

# *Commerce, Culture, and Diversity: Some Friedmanesque Themes in Trade and the Arts*

Tyler Cowen

**F**reedom and prosperity stand as the two central themes of Milton Friedman's political writings. Rather than offering either a "rights/liberty" defense of capitalism or a "utilitarian" defense, Friedman sought to identify the numerous cases where the two motivations coincide. Much of his analysis of markets has attempted to show this broader consilience or compatibility of values.

I wish to pursue this theme of consilience in more detail. Specifically, what other values might capitalism bring? Might markets and trade be the best means of encouraging the creative arts?

Friedman's works contain few explicit references to the creative arts (I survey some examples further below). Yet when it comes to the arts, in comparative terms capitalism and its accompanying wealth and liberties do the best job in delivering the goods. Friedman recognized this fact, albeit briefly and in passing. In his essay on why Jews are skeptical about capitalism, he wrote eloquently: "If, like me, you regard competitive capitalism as the economic system that is most favorable to individual freedom, to creative accomplishments in technology and the arts, and to the widest possible opportunities for the ordinary man, then you will regard Sombart's assignment to the Jews of a key role in the development of capitalism as high praise."<sup>1</sup>

I will follow this theme of capitalism and the arts, with special reference to Friedman's works. Friedman himself never made an *aesthetic* case for a market economy, above and beyond his liberty and utilitarian arguments. Such an aesthetic case remains underexplored, but Friedman's writings offer some useful tips for broadening our understanding of trade into the cultural dimension.

Similarly, a look at the arts can strengthen Friedman's overall case for free trade and globalization. Friedman has led a long crusade on behalf of economic globalization, from a classical liberal and cosmopolitan point of view. He has

been a leading and vocal supporter of free trade, investment, and migration. I wish to consider how Friedman's analysis of these policies might contribute to our understanding of the aesthetics of capitalism.<sup>2</sup>

Friedman would be the first to admit that the principles governing international trade are the same as the principles governing domestic trade (for example, tariffs across countries make no more sense than tariffs across different counties, states, or cities). We cannot understand the benefits of international trade without a notion of how domestic trade works. So this brief investigation of trade, liberty, and the arts will consider both domestic and international factors, focusing on the Friedmanesque theme of how capitalism has supported diversity and creativity.

I will break the major topics into three parts. First, I will look at the general connection between commerce and diversity. Second, I will consider how governments, and government regulations in particular, can harm diversity. Third, I will look at international trade more generally and its effects on cultural diversity. Throughout I will keep an eye on Friedman's own writings of relevance, whether directly or indirectly, for these topics.

## **COMMERCE SUPPORTS DIVERSITY**

A wealthy, free, and commercial society offers a diverse plenitude of cultural creations. America in the twentieth century, for instance, developed cinema, jazz, the skyscraper, rhythm and blues, rock and roll, abstract expressionism, pop art, science fiction, a long array of "highbrow" writers from Faulkner to Philip Roth, and numerous television shows, to name just a few items off a lengthy and varied menu. It is impossible for a single individual to come close to knowing all of the notable cultural achievements of the twentieth century.

Furthermore, cultural prices have become remarkably cheap. Owning original paintings by first-rate masters remains expensive, but when it comes to books, music, movies, and museum visits, we can usually get masterpieces, or just sheer entertainment, for less than \$20 per experience. If we consider radio, libraries, and borrowing from friends, the dollar price is often zero. Even at Sotheby's, most of the items auctioned are worth less than \$5,000. Today's upper middle class can now own beautiful artworks and collectibles. Beauty, fashion, design, and aesthetic inspiration—as expressed in concrete material forms—suffuse our lives as never before, largely due to capitalism.

Commercial society also does a notable job of preserving the cultural creations of the past. More people know Shakespeare or Mozart today than in past times, largely because private institutions repackage these creations for profitable sale, whether through compact discs, books, or movies. Mel Gibson and Martin Scorsese have made serious movies of the Gospels. The United States has experienced a museum boom for several decades, largely because wealthy pri-

vate donors have shown a willingness to support these institutions. These art museums present a wide variety of styles and periods, not just American art or the popular arts. It is only wealthy societies that have the resources to take an interest in preserving their pasts or the pasts of other societies. Some of the best collections of Asian art can be found in the United States.

