

“Neo-Liberalism and its Prospects”
by Milton Friedman
Farmand, 17 February 1951, pp. 89-93
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In his magnificent book, *Law and Public Opinion*, A. V. Dicey distinguished between the trend of legislation on the one hand and the trend of opinion on the other. Legislation, he argued, is dominated by the underlying current of opinion, but only after a considerable lag. Men legislate on the basis of the philosophy they imbibed in their youth, so some twenty years or more may elapse between a change in the underlying current of opinion and the resultant alteration in public policy. Dicey sets 1870 to 1890 as the period in which public opinion in England turned away from individualism (Manchester liberalism) and toward collectivism; yet he points out that economic legislation was not strongly affected by the new trend of opinion until after the turn of the century.

In most of the world, legislation is still largely dominated by the trend of opinion toward collectivism that Dicey documented some forty odd years ago. True, there have recently been a whole series of elections in which the Right has gained at the expense of the Left—in Australia, England, the United States, and continental Europe. But even if a political trend to the right were to develop out of these small beginnings, which is by no means certain, it would probably mean simply collectivist legislation of a somewhat different kind to be administered by different people. The men of the conservative parties, no less than those of the left, have been affected by the underlying current of opinion. Men may deviate in emphasis from basic social values and beliefs but few can hold a thoroughly different philosophy, can fail to be infected by the intellectual air they breathe. By the standards of nineteenth century individualism, we are all of us collectivists in smaller or greater measure.

A number of small incidents will illustrate my point that a political trend to the right is by no means synonymous with a reversal of the trend toward collectivism. A few years ago, I happened to be in England when the Labour Government proposed a higher excise tax on tobacco as a means of curtailing tobacco imports. In reporting this decision, the government spokesman deplored the necessity of using a tax to curtail consumption and justified it on the grounds that direct rationing of tobacco products had been deemed too difficult administratively. Far from applauding the Labour Government for using the price system rather than direct controls, the Conservatives hastened to condemn the government for rationing “by the purse” instead of directly.

More recently, in the United States, the President asked the Congress for emergency economic powers to meet the problems raised by re-armament. He did not ask for powers to control prices and wages. The Congress insisted on giving him such powers as well, and many Republicans were among those who insisted he should have them. If I may speak of my own country again, the Republicans profess to be in favour of free enterprise and strongly opposed to a drift toward socialism. Yet their published program favours protective tariffs, agricultural subsidies and support of the prices of agricultural products as well as a number of other measures that can fairly be termed collectivist in their implications.

I do not mean to argue that it makes no difference which party is elected, which side gains votes. It clearly makes a difference of degree if not of kind and offers the opportunity to begin a drift in a new direction. My point is rather that the direction this drift takes will be determined not by the day-to-day shifts in political power or the slogans of the parties or even their platforms but by the underlying current of opinion which may be already — if only we could penetrate its mysteries — determining a new direction for the future.

While the trend of legislation is still strongly toward collectivism, I have the feeling that this is no longer true of the underlying trend of opinion. Until a few years ago, there was a widespread—if naive—faith among even the intellectual classes that nationalization would replace production for profit with production for use, whatever these catchwords may mean; that centralized planning would replace unplanned chaos with efficient coordination; that it was only necessary to give the State more power in order to solve the supposed paradox of poverty in the midst of plenty and to prevent the “selfish interests” from exploiting the working masses; and that because socialists favoured peace and international amity, socialism would in some unspecified way further these goals. The experience of the last few years has shaken if not shattered these naive beliefs. It has become abundantly clear that nationalization solves no fundamental economic problems; that centralized economic planning is consistent with its own brand of chaos and disorganization; and that centralized planning may raise far greater barriers to free international intercourse than unregulated capitalism ever did. Equally important, the growing power of the State has brought widespread recognition of the extent to which centralized economic control is likely to endanger individual freedom and liberty.

If these judgments are correct, we are currently at one of these periods when what Dicey called the “cross-currents” of public opinion are at a maximum, a period at which underlying opinion is confused, vague, and chaotic. The same beliefs are still largely held by the same people, but there is no longer the same unthinking acceptance of them. Stubbornness and unwillingness to relinquish a faith once blindly held are taking the place of fanaticism. The stage is set for the growth of a new current of opinion to replace the old, to provide the philosophy that will guide the legislators of the next generation even though it can hardly affect those of this one.

Ideas have little chance of making much headway against a strong tide; their opportunity comes when the tide has ceased running strong but has not yet turned. This is, if I am right, such a time, and it affords a rare opportunity to those of us who believe in liberalism to affect the new direction the tide takes. We have a new faith to offer; it behooves us to make it clear to one and all what that faith is.

The major fault of the collectivist philosophy that has dominated the western world is not in its objectives—collectivists have wanted to do good, to maintain and extend freedom and democracy, and at the same time to improve the material welfare of the great masses of the people. The fault has rather been in the means. Failure to recognize the difficulty of the economic problem of efficiently coordinating the activities of millions of people led to a readiness to discard the price system without an adequate substitute and to a belief that it would be easy to do much better by a central plan. Together with an overestimate of the extent of agreement on *detailed* objectives, it led to a belief that one could achieve widespread agreement on a “plan” couched in precise terms and hence avoid those conflicts of interest that could be resolved only by coercion. The means collectivists seek to employ are fundamentally

inconsistent with the ends they seek to attain. A state with power to do good by the same token is in a position to do harm; and there is much reason to believe that the power will sooner or later get into the hands of those who will use it for evil purposes.

