
The Entrepreneur

The Belden Center for Private Enterprise
Education

12-1-1976

The Entrepreneur (vol. 1, no. 2)

Don P. Diffine Ph.D.

Harding University, ddiffine@harding.edu

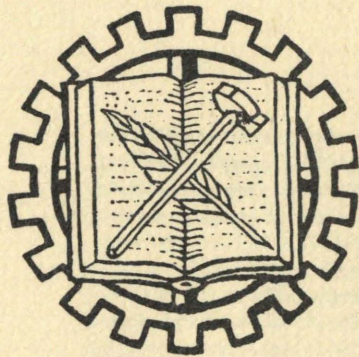
Follow this and additional works at: <https://scholarworks.harding.edu/belden-entrepreneur>

Recommended Citation

Diffine, D. P. (1976). The Entrepreneur (vol. 1, no. 2). Retrieved from <https://scholarworks.harding.edu/belden-entrepreneur/2>

This Article is brought to you for free and open access by the The Belden Center for Private Enterprise Education at Scholar Works at Harding. It has been accepted for inclusion in The Entrepreneur by an authorized administrator of Scholar Works at Harding. For more information, please contact scholarworks@harding.edu.





The Entrepreneur*

A Nobel Prize for Friedman

Two famous Americans, both recent visitors to Harding College, are featured in this issue. Mr. Paul Harvey, news commentator and a participant in Harding's 50th Year Convocation recently paid tribute to another participant who also spoke during that celebration. Mr. Harvey's November, 1976 remarks concerning the Nobel Prize in Economics are followed in this newsletter by Mr. Friedman's speech on the occasion of Harding's Fiftieth Year Convocation, as Mr. Friedman evaluated our economic prospects upon entering our third century.

A Nobel Prize for a Conservative?

by Paul Harvey

Fiscal conservatives are still in shock over the recent recognition for their philosophy: A Nobel Prize for Milt Friedman! Does this mean that the tax-and-spend, ad-infinitum proponents are throwing in the towel? Is it possible that, at long last, there is worldwide recognition of the basic economic fact of life — that we get nothing for nothing? Professor Milton Friedman does not even believe in Social Security! Does this indicate that observers, worldwide, are "coming home" from chasing the Keynesian rainbow to economic fundamentalism. Hopefully.

While businessmen blame unions for inflation and unions blame businessmen — Milt Friedman blames Washington. Friedman views on money supply are now practiced by most trading nations. Goals are set for economics and the money supply is regulated to achieve those goals. Rather than trying to control an economy with the heavy hand of Government — as Britain's Labor Government tried with such disastrous results — Friedman believes that economies are best stabilized if left free — nourished with a carefully watched and apportioned diet of money. A Nobel Prize for Friedman is a timely and significant concession to conservatism. Only trouble is, as the Pennsylvania Dutch used to say, "We get so soon old and so late schmartd."

Can We Halt Big Government?

by Dr. Milton Friedman

My theme tonight is, as I see it, the major problem which faces this generation of Americans, which faces the young people who are here in Harding College now as undergraduates and those who will come after them.

It is widely believed that the growth and size of government is

inevitable. It is taken for granted that somehow the growing complexity of the world, increasing technical developments and sophistication and growing numbers of people make it necessary for government to grow and that what we have been observing in recent years is simply a continuation of a trend running back for centuries. That is false, historically.

Growth Automatic?

This country was founded in 1776. The present form of constitution came some 13 years later. In the first century and a half of this country's existence, in the period from about 1790 to 1930 there was no tendency whatsoever for the government to grow. On the contrary the size of the government, both federal and state, stayed roughly the same throughout that whole period except during the war of 1812, the Civil War and the first World War. Today, governments at every level — local, state and federal — spend a sum of money which is equal roughly to 40 per cent of the national income. That is to say that if I add up what your cities and your states and our federal government are spending, they are spending 40 cents out of every dollar of your income for you.

In the period I spoke of from 1790 to 1930, excluding the great wars, spending by the federal government was never more than five per cent of the total income. In 1929 it was three per cent of the total income. In that whole period spending by state and local governments was always larger than spending by federal government. Spending by state and local governments in 1929 was about nine per cent, mostly for education. Taken together, local, state and federal governments had a total spending equal to about 12 per cent of the national income. And at no time in the prior 150 years did it reach 15 per cent. There was no tendency during that period for government to grow and grow and grow.

Origin of Growth

The growth of government dates from roughly 40 years ago; it dates from the beginning of the New Deal, after the great depression of 1929 to 1932. The origin of the growth of government is to be found in the post-depression period. In the 40 years from then to now, we have seen the government's spending grow from 12 per cent to something like 40 per cent.

