd had minimum-wage laws and all the other trappings of the welfare state in the 19th century, half the readers of Playboy would either not exist at all or be citizens of Poland, Hungary or some other country. And there would be no Playboy for them to read.

PLAYBOY: Aren't there any government programs that can successfully improve the lot of the poor?

FRIEDMAN: The actual outcome of almost all programs that are sold in the name of helping the poor—and not only the minimum-wage rate—is to make the poor worse off. You can take one program after another and demonstrate that this is the fact. Indeed, by now, I'm getting a lot more company than I used to have on this point. In a recent Brookings Institution report, the authors of Great Society programs such as the War on Poverty now admit that those programs spent a lot of money but accomplished very little except to create employment for a lot of high-priced poverty fighters. Sometimes these programs have been well-meaning—those who are naive about the laws of economics think the best way to help the poor is to vote them higher wages—but often they are outright subsidies to the middle class and the rich at the expense of the poor.

PLAYBOY: Please explain.

FRIEDMAN: Take aid to higher education. In my opinion, that's one of the country's greatest scandals. There is an enormous amount of empirical evidence that subsidies to higher education impose taxes on low-income people and benefit high-income people. In the state of California, over 50 percent of the students in government-financed institutions of higher learning—the University of California, the state universities, junior colleges and all the rest—come from the upper 25 percent of families by income. Fewer than five percent come from the lower 25 percent. But even that understates the situation, because what really matters is what the incomes of the people who go through college will be after they get out of college. If you have two young men, one middle class, who goes to the university, and the other poor, who doesn't—who goes to work as, say, a garage mechanic—the one who goes to college with obviously make more money over his lifetime. But the man in the garage will be paying taxes to support that other man's education—and perhaps his draft deferment. When I'm being demagogic about this, I say that the system in California is one in which you tax the people of Watts to send children from Beverly Hills to college.

PLAYBOY: There are probably liberals who would agree that some well-intentioned government programs aimed at helping the poor don't work and are demeaning or unfair to the people they're supposed to help. Would you agree with *them* that the government has a responsibility to protect the public—via consumer protection, for example—from the excesses of capitalism?

FRIEDMAN: The basic premise of the consumer "crusade" is that unless the government moves in with inspectors and agencies, consumers will be defrauded by unethical producers and sellers. I can't accept that kind of solution. If a consumer finds he's being sold rotten meat at the grocery store, he has the very best protection agency available: the market. He simply stops trading at that store and moves to another. Eventually, the first seller gets the message and offers good meat or he goes out of business.

PLAYBOY: Isn't the issue more complex than that? One of the most serious consumer problems is mislabeling and misrepresentation of products that only the most sophisticated shopper can spot.

FRIEDMAN: Yes, it's more complex, but the model is valid. If there is devious misrepresentation—which isn't likely, because the return isn't that great—a few shoppers will spot it. Producers work on a margin, like everybody else. If the five percent of shoppers who are careful spot a clever misrepresentation, they'll leave the store. That's enough pressure on the store owner. The infrequent shopper assumes this when he goes to a store that's popular. There has to be a reason for its popularity, he decides. The reason is that it appeals to those who are very careful about measures and labels and that sort of thing.

PLAYBOY: Without some kind of consumer safeguards, how is the public to be protected from such things as injuries caused by faulty products?

FRIEDMAN: You sue. That's why we have courts. But in the case of a consumer-protection agency, that might not be so simple. Do you sue the manufacturer or the agency that didn't find the error and approved the product? I think most people would rather be able to sue General Motors than an agency of the government.

PLAYBOY: But there *are* consumer frauds and there are dangerous goods put thoughtlessly on the market. Isn't there a way to prevent that rather than inflict punishment after the fact?

FRIEDMAN: The most effective deterrent a producer can feel is loss of profits. He's going to be careful about what he puts on the market because he doesn't want to lose business. He doesn't want to be sued, either. People like Ralph Nader are always talking about misleading advertising and mislabeling, but I believe it would be very hard to find any examples of mislabeling that can approach what is practiced by those of us who write for the public at large. We're the worst advertisers of the lot. We screech about how important our own products are, how good they are, how they'll cure every ill, and yet some of us complain when businessmen do the same thing.

We don't want an agency to assure the public that we do or don't measure up to our claims. Critics and consumers do that.

One of the most dramatic failures of government has been the case of the regulatory agencies. Even the strongest critics of the market and the warmest supporters of government will agree that these organizations have become the servants of those they were supposed to protect the public *from*. Yet there is now a demand for a Federal consumer-protection agency. We never learn.

PLAYBOY: Do you discount the possibility that John Gardner or Ralph Nader might put together an honest-to-God consumer coalition—outside the government—that would get effective legislation passed?

FRIEDMAN: Do I discount the possibility that water can run uphill? They're working against the fundamental nature of things. The interests of consumers are diverse and diffuse. You buy a thousand things, but you make your living producing a single product—let's say a interviews—and you spend the income from that on the thousand different things. When the chips are down, your willingness to promote your interest as a consumer of the thousand things will be far less than your willingness to engage in something that will promote your interest as a producer. You're going to lobby for postal subsidies for interviewss, and you're going to make a much harder case than the people who only *read* interviewss. That's in the nature of things.

PLAYBOY: You're talking about the assertion of individual self-interest. But you also seem to feel that it's in the nature of things for a governmental agency—even one specifically created to protect the public from corporate self-interest—to put the welfare of industry before that of the consumer. Why?

FRIEDMAN: Because it's in the clear and immediate interest of the regulated industry or industries to either neutralize the effect of that agency or use it to their advantage. Since the interest of an industry is direct and focused, it will spend a lot more time, money and energy to accomplish its goal than the public will to protect its interests. The public's interest is diffuse, as I said. A consumer-protection agency might work for a brief period of time, but after the initial, faddish interest in the project dies down, the producers will move in with pressure for exemptions and other special rulings.

Take the historical example of the Interstate Commerce Commission, which was established to protect the consumer from exploitation by monopolistic railroads. In actual effect, this created a tight cartel that was able to keep rates up. The railroad people themselves had been trying to set rates, to establish a cartel, but every time they got an agreement, some chiseler would break it and they'd be back in competition again. So the ICC was created and its initial effect was to enable the railroads to keep rates up and competition out.

Then trucking came along, which would have competed with the railroads. There was no monopoly argument whatsoever for including trucking under government regulations. Nobody ever argued that, because there was an enormous amount of competition in the trucking business. Yet trucking was brought under the ICC on the claim that consumers had to be protected from unscrupulous truckers. Of course, the real reason for bringing trucking under the ICC was to protect the railroads from competition.

Or consider the control of air fares by the Civil Aeronautics Board. Now, it's perfectly clear that if you didn't have governmental price fixing, air fares would be roughly 60 percent of what they are now. We know that because California is big enough to support rather a sizable airline, within the limits of the state. It is, therefore, not controlled by the CAB. If you compare the fares from Los Angeles to San Francisco on Pacific Southwest Airlines with the CAB-controlled fares from Los Angeles to Reno or Phoenix, which are roughly the same distance—or even with the earlier CAB-mandated fares between Los Angeles and San Francisco—you will find that the Pacific Southwest Airlines fares are roughly 60 percent of CAB fares.

