

## FREEDOM AND PROGRESS

Commencement Address  
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June 1, 1969

It is good to have this opportunity to be in Mississippi. This part of the state is included in the Eighth Federal Reserve District, thus providing me with a satisfying reason for an occasional visit with Mississippi friends. Many people of North Mississippi, including President Giles who is a member of our Memphis Branch Board of Directors, have made great contributions to the Federal Reserve and to the monetary policy of the nation. But most important of all, the graduates of this and other schools have made a major contribution to the economy of this area and to the general welfare of all people throughout the country.

It is not a discussion of economics, however, that is the primary purpose of my visit. It is rather to some other issues and responsibilities which you must face that I should like to direct my thoughts.

As I visualize your future, it holds two most interesting areas for action -- your occupation and your role as a citizen. Both your own happiness and the long-run success of civilization

depend upon how you pursue these roles. Let me lay out two or three areas relative to these roles which seem to me to be crucial. First is the widespread unhappiness and dissatisfaction of great masses of our people, especially youth. The other is what appears to me to be the tremendous progress that we have been making and the high level of well-being which we have in the nation today.

### Social Discontent

Despite the great gains which have emanated from our relatively free enterprise system and free government, there is great dissatisfaction in our country. In recent years we have observed the march of the poor on Washington, the destruction of offices associated with our military establishment, and numerous other protests and disturbances in our cities and on university campuses. One might look at this record of protest and wonder if our system of free government and private enterprise has failed. Some dissatisfaction can be a basis for further progress. Nevertheless, there exists a level of dissatisfaction which cannot be interpreted as progressive.

History teaches that we generally see a reaction to most violent social disturbances. We can demonstrate this principle time and again. When mobs made the streets unsafe during the later decades of the Roman Republic, the population welcomed

a dictatorship. The French Revolution, which followed on the heels of our own, is a similar example. French people, not content with a limited monarchy, decided to liquidate all opponents of the proposed republic. The excesses in this design caused such a reaction that the population welcomed Napoleon, and a series of West European wars began which ended only after a great number of Frenchmen had been slaughtered. Even in my generation, the discontented and disorderly groups of Italy and Germany ushered in Mussolini and Hitler, which led to the Second World War and another mass slaughter of humanity.

I shall not dwell on the cause of our extreme unhappiness. I leave this to the social psychologists and other experts. I can only express optimism that, as we extricate ourselves from Viet Nam and achieve a more satisfactory way of enlisting personnel into the armed forces, we will lose some of our present dissatisfactions. Yet, let me suggest that we may have responsibilities at home and outside the United States which we must accept. So long as nations confront each other with power, citizens of any nation, in order to survive, must discipline themselves and do some things which they would prefer not to do.

### Our Record of Progress

I seriously question whether our problems which cause our discontent are sufficiently great to risk the social reaction

which follows a major disturbance. True, our system is not perfect. Only in recent years has total racial equality been recognized. We have not done a perfect job in eliminating poverty. The draft merits some discontent. Nevertheless, numerous achievements can be found. I shall briefly enumerate some factors indicating our current well-being and the great progress which we have been making.

1. Our relatively free economic institutions have provided consumers with goods and services that they wanted -- not by government direction, but through incentive provided by money payments in a free market.

2. The quantity of goods and services provided through this system has been phenomenal. Last year Gross National Product in the United States totaled \$4,300 per person, the largest of any nation in the world. Our growth rate has been relatively steady and high. Since 1940 per capita output of goods and services measured in constant dollars has more than doubled. Furthermore, this rate of gain in real output has occurred with regularity since the early 1800's.

3. In the area of race relations, tremendous progress has been made. Time Magazine recently reported that the gains of the Negro during the past eight years have been spectacular. His median family income has moved up 53 per cent. A far

larger per cent is now finishing high school, and almost the last vestige of segregation has been wiped off the law books.

4. In the educational field I am persuaded that no nation has ever before maintained so great an educational system as our own. It can be improved. It should be improved. But it will not be improved by denying the tremendous quantity and high quality of the education which we have achieved.

In contrast to these major gains in the United States and a few other nations such as Germany, Japan, Canada and Italy, most of the world lives in extreme poverty. In India, Indonesia, the Arab countries, and in much of Africa, the populations have made little real progress in income per capita in the last 2,000 years. Some gains in total production have been achieved, but the improved health measures were generally able to reduce the death rate sufficiently to offset the production increases.

