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The Tide in the Affairs of Men

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Adapted from an article that appeared in the April 1989 issue of The Freeman.

The aim of this brief essay is to present a hypothesis that a major change in social and economic policy is preceded by a shift in the climate of intellectual *opinion*. The intellectual tide is spread to the public by all manner of intellectual retailers: teachers and preachers, journalists in print and on television, pundits and politicians.

There are powerful tides in the affairs of men, interpreted as the collective entity we call society, just as in the affairs of individuals. The tides in the affairs of society are slow to become apparent, as one tide begins to overrun its predecessor. Each tide lasts a long time—decades, not hours—once it begins to flood and leaves its mark on its successor even after it recedes.

In almost every tide a crisis can be identified as the catalyst for a major change in the direction of policy.

The Rise of Laissez Faire: The Adam Smith Tide

The first tide we will examine begins in 18th-century Scotland with a reaction against mercantilism expressed in the writings of David Hume, Adam Smith's *Theory of Moral Sentiments* (1759), and above all *The Wealth of Nations* (1776). On the other side of the Atlantic 1776 also saw the proclamation of the Declaration of Independence, in many ways the political twin of Smith's economics. Smith's work quickly became common currency to the Founding Fathers. By the early 19th century the ideas of laissez faire, of the operation of the invisible hand, of the undesirability of government intervention into economic matters, had swept first the intellectual world and then public policy. Reinforced by pressures arising out of the Industrial Revolution, these ideas were beginning to affect public policy.

The repeal of the mercantilist Corn Laws in Britain in 1846 is generally regarded as the final triumph of Adam Smith after a 70-year delay. In fact some reductions in trade barriers had started much earlier, and many nonagricultural items continued to be protected by tariffs until 1874. So it took nearly a century for the completing of one response to Adam Smith.

American Experience

The other countries of Europe and the United States did not follow the British lead by establishing complete free trade in goods. However during most of the 19th century, U.S. duties on imports were primarily for revenue (not protection). Except for a few years after the War of 1812, customs provided between 90 and 100% of total Federal revenues up to the Civil War. And except for a few years during and after the Civil War, customs provided half or more of Federal revenues until the Spanish-American War at the end of the century. Nontariff barriers such as quotas were nonexistent. Movement of people and capital was hardly impeded at all.

In the triumphant ideas of Adam Smith offered both an explanation and an obvious alternative option; tariffs aside, near complete laissez faire and nonintervention reigned into the next century. Measuring the role of government in the economy is not easy. One readily available, though

admittedly imperfect, measure is the ratio of government spending to national income. At the height of laissez faire, peacetime government spending was less than 10% of national income in both the United States and Great Britain. Federal spending was generally less than 3% of national income, with half of that for the military.

On the broader scale the tide that swept the 19th century brought greater political as well as economic freedom. Despite occasional financial panics and crises, Britain and the United States experienced remarkable economic growth. The United States in particular became a Mecca for the poor of all lands. This was a result of the increasing adoption of laissez faire as the guiding principle of government policy.

The Rise of the Welfare State

This remarkable progress did not prevent the intellectual tide from turning away from individualism and toward collectivism. How can we explain this shift in the intellectual tide when the growing pains of laissez-faire policies had long been overcome and impressive positive gains had been achieved?

Two effects of the success of laissez faire fostered a reaction.

- First, success made residual evils stand out all the more sharply, both encouraging reformers to press for governmental solutions and making the public more sympathetic to their appeals.
- Second, it became more reasonable to anticipate that government would be effective in attacking the residual evils. A severely limited government has few favors to give. Hence there is little incentive to corrupt government officials, and government service has few attractions for people intent on personal enrichment.

Government was engaged primarily in enforcing laws against murder, theft, and the like and in providing municipal services such as local police and fire protection—activities that engendered almost unanimous citizen support. Britain, which went furthest toward complete laissez faire, became legendary in the late 19th and early 20th centuries for its incorruptible civil service and law-abiding citizenry—precisely the reverse of its reputation a century earlier.