It started very rapidly. Already by 1936 federal spending was greater than state and local government and the growth of government has gone along with a shift in the power from state and local communities to the federal government. Today the federal government spends about 26 per cent of the national income and state and local governments about 14 per cent, or twice as much at the federal level. And the size of spending by the federal government understates the role and the importance of the government. That is the only way in which the government impinges upon you and me.

* The acting, organizing enterpriser in the world of commerce.

Government's Role

The first question to be asked is why is this a problem. Doesn't this merely mean that people are getting what they want? These expenditures by the federal government, the taxes to pay for them and the inflation which has accompanied them have been produced by the people you and I have elected and sent to Washington, by the people you and I elected and sent to the state chambers. Why is this a problem? Is it not the reverse? Does it not mean that our democracy is really working? That our government is giving us what we want? I think the answer is very clear.

Even if you could suppose we were getting our money's worth for every dollar that government is spending, government of this size is a serious threat to our individual and personal and political freedom. There is a sense in which government is giving us what the people want. And indeed the reason for talking about the problem is to try to get people to recognize what have been the consequences of their wants, to recognize that perhaps they have been wrong in what they have urged upon government, to see what are the further consequences of these developments. So even if we are getting our money's worth, the growth of government would threaten our freedom. It is impossible to have a free society if government is too big. It is impossible for there to be simultaneously an all-powerful government and a free and individual society.

No Freedom of Speech

Let me ask you a question. Is there a businessman in this country today at any important and responsible position in business who has freedom of speech, who can say in the press, over the radio or on any public podium what he really believes? I can assure you that there is no top level businessman who will say he has freedom of speech. Before he says anything anywhere, he will look over one shoulder and see what the Internal Revenue is doing and over the other shoulder to see whether maybe an antitrust suit isn't coming his way. And I guess he must have three shoulders now because he must look to see what will happen to his allocations of oil.

And this is inevitable. It is not because of any malicious or evil people in Washington. It is because, if you have power, power will be used. If you have a governmental body that spends 40 per cent of the income of the community, if you have government so powerful and so strong, it will inevitably use that power.

Money's Worth

But let's put aside the threat to freedom even though from my point of view I believe that it is the most fundamental problem we face. Are we getting our money's worth? It seems like belaboring the obvious to discuss that issue. Is there really one among you in the audience who will say that the 40 per cent of his income which is being spent for him by government — state, local and federal — is giving him his money's worth compared to the other 60 per cent? Are you really getting your money's worth? Is anybody getting his money's worth?

Some years back, in discussing the situation in New York City, John Kenneth Galbraith said there was no social problem in New York City that could not be solved by doubling New York City's budget. In the period since he spoke, New York

City's budget has tripled and so have the problems. Did the problems get worse because the budget didn't quadruple? No! The problems got worse because the budget increased. How can anybody say such a silly thing? How can it be that you get less for more money? The answer is that it is an illusion to believe that you had more money. Where did the city get the money to spend? It got it from the citizens of the city of New York. What happened was the government had more to spend, but the people had less to spend. Now is it any surprise to you that governmental civil servants spending somebody else's money are likely to get less value per dollar spent than people spending their own money will get for those same dollars? In my opinion the problems of New York became as bad as they are because government spending went up while private spending went down. Instead of money being spent by people who were careful with their money, money was spent by people who had no interest in how efficiently it was spent. They spent much of it to create problems instead of to solve them.

More Problems

Now the next question we want to ask is, "Why has government grown?" Why have we had this tremendous growth? Clearly, if you accept my view that the increase in spending and the growth in government has not solved problems but has left us with more problems, you cannot say government has grown because there were some problems that had to be resolved. The fundamental reason why government grew is because of a basic change in philosophy that was institutionalized by the New Deal. It wasn't produced by the New Deal. The basic change in philosophy had been going on for a long time.

If you look at what was happening in intellectual circles between 1890 and 1920 you will see a great shift in philosophy. It is a shift from a belief in the individual, from a belief in the government as umpire and peacemaker, to a view of government as Big Brother. It was a shift in philosophy away from the doctrine of individual responsibility and the doctrine that each individual must be responsible for himself, to a doctrine that some amorphous entity called society was responsible; if a man did wrong it wasn't because he failed himself, but because somehow or other society had failed him. This change in philosophy which occurred over a long period might not have been effective exactly and as early as it was except for the great depression which was itself produced by government mismanagement. That great depression undoubtedly was the occasion for this shift in philosophy becoming embodied in actual governmental policy. It was the occasion for the acceptance by the public at large the view that all blessings flow from Washington. If there is a problem, we should turn to Washington to solve it. It is a view which unfortunately has not diminished very much over the years.