In this matter of progress and accomplishment, I do not allude solely to our economic progress. Probably of even greater importance are the social and moral gains. Let me refer to the matter of treating all men equal. As I have observed this matter, it seems to me that we have made greater progress in the past 20 years than in any other period in history. We do not have a perfect situation. I hope that progress will continue.

But I think we should recognize that progress had been made, and on the basis of that recognition, take heart for the future.

Never has the people of any nation been so well fed, housed, clothed, schooled, and transported as in the United States today. Furthermore, no nation has enjoyed a higher degree of freedom than our own. This observation applies to every class of the population. It is important that we recognize these facts. What virtue is there in achieving the highest level of living in the history of the world if we excoriate ourselves and pull the house down over our heads because we have not progressed yet more rapidly? Would we be more satisfied if progress had been greater? I fear not. Yet I would not suggest that we pause in our efforts for improvement. I do suggest, however, that we take some satisfaction in the great progress we are making and in what we have achieved.

Let me now refer briefly to some aspects of our society which seem to me to explain the great progress and the high state that we have achieved. The one word which I will use to explain our progress is "freedom." This is demonstrated most clearly in the economic sphere. Yet, economic freedom cannot be separated from a true liberal philosophy which involves freedom in other areas.

### The Origin of Freedom

At this point I would like to remind you, with a brief survey of some historical facts, that freedom did not come easily to mankind. I look upon true liberalism as the type of freedom which grew slowly out of the writings and ideas of Roger Williams, John Locke, Adam Smith, John Stuart Mill, Thomas Jefferson, Herbert Spencer and a host of others from the mid-1600's through the 1800's. These great men advocated that government ought to restrict a person's freedom only when necessary to protect another person's basic rights. Accordingly, no society was considered free in which these liberties were not respected. The great philosopher, Spinoza, once said: "I call him free who is led solely by reason."

The ancient Greeks discussed freedom and lived at times under relatively free conditions. In most of the period since then, however, man has been forced to bow in both thought and actions to harsh taskmasters. More often than not, his social position, his income, his occupation, and his religion were forced upon him. Some rays of freedom began to be noticed in much of Western Europe about the time that America was discovered. In the late 1600's freedom of thought and action in the Netherlands was well ahead of that in other European countries. Similarly, economic progress was most noteworthy there. During

this period streams of Western Europe's persecuted citizens migrated to the American colonies. Most of these migrants had definite ideas about freedom. They came from areas where the state controlled their economic life and the church controlled their thoughts. Roger Williams led the way toward freedom in the American colonies with a constitution in Rhode Island that provided for relatively little governmental interference with the daily lives of the citizens. Jefferson incorporated much of Locke's thinking into the United States Constitution.

Locke, in the Seventeenth Century, postulated a state in which men were free and equal before the law and before each other. His ideal government was one which represented majority rule rather than an exclusive structure for a king or dictator at the top. He recognized that most economic problems were self-adjusting. In the economic area, however, we must come forward another 100 years to Adam Smith's day before a harmonious theory was developed showing how the economy can work at maximum efficiency under relatively free conditions. In fact, to the confusion of most people in his day and of our own time, Smith showed that most government efforts designed to improve economic activity actually retarded growth. He, along with other great philosophers in later years, pointed to a free and efficient enterprise economy. Added to the freedom to select government officials, this provides

by far the greatest freedom from coercion and from want of any system that has so far been devised. Most of these ideas were incorporated in the United States Constitution.

Despite our great progress, a large portion of our population appears to be discontented with our system of free enterprise and government. I am not sufficiently trained in psychology to analyze these dissatisfactions. I do, however, suggest some broad principles that will perhaps avoid costly errors in national policy.

I am persuaded that rapid improvement in our nation and the world depends largely on the free flow of ideas and trade. It will not come from increasing restrictions within a nation or between nations. Such restrictions tend to take us back to the status from which we emerged.

#### Social Reaction to Problems

I am more concerned with our reaction to imagined problems than with the problems themselves, especially when the treatment proposed is further restrictions on trade, prices, resource adjustments and freedom of choice.

I could provide you with numerous examples of the type of restrictions which tend to reduce both freedom and the rate of economic growth, but only a few will suffice to demonstrate the point.

