

The Business Community's Suicidal Impulse

by Milton Friedman

There's a common misconception that people who are in favor of a free market are also in favor of everything that big business does. Nothing could be further from the truth.

As a believer in the pursuit of self-interest in a competitive capitalist system, I can't blame a businessman who goes to Washington and tries to get special privileges for his company. He has been hired by the stockholders to make as much money for them as he can within the rules of the game. And if the rules of the game are that you go to Washington to get a special privilege, I can't blame him for doing that. Blame the rest of us for being so foolish as to let him get away with it.

I do blame businessmen when, in their political activities, individual businessmen and their organizations take positions that are not in their own self-interest and that have the effect of undermining support for free private enterprise. In that respect, businessmen tend to be schizophrenic. When it comes to their own businesses, they look a long time ahead, thinking of what the business is going to be like 5 to 10 years from now. But when they get into the public sphere and start going into the problems of politics, they tend to be very shortsighted.

The most obvious example is protectionism. Can you name any major American industry that has really benefited from tariffs and protection? Alexander Hamilton, in his famous report on manufactures, praised Adam Smith to the sky while at the same time arguing that the United States was a special case in that it had infant industries that needed to be protected, including steel. Steel is still being protected 200 years later.

Commercial banking is another example. At the end of World War II commercial banking accounted for roughly half of the capital market. Today it accounts for about one-fifth. Why has it deteriorated? Why is the international financial market in London, not in New York?

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The answer is the long-term effect of the of the banking industry's insistence on special government favors. In the early days, under what was known as Regulation Q, the government set a limit on the interest rates that banks could pay, including a rate of zero on demand deposits. The government-imposed interest rate of zero on demand deposits encouraged the emergence of money market funds and the growth of substitutes for and alternatives to banks. The banking industry consistently supported fixed exchange rates. When the dollar got into trouble, President Johnson introduced restrictions on foreign lending and an interest-equalization tax. The



Milton Friedman: "I have gradually come to the conclusion that antitrust laws do far more harm than good."

result was to drive the commercial banking industry to London. Both of those measures reduced the commercial banking industry from the predominant supplier of credit to a minor player. Again, a policy that was very shortsighted.

The easiest shot of all is the way in which corporations make contributions. The oil industry contributes to conservation organizations that are trying to sharply reduce the use of oil. The nuclear industry contributes to organizations that support nonnuclear energy. Recently, Capital Research Center analyzed grants from major corporations to public policy organizations and found that the major corporations made \$3 in grants to the nonprofit left for every dollar they gave to the nonprofit right.

Why hasn't the corporate world followed the excellent example that was set by Warren Buffett? From his earliest days, in sending a dividend check to his stockholders, he said, "We are prepared to distribute X dollars on your behalf for each share of stock

to charity, to some organization. Let us know to whom you would like it sent, and we will send it on your behalf."

Why should corporations decide the charitable purposes that should be supported by the income of their stockholders? Why shouldn't each stockholder decide that? And why is the business community in general so insistent on supporting its own enemies?

Now consider education. As you know, I have long been in favor of trying to privatize schooling through a voucher system. One strong argument in favor of privatization has to do with the values instilled by our public education system.

Any institution will tend to express its own values and its own ideas. Our public education system is a socialist institution. A socialist institution will teach socialist values, not the principles of private enterprise. That wasn't so bad when elementary and secondary education was more dispersed, so there could be more local control. When I graduated from high school there were 150,000 school districts in the United States. Today there are fewer than 15,000 and the population is twice as large.

What has been the business community's attitude toward education? Members of the business community have been well aware that schools instill values that are unsympathetic to a free private enterprise system. They are also aware that it's difficult to get employees with the appropriate skills. But have they been trying to promote a private enterprise education industry? Not at all. Their major activity has been to assign some of their employees to teach in public schools and to contribute computers and other items to public schools. I can't blame an individual for what he does, but I think it's tragic that Walter Annenberg contributed hundreds of millions of dollars for *government* schools, for *public* schools, not for private schools. I have not seen any movement in the business community in general, until very recently, to try to promote an educational system under which the customer, namely the parent and the child, has a real choice about the schooling the child gets.

