THE TRIUMPH OF THE ADAPTIVE SOCIETY

by Herbert Stein*

October, 1989 is the sixtieth anniversary of the onset of capitalism's greatest crisis. It is also sixty years since a time when some seemingly intelligent and objective observers thought that communism, as then being put into practice in the Soviet Union, was the great hope of the world. Now we are celebrating the success of capitalism and the failure of communism. This celebration is well-deserved. I do not want to be misunderstood as not joining in the celebration. But I do want to bring a note of realism to the party.

Capitalism survived its crisis and went on to great successes. But the capitalism that survived and succeeded was not the capitalism of 1929. The capitalism that will succeed in the next sixty years may not be the capitalism of 1989. Capitalism succeeded in large part because it adapted. Capitalism is not a blank slate upon which anything can be written. There is a central core that must be preserved if capitalism is to be capitalism. But there is a large penumbra around the core that can change without ending capitalism and that has to change from time to time if capitalism is to survive.

The central core of capitalism, without which

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In 1945, Stein became an economist for the Committee for Economic Development (CED), a research organization of businessmen concerned with national economic policy. He spent most of his 22 years at CED as Director of Research, concentrating on a wide variety of economic issues including stabilization, fiscal and monetary policies, price and wage controls, agriculture, labor organization, economic growth, international trade and international monetary arrangements.

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a society would not be capitalist, is freedom. But absolute freedom is impossible, and no one has satisfactorily defined the amount and kind of freedom that is essential to qualify as capitalism. Undoubtedly, the adaptations of American capitalism in the past sixty years have rearranged freedoms, redistributed them among individuals and changed their character. For example, people are no longer free to spend as large a part of their incomes as they formerly were. Some of the leading figures of 1929, if they had been confronted with the picture of the American society as it is now, would have said that this society is neither free nor capitalist. But very few Americans living today would doubt that we qualify as both free and capitalist. Neither would there be much doubt here that countries as diverse as, say, Sweden and Singapore qualify.

Our adaptations have not all been in the same direction. One of the most obvious adaptations has been an increase in the size and functions of government. But all change has not been in that direction. There have been withdrawals of some powers and functions. But we have retreated from them or adapted around them or to them.

Some of these adaptations have been led by public policy, some by private behavior. The genius of the system is that both have been free to adapt, to changing circumstances and needs and to each other. The private sector has been free to adapt to conditions created by public policy, and that has disciplined the public policy. When public policy creates inefficiencies the private sector has a strong incentive and much opportunity to overcome the effects of the policy. For example, the private sector adapted to government regulation of the interest paid on bank deposits by developing money-market mutual funds that had many of the features of bank deposits but were free of the regulation on the interest they paid. In 1962, Milton Friedman complained of the limitation of freedom implicit in the fact that the Federal government had a monopoly of the post office business. The private economy has adapted to that by express mail service and by facsimile transmission. But I shall concentrate my attention on the adaptations of public policy, because they have been most critical to the survival of the system. Public policy either adapts or fails to adapt to gaps between the performance of the system and common expectations. If it fails to adapt to close those gaps sufficiently, the system fails.

One might say that capitalism succeeds simply because capitalism is a very productive system, per se. But that capitalism was productive, in the sense that we now measure by GNP, was never in doubt, and questions about the survival or success of capitalism were not usually questions about its productiveness. The fact is, as analysis and experience show, that capitalism per se, in some forms and manifestations, leaves large gaps between expectations and performance, despite its productiveness. Capitalism might have survived even if these gaps had not been closed, but it surely could not have been the success we now consider it to be. Adaptation of public policy has been essential to closing those gaps.

I want to review the adaptations that have occurred in the past sixty years, which I hope will then say something about the adaptations that may lie ahead. I want especially to talk about the changes that occurred between fifty and sixty years ago—from 1929 to 1939—because that history is too much forgotten or misunderstood, and because it carries the most dramatic lesson of the need for open-mindedness and whatever intelligence we can muster.

Three aspects of the situation as it was in the late 1920s and early 1930s are important to recall and difficult to appreciate or even believe today:

1. The confidence in the economic system as it existed at the time of the crash and the persistence of that confidence even for a year to two after the crash.

2. The severity of the depression.

3. The disappearance of confidence in the economic system as the depression deepened, the lack of consensus on alternatives or correctives, and the willingness to accept almost any proposed remedy.

That the American people should have had great confidence in their economic system in the 1920s was perfectly natural. Not only were they—except possibly the farmers—more prosperous than they had ever been, they were also for the first time obviously more prosperous than any one else in the world.

The system in which they had confidence was not the free-market system of atomistic competition, of the Invisible Hand. It was the business system, which is a different thing. It was a system in which the benefits flowed from the character and wisdom of identifiable businessmen. They were the heroes whose pictures I used to see in *The Saturday Evening Post* and *Colliers*. They were not driven by the market. They were to tame and rationalize the market. It was the responsibility of government to help them do that. One of Herbert Hoover's main interests as Secretary of Commerce was in helping trade associations to organize to avoid destructive competition and overproduction, in part by providing more statistics. These businessmen were to be protected from foreign competition by high tariffs. And high tax rates that might discourage these geese from laying their golden eggs had to be avoided.

Of course, there were economists who knew that the system had a tendency to fluctuate. They also had ideas about how these fluctuations could be moderated, including the idea of contra-cyclical public works spending. Herbert Hoover was aware of work going on in this field and had encouraged it. But the danger did not hang over him or the country. Aside from the "adjustment" after the war it was a long time since our last "panic," and we now had the Federal Reserve System to prevent that kind of thing.

As usual there were intellectuals who complained about the state of American society. But in the 1920s, unlike earlier periods, their complaints were not much about the economy. In a way they complained because the economy was too successful. We were too materialistic, and our heroes were vulgar money-seekers. There were a few who thought that the Soviet Union was giving the world a model of an economic system that was superior to capitalism and would replace it. Lincoln Steffens had seen the future, in Moscow, and found that "it works." But this view was more common in Europe than here. Bertrand Russell was probably the leading example. In a little book published in 1920 he said:

"The fundamental ideas of communism are by no means impracticable, and would, if realized, add immeasurably to the well-being of mankind."[1] (He republished the book in 1949 without any revision on this point.)

General confidence in the economic system persisted for some time after the stock market crash, certainly well into 1930. There is a little book, *Oh, Yeah,*[2] published in 1931, that contains a collection of statements by leading figures of the time about the imminence of the recovery. Even today, almost sixty years later, the book is a frightening reminder of the degree of confidence to be placed in the utterances of people in authority. It ought to be required reading for all public figures, or at least for their press secretaries. These reassurances came mainly from government officials, starting with the President, and business tycoons, who were motivated in part by the hope that their statements would help to moderate the economic decline and possibly divert attention from their own failures. But they also seemed to have some belief in what they were saying, and it was not only such people who felt so confident.