PLAYBOY: Do P.S.A. and the other Federally unregulated airlines make a profit?

FRIEDMAN: P.S.A.'s rate of return on capital is as high as, and I believe higher than, that of the other airlines. It's clear that a large part of the effect of higher fares is simply to cause the commercial airlines to waste money. Since they can't compete on fares, they compete with free drinks, fancy meals, attractive hostesses and, most important, with service—all of which keeps the fares up, which means half-empty planes. If you look at the occupancy rate on P.S.A., it consistently averages much higher than that of the main-airline planes on similar heavily traveled routes.

PLAYBOY: So the CAB-regulated airlines aren't really benefiting from higher fares?

FRIEDMAN: Most of this "benefit" is eaten up in higher operating costs. But let's suppose some of it does trickle through. Where does it trickle through to? It trickles through to airline profits. Who owns the airline stock? The same income class of people that does most of the flying. Perhaps they don't realize it, but all they're doing is taking 10 dollars out of their left-hand pocket in order to put one dollar into their right-hand pocket.

PLAYBOY: What about areas in which there is nearly a universal public interest? The regulation of television, for instance? Shouldn't the government have some authority over the airwaves?

FRIEDMAN: TV is a more complicated case. The Federal Communications Commission has tremendous power over the networks, which are few in number, and the broadcasters have an ultimate interest in the decisions of the FCC. Consequently, they can and do exert influence on that agency. And the FCC has done a great deal to keep the big networks in business and to protect them from competition. Many liberals want stronger FCC regulation to improve programing and reduce advertising. Yet cable television would allow people to watch Shakespeare uninterruptedly if they were willing to pay enough so that a producer could make a profit by supplying it to them. But the FCC has held up cable TV with regulations and delaying tactics that are completely acceptable to the big networks, which make their money through advertising. If you want to watch television, you watch what the networks provide—complete with the advertisements. So, in a way, the advertisers are being

Federally subsidized. Of course, there are still substitutes. You can read or go to the movies. And even in television, which has been shackled by government regulation, the free market is close to surmounting the problem. Technology spurred by competition will soon make video cassettes available. Since they don't require use of the public airwaves, they won't be subject to Federal regulation.

PLAYBOY: Do you think there's a constructive purpose to *any* governmental regulation of commerce?

FRIEDMAN: No, I don't. All of these interferences with the market are justified as protection of the public interest, but, in fact, they endanger the public interest. In the absence of regulation and protection, we are told, we would be exploited and overcharged for shoddy service and unsafe products, degrading the quality of our lives and jeopardizing our safety. I've always found it amusing and paradoxical to behold the enormous success Nader has had in selling the idea that capitalism degrades quality.

Picture one of these dupes whom Nader feels for walking into his home and turning on his magnificent hi-fi set. Stop and think about the improvements that have taken place in electronics and hi-fi and ask yourself whether that was through governmental action, whether it was due to regulation, whether it was due to standards set up by the government. The answer is no. It was due to straight private competition. He turns on his fancy stereo FM—which is living proof of a proposition contrary to Nader's—and listens to Nader telling a Senate subcommittee how production under capitalism, by business enterprises, is synonymous with reduction in quality, with shoddy goods. If Nader tried to carry that same message through letters handled by that efficient government monopoly, the U.S. Postal Service, he would never be heard.

PLAYBOY: Why *do* we have such poor postal service?

FRIEDMAN: Precisely because it *is* a government monopoly—and performs exactly like one. But we can't eliminate it, because a very strong interest group lobbies against its elimination. And that group, like all interest groups, has a focused interest as opposed to the diffuse, general interest. We've seen in the case of parcel delivery, which can be undertaken by private firms, that there is an opportunity for profitable and efficient delivery. United Parcel Service makes a profit and provides good service. But the postal union and the government employees in the Postal Service aren't going to give up their monopoly on first-class mail.

PLAYBOY: How do you feel about *private* monopolies? Should they be either broken up or closely regulated by the government?

FRIEDMAN: The problem in this kind of discussion is making a distinction between the real world and the ideal world. For an ideal free market, you want a large number of producers. For an ideal government, you want a saint. In the absence of both, you have three choices: unregulated private monopoly, private monopoly regulated by government and government monopoly. All three are bad, but, in my opinion, the best of the bad lot is unregulated private monopoly. The ICC and the railroads provide a good example of regulated private monopoly; the Postal Service is a good example of public monopoly. Those aren't really appealing cases.

PLAYBOY: Is there an unregulated private monopoly in existence?

FRIEDMAN: A recent historical example would be the stock exchange before 1934. You have so much regulation now that you'd have to take a total industry to find a good example. Iron and steel, perhaps. But there really is no such thing as pure monopoly, since everything has substitutes. Even iron and steel. The telephone is a monopoly, but it has substitutes in the other forms of communication.

There's never been anything like the monopoly domination of the economy that some people claim exists. It's a matter of relative size. While some people point to the automobile industry as a giant monopoly that disproportionately influences the economy, they don't recognize that the wholesale-trade industry is twice the size of the automobile industry. Studies of labor unions indicate, similarly, that their influence is relatively small and unimportant—though obviously some of them have great power in limited areas.

Perfect competition is a theoretical concept like the Euclidean line, which has no width and no depth. Just as we've never seen that line, there has never been truly free enterprise. But the examples of monopoly that can be found in this country are nothing like the threat to our imperfect free-enterprise system posed by the government's attempts to control monopoly "in the public interest." The examples we've been talking about are a case in point. Another very good example is the whole system of agricultural programs. Agriculture would be entirely competitive if it weren't for government control of prices, which has hurt the consumer without benefiting the farmer.

One final thing on this subject: Free enterprise isn't necessarily strongly supported by one group in our economy and denounced by another. Both business and labor would like exemptions that would work to their advantage and against the public good. Both would like to behave as monopolies and receive special government considerations. The oil industry fights hard for import quotas to keep foreign supplies out and its own prices high. All the while preaching the virtues of free enterprise. Tariffs are supported by certain elements of labor for the same reason. The essence of the problem is that once we begin to allow exceptions for special interests, we move from a system of private arrangements to a political system where everyone's freedom is limited and government becomes a matter of trying to balance those interests. Nobody really wins under these terms.

PLAYBOY: If consumer protection—even from monopoly—isn't an area that is legitimately the province of government, what about pollution?

FRIEDMAN: Even the most ardent environmentalist doesn't really want to stop pollution. If he thinks about it and doesn't just talk about it, he wants to have the *right amount* of pollution. We can't really *afford* to eliminate it—not without abandoning all the benefits of technology that we not only enjoy but on which we depend. So the answer is to allow only pollution that's worth what it costs, and not any pollution that isn't worth what it costs. The

problem is to make sure that people bear the costs for which they are responsible. A market system rests fundamentally on such an arrangement. If you hit me with your car and you damage me, you are obligated to pay me—at least until we have no-fault insurance. The problem of pollution is that if you emit noxious smoke that damages me, it's difficult for me to know who's done the damage and to require you to be responsible for it. The reason the market doesn't do it is that it's hard to do. The resolution does have to be through governmental arrangements, but in the form of effluent taxes rather than emission standards. I prefer such taxes to emission standards because taxes are more flexible. If it's more expensive for a company to pay the tax than emit the pollutant, it will very quickly raise its own emission standards.