But by 1900, the doctrine of laissez faire had more or less lost its hold upon the English people. In the United States the development was similar, though somewhat delayed. As late as 1929 Federal spending amounted to only 3.2% of the national income; one-half of this was spent on the military plus interest on the public debt. Spending by federal, state, and local governments on what today is described as income support, Social Security, and welfare totaled less than 1% of national income.

The world of ideas, however, was different. By 1929 socialism became the dominant ideology on the nation's campuses. The *New Republic* and *The Nation* were the intellectuals' favorite journals and [the socialist] Norman Thomas their political hero. The critical catalyst for a major change was, of course, the Great Depression, which shattered the public's confidence in private enterprise, leading it to regard government involvement as the only effective recourse in time of trouble and to treat government as a potential benefactor rather than simply a policeman and umpire. The effect was dramatic. By the 1980s federal government spending grew to 30%, and total government spending was over 40% of national income. But spending alone cannot illustrate the role government came to play. Many intrusions into people's lives involve little or no spending: tariffs and quotas, price and wage controls, ceilings on interest rates, local ceilings on rents, zoning regulations, building codes, and so on.

The Resurgence of Free Markets: The Hayek Tide

Throughout the ascendancy of socialist ideas there had, of course, been counter-currents—kept alive by Friedrich Hayek and some of his colleagues in Britain; by Ludwig von Mises and his disciples in Austria; and by Albert Jay Nock, H. L. Mencken, and others in the United States.

Hayek's *Road to Serfdom* in 1944 was probably the first real inroad in the dominant intellectual view. Yet, at first, the impact of the free market on the dominant tide of intellectual opinion was minute. Even for those of us who were actively promoting free markets in the 1950s and 1960s it is difficult to recall how strong and pervasive was the intellectual climate of the times.

The tale of two books by the present authors, both directed at the general public and both promoting the same policies, provides striking evidence of the change in the climate of opinion. The first, *Capitalism and Freedom*, published in 1962 and destined to sell more than 400,000 copies in the next eighteen years, was not reviewed at the time in a single popular American periodical. The second, *Free to Choose*, published in 1980, was reviewed by every major publication and became the year's best-selling nonfiction book in the United States with worldwide attention.

Further evidence of the change in the intellectual climate is the proliferation of think tanks promoting the ideas of limited government and reliance on free markets.

Translating Ideas into Action

The same contrast is true of publications. FEE's *Freeman* was the only one we can think of that was promoting the ideas of freedom 30 to 40 years ago. Today numerous publications promote these ideas, though with great differences in specific areas: *The Freeman*, *National Review*, *Human Events*, *The American Spectator*, *Policy Review*, and *Reason*. Even the *New Republic* and *The Nation* are no longer the undeviating proponents of socialist orthodoxy that they were three decades ago.

Why this great shift in public attitudes? The persuasive power of such books as Friedrich Hayek's *Road to Serfdom*, Ayn Rand's *Fountainhead* and *Atlas Shrugged*, our own *Capitalism and Freedom*, and numerous others led people to think about the problem in a different way and to become aware that government failure was real.

Experience turned the great hopes that the collectivists and socialists had placed in Russia and China to ashes. Indeed, the only hope in those countries comes from recent moves toward the free market. Similarly, experience dampened, to put it mildly, the extravagant hopes placed in Fabian socialism and the welfare state in Britain and in the New Deal in the United States. One major government program after another, each started with the best of intentions, resulted in more problems than solutions.

Few today still regard nationalization of enterprises as a way to promote more efficient production. Few still believe that every social problem can be solved by throwing government (that is, taxpayer) money at it. In these areas liberal ideas—in the original nineteenth century meaning of liberal—have won the battle. The rising burden of taxation caused the general public to react against the growth of government and its spreading influence.

Ideas played a significant part, as in earlier episodes, by keeping options open, providing alternative policies to adopt when changes had to be made.

As in the two earlier waves, practice has lagged far behind ideas, so that both Britain and the United States are further from the ideal of a free society than they were 30 to 40 years ago in almost every dimension. In 1950 spending by U.S. federal, state, and local governments was 25% of national income; in 1985 it was 44%. In the past 30 years a host of new government agencies has been created: a Department of Education, a National Endowment for the Arts and another for the humanities, EPA, OSHA, and so on. Civil servants in these and many additional agencies decide for us what is in our best interest.