That confidence should have persisted for many months, perhaps more than a year, after the stock market crash, is not entirely surprising. Most of the statistics by which we now measure economic performance did not exist then, and people were less bathed in economic news, except for the stock market averages, than they are now. The best general measure of the economic performance then available was the index of industrial production, and that declined between 1929 and 1930 by less than between 1920 and 1921. There was no official or generally-accepted measure of unemployment, and the rate of unemployment was to be a subject of dispute throughout the 1930s. But by the estimates we now have, the unemployment rate in 1930, although it had jumped from 1929, was still less than it had been in 1921. Thus, no one could tell that we were going through something different and immensely more serious than we had experienced before.

But by 1931, everyone knew. I have to devote a little time to describing the Depression, although I have no new information to present about it. We are running out of the generation of people who have personal memories of the Depression. We have a breed of economists whose data sets begin with 1946 at the earliest. It is important to keep retelling this story to remind successive generations that the history of capitalism is not one of progress from 1776, interrupted only by minor fluctuations around the trend that can be ironed out retrospectively by statistical techniques or made to disappear by sophisticated analysis. We have to remind people that there was a real crisis of capitalism, especially of American capitalism, in the course of which capitalism changed substantially. Whether capitalism could have survived in any form without those changes is uncertain. But certainly it could not have survived in the form of 1929.

Let me recall some aspects of the crisis. By estimates that we have now, but did not have at the time, the real gross national product declined 30 percent from 1929 to 1933. The largest previous decline since the Civil War had been 8 percent, from 1918 to 1921, which was attributed to the adjustment after World War I. In what had once been thought of as the great depression of 1893, the real GNP fell by 3 percent. Real GNP began to rise after 1933, but it did not regain the 1929 level until 1939. For the whole decade from 1930 through 1939, average real GNP was 13 percent below the 1929 level.

The decline in per capita consumption, which roughly measures how people were living, was not so large as the decline in GNP. Investment declined by a much larger percentage. Real consumption per capita declined by 22 percent from 1929 to 1933.

But these aggregate statistics, shocking as they are, do not tell the real story. One could say that the collapse to 1933 only brought real per capita consumption back to the level of 1921 and real GNP back to the level of 1918, neither of which in the span of history look so terrible. The real problem was the tragic distribution of the pain. This is expressed by the fact that the unemployment rate rose to 25 percent in 1933, according to estimates we have now but did not have then, and was still 17 percent in 1939. Real farm income fell by almost 50 percent.

Even these figures are only suggestive, because we do not know how these losses were distributed. We don't know how many people experienced unemployment, or for how long, and how many farmers lost everything while others at least survived reasonably. We cannot measure the anxiety of those who were employed, but feared unemployment. We do know that there were people who did fairly well—like tenured professors, whose real income rose as the cost of living declined. For other people, who were continuously employed and confident of staying that way, the situation was not too bad. Real hourly compensation of manufacturing production workers rose during the depression. Aside from not knowing the more or less objective facts, we do not know the psychological condition of the people at the time in any comprehensive way.

Popular representations of the period are not helpful. We have on the one hand the happy movies of the period—screwball comedies and Broadway musicals. We know that they were not realistic pictures of the decade, but their popularity may reflect the readiness of a large part of the public to be mollified by a superficial form of escapism—not like taking crack, for example. On the other hand, there are the so-called realistic portrayals, of which the best-known are the pictures of migrant workers, destitute farmers and bread lines. Many of these pictures were taken by photographers working for a government agency, the Resettlement Administration, who had been sent out into the field with the mission of bringing back pictures that would justify an appropriation request. We know now, from research done subsequently, that some of the most affecting pictures were the result of the artistry of the photographer imposed upon a more banal actuality. Also, some of the photographers were disappointed with the difficulty of finding subjects appropriate to their purpose. Many of the people whose objective situation seemed most depressing were surprisingly optimistic.

But if it is impossible to be precise and comprehensive in describing how miserable conditions were during the depression, there is no doubt that they were miserable to a degree not experienced before or since in the American economy. There were large numbers of destitute people, living on handouts. There were large numbers of people living in severely straitened circumstances, working intermittently, supported by working wives, or supported by other relatives. Many of those who were working fairly steadily lived in great anxiety of falling into the unemployed class. And there were some people who did not suffer at all, or even thrived on the situation.

These conditions were made even more intolerable than they would otherwise have been by the general realization that they were totally unnecessary. That is, they were not the result of any inadequacy in the number and skill of the labor force, or in the quantity of capital or in the state of technology. It was no good saying that we were as well off, on the average, as we had been only ten years earlier. We were, even on the average, much worse off than we could be. And what was the cause of the most resentment was the uneven distribution of the pain of the depression. We had poverty in the midst of plenty in two senses—poverty in the midst of potential plenty for the society as a whole and poverty in the midst of actual plenty for some members of the society. The strong feeling of the unfairness of the situation was important for the subsequent adaptations, many of which were largely motivated by that. Before the depression, the inequality in the distribution of income in the existing system could be justified by the argument that the inequality was associated with such rapid general progress that even the poor were becoming rich. In 1932 that was no longer a credible story.

The depth of the crisis is represented for me by the fact that Mr. William Green, the notoriously mild-mannered president of the notoriously conservative American Federation of Labor, told a Congressional Committee in 1931 that if something was not done promptly, there would be violence. In fact what is surprising is how little violence there was. The most forceful demonstration of protest during the whole period was the bonus march in 1932, when 20,000 veterans of World War I came to Washington to present their demands to the government. And what did they demand? They did not demand a change in the capitalist system. They demanded that the bonus for their war service, which had been promised them for 1945, should be paid then in 1932. And when Congress rejected their demand, all but a handful of them went home peacefully. The lack of violence did not, however, indicate satisfaction or confidence in the economic system. Rather, it indicated confidence in the political system as an instrument for meeting the society's needs, as was to be evident after the 1932 election.

The state of the American political and economic system was analyzed by a not-unsympathetic German economist, Moritz J. Bonn, in *The Crisis of Capitalism in America,*[3] published in 1932:

"And quite spontaneously the question arises in thousands of hearts and brains: Is the capitalist system any longer justified if, in the richest country in the world, it is incapable of shaping an order which will guarantee to a comparatively sparse population, admittedly industrious and capable, a subsistence consonant with the human needs developed by modern techniques, without millions being from time to time reduced to beggary and to dependence on soup kitchens and casual wards (188–189)?