Oil Crisis Nonsense

To cite again the example just given, if you only look at the mass of nonsense which is being spoken about the oil crisis, about the gasoline problem at the moment there seems to be a problem. What is the cry that goes up? Have "Big brother" in Washington do something about it. It is that change in philosophy which fundamentally accounts for the growth of government.

This change in the role of government was midwived by two very different groups for opposite reasons. The two groups that did most to bring about the change and make it effective in government were, on the one hand, my fellow intellectuals and on the other hand, the businessmen of this country. Every intellectual believes in freedom for himself. Ask him whether he wants the right to speak freely, ask him whether he wants somebody to choose his research topics for him, or whether he wants somebody to tell him what job to take, and there is no doubt what answer you will receive. But on the other hand, when it comes to other people, that is a different question. Intellectuals have been on the forefront of the groups producing an increase in the importance of government because of their desire to limit the freedom of others.

Now the businessmen are very different. Every businessman is in favor of freedom for other people. Ask a banker for example whether he believes that you ought to have free markets. There is not a banker in this country who won't say that he believes in freedom and free competition. But then say to them, "What do you think, Mr. Banker, about freedom to compete for deposits by offering to pay interest on demand deposits?" "Oh no," he will say, "that is unfair competition." We must have the government pass a law prohibiting bankers from paying interest. Or again take this oil industry I have been talking about. There is no industry in the country which, over the past twenty years, has taken out as much newspaper space advertising the virtues of free enterprise in free markets, but did that keep them from going to Washington and getting percentage depletion allowances for themselves? Did that keep them from getting the Texas Railroad Commission and the other state conservation bodies to administer a curtailment in oil to keep down the total amount of oil produced? Did that keep them from persuading the government in Washington to impose quotas on the amount of oil that could be imported from abroad? Not at all. And the examples I can give you can be multiplied many fold.

Businessmen, while preaching free enterprise and free market, have in many, many cases been among the major forces which have undermined free enterprise and led to the growth of government. As I say, while believing in freedom for other people, each one thinks he himself is a special case. Time and again you have had this unholy coalition of the do-gooders on the one side and the supposedly hard-headed businessmen on the other getting measures enacted which would strengthen government and reduce the area of freedom. I have given you examples of oil and bankers; and the examples can be multiplied many fold.

Tariffs are an excellent example. The American way of life, we are told again and again, is to prevent competition from abroad. Ask any textile manufacturer whether he believes in free enterprise and free market and he will say yes, except when it comes to permitting textiles manufactured abroad from entering freely into this country.

Government's Growth

It really comes full circle back to my original question. Do we really have as much government spending as we have because people want it? The answer is no. The answer is that our political institutions are so structured that there is a bias in

what happens. If somebody comes before Congress for a special program there is a small group of people who have a very strong interest who will testify in favor of it. On the other hand, if you and I, as taxpayers, are concerned about it, which one of us is going to go to Washington to make a great effort to stop it?

I will give you one simple illustration that I was struck with out of my own experience. I have long been opposed to the monopoly in the post office. It has seemed to me to be desirable to be able to have competition with the post office. Anybody who wants to go into the business of carrying first class mail should be free to do so. As you may or may not know, the present provisions which prohibit people from carrying mail for profit go back 130 years to a time when over 1/3 of all the mail in the United States was carried by private profit-seeking enterprises. In fact, what happened was that after railroads came along a lot of private mail carriers sprang up and they were able to do very well at rates that were a quarter to a third of what the government was charging and so the government, of course, passed a law to put them out of business. That is what is known as "fair competition."

Some years back I was talking with one of my favorite Congressmen at the time and urging him to put in a bill to repeal the provision of the Mail Act which makes it illegal for private individuals to compete with the post office. He was very much of the same opinion that I was. He approved of that; he was in favor of it but he said to me, "Look, can you tell me one organized group that will come and testify in favor of your bill?" He said, "The moment I put that bill in, if we have hearing on it, I know that the Post Office Employees Association will be down there testifying against it. I know that the magazine publishers will be down there testifying against it, because they think they are getting subsidized by first class mail. Tell me, have you got one trade union or one organized group of any kind that will testify in favor of it?" I had to say no. The only virtue of the bill was that it was in the public interest.