Increasing diversity has been the trend in virtually all areas. The number of musical genres available on compact disc, or in concert, has grown steadily. Book superstores have brought many different kinds of books to American cities and suburbs, not just bestsellers. Americans can now eat cuisines from around the world, not just Chinese and Italian food. My own metropolitan area (Washington, D.C., and northern Virginia) offers restaurants from such diverse locales as Bolivia, Afghanistan, El Salvador, Russia, Portugal, Peru, and Ethiopia, among many others, in addition to American regional fare.

Of course, we will not agree on which cultural innovations are the important ones, from a cultural point of view. The Beatles, John Updike, Andy Warhol, and *High Noon* all have their partisans and their detractors. But a market economy has an amazing ability to economize on consensus. The available variety is so great that people with many differing tastes can find strong favorites, without requiring that others follow the same path. This matching is one of the primary benefits of a market economy.

The Internet has rapidly become a major force for diversity. Individuals use the Internet to buy and research books (amazon.com or Powell's), to buy art (eBay), to follow their favorite musical group (various home pages), or to self-publish poetry. Blogs have become an alternative to mainstream journalism and opinion commentary. XM Satellite Radio offers one hundred stations for \$10 a month; most of these stations are directed toward niche tastes, and many are commercial free. I grew up with only five or six TV channels, but now digital cable offers up to 500. Some critics charge that corporate conglomerates dominate cultural distribution, but the evidence indicates a clear move in the opposite direction, toward greater decentralization.

This phenomenal growth in diversity has occurred, for the most part, without significant government subsidy. Instead, American cultural institutions have funded themselves through fee for sale or donations. In recent years the budget of the National Endowment for the Arts (NEA) has ranged from \$100 million to \$115 million, and of course some of the funds are spent on staff and bureaucracy. For purposes of contrast, it cost \$200 million to make the movie *Titanic*. State and local governments spend more, but the basic story remains one of private markets. Our most effective arts policy has been tax incentives for donations, which has kept choice and quality control in private hands.

Most for-profit creative enterprises get little or nothing from American governments, beyond enjoying the basic supply of public goods. Compact discs or Hollywood movies have to pass a market test. If we look at the nonprofits, such

as the American symphony orchestras, 33 percent of their income comes from private donations and 16 percent from endowments and related sources. Concert income generates 42 percent of revenue, and direct government support provides only 6 percent of revenue. For nonprofit art institutions more generally, individual, corporate, and foundation donors make up about 45 percent of the budget. Twelve percent of their income comes from foundation grants alone, two and a half times more than the NEA and state arts councils combined.<sup>3</sup>

We can judge the aesthetic performance of a market economy by two major standards. The first standard, as we find in Friedman, is to ask whether the market satisfies the preferences of consumers. Here the answer is clearly yes. If anything, commentators criticize current cultural institutions for being *too* responsive to consumer demand.

The second standard, favored by many art lovers, is whether a market economy produces cultural masterpieces that will stand the test of time and last the ages. With respect to this question, it may be too early to judge what from the twentieth century will go down as a masterpiece, as noted in the above discussion of consensus. But wealthy societies from previous eras have a consistent record in being artistic leaders and producing masterpieces that stand a test of time. Renaissance Italy, for instance, used its wealth to fund notable paintings and sculptures; most of the relevant commissions were privately funded. The Dutch golden age of the seventeenth century relied almost exclusively upon private patronage, as did the French cultural blossoming of the nineteenth century. Mozart, Haydn, and Beethoven, contrary to some myths, all earned a good living in markets and managed to reach significant European audiences. The cultural peaks of the Chinese and Arabic worlds also coincide with their commercial successes. In similar fashion, we can expect the best creations of the twentieth century—whatever they turn out to be in the eyes of critics—to stand the test of time as well.<sup>4</sup>

Whenever the workings of a market economy are examined, we see evidence of an “anticapitalistic mentality.” Many observers compare the plenitude of contemporary creations to the best of the past and find the modern world wanting. They forget that previous eras had their share of junk as well and that the best work needs time to rise to the top. Mozart was well-regarded in his lifetime, but he was not considered the greatest composer in Europe.