"The real significance of the American crisis consists in the fact that today it is not merely the present economic leadership or economic policy that is being questioned, but the capitalist system itself" (190).

Bonn said that the condition of American capitalism was made especially critical by the fact that, unlike earlier periods, although "An existing socialist system may be execrable or even disastrous, it cannot, however, be dismissed as impossible."

Although Bonn's analysis is representative of much thinking at that time, it contains a fundamental error, which pervades much thinking and talking still today. That is, he thought there was a unique thing call '"capitalism" or "American capitalism," which was in crisis and had to be compared with a distinctly different unique thing called "socialism." That is parallel to the current view that there is a unique thing call "capitalism," that has succeeded where there is another unique thing called "socialism," that has failed. The fact is that the crisis of the 1930s was the crisis of 1929-style American capitalism, which died forever and was succeeded not by socialism but by American capitalism of a different style.

The American people, insofar as one can judge from the discussion of the time, from their voting in elections and from what the government did and the public applauded, were not interested in either capitalism or socialism. They wanted something done. But they were not concerned about either retaining or rejecting capitalism or about embracing or repelling socialism. Possible actions were not measured on that ideological scale.

There were a few communists in the country. They got a good deal of attention, because they included some people with access to the media. There were a few non-communist sympathizers.

But communism held little attraction for Americans. It was associated with godlessness, bomb-throwing, free love, and—sufficiently disquieting for many American workers—trying to enlist Negro activism. The fact that the Soviet Union had a five-year plan and reportedly had no unemployment, contributed to interest in the idea of national planning. You didn't have to be a communist to be a planner. Some of our leading businessmen were urging national planning. In the 1932 election, the Communist Party got two-tenths of one percent of the vote, and some of that was from people who just wanted to register their disgust at the whole political-economic situation, but neither wanted nor expected a communist regime in America.

The Socialist Party did better in the election of 1932. They got 2 percent of the vote. Their candidate was, after all, a white Protestant clergyman, which seemed safe enough. But America did not need the Socialist Party to get the kind of change the socialists offered. They could get almost all of the socialist program through one of the major parties, and within about ten years they did.

Americans voted in 1932 for a change, without ideological limits or directions, and they got it. They got in Franklin Roosevelt the perfect instrument for such a change—a president who was not inhibited, as Hoover had been, by prior ideas about economics or by prior ideas about the limits of government intervention in the economy.

One of my economics professors was asked sometime in the 1930s to give a lecture on the economics of the New Deal. He began his lecture by saying that there was no economics in the New Deal. There was no consistent theory or ideology in it. Its basic rationale was to take the most direct approach to any apparent problem.

If people were running on the banks, we would close the banks.

If people were demanding gold, we would stop gold convertibility.

If businesses were not producing because they could not sell at a profit we would organize businesses to hold the prices up. that was the National Recovery Administration. That they would not be able to sell at higher prices was a step of analysis beyond the interest of the decision-makers.

If farmers could not sell their product at profitable prices we would establish regulation limiting production to get the prices up.

If workers did not get high enough wages to buy the product, we would pass legislation protecting their right to organize and get higher wages.

If people were unemployed, we would put them to work for the government. This simple notion did receive a more sophisticated elaboration and rationalization after 1936 in the form of Keynesianism.

If there wasn't enough money, we would print greenbacks.

If old people had insufficient incomes, and, perhaps more serious, kept on working when younger people would like their jobs, we would establish social insurance to pay them benefits if they would stop working.

If Wall Street had been found to be full of crooks, we would establish regulations and an agency to monitor it.

And if the Supreme Court did not like this, so much the worse for the Supreme Court.

And to none of this was there any significant objection on the ground that it violated the rules of capitalism, or free enterprise, or the free market—until later, after the danger had passed, when objection did arise, as we shall see. The list, interestingly, did not include any significant moves towards public ownership of what had been private enterprise. But that was not because there would have been much objection if anyone had seriously proposed it. There was just no point. It would have been like nationalizing a burning building.

So, we came to the end of the New Deal with a quite different capitalism than we had in 1929. We had an embryonic welfare state. We had accepted Federal responsibility for the maintenance of high employment by monetary and fiscal means. We had initiated a major increase in the power of labor unions. Agriculture, housing, transportation, communications, banking and other aspects of finance had been brought under heavy Federal influence. We had a progressive tax system. And we had left behind, probably forever, reliance on the wisdom and responsibility of "business."

One can argue that all of this was unnecessary and a mistake. There is a kind of horseshoe nail theory of the depression which says that if the Federal Reserve had behaved differently in 1931 and 1932 the whole thing would have passed away and that we would never have gotten into the New Deal, which in any case delayed rather than advanced recovery. That may all be true. In fact, I believe there is a good deal in it. But it is irrelevant to my main point. If we look around the world today and say that capitalism has survived and succeeded, we have to recognize that it is the capitalism as altered by the New Deal, not the capitalism of 1929. Perhaps the triumph of capitalism would have been even greater if we had never had the New Deal. That is something that cannot be read from the historical record. A more precise and reliable general theory of economic development would be needed to affirm or deny that.

1939 was not the end of the story of capitalism. After we came out of the depression and the war, there were numerous questions about whether the system as it then existed, or was tending, could survive. These questions came from two directions, First, there were those who thought that the system would come to disaster as a result of the changes made during the depression or the forecast continuation of policy in the same direction, notably the increasing influence of government in the economy. Later, there would come others who thought that in America, at least the degree of government involvement and responsibility was still too small for successful functioning and that more planning was needed.

The worries, from what I may call the free market side, took several forms and expressions.

Predictably, the business community made what we would later call a supply-side argument against the tax system as it was left by the New Deal and the war, which was the claim that the high marginal rates would seriously retard economic growth.

The ideas of fiscal management to maintain high employment that had begun to take hold in the later days of the New Deal, after Keynes' General Theory, and that had been elaborated and exaggerated by his more zealous followers, came to be seen as a serious threat. In his initial review of Keynes, Professor Jacob Viner warned that the Keynesian analysis and prescription could lead to an inflationary race between the trade unions and the printing press. This kind of warning became more widespread as the ambitions of the Keynesians became clearer. At the end of the War, many Keynesian economists predicted a severe recession and recommended an increase of government spending to avert it. When the prediction proved false, the incident was taken as evidence of the willingness of some to use the Keynesian argument as a cover for the real objective of increasing the scope of government. In 1947, the Committee for Economic Development, in words that I wrote myself, said that the policy of managed compensatory finance would lead to an endless escalation of government expenditures and deficits.[4]

The increased pervasiveness and strength of trade unionism was also a cause of fear for the future of capitalism. This fear was, naturally, most common among business men but was shared by others. It was, for example, well expressed in one of the last writings of Henry Simons, *Some Reflections on Syndicalism.*"[5] The argument was that the power of the unions would make private investment excessively risky and also create a continuous pressure towards inflation, requiring the intervention of the government to invest the nation's savings in order to maintain full employment and economic growth and also to control prices and wages directly in order to prevent inflation.