Stopping Big Government

Now I ask the question, can government be stopped? Can we stop this continued growth of government, this continued extension of government into a greater and greater part of our lives. The answer is, yes, it can be. How can it be? In order to stop it, we need a change of philosophy. It cannot be stopped by complaining about wastefulness or bureaucracy. That will not stop it. It cannot be stopped by grumbling when we pay our taxes. It can only be stopped as a result of a change in fundamental philosophy. It can only be stopped as a result of emergence — again, of a philosophy of individual responsibility and a change in our attitude toward government by recognizing that government is not the benevolent big brother but is on the contrary, a major source of danger to our freedoms and our liberties. And if we have that change in philosophy, it could be stopped. Again, how could it be stopped? It cannot be stopped by fighting the individual measures. You are beaten every time there. If you try to say we are going to stop it by trying to get Congress to vote against a particular tariff, for example, you are going to be beaten on this. You cannot stop it piecemeal; you can only stop it by establishing limits to government in a constitutional form which will limit the scope and the power of government.

Rays of Hope

If you are going to reform that income tax, you have to do it through a constitutional amendment which will change the income tax amendment so as to say that Congress may enact an income tax provided that no deductions are permitted except strict occupational expenses and a personal exemption, and provided that the maximum rate cannot exceed the minimum rate by more than 2 to 1. I could go down a long list, but my main point is that we could stop government if we have a change in philosophy and if we proceed by adopting such self-denying ordinances.

But finally, will big government be stopped? I doubt it. I am an innate optimist, but I am not that optimistic. I think there are many signs of decadence and decline in our society. We note through history that golden ages have been brief; they have tended to last about 75 years and then they have declined; and we may very well be at the end of our golden age. But there are a couple of rays of hope. Indeed, the one thing that gives some hope is the incredible inefficiency of government. That is the great saving grace. People complain about so much of that 40 percent going down rat holes. I say you should praise that, because if that 40 percent of our income were really being spent efficiently, our freedom would have been gone long ago. It is only because so much of it is wasted, because we get so little for our money that it does as little harm as it does.

The other ray of hope is the spreading disillusionment with standard liberal remedies throughout this country. There is nobody who believes anymore in the standard remedies. The liberal philosophy is literally bankrupt. That is not an expression of hope; it is a statement of fact which will be granted by almost every liberal in this country. There is not a one of them who will not agree with that statement, but although the inefficiency of government and the spreading disillusionment with standard liberal remedies are rays of hope, there is very little sign, unfortunately, that they are producing the hope of slowing down the government.

Flaws in the System

In recent Harris polls the fraction of the population that thought Congress was doing a good job was even lower than the fraction that thought the President was doing a good job. Yet, what lesson do they draw? Do they draw the lesson that maybe

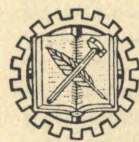
we should give Congress less to do? Not at all. The lesson that is drawn is that we ought to kick the rascals out and put another set of rascals in. But the people who are in are not rascals; they are good, decent men but they are decent men who are operating in an environment, in institutions, and under circumstances where they are inevitably driven to pass bad laws.

What's wrong is not the men. As Karl Marx said in a different context, "What is wrong is the system." What's wrong is a system in which we assign the powers and the rights to government to attempt to solve the problems. What's wrong is the acceptance of the view that it is possible to solve the problems of this world with somebody else's money. I have often said that if I could add an 11th commandment to the 10 Commandments, that 11th commandment would be a very simple one. It would be, "everyone shall do good with his own money."

The reason free enterprise is so important is that it is the only form of economic organization which is consistent with our freedoms. Professor Milton Friedman has pointed out that, "Political freedom means the absence of coercion of man by his fellowman. The fundamental threat to freedom is power to coerce, whether it be in the hands of a monarch, a dictator, or a momentary majority. The preservation of freedom requires the elimination of such concentration of power to the fullest possible extent and dispersal and distribution of whatever power cannot be eliminated — a system of checks and balances. By removing the organization of economic activity from the control of political authority, the market eliminates this source of coercive power. It enables economic strength to be a check to political power rather than a reinforcement."

Unfortunately, the fact that free enterprise is simply freedom applied to the marketplace has rarely been taught. The Center for Private Enterprise Education takes the approach that economic individualism, private property and the market economy are not just neutral concepts. They are, in fact, worthwhile and attainable goals. Let's support the system that supports us.

D. P. Diffine, Ph.D.
Director



The Entrepreneur

The Center for Private Enterprise Education
Department of Business and Economics
Harding College, Searcy, Arkansas

December, 1976

Non-Profit Org.
U. S. POSTAGE
PAID
Permit No. 22
Searcy, AR 72143