

INSTITUTE OF CURRENT WORLD AFFAIRS

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Milton Friedman comes to town

12 Road 5/35
Petaling Jaya, Selangor
Malaya
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Mr. Richard H. Nolte
Institute of Current World Affairs
366 Madison Avenue
New York 17, New York

Dear Mr. Nolte,

Milton Friedman came to town - and caused more intellectual ferment than this academic Sleepy Hollow has known in a long time. He talked with treasury officers, bank directors, and the University's Economic Society, leaving a wide trail of anger and despair.

A professor of Economics at the University of Chicago, Friedman is often called the high priest of free enterprise, and today one cannot believe so fully in the power of free enterprise without eliciting cries of "mad heretic" from fellow professionals. Even his enemies admit, however, that he has a brilliant mind, though he is often disliked for this as much as for his unorthodox views. Through all this rancour, Friedman remains calm and gentlemanly, and, what is especially disconcerting to his adversaries, extremely logical and piercing in debate.

One of the young treasury boys (B.A. Honours in Economics, University of Malaya) told me, "He could tear to pieces everything we said. It gives you an inferiority complex!"

I attended Friedman's Economic Society lecture on the industrialization of India and Japan. He argued that in 1868 when Japan began her drive to industrialization, she was in a far less advantageous position than was India in 1950, when she began the drive. Japan had been closed to the world for 250 years and had none of the modern technical skills that India has; Japan received almost no outside financial support, while India has received considerable external technical and financial support, much of it completely free. Yet by any measure Japan's economic development was far more rapid than India's has been, and the prospects for India do not indicate any quickening of the rate of growth.

For Friedman, the crucial difference lies in market restrictions: Japan had none and India has a superabundance. Japan was forced to compete in a fierce world market. The result was that the inefficient industries and entrepreneurs were driven to the wall and only the efficient survived. This was not true in shipbuilding and other state run or supported industries, which Friedman thinks were only a waste of the economy's resources. It was true, however, in textiles, other small industries and in agriculture; and here the rate of growth was really impressive.

India has taken to the use of licensing and import restrictions that, according to Friedman, only protect the less efficient industries and entrepreneurs and force the more efficient entrepreneurs to waste their time getting around restrictions rather than spending their time more usefully on production. "I met some small industrialists in the Punjab. They had some fine little operations going, but they told me that they had to spend about 25% of their time getting around import restrictions."

Friedman is always a pleasure to hear, even if one does not agree with him. But the really enlightening thing about this encounter was the audience reaction. Some listeners were angered, other depressed, though very few, I think, really understood what Friedman was saying.

A Malayan-Indian treasury economist: "What you say about India and Japan may be true, but remember that India has goals of welfare, social justice, and equality that Japan never had. India wants to spread the wealth, to raise the living standard of all the people."

Friedman: "There is a well-known road paved with good intentions. Results are more important. Japan achieved a more egalitarian society with a higher standard of living by concentrating on production than she could have done by being concerned with equalizing the distribution of wealth."

The Malayan-Indian again: "Remember that India has some private enterprise. The country is less than fully socialist - may be 25% less to take a hypothetical figure. And Japan had some government enterprise, perhaps 15%. Isn't it possible that India's slow growth is due to the private enterprise, and Japan's rapid growth was due to state enterprise?"

Friedman (with a wry smile): "Yes, it is perfectly possible that India's lack of growth was the result of 25% private enterprise and Japan's rapid growth was the result of 15% government enterprise." (I don't think the audience, or the questioner bothered to follow this). "But look, there is nothing holy about private enterprise. What is holy is free private enterprise. When you begin licensing, you only place a premium on the acquisition of a license, and you give great advantage to those who hold a license; and this advantage has nothing to do with efficiency in production."

A young Malay government officer, with a sad bitterness: "I go away from here a sad man. From what you say, there appears to be no hope for us. What are we poor countries to do?"

Friedman: "On the contrary. Look, you've had half a century of good experience with the use of a free market to produce economic development. Look around the world at the countries that have achieved high standards of living for their populations; they have all done it with predominantly free markets. Now, just across the Straits you have an example of a country that has, through the use of restrictions, brought its economy to an absolute standstill. I can only say that it testifies to the great independent power of ideas that they can be maintained in the face of all this contrary evidence. With all your good experience, you are about to give up the thing that has produced economic growth. I can guarantee that with a central bank and monetary restrictions, you will have balance of payments difficulties within three years."

Another treasury Malay (one of the more intelligent): "But what do we do when other people raise tariffs to discriminate against our products? We must protect ourselves in the same way."

Friedman: "Why? They are only hurting themselves. They have to pay more for their goods. Why should you do the same?"