The most powerful warning about the future of the American economic and political system was Friedrich Hayek's *The Road to Serfdom,* published in 1944.[6] Written in England during the war, and reflecting mainly British developments, the book was considered, both by its author and by its readers in the United States, to be applicable to American conditions. Hayek's thesis was that the trend of economic thinking and policy, which he considered to be 40 to 50 years old in Britain, but arose only with the New Deal in the United States, was leading to a degree of government control that would be incompatible with personal freedom and democracy. The disease was "social planning" and the end of the road was totalitarianism on the style of Hitler's Germany or Stalin's Soviet Union. Hayek's book had a tremendous circulation in the United States. A short version of it was published in *The Reader's Digest,* at the time the American magazine with the widest readership.

A more moderate and also more provocative and durable analysis of the future of capitalism was presented by Joseph Schumpeter in *Capitalism, Socialism and Democracy*[7] published in 1942. He foresaw the possibility that capitalism would be undermined by its own success. Output would become so large and the process of managing production would become so routinized that there would be no further need for the entrepreneur-owner. Society would lose its deference to such people, who would also have outgrown their earlier connection with a traditional aristocracy to which respect was paid. Business would be managed by bureaucrats, who could just as well be employed by the government as by the absentee institutional investors who would otherwise be their nominal masters. The degradation of the position of the entrepreneur-capitalists would be accelerated by the hostility of the intellectuals, who would resent their inferior position in the society and would promote an ideology that demeaned the capitalist achievement. The transition from high capitalism, which had already passed its peak at the beginning of the 20th century, would be gradual and possibly not noticeable. As he said in his *Encyclopedia Britannica* article on Capitalism in 1945:[8]

"Government control of the capital and labour markets, of price policies and, by means of taxation, of income distribution is already established and needs only to be complemented systematically by government initiative in indicating the general lines of production (housing programs, foreign investment) in order to transform, even without extensive nationalization of industry, *regulated,* or *fettered,* capitalism into a *guided* capitalism that might, with almost equal justice, be called socialism. Thus, prediction of whether or not the capitalist order will survive is, in part, a matter of terminology." (That second sentence could be the text for this article.)

Schumpeter did not think that this system, whether called capitalism or socialism, would necessarily be undemocratic or repressive of personal liberty. Moreover, he thought that it could manage existing economic resources in existing modes of production efficiently. He did not, however, believe that it would be as dynamic and innovative as the earlier and purer form of capitalism.

In the cases of both Hayek and Schumpeter, there is question about the degree to which they were making forecasts. Admirers of both tend now to stress the conditionality of their forecasts and the value of their writings as warnings that helped avert the undesired future. But there is no doubt that they foresaw the decline of capitalism as highly probable, even if not inevitable, and that their view was highly credible to many of the people who thought about such things at all. Surely neither Hayek nor Schumpeter or their numerous followers would have made a big bet that in 1989 we would be celebrating the triumph of capitalism.

Clearly the conditions that worried these people in the 1930s were moderated. The trends they foresaw did not turn out to be irreversible, and the disastrous results they feared did not occur. In saying this I leave aside for the moment Schumpeter's prognosis, which was much more ambiguous than the others.

The tax system that worried the businessmen so much was substantially corrected from their standpoint, in part by the Revenue Act of 1948, enacted by a Republican Congress after President Truman vetoed it three times. Also, the businessmen learned that they could live with a tax system that in say, 1935, they found shocking. The Taft-Hartley Act of 1948 reduced the danger that had been seen from the growing strength of trade unions. Also, business learned that it had considerable ability to move out from under the power of the unions. Keynesian fiscal policy was, as I called it in *The Fiscal Revolution in America,* "domesticated."[9] It was no longer an engine for the wild escalation of budget deficits. We only got really large budget deficits much later, in the regime of our most pre-Keynesian president since Calvin Coolidge. The idea of government planning never had an important influence on government policy in America, except possibly in 1933 when the National Recovery Administration was established. Hayek seems to have given too much weight to the fact that during the 1930s we had in Washington a thing called the National Planning Board, an entirely insignificant agency. The wartime controls, which some had thought might be the way into a more planned peacetime system, were totally dismantled. The industrial plants that the government had built for war production were transferred into private hands as quickly as possible. Federal expenditures remained higher after the war then they had been earlier. But this was entirely due to defense expenditures and expenditures for interest on the debt, mainly accumulated during World War II, and for veteran's benefits. Moreover, the course of Federal spending was not frightening. Non-defense spending as a fraction of GNP was only slightly higher in 1960 than in 1948 (8.76 percent as compared to 8.34 percent) and non-defense spending for purposes other than Social Security declined significantly as a fraction of GNP between those two years. The rise in Social Security outlays was due to the increase in the number of beneficiaries and in their average benefits under the system as set up in the 1930s, not to any expansion of the program thereafter. No new regulatory systems were established between the end of World War II and 1960, except for the temporary measures associated with the Korean War.

The policy of the Truman-Eisenhower years did not return the government's role in the economy to what it had been in the 1920s or anything like it. Only a little of the New Deal had been undone. The great fears that had been expressed about the future of capitalism were based more on the extrapolation of trends believed to be visible than upon the conditions actually in effect in 1939 or 1945. The experience of the postwar years suggested that this extrapolation was not inevitable or even highly probable. Moreover, the experience suggested something else. It suggested that what had seemed so frightening about the New Deal was not really so suffocating of freedom and enterprise as had been thought. The economy was expanding, and if there were now some things that could not be done because of government regulations, the range of things that could be done in that expanding economy was very large and growing.

Of course, the expansion of government's role in the economy between 1933 and 1945 had been in response to the depression and the war. The fact that these conditions had passed, was probably the main reason why this expansion did not continue. But those people who had expressed concern for the future of capitalism had known that the depression and the war would end. They believed that forces had been set in motion—and might indeed have existed even before the depression—that would continue to work to the breakdown of capitalism after the war and depression were past.