PLAYBOY: At its own expense or the consumer's?

FRIEDMAN: The consumer's, of course. There is a romantic notion that by cracking down on the producers, we will somehow end pollution without any increase in prices. Nonsense. We've already seen some firms go out of business because of antipollution legislation. They couldn't afford to stay in production. Why shouldn't consumers bear the increased costs of a company's effluent tax or of antipollution devices? They themselves are the only real producers of pollution. There is pollution from steel mills because people—consumers—desire steel. Otherwise, it wouldn't be produced. So those who desire steel are responsible for the pollution that's caused by its production, and they should bear the cost of reducing that pollution.

PLAYBOY: Suppose the effluent tax on, say, a paper mill isn't as high as the cost of reducing water pollution. Won't the customer pay higher prices for the paper—and won't the water still be dirty?

FRIEDMAN: Not necessarily. That depends on how the government uses the revenue from the tax. The money could be spent on treatment plants—cleaning the water. Insofar as it's feasible, the effluent taxes collected could also be paid back as a tax reduction to the people who are harmed, if it can be proved who did what to whom. Which is preferable depends on whether people would rather have the money or the clean water.

PLAYBOY: Then the tax isn't really a solution?

FRIEDMAN: There *is* no perfect solution. It's a fact of life that there are hard, nasty problems that can be mitigated but not eliminated. This is one of them. The tax is the best—or, if you prefer, least bad—of the ways to mitigate pollution. Let me add that there are some ways in which the market works to resolve the problem of pollution, or at least to lessen its effects. Take a town like Gary, Indiana. To the extent that the pollution caused by the U.S. Steel plant there is confined to that city and people generally are truly concerned about the problem, it's to the company's advantage to do something about it. Why? Because if it doesn't, workers will prefer to live where there is less pollution, and U.S. Steel will have to pay them more to live in Gary.

PLAYBOY: Quite apart from emission standards and effluent taxes, shouldn't corporate officials take action to stop pollution out of a sense of social responsibility?

FRIEDMAN: I wouldn't buy stock in a company that hired that kind of leadership. A corporate executive's responsibility is to make as much money for the stockholders as possible, as long as he operates within the rules of the game. When an executive decides to take action for reasons of social responsibility, he is taking money from someone else—from the stockholders, in the form of lower dividends; from the employees, in the form of lower wages; or from the consumer, in the form of higher prices. The responsibility of a corporate executive is to fulfill the terms of his contract. If he can't do that in good conscience, then he should quit his job and find another way to do good. He has the right to promote what he regards as desirable moral objectives only with his own money. If, on the other hand, the executives of U.S. Steel undertake to reduce pollution in Gary for the purpose of making the town attractive to employees and thus lowering labor costs, then they are doing the stockholders' bidding. And everybody benefits: The stockholders get higher dividends; the customer gets cheaper steel; the workers get more in return for their labor. That's the beauty of free enterprise.

PLAYBOY: We've been discussing government programs aimed at protecting the public. Do you reject the kind of programs by which the government attempts to aid individuals directly? Social Security, for instance?

FRIEDMAN: If you talk about misleading labeling. Social Security is about as misleading as you can get. It has nothing to do with social and it has nothing to do with the security of society. What's called Social Security is a program that links together a particular set of taxes and a particular set of benefits. It involves an 11.7 percent tax on wages up to a maximum that is now \$10,800. The employer and the employee each supposedly pay 5.85 percent, but since the employer's half is part of his total wage cost, it's the employee who's really paying the whole bill. So here you have a regressive payroll tax.

On the other side of that, you have a benefit structure under which people above a certain age receive certain amounts. There are many things that can be said about it, but let me try to say the most important first: Is it a good buy? The answer is, if you take the law as it now stands, it's a very good buy for people in the older age groups, and it's a very lousy buy for people in lower age groups. If a person below about 45 invested the same amount of money in a private annuity or just put it in the bank and let it accumulate interest, he would end up with a much larger annuity than he is now being promised by Social Security. On the other hand, older people are getting a larger annuity than their taxes would have paid for. They're getting it partly because many of them didn't pay during the whole of their working lives, since Social Security is a relatively new thing. The number of people who have been paying taxes has been growing more rapidly than the number of people receiving benefits. Also, when they started paying, the tax rates were much lower than they are now.

In addition to the old/young discrepancy, which is the most serious, there is also a poor/rich discrepancy that works to the benefit of the rich. People who have high incomes from property don't lose their Social Security benefits when they reach the age of 65, while those who have to keep working lose all or a part until they reach

72. But, there's a much more important bias. The lower-income person will be likely to go to work and start paying taxes at something like 17 or 18 years of age, while the upper-income person might go from college to graduate school and not start working and paying taxes until he's 23 or 24. That means the low-income person will pay taxes for more years and, when you take account of the effect of compound interest, he will pay the economic equivalent of roughly a third more than the well-to-do person.

It's also an established fact of demography that upper-class people live longer than lower-class people, so the lower-class person not only starts paying earlier but he's less likely to receive benefits and, if he does, it will be for fewer years. So he pays more taxes and gets less in benefits. This biases the whole program in favor of the well to do, who don't need the money, as opposed to the poor, who do. This is offset only somewhat by the fact that the benefit schedule is biased in favor of low-income people.

Finally, it really is misleading to think of Social Security as an individual purchase of insurance, as if your payments were buying your benefits. There is almost no relationship between what you pay and what you get. What we have in Social Security is a tax system and a separate benefits system. I don't know anyone—whatever his political persuasion—who thinks that a flat-rate wage tax with a maximum on the amount of wages taxed is a good tax. It's equally hard to find anybody who would accept it as a satisfactory benefit system. If somebody happens not to have worked in a covered industry, for example, he gets nothing, no matter how severe his need. A man over 65 who is qualified can have an income of \$1,000,000 from investments and still get his full benefits. A man of the same age, with no income from property, who works and earns over a certain amount, gets nothing. To add insult to injury, he has to keep paying the taxes. It's always been a funny thing to me that people who don't have a good thing to say about Social Security as a tax system or a benefit system regard it as a sacred cow when you tie the two together.

PLAYBOY: Would you be in favor of a Social Security system that eliminated the inequities by linking payments more closely to benefits?

FRIEDMAN: Let me accept, for the sake of argument, the false claim made for this system: that it really is an insurance program. There are still two strong reasons for objecting to it. One is that it involves *compulsory* purchase of retirement. Second, it involves compulsory purchase of that retirement *from the government*. Suppose you're a young man of 30, but it so happens you come from a family that has a very short life span. Everybody in your family has inherited cancer, heart disease and what not and you look forward and say, "Hell, I'm not going to live beyond 50." Is it irrational for you to decide that you want to spend your money on living now and not put it aside for retirement at the age of 65? What justification is there for the government to say it won't let you do that? On the other hand, say you're going to live a long time—at least you think you are—but you just enjoy the present and you'd rather live it up now, knowing full well that this may put you into difficulty later on. The argument is that when you get into difficulty later on, you'll be a charge of the state. But you'll only be a charge of the state if the state wants to take you as a charge. If you decide to live it up now and take the consequences later, it seems to me that should be your right.

PLAYBOY: Realistically, the state would probably take care of someone under those circumstances.