Tariffs and import quotas are examples of actions which fall into this category. The ostensible reason given for most of them is that national requirements are served by such regulations. Actually, only a few domestic producers are served by these barriers to trade. Other citizens suffer sizable losses in higher prices or loss of export markets.

A large portion of our great domestic programs of the past 40 years fall into this category of programs which retard growth and reduce individual liberty. The farm program is a prime example. First we had guaranteed support prices somewhat higher than market determined levels. Then production controls were instituted to stop the buildup in supplies as farmers increased output in response to the higher prices. Next, exports declined as prices of crops such as cotton were set higher than world prices and production became very profitable in the rest of the world. We attempted to solve this by subsidizing cotton exports. Then foreign cotton mills could buy our cotton cheaper than our own mills could buy it at support price levels, and the foreign mills began to ship cotton goods into the United States at prices below our own milling cost. In addition to this endless set of problems, other fibers began to replace the price supported cotton in most all lines of fiber use. But worst of all, the higher-than-market price for cotton caused an excess of labor to be

maintained in the cotton production industry. An excess of labor in agriculture is a drag on the rest of the nation in the same way that large government payrolls or large welfare payrolls reduce the general welfare.

The nation and the South would have been better off today had we proposed no price and production control program for cotton or for any other sector of agriculture. I further believe that when government moves into pricing and attempts to control output in order to raise returns to producers in any industry, that one set of controls eventually leads to another as attempts are made to eliminate the alleged inequities. Thus, controls must eventually be instituted throughout much of the economy.

Government controls on prices and production do not, in the long run, achieve the desired results. Furthermore, the market exercises better controls over most prices, output, and returns to producers than can be exercised by government. Under free market conditions when prices rise, output will be increased as producers are provided with incentive to increase production. Similarly, a fall in prices will cause a decline in output.

Similar problems to those created by controls in agriculture are caused by minimum wage laws. Such laws operate unsatisfactorily where market wages are below the minimum set by law. In the ghetto areas, among students and the physically or mentally handicapped, minimum legal wages are probably a major cause of unemployment. One cannot expect businessmen to hire help for more than labor is worth in additional income to the firm. Thus, for those people who cannot earn the minimum wage set by law, the only recourse is unemployment. This may be a major portion of our ghetto problem today.

The interest rate regulations work in a similar manner as other price controls. When the rates are set too low by legal action, funds dry up and would-be borrowers are not able to get credit. This drying up of funds occurs both where loan and savings rates are held too low.

Other cases of alleged liberal legislation designed to improve the functioning of the market place include the setting of foreign exchange rates, providing pricing privileges in some markets, and protection of professions and occupations from competition through licensing and chartering arrangements. I am afraid that more of this type of reaction will be forthcoming as a result of present discontent.

The free market does not attempt to distribute income equally to all citizens. To the contrary, income is distributed by the market on the basis of one's contribution to production. To those who allege inequities in market income distributions, I suggest better training for the least productive members of society so that they can become more productive and earn a larger share of income.

The incentive provided in free markets should continue to function when welfare payments are judged necessary by society. Such payments should always be supplementary to salaries and wages for those who are able to work. Such payments should never be set so as to provide incentive for not producing.

This theory of freedom does not deny a government's obligation to control monopolies and make laws for the protection of citizens against such abuses. I quickly add, however, that most of our monopolistic situations are a result of government protective devices such as tariffs, licensing privileges, chartering and the setting of standards or qualifications.

I suggest that most of the attempts to solve problems by preventing the functioning of free markets do not follow from a true liberal philosophy and are not progressive. They actually retard economic growth and reduce individual freedom. They

carry us a step toward the medieval ages when most market functions were prohibited, when interest charges were sinful, when a man's vocation and life status were fixed by his parents' station in life, and when thought and expression were items subject to state regulation and control. This type of reaction to discontent may aid a few temporarily, but more often it tends to retard healthy economic growth. Reactions to social discontent may also retard or suppress our political freedoms. These are the issues which you must face. They involve both economic and political liberalism.

The heart of a truly liberal philosophy is belief in the dignity of the individual and his freedom to make the most of his capacities with the one proviso that he not interfere with the freedom of others to do likewise. With this general guideline as my sole criterion, I suggest that during the past several decades we have taken numerous steps away from such a liberal philosophy. Shall we search for still greater freedom and true liberalism, or shall we attempt to solve all alleged social and economic problems by direct legislation which often cuts deeply into the individual's freedom of choice? To me this is our greatest challenge today.