Their worries and warnings probably themselves contributed to averting the feared developments. But to a considerable extent these worries and warnings, like many that reappeared later from the conservative side, reflected an overly simple view of the American political line-up. They visualized a homogeneous and omnipotent majority, liberated by the depression from its respect for authority, provided with an ideological justification by a disaffected intelligentsia, on a one-direction course to kill the goose that laid the golden eggs of freedom and prosperity. But this overlooked important realities in the American situation. We are a nation of minorities with diverse interests. As the public choice theorists have emphasized, a minority with a strong concentrated interest can often get its way against the more diffused interest of the majority. This can enable a minority to enlist the power of the government to exploit the majority, as programs to aid an agricultural minority exploit a majority of consumers. But it can also enable a minority to keep itself from being taxed or controlled by a majority, as a minority of upper-income people have resisted taxation or a minority of employers have been able to get labor legislation amended in their favor.

There is a process of what Schumpeter might have called entrepreneurship that goes on in the political and intellectual world as well as in the economic world. Politicians seeking office try to create and identify themselves with a new product to offer to the American public in exchange for their support. Life being imperfect, there are always possibilities for change that will be looked upon as improvement. This can give rise to an alternation of periods of government activism and periods of stability and slowdown or even some reversal in the government's economic role. Thus, after almost twenty years of economic activism in depression and war, the Republicans created a new product—stability and predictability, found the perfect representative for it—Dwight Eisenhower, and found the American people ready for it. We can see this political entrepreneurship at work even more clearly later in the Kennedy-Johnson era and in the Reagan era.

Similarly, intellectuals respond to the market.

They seek to differentiate their product and to find a niche in the world of ideas where they can sell their product, in exchange for attention and, possibly, power. Thus, as "liberalism" or "anti-capitalism" became the mainstream of the intellectuals, other intellectuals found a rewarding niche in being "conservative" or "anti-anti-capitalist." This was especially so as there were active forces in the community prepared to support the dissenters, and it did not take much in the way of resources to support a dissenting intellectual. So, the force of the intellectuals was less one-directional than Schumpeter and his followers believed. In any event, the influence of the intellectuals was probably exaggerated in their analysis. Intellectuals tend to think that the opinions of other intellectuals are the zeitgeist or a clue to the wave of the future, which they are bound to join or resist. But to a considerable extent these joinings and resistings are a private fight, irrelevant to the actual course of events.

In an interesting essay, "The Cycles of American Politics," Arthur Schlesinger, Jr. calls attention to the alternation of periods of government activism and passivity in relation to the economy and to other aspects of life.[10] His attempts to find a regular periodicity in these alternations is not very convincing, and the search for a general explanation is not satisfactory. But the alternations seem real enough. One possible explanation, although Schlesinger does not put it that way, is boredom—the tendency of the populace to take the status quo for granted and ask if that's all there is. Then the political and intellectual entrepreneurs have a market for change and they develop programs, arguments and postures to meet that market. That may help to explain the period of passivity in the government's relation to the economy after World War II and is even more obviously relevant to the ending of that period.

By the late 1950s, the worries of a decade or so earlier that the capitalist system was endangered by an excess of government activism—of controls, planning, spending and taxing—had fade.[11] A new anxiety rose, that the American economy was failing because the government was insufficiently active—using its powers too little to solve the nation's economic problems. Of course, all through the Truman and Eisenhower administrations there had been people who thought that, but the idea became common and politically significant only as the 1960 election approached. To a considerable degree this idea was the creation of political and intellectual entrepreneurs who needed a new product to sell to the American people. They could point to certain objective facts in support of their argument—but that is always more or less true. Actually, the economic performance of the Eisenhower years had been extraordinarily good. The need for a change was not evident to the naked eye, as it had been in 1932. It had to be explained to the American people.

This new feeling of doubt about the American economic system—or renewed feeling since the recovery from the depression—was stimulated by the launching of the Soviet Sputnick in 1957. This event raised the possibility that the Soviet system might be capable of more technological advance than ours. From this, concern moved to the more general subject of economic growth. For the first time, I think, the possibility was raised that communism might generate more rapid economic growth than capitalism. Khrushchev boasted that he would "bury" us—in output (he apparently had meat in mind). Previously the Marxist position had been that, although total growth might be larger under capitalism, that system would suffer from extreme instability and unfairness, as well as other evils, mainly cultural. Now they were threatening to beat us at our own game, and Americans were worried.[12]

It was not only the U.S.S.R. that seemed to be gaining on us. The countries of Western Europe were also growing faster than the United States. From 1950 to 1962, the annual growth rate of real income per capita in the United States was 1.6 percent. The comparable figures for Western Europe ranged from 6.1 percent in Germany and 5.3 percent in Italy to a low of 1.8 percent in the United Kingdom.[13]

This "lag" of the U.S. growth rate was claimed by many to result from a deficiency of the American economic system—namely, the absence of any "Plan." This was the period of the French indicative planning, of the National Economic Development Council in Britain and of new forms of cooperation among government, business and labor in Germany. A leading expression of the idea that the United States was suffering from a deficiency of planning was a popular book of the period, *Modern Capitalism*, by Andrew Shonfield.[14]

The precise content of the "planning" that the U.S. needed was never clear. For that matter, neither was the precise content of the planning that was supposed to be responsible for the superior performance of Western European.[15]

Although the idea that we needed a national plan never bore any fruit—as it failed to bear fruit when it became a fad again around 1975—the idea that we needed to grow more rapidly, and that it was the responsibility of government to make that happen, somehow, did have general acceptance. In the 1960 presidential election, candidates on both sides competed in promising how high a growth rate they would achieve. But inadequate growth was only one of the problems that were "discovered" in the 1960s and made the occasion for more active economic policy by government. Unemployment was too high, even in "good" times. We were suffering from "public squalor and private opulence." The environment was deteriorating. There were many poor people in parts of the country, such as Appalachia. There were many poor people in the country all together. Old people could not pay for medical care. Minorities, especially blacks, were suffering discrimination in their economic lives as well as in other respects.

Some of these were real problems. Some, as I said at the time, were not, or at least not serious ones. Some were getting better. Poverty was declining and so was discrimination. Probably the environmental problem was getting worse. But there was surely no radical deterioration in our condition that called for major changes of policy, as there had been in 1933. The idea that conditions were terrible and needed drastic action was in large part created by what I have called political and intellectual entrepreneurship.

In any case, the country adapted to these real and perceived problems by entering into another period of activism in economic policy. Both fiscal and monetary policies became more vigorous in pursuit of a more ambitious goal for reducing the unemployment rate. The inflationary consequences of that were at first resisted by "incomes" policy, an attempt to hold down particular wages and prices by informal and superficially voluntary means. This metamorphosed in time into President Nixon's comprehensive, mandatory wage and price controls. A War on Poverty was launched, with Federal money and direction. New Federally-financed medical care programs for the elderly and the needy were initiated. Programs were started to spur development in economically-backward areas. New regulatory systems for the environment, for health and safety in the workplace and for the protection of consumers safety, were set up. Detailed controls were established over the energy industry. The Social Security system was made more generous. Legislation was enacted to end discrimination against minorities and women in economic life and agencies were created to enforce that legislation. As a fraction of the GNP, government expenditures other than for defense rose from 8.8 percent in 1960 to 11.5 percent in 1970 and 17.1 percent in 1980.