FRIEDMAN: All right, let's suppose we're going to compel him to provide for his old age. Here I've got two people. Mr. X, a savings type, is going to be accumulating wealth and is buying a retirement annuity on his own. Mr. Y is not. Why, in addition to what X is doing on his own, should he have to buy it through the government? If you're going to have compulsory retirement, shouldn't the government specify that every individual in the community must demonstrate to the satisfaction of the authorities that he's providing for a retirement benefit of a certain kind, then let him do it however he wants? If you want government to be in the business, let's require it to compete with private enterprise. Let it offer the terms on which it's willing to give a retirement benefit and let it be a self-supporting concern.

PLAYBOY: Even if your objections to Social Security were shared by a majority of the voters, don't we have too much at stake to abandon it for the program you suggest?

FRIEDMAN: We have too much at stake *not* to abandon Social Security. Replacing it would take some time, of course; we couldn't in good conscience renege on the obligations we've already undertaken. I have outlined elsewhere a program that would get the government out of the business of providing for people's retirement while, at the same time, honoring present commitments. It's an involved program, however, too complex to get into here, but entirely feasible.

One final thing: Like any number of government programs, Social Security was conceived as a method of dealing with special problems involving the poor. Like the other programs, it has expanded—as we've become wealthier as a nation—more rapidly than the nation's wealth. There is a reason for this. There is a particular group with a strong interest in maintaining and strengthening Social Security: the people who administer that program. As poverty declines, the pressure for more and more poverty programs increases. That pressure comes from the people who administer the programs more than from the poor themselves. This is just one more reason I propose a simple solution—a negative income tax—for the problem of poverty. It would eliminate this whole business of special categories and special programs.

PLAYBOY: Before we deal with the negative income tax, let's talk about your more fundamental suggestions for reform of the income tax itself.

FRIEDMAN: Well, I'd like to move toward an enormously simplified income tax, by eliminating all present deductions except for a personal exemption and substituting a flat-rate tax for the current graduated schedule. Let's consider the deductions first. I would eliminate *all* personal deductions, except for strictly occupational expenses. There would be no more tax deductions for charitable contributions, for interest payments, for real-

estate taxes; no more special treatment for capital-gains income, for oil depletion or for all the rest. The income tax would then be based on what it was supposed to be based on all along: individual income. From this figure, representing his total receipts in excess of business costs, each taxpayer would be entitled to deduct a sum—a personal exemption—that reasonably reflects the cost of a survival existence in the 1970s. When the income tax was enacted, the personal exemption was supposed to assure that there would be no tax whatever on people with very low incomes. The assumption was that everybody deserved a subsistence income before he was taxed. But today, this concept has become a joke. We still have a personal exemption, but—considering the effects of inflation—it's lower now than it's ever been. I would double the present personal exemption, to \$1500 or \$1600 per person.

PLAYBOY: At what percentage of income would you place the flat-rate tax?

FRIEDMAN: If you eliminate the present deductions and retain the present personal exemption, you could scrap the current graduated rates—which run from 14 percent up to 70 percent—and raise the same amount of revenue with a flat-rate tax of around 16 percent. This sounds unbelievable, but it's true. Our current graduated rates, while they supposedly go from 14 up to 70 percent, are fraudulent. Very few people pay taxes in the higher brackets, largely because of the loopholes we've heard so much about.

PLAYBOY: According to the conventional wisdom, the graduated tax is a good way to democratically redistribute wealth by allocating the revenues to social programs. Doesn't it do that?

FRIEDMAN: The graduated tax, to the extent that it works, doesn't redistribute wealth. Not only does most of the tax revenue from the higher income brackets not go to the poor in the form of social programs, the graduated tax also *protects* rather than redistributes wealth. It is, in effect, a tax on *becoming* wealthy. It doesn't affect people who are already wealthy. All it does is protect them from the competition of those who would share the wealth with them.

PLAYBOY: Do you think a confiscatory inheritance tax would better solve the problem?

FRIEDMAN: There's no such thing as an effective inheritance tax. People will always find a way around it. If you can't pass \$100,000 on to your children, you can set them up in a profitable business; if you can't do that, you can spend the money educating them to be physicians or lawyers or whatever. A society that tries to eliminate inheritance only forces inheritance to take different forms. The human desire to improve the lot of one's children isn't going to be eliminated by any government in this world. And it would be a terrible thing if it were, because the desire of parents to do things for their children is one of the major sources of the energy and the striving that make all of us better off. Even an effective inheritance tax, if one could be concocted, wouldn't prevent the transmission of wealth, but it would put an enormous damper on progress. I've never been able to understand the merit of the sort of equality that would chop the tall trees down to the level of the low ones. The equality I would like to see brings the low ones up.

PLAYBOY: Would your flat-rate tax bring the low ones up or would it—at the expense of those in the lower brackets—benefit primarily those who would pay less under your system than they do now?

FRIEDMAN: I think it would be fairer to almost everyone than the present system, assuming you eliminated the loopholes. After all, loopholes are nothing more than devices that allow people with relatively large incomes to avoid high taxation. The Brookings Institution, which has been looking into this, estimates that if you eliminated all the loopholes, you would increase total taxable income by something like 35 percent. Given a 21 or 22 percent average tax rate on the current base to collect current revenues, you can see that on a base a third again as large, a flat-rate tax of around 16 percent would raise the same amount of money. Personally, I can't imagine many people saying that such a tax would be unfair. As you suggest, people who are very poor might make such a claim, with some justification. That's why I'd also like to double the size of the present personal exemption. Then it would take a flat-rate tax of around 20 percent to yield the same amount of revenue that the current system raises.

PLAYBOY: You make it sound almost simple. Yet few knowledgeable people besides yourself have ever seriously considered such a proposal.

FRIEDMAN: That's not necessarily an indictment of the soundness of the idea. But you have a point. The current system, with all its loopholes, makes many taxpayers—especially the influential ones, who have a large voice in government policy—think they have a vested interest in the status quo. Probably most present taxpayers would prefer the current system of taxation to the one I've proposed. Yet the one I propose would probably save everybody money.

PLAYBOY: But tax reform can't save *everyone* money; the revenue has to come from somewhere. Surely the rich people who pay little or no taxes under the present system wouldn't benefit by the elimination of tax loopholes.

FRIEDMAN: You're wrong. You're not taking into account what it costs people to avoid taxes. This is one of the most important—and most overlooked—points in the whole field of taxation. Let me give you the simplest case: municipal bonds. As you know, the income from municipal bonds is tax-free. You're not even required to report it. For this reason, municipal bonds pay a much lower return; if corporate bonds are paying eight percent, municipals might be paying five. Suppose you buy some municipal bonds. You get the income from them, yet on the government books, no taxes on this income are recorded. But still, you *do* pay a tax. You pay three dollars in eight—the difference between what you could have got if you had bought corporate bonds at eight percent and what you did get buying municipals at five. That's a 37 1/2 percent tax. It's not recorded, but you're still paying it.

What happens, in effect, is that as a buyer of municipal bonds, you pay a 37 1/2 percent tax to the Federal Government, which turns your money immediately over to the municipality.