In other cases, many people, most of all intellectuals, object when apparently nonmeritorious individuals earn huge salaries. The same objections surface in the cultural realm. Madonna earns hundreds of millions, whereas a first-rate opera singer might pull in only \$50,000 a year or perhaps cannot earn a living from singing at all. The best response, well understood by Friedman, is the same. A system that permits such “inequities” will in fact generate the greatest number of opportunities for performers of virtually all kinds. Government-

sponsored arts programs, *if* done well, can support some narrowly defined areas of cultural excellence (the former Soviet Union, for instance, produced wonderful romantic pianists, not to mention chess players). But in terms of overall diversity, creativity, and satisfaction of consumer choice, the marketplace has by far the superior record.

### **Friedman on Cultural Diversity**

The links between capitalism, wealth, competition, and diversity are a consistent theme in Friedman's writings. For instance, Friedman's analysis of school vouchers has involved numerous implicit references to culture. He points out, for instance, that school vouchers would allow various minorities to educate their children as they wish. Imagine that market and government schools competed on equal fiscal terms. We can imagine many more schools for liberals, conservatives, computer nerds, born-again Christians, strict disciplinarians, Catholics, Montessori advocates, and so on, not to mention various forms of home schooling. We would not get schooling of a single kind, but instead the schooling market would develop in many diverse directions.

Friedman (1975 [1972], 269) once noted: "Parents could escape a homogenized school system by sending their children to private schools." His vision of free market schooling always has involved many competing schools, not a single dominant school.

Friedman well understands the incentive for market entrepreneurs to lower costs of all kinds, including fixed costs, through innovation. Note that sufficiently high fixed costs would limit the ability of a voucher program to serve diversity. Assume, for instance, that in a market setting, the Baltimore area could support only a single high school. Competition would be weak, and parents could not send children to the "school of their choice." That single profit-maximizing high school would instead attempt to serve some weighted average of market demand (more technically, the school would focus on inframarginal consumers, whose decisions to pay hang most in the balance). We would not escape from schooling aimed at the least common denominator, so to speak, as we find in so many public schools today.

But the "natural monopoly" vision of homogenized market schooling does not square with the facts. Friedman has stressed repeatedly how rarely we find natural monopoly in a true market setting. He once remarked that only the New York Stock Exchange fit his notion of a truly market natural monopoly.<sup>5</sup> At the time, the NYSE, which of course can limit the number of seats it sells, held a dominant role in the trading of stocks. Even this case, however, has not held up as a true market monopoly over time. NASDAQ has risen in relative position over the last few decades, even with the burst of the dot-com bubble. Most major shares are traded on foreign exchanges as well. Off-floor trading and elec-

tronic trading continue to flourish. The NYSE now runs the risk of becoming a dinosaur, rather than a natural monopoly, and this was the best example of natural market monopoly that Friedman was able to find.

Friedman's analysis of television reflected this same theme of how commerce brings diversity. In 1969 he wrote a *Newsweek* column called "How to Free TV." He noted that the three major networks all broadcast the same point of view. He believed that they sought to present the news fairly, but that a low-quality and homogenized product was inevitable, given the incentives in place. The number of channels was limited by law, and restrictions on cable forced broadcasters to look to advertisements as their sole source of revenue. For purposes of comparison, imagine that only three printing presses were allowed, and they had to fund themselves through advertising revenue, rather than pricing the books in a market. What kind of books could we expect under such a system?