Movement was not entirely in one direction. Although total receipts rose as a percent of GNP from 18.3 in 1960 to 19.4 in 1980, there was a reduction in the marginal rates of income tax and in the corporate tax burden of payroll taxes increased. Control of international capital movements, which existed early in the period, was abolished and the dollar was allowed to float. The draft was replaced by volunteer armed forces. Restrictions on international trade were relaxed. Beginnings were made on deregulating interest rates and the transportation industries. But on balance there is no doubt that the years 1960 to 1980, or perhaps more accurately to 1978, were years of a great expansion of the government's influence on the economy.

This trend was, during most of its duration, warmly received by the public. Barry Goldwater offered the most clear-cut opposition to this trend of any Republican candidate for the presidency since Alf Landon, and he suffered a defeat worse than any other candidate since Landon. In 1971, when Richard Nixon imposed the wage and price controls, the greatest affront to the idea of a free market since the time of slavery, his action was praised by almost everyone except a few economists of the Chicago school, and the stock market soared. Fifteen months later, while these controls were still in full force, he received an enormous electoral victory.

In December 1965, five years after the country had been bemoaning the lags and inadequacies of the American economy, *Time Magazine* ran a cover story celebrating the triumph of the American economy. The portrait on the cover was not of Adam Smith, or of some captain of American industry. It was a portrait of John Maynard Keynes.

It is important to note that most of what happened to the economy in the Kennedy, Johnson, Nixon years remains. If capitalism has triumphed, it is capitalism as modified in those years as well as in the years of Roosevelt.

A reaction to this trend set in around the middle of the 1970s. There were several objective reasons for that. The rate of economic growth declined after 1973, for reasons that are still not entirely clear. Inflation accelerated. The high rate of inflation raised the tax burden. High taxes became a subject of great concern to a larger majority of middle income Americans and not only to the well-to-do. The irritation with high taxes was intensified by the feeling that the taxes were going to support a large number of poor people who were shiftless and unworthy, an attitude that probably contained an element of racism.

The idea that a change was needed found intellectual support. To some extent this was a revival, in diluted form, of the arguments about the planned economy and the cradle-to-the-grave welfare state that had been popular in the early postwar period. A representation of the argument is found in the new foreword that Hayek wrote for his 1944 book *The Road to Serfdom,* when it was reprinted in the 1970s:

"If few people in the Western world now want to remake society from the bottom according to some ideal blueprint, a great many still believe in measures which, although not designed completely to remodel the economy, in their aggregate effect may well unintentionally produce this result. And, even more than at the time when I wrote this book, the advocacy of policies which can no longer be reconciled with the preservation of a free society is no longer a party matter. That hodge-podge of ill-assembled and often inconsistent ideals which under the name of the Welfare State has largely replaced socialism as the goal of the reformers needs very careful sorting-out if its results are not to be very similar to those of full-fledged socialism".[16]

But there was a more popular version of the intellectual case for a change of policies. The traditional argument for "conservative" economy policy had an austere sound. It was the case for tight money, low government spending, balanced budgets and letting the market grind out its long-run solutions. This came to be called "deep root-canal economics." It was associated with the overwhelming defeat of Barry Goldwater. The more popular argument was what, in my book, *Presidential Economics,*[17] I called "the economics of joy." It promised tax reductions for all—not just reduction of those high marginal rates that were traditionally thought to be serious obstacles to economic efficiency. The tax reductions would greatly stimulate economic growth. In common understanding, this stimulus would be great enough to keep the revenue from falling when tax rates were cut, although there is now some disagreement about whether Ronald Reagan really meant that. There would be a cut in expenditures for "welfare," but this would not increase poverty because the new argument was that welfare expenditures caused, and did not cure, poverty. Another ingredient in the new case for a change was that with sufficient "credibility," inflation would be sharply reduced without even a temporary increase of unemployment.

This was called "supply-side economics," which could be interpreted to mean economics supplied to meet the demand of politicians to rationalize what they intend to do. How far this argument influenced the elections or policies of the 1980s, I do not know. In any case, these policies, as it turned out, did not reverse the policies of the previous two decades, or substantially change the system those policies left. Some of the trends of the previous decades were slowed down, a process that had already begun between 1975 and 1980. The growth of expenditures as a percent of GNP was stopped, although that conclusion is somewhat clouded by the recent discovery of claims not previously recognized, for obligations to depositors in failed savings and loans, for cleaning up atomic plants, for neglected infrastructure among other things. As a fraction of GNP, Federal expenditures were higher in 1989 than in any year between the end of World War II and 1980. The growth of receipts related to GNP was also stopped but not reversed. Here too there remain possible claims on the future as the result of the cumulative budget deficits of the 1980s. There was a considerable restructuring of the tax system, shifting some burden from income taxes to payroll taxes and reforming the income taxes in ways that probably reduce distortions of economic decisions. Some regulations were eliminated, especially in the field of energy, and some were made more rational. But also new regulations were imposed, especially over international trade. It would be difficult to say whether there was more or less regulation in 1988 than in 1980. The money and personnel devoted to regulation were little changed. With the memory of the inflation of the 1970s still fairly fresh, monetary policy had a more anti-inflationary cast in the 1980s than in the previous decades. The dollar exchange rate, which was freely floating in 1980, came under coordinated international management, the implications of which are still unclear.

Although the intrinsic worth of what has happened or not happened during these years may be questioned, there seems no doubt that the policy, and even more the attitudes, were an adaptation to a serious situation in the country. That was the feeling by the middle class—which is the great majority—that it was being ignored and mistreated.[18]

It is worth comparing the behavior of the economy under the system we are now celebrating with the behavior of the economy under the New Economics of Kennedy and Johnson. From 1980 to 1988, real GNP rose by 26 percent; from 1960 to 1968, real GNP rose by 42 percent. From 1980 to 1988, civilian employment rose by 15.8 percent; from 1960 to 1968 it rose by 15.4 percent. As is implied by these two figures, output per worker-hour rose much less in the later period than in the earlier one—13 percent compared to 30 percent. The proportion of the population living in poverty declined during the earlier period while it did not in the later period. Also more progress seems to have been made in reducing inequality between the wages of white and blacks in the earlier period than in the later one. Of course, we now know that the sequel to the Kennedy-Johnson period was not happy. But we do not know the sequel to the Reagan period.