A better example is the oil-depletion allowance. A man drills for oil. It costs him \$100,000 to drill the hole, but he expects to find only \$50,000 worth of oil. Still, he drills the hole because of the tax advantage of being able to deduct the drilling cost from other income. That makes it worth while to drill. But understand, he's not really drilling for oil, he's drilling for tax advantage. If it weren't for the tax laws, nobody would spend \$100,000 to find \$50,000 worth of oil. So there's \$50,000 of pure waste in such an undertaking. Businessmen call it buying a tax shelter.

PLAYBOY: Who actually bears this cost—the entrepreneur or taxpayers at large?

FRIEDMAN: A good question, and one not easily answered. Individuals enter such transactions, obviously, because they think others will bear most of the burden. If they thought they'd have to pay the cost themselves, they would probably never get involved. But when you have a whole nation of entrepreneurs, each seeking tax advantage, it's impossible to say just who pays the bill. In essence, we all do. All you can say is that when a man pays \$100,000 to drill a hole that will produce \$50,000 in oil, \$50,000 has been wasted. Given a better tax system, this waste would not have occurred. And that alone justifies changing the tax system.

PLAYBOY: The oil companies defend the depletion allowance on the ground that it encourages exploration for new oil reserves in the U.S.—reserves that might be crucial in a national emergency.

FRIEDMAN: They do, but have you ever seen them give an estimate of how much it costs to provide emergency reserves by this device rather than by others? Two different questions are involved here. First, do considerations of national defense require a large oil reserve for emergencies? Second, what is the best and cheapest way to provide such a reserve? The answer to the first question is far from clear, given the likelihood that any major war involving nuclear weapons would be extremely short. But even if the answer is yes, there are ways of providing a reserve that would be far cheaper than requiring consumers year after year to pay unnecessarily high prices for oil in order to finance exploration for additional wells, and then using the oil from these wells for current consumption, so you have to explore for still more wells.

But I'm getting away from the question you raised: whether the rich could benefit from getting rid of the loopholes. My main point is that all these wasted expenditures, tax shelters—whatever you might label these evasive maneuvers by the well-to-do few—are largely at their own expense. True, they reduce the taxes they pay, but only at a high cost. Philip Stern wrote an article in *The New York Times Magazine* a few months ago entitled *Uncle Sam's Welfare Program—For the Rich*. His argument went like this: People like H.L. Hunt, let's say, pay \$2,000,000 a year in taxes. But if the loopholes were closed, he'd pay \$20,000,000. Therefore, Stern said, the current system is the equivalent of Congress' enacting an \$18,000,000 welfare grant for Mr. Hunt, paid for by the public. This is sheer demagogic nonsense, because it completely neglects what it costs Mr. Hunt to avoid the taxes. Maybe Mr. Hunt, to avoid paying \$20,000,000 in taxes, paid \$16,000,000—by buying municipal bonds, digging uneconomical holes, paying high-priced tax lawyers to find new loopholes. There probably *is* an element of welfare for the rich, but it's much less than many people imagine.

Joseph Pechman of the Brookings Institution has estimated that the loopholes reduce tax collections by 77 billion dollars a year. My guess—and it's just a guess—is that this 77-billion-dollar loss in taxes through the loopholes produces no more than 25 billion dollars for the people who use them. In fact, I'd be surprised if it produced that much. The rest, as I've tried to explain, is simply wasted.

PLAYBOY: Under the graduated-tax system, the wealthy pay far more—in theory, at least—than those in any other income bracket. Under your proposed flat-rate system, they and everyone else would have to pay only 20 percent. But with all the loopholes at their disposal—even though you say they save less than they think by using them—don't the rich stand to lose more than anyone else under your system, with its no-loopholes stipulation?

FRIEDMAN: Not necessarily. If I were Howard Hughes, I'd rather pay 25 percent in taxes than buy a tax shelter that costs me 50 cents on the dollar. Wouldn't you? The only people this change would actually hurt are those who make their living by providing tax shelters for others. Statistically, these are a tiny minority. Moreover, money would be more economically invested than it is now, and these better investments would create more wealth, and thus generate more taxes, all up and down the line.

PLAYBOY: Most people would have less quarrel with the flat-rate tax than with the elimination of all personal deductions other than provable business expenses. Doesn't a man who's hit, say, with tremendous medical expenses one year deserve a tax break?

FRIEDMAN: I have a good deal of sympathy for the deductibility of catastrophic medical expenses—more than I do for almost any other deductions. Medical expenses are a sort of occupational expense—the cost of earning an income. But for the sake of this proposal, I'd eliminate *all* deductions. For any income tax to really work, it's got to be simple and straightforward—something you can fill out on one side of one page without too much trouble. Admit one loophole and you admit them all.

As for how to cope with medical expenses if they're nondeductible, the solution is a simple one: Buy insurance. When a man buys medical insurance, he's betting the price of the premium that he's going to get sick and the insurance company is betting the cost of his medical bills that he won't. If he wins, he gets his bills paid for; if he loses, he's out the premium. But it was his own decision—and responsibility—to buy the insurance. If he *doesn't* buy insurance, on the other hand, he's betting that he's not going to get sick. If he loses, my question is: Why should the rest of us have to pick up his expenses by paying in taxes for the medical bills he deducts from his return? Let *him* pay the bills; that's what he risked when he bet.

PLAYBOY: But you assume that this man is a gambler, that he makes a calculated decision not to buy insurance. Don't most people fail to buy insurance because of either ignorance or poverty?

FRIEDMAN: We're not talking about poverty-stricken people here, we're talking about taxpayers. As for ignorance, that's not a valid argument. My fundamental belief is that you've got to hold people individually responsible for their actions.

PLAYBOY: Even as nontaxpayers, the poor can afford neither insurance nor medical expenses. Would you hold them individually responsible for such costs?

FRIEDMAN: Obviously, it bothers me, as it bothers anyone else, to see people destitute, whether through their own fault or not. That's why I'm strongly in favor of charitable activities, whether individual or joint. One of the worst features of the current system of Social Security and welfare arrangements is that it has drastically reduced the feeling of obligation that members of society traditionally felt toward others. Children today feel far less obligation toward their parents than they did 50 years ago. If the state is going to take care of the parents, why should the children worry? Similarly with the poor. Who feels a personal obligation to help the poor? That's the government's job now.

PLAYBOY: To return to the point you raised earlier, you think a negative income tax will change this?

FRIEDMAN: I hope it will. But before we really get into that, let me stress one thing. If we were starting with a clean slate—if we had no government welfare programs, no Social Security, etc.—I'm not sure I would be in favor of a negative income tax. But, unfortunately, we don't have a *tabula rasa*. Instead, we have this extraordinary mess of welfare arrangements, and the problem is: How do you get out of them? You can't simply abolish them, because when we enacted these programs, we assumed an obligation to those who are now being helped by them. In fact, we have *induced* people to come under the protection of these programs.

PLAYBOY: What do you mean?

FRIEDMAN: I mean that the law of supply and demand works very generally. If there is a demand for poor people, the supply of poor people will rise to meet the demand. In setting up programs such as Aid to Dependent Children and all the other welfare programs, we have created a demand for poor people. Don't misunderstand me. I'm not blaming poor people. You can hardly blame them for acting in their own interest. Take a poor family in the South, working hard for a very low income. They learn that in New York City they can get \$300 a month—or whatever it is—without working. Who can blame such a family for moving to New York to get that income? The blame falls on those of us who set up the incentives in the first place. The blame also falls on us for creating a system that not only induces people to seek its benefits but forces them to stay in the program once they're enrolled and demeans them terribly in the process of helping them.