One could almost feel the pressure building up against this man who held an unorthodox position so competently (even if I have not done justice to the exchange), who so easily and calmly took all challengers and picked apart many of the ideas that can only be called the shibboleths of modern national economic development planning.

Then Professor Ungku Aziz, head of the Economics Department raised another point. "It was probably an advantage for Japan that she did not have India's large corps of colonially trained white collar workers. But there is a more important difference between India and Japan. One could argue that Japan grew rapidly because she had not been ground down, her population had not been thoroughly suppressed by colonialism!"

This brought down the house - bravo, cheers, applause!! The tension found its release. The house almost sighed "Now you've got him; give it to him Johnny!"

I don't think anyone bothered to listen to Friedman's reply. "As a member of ex-colony myself, I don't want to appear to be on the wrong side. But I think India's experience under colonialism was all to the good. She was not hurt by this, except that she took over a number of ideas that now result in economic stagnation."

How can we account for this audience reaction? A man calmly presents an intellectual viewpoint and people react with impatience, anger and despair. Why should the argument for market freedom, for allowing for the natural selection of the market-place, produce such a strong negative reaction?

The answer undoubtedly lies in the audience's perception. Friedman was not seen simply as a man with a particular intellectual position. He was seen as the representative of a wealthy capitalist nation saying: "Do as we have done and you, too, can become rich." Such an argument - even if inferred rather than implied - is unacceptable to these hypersensitive underdeveloped intellectuals. Further, when nationalist fervor still lingers in the intellectual breast - more from vicarious than from direct experience for the Malaysians - the argument that the colonial experience was economically good is totally unacceptable.

Then there is the color of Friedman's skin. Any argument from a pale skin is suspect. Only a week after Friedman, we had an excellent lecture on economics from Professor Mynt, a Burmese now teaching at Oxford. He levelled a far more serious and humiliating attack on the ideas of Professor Aziz, for example, yet the reaction was only euphoric acceptance, even from Aziz. (One suspects that not many people really understood this argument either).

But I think there is also something else involved, which I can only call the intellectuals' fear of freedom. A friend once remarked to me that "All the brains are on the left. There hasn't been a decent argument for conservative politics for over a century." On the whole, I would agree with this, so long as the argument is confined to politics. Economically, I should put the matter differently. From my discussions around Malaya, I have gained the strong impression that, at least economically, all the guts are on the right. The people with intestinal fortitude and ideas - about increasing production,

building things, acting - are the businessmen and the entrepreneurs, not the intellectuals and the bureaucrats. It is not entirely unfair to say that the latter groups are more concerned with stopping things (often called injustices or irregularities) than with doing things. Like the French generals of 1939, they have no stomach for the fight.

There are some exceptions, of course. In Malaya now, most of these seem to be concentrated in certain activities in the Ministry of Rural Development, and they were not at this lecture.

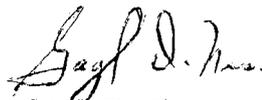
Of course, I will be told that the intellectuals see only too clearly the squalor and injustice, the horrors of the early industrial transformation. They have, after all, been brought up on Dickens, Marx and Laski, not on Ashton and Hayek. To the intellectuals the cause of the injustice lies in unrestrained economic freedom - or license. They want to use restrictions to attain wealth without the cost of injustice, altogether a noble sentiment. Yet their secret admiration for the tactics of the Russians and Chinese, tactics of forced capital formation, indicates that they do accept the notion of costs. The costs they wish to avoid, then, appear to be the costs based upon the hard test of one's ability to survive in competition with others, in the market place where the criteria for evaluation are clear-cut and unmistakable.

This fear of free competition leads the intellectuals to romantic attachment to cooperatives (which the intellectuals will not admit must compete in the market place), to community development, and to the warm, friendly atmosphere embodied in what are often called the native values of rural life.

I came away from Friedman's lecture with two strong impressions. The intellectuals are really afraid of letting things go by themselves, afraid of competition where the signs of success are clearly seen. And economic development requires as much (probably more) courage and will to fight as it does brains.

Thus the intellectuals may be angered by Friedman, but fortunately for the economic prognosis of Malaya, the country appears to have a rather good mix of bureaucrats, intellectuals and entrepreneurs, with at least some commitment to a system that will allow all a fair degree of freedom. The few good bureaucrats will get the roads built, the rest will shuffle papers from in-basket to out-basket; the intellectuals will be primarily concerned with producing clerks for the bureaucracy, listening with despair to men like Friedman, and denouncing the system that allows them to do as they please; and the entrepreneurs will get on with the business of increasing production, and incidentally making money for themselves and others as well.

Sincerely,


Gary D. Ness

Received in New York September 9, 1963.