I do not recite these facts to show that the economic system and policy of the Kennedy-Johnson period were superior to those of the Reagan period. Indeed, I do not think that the systems were very different, and I do not think that the earlier policy was superior. I do want to suggest, however, that the performance of the economy is influenced by much other than the contemporary policy, and that the superiority of systems or policies cannot be demonstrated by such numbers.

So what is this system like, whose triumph we are celebrating?

It is a free economic system. It is a system in which almost all decisions about what gets produced, how and for whom, are the outcome of decisions by private individuals in voluntary exchange with other private individuals each of whom has enough options to be substantially independent of any other. Despite the growth of government regulation, it is not only still a free system, but also more free than it has ever been. The list of things that cannot be done at all, or cannot be done without permission from the government, or must be done because government requires it may be longer than ever. But the list of things that can be freely done is also much longer than ever before. The economic freedom of private individuals has been greatly expanded by the transition from local markets to the national market and then to the world market, by the increased availability of information, by the increased income, assets, education and mobility of the labor force and by the lessening of discrimination against women and minorities.

The American economy is a welfare state. About 14 percent of personal income comes from transfer payments from government, mainly for old people, but also for the poor. In 1929, this figure was less than 2 percent—mainly for veterans. Today, as for a long time in the past, government programs in one way or another support farm incomes. That may be considered part of the welfare state also, even though it is not reflected in transfer payments. In that sense we also have welfare programs for the automobile industry, the steel industry, the textile industry and others that receive government protection.

Federal government expenditures are large—about 23 percent of the GNP. The government is essentially a consumer and transferor of income. As a producer, the government is small. Federal government product is about 3 percent of GNP.

The government takes responsibility for stabilizing the economy. Its chief instrument for doing this is discretionary monetary policy, with fiscal policy paying an uncertain but subordinate role.

Through its fiscal, credit and regulatory policies, the Federal government profoundly influences, but does not firmly control, the allocation of the national output among consumption, housing, other investment, medical care and research. To considerable extent, this influence is intended, but there is not comprehensive plan for this allocation.

There is no national economic plan.

This is certainly not, to repeat, the capitalist economy of 1929, or the laissez-faire system of some textbooks or caricatures. But neither is it the centrally-planned and controlled system that many feared we were headed for forty years ago or that some thought we needed at intervals in the past sixty years. The quotation from Schumpeter, cited above, is relevant here. He foresaw developments that would "transform, even without extensive nationalization of industry, regulated, or fettered capitalism into a guided, capitalism that might, with almost equal justice, be called socialism. Thus, prediction of whether or not the capitalist order will survive is, in part, a matter of terminology."

Has the question whether it is capitalism or socialism that has survived become a matter of terminology? That is an interesting but not an important question. The fact that it is a puzzle indicates that we should not spend much time or heat in arguing about "systems" at the level of generality.

Although I have concentrated here on developments in the United States, an appraisal of what has survived and triumphed is assisted by looking outside our borders. For the triumph of whatever it is that has triumphed is not only the triumph of Reagan America, or even that plus Thatcher Britain. It is the triumph of the non-Communist industrial world, from Singapore to Sweden. When the Estonians, Lithuanians and Latvians look for a country to emulate, they look to their neighbors, Sweden and Finland. The Hungarians look to Austrians. These societies that have triumphed differ substantially in many respects. Government expenditures range from about 60 percent of GNP in the Netherlands to about 17 percent in Japan. Transfer payments as a percent of household income range from 29 percent in the Netherlands to 14 percent in the United States. The degree and character of government regulation and detailed control of the economy is hard to measure but obviously varies greatly from country to country. Japan seems to be one of the most highly controlled and is also one of the leading examples of capitalist "success," whether because of, or in spite of the controls is a subject of debate among students of the subject.

Even the countries that we used to think of as "socialist" no longer have any interest in national ownership of industry and are trying to "privatize." As we have seen, Schumpeter already foresaw the possibility of socialism without nationalization. A country that has a progressive tax system, a developed welfare system and ad hoc regulations has no need for national ownership, and can only find it a distraction. Even countries that once had a national plan, or claimed to, have abandoned that as impossible. On the other hand, what seemed the most capitalist and free-market systems now have large governments, major welfare programs, active stabilization programs, and a good deal of ad hoc regulation.

This general system—the free-enterprise, welfare state, managed stabilization, ad hoc regulation system—is what has triumphed. It has triumphed in the sense that there is no serious alternative in the countries that have it, and that it is envied in all the countries that do not. There is a tendency to measure the triumph of this system by the rate of growth of real output per capita. I think this is a narrow measure and explanation of what has happened. With rare exceptions it has been thought that capitalist countries would excel in the long-run growth of output. The alleged superiority of other systems lay in other dimensions, including security, stability and fairness.

Oddly, the available figures, admittedly not very reliable, indicate that output per capita grew more rapidly in the U.S.S.R. between 1928 and 1985 than in the U.S. Between 1980 and 1988, the comparison favors the United States, but the difference in not enormous. Per capita output increased at an annual rate of 1.9 percent in the U.S. compared to 1.1 percent in the U.S.S.R. If any confidence can be placed in the figures, per capita output was so far behind that of the United States sixty years ago that even after sixty years of more rapid growth, per capita output in the U.S.S.R. today is probably no more than half of that of the U.S. Moreover, the absolute gap between U.S. and U.S.S.R. per capita output has apparently increased greatly. It is not at all clear that our system would have triumphed solely by virtue of superior long-run growth, but it had much more to offer. We not only produce more, as conventionally measured. What we produce is closer to what the consumer wants. It has more style, variety and ingenuity. It is significant that when a Soviet Cabinet member went on a buying trip to the West recently, he did not come back with $150,000,000 worth of house-dresses from the 1928 Sears, Roebuck catalog. He came back with panty-hose and lipsticks. That adaptation to the consumers' desires is a great contribution to the free market and a value that national planners constantly overlook. But at the same time, it is doubtful that our system would have triumphed so surely if it had not been able to moderate its instability, to provide a safety net for its disadvantaged, and to make a start on dealing with its environmental problems. These are functions that government has performed. The systems that we are proud of and that the communist world envies, have done these things, as well as raised per capita output at a good pace.

I am not suggesting that the particular combination of measures—the precise levels of expenditures or taxes, the specific kind of monetary policy, the kinds and extent of regulations—now found in the United States or elsewhere in the industrial world is ideal. This system has major problems to solve. In the United States, for example, we need to learn to deal with the stubborn persistence of a tragic amount of poverty. We need to learn how to make better decisions about the distribution of resources between the present and the future. We need to learn better how to deal with the rest of the world—to avoid getting into economic warfare with our friends, to help the poor countries to move along the path of development, and to encourage our adversaries to turn their resources to productive and pacific uses. Undoubtedly we shall encounter other problems. What underlies confidence in our system is not that it is ideal—not that it has reached the end of history as someone has recently declared, but that it has shown the capacity to adapt.