I remember how impressed I was, six or eight years ago, when a young man who was writing a book on welfare programs in Harlem came to see me. He said, "You know, I've been reading *Capitalism and Freedom*, where you talk about the extent to which government bureaucracy interferes with the freedom of individuals. You really don't know the extent of this. *Your* freedom hasn't been much interfered with; *my* freedom hasn't been much interfered with. When do we meet a government bureaucrat? Maybe when we get a parking ticket or talk about our income taxes. The people you should have been talking about," he said to me, "are those poor suckers on welfare. They're the people whose freedom is really being interfered with by government officials. They can't move from one place to another without the permission of their welfare worker. They can't buy dishes for their kitchen without getting a purchase order. Their whole lives are controlled by the welfare workers." And he was absolutely right. The freedom of welfare recipients is terribly restricted. Whether we're doing this for good purposes or bad, it's not a wise thing to do. Not if we believe that individuals should be responsible for their own actions.

PLAYBOY: For those who don't know how it works, would you explain how welfare forces people to stay on the dole once they're enrolled?

FRIEDMAN: If someone on welfare finds a job and gets off welfare, and then the job disappears—as so many marginal jobs do—it's going to take him some time to go through all the red tape to get back onto the program. This discourages job seeking. In the second place, if he gets a job that pays him, say, \$50 or \$75 a week, he's going to lose most of that extra money, because his welfare check will be reduced accordingly—assuming he's honest and reports it. Since he gets to keep only a small fraction of his additional earnings, there's small incentive for him to earn.

Also, the present setup has encouraged fathers, even responsible fathers, to leave their families. Again, it's a matter of incentives. If a man is working and has an income above the minimum, he's not entitled to welfare. But if he deserts his family, *they* can receive welfare. That way, he can continue to earn his income and contribute it to his family, in addition to the welfare they get. Many ADC families are actually created by fake desertions. Of course, you have real desertions, too. If a deserted woman is going to be immediately eligible for welfare, the incentive for the family to stick together is not increased, to put it mildly. So the problem is: How do you get out of all this? And this brings us back to the question you asked a moment ago. I see the negative income tax as the only device yet suggested, by anybody, that would bring us out of the current welfare mess and still meet our responsibilities to the people whom the program has got in trouble.

PLAYBOY: How would the negative tax work?

FRIEDMAN: It would be tied in with the positive income tax. The two are similar. Ideally, I'd like to see a flat-rate tax above and below an exemption. I've already discussed the flat-rate tax above an exemption. The tax on income below the exemption would be a negative one. Instead of paying money, the low-income person would receive it. Consider the current tax system. If you're the head of a family of four, with an income of roughly

\$4000, your personal exemptions, plus automatic deductions, plus low-income allowance, will mean that you pay no tax. Suppose you're the same family of four with an income of \$6000; you'd end up with a taxable income of \$2000—that is, \$6000 minus \$4000—and you'd pay a fraction of that \$2000 in taxes. Now suppose you had the same family of four with an income of \$2000, you'd have a taxable income of minus \$2000—that is, \$2000 minus \$4000. But under present law, with a taxable income of minus \$2000, you pay no tax and that ends the business. With a negative income tax, an income of \$2000 would be subject to negative taxation. Instead of paying taxes, you'd get some money. Just how much would depend on the negative tax rate. If the negative tax rate were 20 percent, you'd get \$400. If the rate were 50 percent, you'd get \$1000. The 50 percent negative tax rate is simplest, so it's the one I always like to use for illustration. If you have no income at all, for example, you would have a negative taxable income of \$4000—that is, zero minus \$4000. You would be entitled to receive 50 percent of that: \$2000.

PLAYBOY: In other words, your system would amount to a guaranteed annual income of \$2000 for a family of four?

FRIEDMAN: Yes. But it's very important, in all systems like this, to keep in mind you're talking about two different numbers: the minimum income, which would be guaranteed to every family or taxpayer; and the break-even point, which is the point at which people would stop receiving money and start paying it. In the example I just gave, \$2000 is the base—the amount you'd receive from the government if you earned nothing at all. On the way between the base and the break-even point, which is \$4000 in this example, you would receive 50 cents less from the government for every extra dollar you earned, so you'd get to keep 50 cents. This provides a consistent incentive for additional earnings. Above \$4000, you'd be on your own. You'd receive nothing extra. In fact, you'd have to start *paying* taxes, partly to help those who are less fortunate than you.

PLAYBOY: Do you think your negative tax program would be an adequate substitute for our present welfare programs—Aid to Dependent Children, food stamps and the rest?

FRIEDMAN: I believe it would be far superior to the present programs—superior from the point of view of the recipients and also of the taxpayers. But you asked whether it would be adequate. I really don't think you can discuss negative taxation in terms of adequacy or fairness. You have to ask a different question: How much are you and I willing to tax ourselves in order to benefit someone else? The great fallacy in these discussions is the assumption that somehow somebody else is going to pay the bill. Early in his campaign, Senator McGovern came out with a proposal to give a grant of \$1000 to every person in the country. That was really a form of negative income tax, but one on a very high level. Essentially, what McGovern proposed was a \$4000 guarantee for a family of four, with a \$12,000 break-even point. The result would have been to sharply reduce the incentive to work for people in a very wide income range. It would have reduced the incentives for people making between \$4000 and \$12,000 by enabling them to collect from the government rather than pay taxes; and it would have reduced incentives for people making more than \$12,000 by requiring them to pay much higher taxes. And much of the extra money collected from people making above \$12,000 would have gone not to the desperately poor but to people with middle-class incomes.

We have to ask not only how much the recipients get but also who pays for it. Can you really justify taxing people receiving \$13,000 a year in order to raise the income of people receiving \$11,000 a year? So while I'm in favor of a negative income tax, I don't favor *any* negative income tax. I want one that has both the guarantee and the break-even point low enough so that the public will be willing to pay the bill, and one where the marginal tax rate, between the guarantee and the break-even point, will be 50 percent or so, low enough to give people a substantial and consistent incentive to earn their way out of the program.

PLAYBOY: Do you think any of these proposals you've been discussing—on taxes, welfare, and so on—has a chance of public acceptance?

FRIEDMAN: There have been some hopeful signs. Some things I've been saying for a number of years now are receiving a little more attention. Some of the proposals I've made concerning international financial arrangements, for instance. Also, the negative income tax has become a fairly respectable notion. But you see, the problem is twofold. First, you have to sell your ideas, to convince people that government programs generally do the opposite of what their well-meaning proponents intend—that they aren't getting their money's worth for taxes. But even if people are convinced by the arguments, there is the problem of getting them to give up what they see as in their special interest. Everyone wants to make sure that he is getting his. Nobody will let go until he's sure the other guy is, too. And that's the biggest problem.

PLAYBOY: Is there a solution?

FRIEDMAN: If there is, it would be in bundling things together. That's how we keep government out of the censorship business. It's not a matter of taking one case at a time and deciding each case on its merits. If we did that, we would have free speech for very few. Someone would be able to get a law passed prohibiting free speech for Seventh-day Adventists. Or vegetarians. Or Black Panthers.