Now we come to Silicon Valley and Microsoft. I am not going to argue about the technical aspects of whether Microsoft is guilty or not under the antitrust laws. My

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own views about the antitrust laws have changed greatly over time. When I started in this business, as a believer in competition, I was a great supporter of antitrust laws; I thought enforcing them was one of the few desirable things that the government could do to promote more competition. But as I watched what actually happened, I saw that, instead of promoting competition, antitrust laws tended to do exactly the opposite, because they tended, like so many government activities, to be taken over by the people they were supposed to regulate and control. And so over time I have gradually come to the conclusion that antitrust laws do far more harm than good and that we would be better off if we didn't have them at all, if we could get rid of them. But we *do* have them.

Under the circumstances, given that we *do* have antitrust laws, is it really in the self-interest of Silicon Valley to set the government on Microsoft? Your industry, the computer industry, moves so much more rapidly than the legal process, that by the time this suit is over, who knows what the shape of the industry will be. Never mind the fact that the human energy and the money that will be spent in hiring my fellow economists, as well as in other ways, would be much more productively employed in improving your products. It's a waste! But beyond that, you will rue the day when you called in the government. From now on the computer industry, which has been very fortunate in that it has been relatively free of government intrusion, will experience a continuous increase in government regulation. Antitrust very quickly becomes regulation. Here again is a case that seems to me to illustrate the suicidal impulse of the business community.

Now I come to the hard part: Why is there that suicidal impulse? Why do business people behave that way? I hope many of you in this room will think about it and try to come up with an answer. I will give you the few suggestions that I have, but none of them seems to me an adequate explanation. One reason was stated more than a century ago by a remarkable man, Gen. Francis A. Walker, a professor at Yale and subsequently president of M.I.T. He wrote:

Few are presumptuous enough to dispute with a chemist or mechanic upon points

connected with the studies of labor of his life. But almost any man who can read and write feels at liberty to form and maintain opinions of his own upon trade and money. . . .The economic literature of every succeeding year embraces works conceived in the true scientific spirit, and works exhibiting the most vulgar ignorance of economic history and the most flagrant contempt for the conditions of economic investigation. It is much as if astrology were being pursued side by side with astronomy or alchemy with chemistry.

When it comes to economics, everybody is an expert who almost always gets it wrong—and business executives are no exception.

Schumpeter gave a very different explanation for this phenomenon. He argued that, within large corporations, the people in charge develop essentially bureaucratic-socialist attitudes and institutions. Belief in entrepreneurship and private enterprise tends to be replaced by a bureaucratic approach, leading to the emergence of a socialist system. I

don't believe that's true. In a competitive society there is enough pressure around to prevent that from happening. But that would be an explanation.

The general climate of opinion, which treats government action as an all-purpose cure for every ill, is probably a more important factor. However, over the past 40 years, the climate of opinion has been changing. It is no longer taken for granted, as it used to be, that if there is a problem the way to solve it is to get the government involved. We have been winning the war of ideas even though we have been losing the war in practice. Governments today are far bigger and more intrusive than they were 40 or 50 years ago, at the same time that—partly as effect—the climate of opinion is much less favorable to government control than it was then. But I still don't think that is an adequate explanation, so I confess that I have no good explanation. Yet I think the phenomenon calls for an explanation and that it's in your self-interest to find one and change the pattern of business behavior in order to get rid of what is a clear suicidal impulse. ■

The volunteer army: If it ain't broke . . .

Feeling a Draft?

by Doug Bandow

In the early days of the Reagan administration, military manpower was a critical issue because the all-volunteer force was having problems with quality and discipline. So it was a major concern of the Reagan administration to get the force right and to get it working. And that has happened. We've got ourselves a very high-quality force. The volunteer military is working very well.

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Nevertheless, we are hearing some low but unmistakable calls for a return to conscription. We have a number of representatives and senators—Rep. Steve Buyer, chairman of the National Security Committee's Subcommittee on Personnel; John Murtha, ranking minority member on the House Appropriations Committee's Subcommittee on Defense; Norm Sisisky, senior member of the House National Security Committee; and Sen. John McCain, potential presidential candidate—who are talking about the potential need for conscription. This seems an odd time to be talking about conscription. The United States is at peace. America's enemies are pitiful. Our allies dominate the globe. The normal reasons for conscription just aren't there.

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