Sixty years ago, Americans were supremely confident in the new Era, believing that they had entered a period of endlessly-growing and widely-shared prosperity. Twenty-five years ago we were celebrating the triumph of the New Economics of Kennedy and Johnson, which was similarly believed to have conquered all economic problems. Each of these episodes was followed by a severe disillusionment. In the early 1930s, the end of capitalism was commonly predicted because of its failure in the depression. In the mid-1940s, the end of capitalism and indeed of the free society was predicted because of the trends to government economic management then seen to be underway. By the late 1950s, the American economy was seen to be in the process of lagging behind the rest of the world because of its failure to adopt a system of national economic planning. All of this foreboding turned out to be unjustified. In the course of sixty years we have seen that government could take on major powers over the economy and still leave it as free as it had ever been, or even more free. Looking at the story from the other direction, we have seen that the economy could remain free and greatly reduce instability, poverty, insecurity and the feeling of unfairness.

There are important lessons in this experience. It is a warning against absolutism, despair and pride. Do not judge every turn of the economy as if is were going to go on forever and every policy as if it were going to be carried to what seems its logical conclusion. Every step to increase government expenditure or government regulation is not to be judged as if it meant the end of the free economy. Every step in the other direction is not to be judged as if it meant a return to the law of the jungle. Very few of the policy choices that confront us can be answered by deciding whether you are for socialism or capitalism, or are a conservative or a liberal. We should beware of slippery-slope arguments. The point was well made by Jacob Viner thirty years ago. Speaking of the genre of writing symbolized by *The Road to Serfdom,* which he suggested should also include roads to tyranny and anarchy, he said:

"Route 1, a great national highway which connects Boston, New York, Philadelphia, Baltimore and Washington, begins at Fort Kent in Maine and ends in a sand dune at the southern tip of Florida. Except on the arbitrary assumption that travel on this road, in either direction, is totally without benefit of brakes, the terminal points of our metaphorical road are often assigned an extravagant degree of practical significance in discourse in this field. Until quite recent years, actual and vital discussion in the public forum has turned mainly on the comparative merits of resting places along our highway of points not greatly distant from each other, or perhaps more accurately, as between no movement at all and a limited amount of movement, sometimes in both directions simultaneously, from the existing resting place." (Viner, Jacobs, "The Intellectual History of Laissez Faire", in *The Journal of Law and Economics*[3] (Oct. 1960):46).

And what Viner says was true until quite recent years continues to be true in the United States.

When I was younger I was fascinated by John Jewkes' epigram: "To consider every case on its merits is not to consider the merits of the case." I now think of that as a narrowly one-sided dictum. We should say that to consider every case only by reference to universal principles, without regard to the particulars of the case, is not to consider the merits of the case.

The main lesson of the past is not to be proud. Previous beliefs that we have found the final answer to economic problems have been disappointed. There are people who think the answer has now been found in the varieties of capitalism that exist today and most particularly in Reaganism-Thatcherism. The disillusionment this time may be less painful than in the earlier cases. But we will discover—I believe we have already discovered—problems for which this formula is inadequate. We will have to adapt, and will. We will do this better if we are not too inflated with the idea that we already live in the Golden Age.

Notes

1. Russell, Bertrand, *The Practice and Theory of Bolshevism* (London: University of Books, 1920), 90.
2. Angly, Edward, *Oh, Yeah,* NY: Viking Press, 1031.
3. Bonn, M. J., *The Crisis of Capitalism in America* (NY: John Day Co., 1932), 188–89, 190, 202.
4. Committee for Economic Development, Taxes and the Budget: "A Program for Prosperity in a Free Economy" (New York: 1947).
5. Henry Simons, *The Journal of Political Economy* (March 1944):1–25.
6. Freidrich Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944; reprinted 1974).
7. Joseph Schumpeter, *Capitalism, Socialism and Democracy* (New York: Harper and Row, 1942).
8. Encyclopedia Britannica, 1957, vol 4, p. 807.
9. Herbert Stein, *The Fiscal Revolution in America* (Chicago: University of Chicago Press, 1969).
10. Reprinted in Arthur Schlesinger Jr., *The Cycles of American History* (Boston: Houghton Mifflin, 1986).
11. Note should be taken of Milton Friedman's book, *Capitalism and Freedom,* (Chicago: University of Chicago Press, 1962, based on lectures he first gave in 1956 and published in 1962. This was a strong statement of the importance of capitalism—really, free markets—for political and personal freedom as well as for efficiency and other goals. But the actual conditions and trends to which he pointed did not, even then, seem very frightening. If that was the tip of the iceberg, it was probably a pretty small iceberg. On the whole, the tone of the book, while a warning against some possibilities, was hopeful. It was certainly much less apocalyptic than *The Road to Serfdom,* for example.
12. I can illustrate this worry from my own experience. In 1959, Anastas Mikoyan, then Deputy Prime Minister of the U.S.S.R., visited the United States and was entertained by, among others, the Committee for Economic Development, for which I was then working. The Chairman of the CED had been primed by the State Department to suggest to Mikoyan that there should be an exchange of economists. Mikoyan agreed and in 1960, I went with five other men for the first visit of U.S. economist to the Soviet Union, at least since World War II. The main question we took with us was whether the Soviets had some superior method for guiding research and development. We not only did not get any answer, we also did not find anyone who understood the question. The Soviet production system looked terribly backward to us. I did think that as long as they could commit a large part of the national output to investment, including research and education, they would grow. In retrospect, I probably underestimated how inefficient that investment would be.

13. Edward Denison, *Why Growth Rates Differ* (Washington, D.C.: Brookings Institute, 1967).
14. Andrew Shonfield, *Modern Capitalism* (London: Oxford University Press, 1965).
15. Another personal experience will illustrate the fascination with the idea of planning and its vacuity. In 1962, the Trustees of CED visited President Kennedy in the Rose Garden of the White House. He advised them to study the French Plan, to see what made it work. Accordingly, a group of CED Trustees and I went to Paris to meet with government officials and business men and learn what was going on. Upon out return, I summarized our findings with the sentence, "Le Plan francais n'existe pas."
16. Hayek, *Road to Serfdom,* ix.
17. Herbert Stein, *Presidential Economics* (New York: Simon and Shuster, 1984).
18. Sometime in the early 1980's, a Soviet economist asked whether I wasn't afraid that there would be a social revolution in America because President Reagan was cutting down on programs for assistance to the poor. I explained to him that we had already had our social revolution in 1980—the revolution of the middle class.