We talked earlier about reducing the tax rates and closing the loopholes. The right wing would be more than willing to give up the loopholes in return for lower rates; and the left wing would probably be more than willing to give up the high rates in return for closing the loopholes. So it looks as if there's a deal to be made. But you can't make a deal through the usual legislative channels, because neither side trusts the other—and both are right. The only way I can see to make such a deal is by a constitutional amendment that says, for example, Congress can impose an income tax as long as the only deductions are for strict occupational expenses and a personal exemption, and as long as the highest tax rate is no more than twice the lowest. Personally, I would prefer a flat

rate, but to achieve consensus, it would be better to limit the degree of graduation. That would give both sides some assurance that the deal wouldn't come unstuck.

PLAYBOY: Even if a consensus of right and left could be achieved on a modified version of your flat-rate tax proposal, there are many critics—particularly among the young—of what they feel are your basic assumptions. How would you answer those who claim that capitalism cannot foster a just and orderly society, since it's based on the emotion of greed?

FRIEDMAN: What kind of society isn't structured on greed? As a friend of mine says, the one thing you can absolutely depend on every other person to do is to put his interests ahead of yours. Now, his interests may not be greedy in a narrow, selfish sense. Some people's self-interest is to save the world. Some people's self-interest is to do good for others. Florence Nightingale pursued her own self-interest through charitable activities. Rockefeller pursued his self-interest in setting up the Rockefeller Foundation. But for most people, most of the time, self-interest is greed.

So the problem of social organization is how to set up an arrangement under which greed will do the least harm. It seems to me that the great virtue of capitalism is that it's that kind of system. Because under capitalism, the power of any one individual over his fellow man is relatively small. You take the richest capitalist in the world; his power over you and me is trivial compared with the power that a Brezhnev or a Kosygin has in Russia. Or even compared in the United States with the power that an official of the Internal Revenue Service has over you. An official of the IRS can put you in jail. I doubt that there is a person in the United States who couldn't be convicted of technical violation of some aspect of the personal income tax.

One of the great dangers I see in the American situation is that there is a strong temptation in government to use the income tax for other purposes. It's been done. When gangsters couldn't be convicted under the laws they had really violated, they were gotten on income-tax evasion. When John F. Kennedy threatened steel executives in 1962 to get them to drive down their prices, there was the implicit threat that all their taxes would be looked at. Now, that is a much more serious threat—the power an official has in the pursuit of *his* self-interest—than anything Howard Hughes is capable of. We want the kind of world in which greedy people can do the least harm to their fellow men. That's the kind of world in which power is widely dispersed and each of us has as many alternatives as possible.

PLAYBOY: Critics of capitalism feel that too many alternatives cause waste, that we don't need 47 models of Chevrolets when one would do.

FRIEDMAN: If consumers really preferred one model at a lower price than 47 models, G.M. would be foolish not to meet their desires. There are 47 models because that is what consumers want. That's what the critics really complain about—that under capitalism, consumers get what they want rather than what the critics think they should have. It's always amused me that the intellectuals who talk loudest about the waste of competition in business are the loudest defenders of the waste of competition in the intellectual world.

Isn't it absolutely wasteful that millions of writers should be deciding what to write on their own—100 writers may be writing on the same subject—with no social priorities being imposed on what subjects they write about? Isn't it deplorable that thousands of scientists should each be picking his own subjects for investigation? Shouldn't there be a central planning board that decides which subjects have the highest social priority and assign those subjects to the researchers most suited to pursue them, to see that there is no duplication?

Suggest this to any of the intellectuals who whine about the waste of competition in the business world and almost all of them will be horrified. Most of them would recognize that it would be terrible. It would be terrible because the essence of the intellectual world is that it's a search for the unknown, an attempt to find new things by a process of trial and error in which you have a great deal of duplication. For every nine people who go off on a bum lead, one person's going to go on a right lead. The same thing is true in the business world.

PLAYBOY: What about the criticism that capitalism leads to material extravagance and aesthetic starvation?

FRIEDMAN: The historical fact is precisely the reverse. The greatest opportunity for the expression of nonmaterial motives is in free-enterprise societies. The great triumphs of literature, art, architecture and science have all been the products of individuals. Are the great examples of architecture the state buildings of Russia or some of the homes Frank Lloyd Wright designed for private people? Did Thomas Alva Edison produce his inventions for a central planning board under a Five-Year Plan or did he produce them under a system of individual incentives?

Only small minorities, whether in a Communist society or in a capitalist society, are concerned with nonmaterial ends. Nonmaterial undertakings, therefore, will flourish most in the society where minorities have the greatest opportunities. A free-enterprise society is precisely the kind of society in which a minority can more or less do what it wants. It's free to pursue its own interests, but not in a collectivist society: If it's a perfect democracy, it will be dominated by the majority; if it's a dictatorship, it will be dominated by one minority, but other minorities will not be free to move.

Say I'm in a collectivist society and I want to save an endangered species; I want to save the heron. I have to persuade people in charge of the government to give me money to do it. I have only one place I can go; and with all the bureaucratic red tape that would envelop me, the heron would be dead long before I ever saw a dollar, if I ever did. In a free-enterprise capitalist society, all I have to do is find one crazy millionaire who's willing to put up some dough and, by God, I can save the heron. That's why the variety of minority views expressed in the Western world is enormously broader than in a Soviet society.

PLAYBOY: Yet our minorities right now are criticizing capitalism for many injustices.

FRIEDMAN: Of course. Everybody always takes the good things in the world for granted and attributes all the

evils of the world to the system. In addition, many of the difficulties they complain about are the result of government action, not of the market.

PLAYBOY: Don't you think blacks have a legitimate complaint when they see that they can't be hired on an equal basis with whites in a job market that's controlled not by the government but by individuals who are freely making the choice to discriminate against them?

FRIEDMAN: Of course they have a complaint. But are they better or worse off than they would be in an alternative system? The fact is that blacks are far better off in the U.S. than they are under other systems. Let's get some facts straight. The average income of blacks here is far higher than the average income of *all* the people in the Soviet Union. The official government definition of the poverty line in the U.S. is higher than the average income in the Soviet Union; it's higher than the income received by 90 percent of the people on the world's surface. Now, that doesn't mean blacks aren't subject to injustice; of course they are. Of course there's discrimination. I'm opposed to it; I'd like to see it eliminated. But the point is that—even with discrimination—blacks are far better off under our present system than they would be under alternative kinds of systems, and changing the system isn't going to eliminate people's prejudices.

Let me give you a different example. The Jews—because they were a persecuted people who had the same attitudes toward capitalism in the 19th century as many blacks now have toward it in the U.S.—played a disproportionate role in the Communist Party and in achieving the Soviet Revolution. They were represented out of all proportion. Has that been good for the Jews? What country in the world today engages in the most extreme anti-Semitic persecution? The Soviet Union. It's not an accident, because if you have a society with concentrated power, if you have a collectivist society, it's going to be in a position to exercise the preferences and prejudices of its rulers. Moreover, it's going to have an *incentive* to do so, because it's going to need a scapegoat and it will choose some group like the Jews or the blacks to be the scapegoat.