In both the United States and Britain respect for the law declined in the 20th century under the impact of the widening scope of government, strongly reinforced in the United States by Prohibition.

The growing range of favors governments could give led to a steady increase in what economists call rent-seeking and what the public refers to as special-interest lobbying. Britain went further in the direction of collectivism than the United States and still remains more collectivist—with both a higher ratio of government spending to national income and far more extensive nationalization of industry. Nonetheless, practice has started to change. The catalytic crisis sparking the change was, we believe, the worldwide wave of inflation during the 1970s, originating in excessively expansive monetary growth in the United States in the 1960s.

The episode was catalytic in two respects:

- First, stagflation destroyed the credibility of Keynesian monetary and fiscal policy and hence of the government's capacity to fine-tune the economy;
- Second, it brought into play so-called "weight of taxation" through bracket creep and the implicit repudiation of government debt.

Already in the 1970s military conscription was terminated, airlines deregulated, and regulation Q, which limited the interest rates that banks could pay on deposits, eliminated. In 1982 the Civil Aeronautics Board that regulated the airlines was eliminated.

As in earlier waves, the tides of both opinion and practice have swept worldwide. The contrast between the stagnation of those poorer countries that engaged in central planning (India, the former African colonies, Central American countries) and the rapid progress of the few that followed a largely free-market policy (notably the Four Tigers of the Far East: Hong Kong, Singapore, Taiwan, and South Korea) strongly reinforced the experience of the advanced countries of the West.

All in all the force of ideas, propelled by the pressure of events, is clearly no respecter of geography or ideology or party label.

In Conclusion

Two new pairs of tides are now in their rising phases: in public opinion, toward renewed reliance on markets and more limited government. If the completed tides are any guide, the current wave in opinion is approaching middle age and in public policy is still in its infancy. Both are therefore still rising and the flood stage, certainly in affairs, is yet to come.

For those who believe in a free society and a narrowly limited role for government, that is reason for optimism, but it is not a reason for complacency. Nothing is inevitable about the course of history—however it may appear in retrospect. Because we live in a largely free society, we tend to forget how limited is the span of time and the part of the globe for which there has ever been anything like political freedom: the typical state of mankind is tyranny, servitude, and misery.

Once a tide in opinion or in affairs is strongly set, it tends to overwhelm counter-currents and to keep going for a long time in the same direction. The tides are capable of ignoring geography, political labels, and other hindrances to their continuance.

Yet it is also worth recalling that their very success tends to create conditions that may ultimately reverse them. The encouraging tide in affairs that is in its infancy can be still overwhelmed by a renewed tide of collectivism. The expanded role of government even in Western societies that pride themselves in being part of the free world has created many vested interests that will strongly resist the loss of privileges that they have come to regard as their right.

Milton Friedman, *one of the 20th century's most eloquent spokesmen for*

liberty, died on November 16, 2006. His long and successful life was a celebration of the American Dream. Born in 1912 to poor Jewish immigrants in New York City, Friedman received the best education America could offer: a B.A. from Rutgers University, an M.A. from the University of Chicago, and a Ph.D. from Columbia University. In 1976 Milton Friedman won the Nobel Prize in Economics.



*As a young economist, fresh from his Ph.D. studies at Columbia, Milton Friedman and George Stigler (a future fellow Nobel laureate) co-wrote one of FEE's first monographs, *Roofs or Ceilings?* Widely regarded as the leader of the Chicago school of monetary economics, Friedman was senior research fellow at the Hoover Institution and Paul Snowden Russell Distinguished Service Professor of Economics, Emeritus, at the University of Chicago. He was awarded the Presidential Medal of Freedom in 1988 and received the National Medal of Science the same year. Milton Friedman and Rose D. Friedman were co-authors of *Capitalism and Freedom*, *Free to Choose*, and their memoirs, *Two Lucky People*.*

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