The collectivist belief in the ability of direct action by the state to remedy all evils is itself, however, an understandable reaction to a basic error in 19th century individualist philosophy. This philosophy assigned almost no role to the state other than the maintenance of order and the enforcement of contracts. It was a negative philosophy. The state could do only harm. Laissez-faire must be the rule. In taking this position, it underestimated the danger that private individuals could through agreement and combination usurp power and effectively limit the freedom of other individuals; it failed to see that there were some functions the price system could not perform and that unless these other functions were somehow provided for, the price system could not discharge effectively the tasks for which it is admirably fitted.

A new faith must avoid both errors. It must give high place to a severe limitation on the power of the state to interfere in the detailed activities of individuals; at the same time, it must explicitly recognize that there are important positive functions that must be performed by the state. The doctrine sometimes called neo-liberalism which has been developing more or less simultaneously in many parts of the world and which in America is associated particularly with the name of Henry Simons is such a faith. No one can say that this doctrine will triumph. One can only say that it is many ways ideally suited to fill the vacuum that seems to me to be developing in the beliefs of intellectual classes the world over.

Neo-liberalism would accept the nineteenth century liberal emphasis on the fundamental importance of the individual, but it would substitute for the nineteenth century goal of laissez-faire as a means to this end, the goal of the competitive order. It would seek to use competition among producers to protect consumers from exploitation, competition among employers to protect workers and owners of property, and competition among consumers to protect the enterprises themselves. The state would police the system, establish conditions favorable to competition and prevent monopoly, provide a stable monetary framework, and relieve acute misery and distress. The citizens would be protected against the state by the existence of a free private market; and against one another by the preservation of competition.

The detailed program designed to implement this vision cannot be described in full here. But it may be well to expand a bit on the functions that would be exercised by the state, since this is the respect in which it differs most from both 19th century individualism and collectivism. The state would of course have the function of maintaining law and order and of engaging in "public works" of the classical variety. But beyond this it would have the function of providing a framework within which free competition could flourish and the price system operate effectively. This involves two major tasks: first, the preservation of freedom to establish enterprises in any field, to enter any profession or occupation; second, the provision of monetary stability.

The first would require the avoidance of state regulation of entry, the establishment of rules for the operation of business enterprises that would make it difficult or impossible for an enterprise to keep out competitors by any means other than selling a better product at a lower price, and the prohibition of combinations of enterprises or actions by enterprises in restraint of trade. American experience demonstrates, I think, that action along these lines could produce a high

degree of competition without any extensive intervention by the state. There can be little doubt that the Sherman anti-trust laws, despite the lack of vigorous enforcement during most of their existence, are one of the major reasons for the far higher degree of competition in the United States than in Europe.

The provision of monetary stability would require a reform of the monetary and banking system to eliminate the private creation of money and to subject changes in the quantity of money to definite rules designed to promote stability. The provision of money, except for pure commodity money, cannot be left to competition and has always been recognized as an appropriate function of the state. Indeed, it is ironic and tragic that the consequences of the failure of government planning in this area — and, in my view, both extreme inflations and deep depressions are such consequences — should form so large a part of the alleged case against private enterprise, and be cited as reasons for giving to government control over yet other areas.

Finally, the government would have the function of relieving misery and distress. Our humanitarian sentiments demand that some provision should be made for those who “draw blanks in the lottery of life”. Our world has become too complicated and intertwined, and we have become too sensitive, to leave this function entirely to private charity or local responsibility. It is essential, however, that the performance of this function involve the minimum of interference with the market. There is justification for subsidizing people because they are poor, whether they are farmers or city-dwellers, young or old. There is no justification for subsidizing farmers as farmers rather than because they are poor. There is justification in trying to achieve a minimum income for all; there is no justification for setting a minimum wage and thereby increasing the number of people without income; there is no justification for trying to achieve a minimum consumption of bread separately, meat separately, and so on.

These are broad powers and important responsibilities that the neo-liberal would give to the state. But the essential point is that they are all powers that are limited in scope and capable of being exercised by general rules applying to all. They are designed to permit government by law rather than by administrative order. They leave scope for the exercise of individual initiative by millions of independent economic units. They leave to the unparalleled efficiency of the impersonal price system the coordination of the detailed economic activities of these units. And above all, by leaving the ownership and operation of economic resources predominantly in private hands, they preserve a maximum of individual freedom and liberty.

Even if I am right in my belief that the underlying trend of opinion toward collectivism has passed its peak and been reversed, we may yet be doomed to a long period of collectivism. The trend of legislation is still in that direction; and, unhappily, collectivism is likely to prove far more difficult to reverse or change fundamentally than laissez-faire, especially if it goes so far as to undermine the essentials of political democracy. And this trend, which would be present in any event, is certain to be radically accelerated by the cold war, let alone by the more dreadful alternative of a full scale war. But if these obstacles can be overcome, neo-liberalism offers a real hope of a better future, a hope that is already a strong cross-current of opinion and that is capable of capturing the enthusiasm of men of good-will everywhere, and thereby becoming the major current of opinion.