I personally have been very sensitive to this issue because I'm Jewish and I'm very much aware of the history of anti-Semitism. One of the paradoxes I puzzle over is that few people in the world have benefited as much as the Jews from free-enterprise capitalism and competition, yet few other groups have done so much to undermine it intellectually. Let me ask you a question. In what institution in the U.S. are blacks most discriminated against?

PLAYBOY: Schools?

FRIEDMAN: Is there any doubt that they're more discriminated against in schooling? Is there any doubt, if you're a parent in a black ghetto, that the thing you will find hardest to acquire is decent schooling for your child? Is it an accident that the schooling is provided by the government? A black in a ghetto who has the money can buy any car he wants. But even if he has the money, he can't get the schooling he wants, or at least he'll have to pay an enormously higher price for it than a white person will. A white person with that income can move into a nice suburb and get the schooling he wants. A black person will have great difficulty doing it.

Let's suppose, on the other hand, that you didn't have government schooling. Let's suppose you had the kind of system that I'm in favor of, which is a system under which the government, instead of providing schooling, would give every parent a voucher for a sum of money equal to what it's now spending per child and the parent could spend that at any school he wanted to. Then you'd have private-enterprise schools developed and blacks could buy much better schooling for their children than they can get under the government.

Under free enterprise, a person who has a prejudice has to pay for that prejudice. Suppose I'm going to go into business producing widgets and that I'm a terrible racist and will hire only whites. You're going into business producing widgets, too, but you don't give a damn about race, so you're going to hire the person who's most productive for the lowest wage. Which of us is going to be able to win out in the competitive race?

PLAYBOY: That depends on the unions.

FRIEDMAN: You're departing from competition. One of the major sources of black discrimination has been the unions, but the unions are an anti-competitive element; they're a private monopoly; they're against the rules of free enterprise.

PLAYBOY: You blame the government for discrimination against blacks in the school system because the government controls the schools. But isn't this discrimination really based on residential real-estate patterns that are the result of individual choice?

FRIEDMAN: Yes, to some extent it is. But those residential patterns don't necessarily imply segregation of schooling. They don't imply segregation of the kinds of automobiles people have. They don't imply segregation of the kind of movies people go to. If you had a free-enterprise school system, you'd have a much wider variety of schools available to blacks—schools of a higher quality. Moreover, residential segregation itself is partly stimulated by the fact that government provides schooling.

Let me illustrate. You're a well-to-do fellow and you want to send your child to a good school. You don't send him to a private school, because you're already paying taxes for schools and any additional money you'd pay for tuition wouldn't be deductible. So, instead, you get together with some of your friends and establish a nice high-income suburb and set up a so-called public school that's really a private school. Now you won't have to pay twice and the extra amount you pay will be in the form of taxes—not tuition, which will be permitted as a deduction in computing your personal income tax. The effect of this will be that your children's education will be partly subsidized by the poor taxpayers in the ghetto. The fact that schooling is generally provided by the state, paid for through taxes that are deductible in computing the Federal income tax, promotes a great deal of residential segregation.

The crucial point is this: In a *political* system, 51 percent of the people can control it. That's an overstatement, of course, since no government that's supported by only 51 percent of the people will do the same things that one

supported by 90 percent of the people will do. But in a political system, everything tends to be a yes-or-no decision: if 51 percent vote yes, it's yes. A political system finds it very difficult to satisfy the needs of minority groups. It's very hard to set up a political arrangement under which, if 51 percent of the people vote one way and 49 percent vote the other way, the 51 percent will get what they want and the 49 percent will get what they want. Rather, the 49 percent will also get what the 51 percent want.

In a *market* system, if 51 percent of the people vote, say, to buy American cars and 49 percent of the people vote to buy foreign cars and the government lets their votes be effective and doesn't impose tariffs, 51 percent will get American cars and 49 percent will get foreign cars. In a market system, if 40 percent of the people vote that they want to send their children to integrated schools and 60 percent vote that they want to send them to segregated schools, 40 percent will be able to do what they want and 60 percent will be able to do what *they* want. It's precisely because the market is a system of proportional representation that it protects the interests of minorities. It's for this reason that minorities like the blacks, like the Jews, like the Amish, like SDS, ought to be the strongest supporters of free-enterprise capitalism.

PLAYBOY: It's clear by now that you agree with Thomas Jefferson that the government that governs least governs best, that you don't think the Federal Government should interfere with any private, free-market arrangements whatsoever. But what about such efforts on the municipal level? Some communities, for example, are trying to keep out subdivisions, industry, nuclear power plants, and so on, in order to reduce the impact of commercialism. Do you feel they have this right?

FRIEDMAN: Of course. What you want is a world in which individuals have a wide variety of alternatives. You want pluralism, multiplicity of choice. When you get down to small units of government, you have it. If you don't like what one town does and can't change it, you move to another town. You have competition among towns for the provision of services. No reason you shouldn't. On the whole, the formal restrictions on governmental activity should be most severe at the Federal level, less so at the state level and least of all at the local level.

PLAYBOY: Then you aren't an anarchist?

FRIEDMAN: No. Although I wish the anarchists luck, since that's the way we ought to be moving now. But I believe we need government to enforce the rules of the game. By prosecuting anti-trust violations, for instance. We need a government to maintain a system of courts that will uphold contracts and rule on compensation for damages. We need a government to ensure the safety of its citizens—to provide police protection. But government is failing at a lot of these things that it ought to be doing because it's involved in so many things it shouldn't be doing.

What we've really been talking about all along is freedom. Although a number of my proposals would have the immediate effect of improving our economic well-being, that's really a secondary goal to preserving individual freedom. When we began to move toward the welfare state back in the Thirties, the justification was that the defects inherent in capitalism jeopardized our economic well-being and therefore reduced freedom. In the ways I've shown, these programs have failed. But it's not enough to object to them simply because they didn't improve—or, in fact, made worse—the situations they were designed to correct. We need to resist them on principle. Someone will always come along and say the programs failed because they were underfunded; or because the wrong people were running them. Wage and price controls, for example, are unpopular with a number of people not because they reduce freedom but because they aren't working.

Galbraith said a few years ago that there wasn't anything wrong with New York City that couldn't be fixed by a doubling of the budget. Of course, that's happened and things are worse now than when he made the remark. So one of the things that encourage me just a little is the proven inefficiency of government, regardless of how big it gets. I think people are catching on to it. They sensed that McGovern wanted to ride still further the wave that was started with F.D.R., and they were fed up enough with that trend to vote overwhelmingly against him.

PLAYBOY: So you're hopeful?

FRIEDMAN: Not completely. You have to consider the ideological climate. The spirit of the times has gone against freedom and continues to go against it. There are still intellectuals who believe that concentrated power is a force for good as long as it's in the hands of men of good will. I'm waiting for the day when they reject socialism, communism and all other varieties of collectivism; when they realize that a security blanket isn't worth the surrender of our individual freedom even if it *can* be provided by government. There are faint stirrings and hopeful signs. Even some of the intellectuals who were most strongly drawn to the New Deal in the Thirties are rethinking their positions, dabbling just a little with free-market principles. They're moving slowly and taking each step as though they were exploring a virgin continent. But it's not dangerous. Some of us have lived here quite comfortably all along.