Friedman's recipe for improved television is unsurprising—increased reliance on market mechanisms. He (1975 [1969], 238) wrote with his characteristic bluntness: "This narrow range of views [on TV] has its origins in two related features of TV: first, the requirement of a government license in order to operate a TV station; second, the effective stifling of pay-TV for well over a decade by the Federal Communications Commission under the pressure and influence of the networks." He (239) notes that the FCC has been captured by the major networks, and has become an instrument "to preserve monopoly and prevent competition." He (238–39) describes the status quo as offering "deadening uniformity; limited choice; low-cost, low-quality programs." Many cultural critics today ascribe these features to the globalization of culture; Friedman, in his typically prescient fashion, laid them at the door of government intervention.<sup>6</sup>

## **GOVERNMENT REGULATIONS HARM CULTURAL DIVERSITY**

In relative terms, and with the exception of television, America's cultural sectors have escaped many costs of regulation. The first amendment, with its guarantees of free speech, has made it harder for government to control many cultural outputs.

That being said, regulatory costs still have a significant and negative impact on cultural industries and on creativity more generally. I have never seen a truly reliable estimate of the costs of regulation (they are too high and too diffuse to count accurately), but some sources claim losses of up to \$700 billion or \$800 billion a year (Crews 2003), which comes out to several thousand dollars per American family. This decrease in wealth limits our opportunities to spend discretionary income, which of course hurts the cultural sectors disproportionately.<sup>7</sup>

Regulations also raise the costs of producing culture and lower diversity. To pursue another Friedmanesque theme, most government regulation increases the fixed costs of running businesses of all kinds, including cultural industries.

In the language of the economist, fixed costs are the bane of product diversity. A fixed cost means that some expenditure or investment must be made before an individual or firm can enter the relevant industry. These costs lower the number of competitors and impose something akin to a minimum scale requirement on the industry. Note, of course, that we do not see these costs with our eyes, since the relevant firms and products never come into existence in the first place. Frédéric Bastiat's distinction between "the seen" and "the unseen" is of course a longtime favorite idea of Friedman's.

Regulations commonly increase fixed costs and lower product diversity. Businesses above a certain size, or sometimes of any size at all, must meet various government regulations to stay in business. They must satisfy OSHA requirements, familiarize themselves with their complex legal liabilities, verify the immigration status of their employees, file complex tax returns, face the prospect of daunting environmental regulations, and fill out numerous forms of bureaucratic compliance. And this is only a partial list of the burden of regulation. Cultural firms, of course, bear these same costs.

Regulations, by raising costs, limit the number of firms that enter the market and thus limit diversity. Furthermore, large businesses can handle the regulatory burden far better than small firms can. (Indeed, we often see large firms pushing for additional regulation, for this reason.) Big firms can hire lawyers, tax accountants, and regulatory specialists. Small firms have less capital and less ability to manage these kinds of employees.

This penalty on small firms has special implications for culture. It is common in cultural sectors that small firms drive innovation. If we look at the market for popular music, for instance, smaller firms have initiated many of the breakthroughs. The Beatles were signed by a small firm (Vee-Jay) before the big record companies would market their songs in the United States; the majors apparently considered them to be too risky. Sun Records of Memphis gave a start to Johnny Cash, Jerry Lee Lewis, and Elvis Presley, among other notables. Berry Gordy of Detroit drove the Motown operation. Rap and heavy metal were rejected by the majors and picked up only after they succeeded with smaller, independent labels.

We find a similar pattern of small-firm innovation in cinema. Spike Lee, Martin Scorsese, the Coen brothers, Francis Coppola, Jonathan Demme, David Lynch, John Sayles, and many other prominent directors got their start with "micro-budget" films, made with independent film companies or with their own capital. Only later, once they had proven their quality, did they have subsequent opportunities to make more expensive movies. In similar fashion, painters and sculptors use smaller galleries as a stepping stone to the major galleries and museums.

The costs of regulation apply to the independent artist as well, who faces legal, tax, and regulatory burdens. An aspiring independent musician, for instance, faces a bewildering array of tax schedules and filing options. Copyright law is hardly transparent (subsequent rights, for instance, may depend on whether the initial creation was “work for hire,” a distinction understood by few musicians). Entire books are written to give artists and musicians guidance in these legal issues. While these tomes are not above the head of a lawyer or Ph.D. economist, I suspect they bewilder most musicians, many of whom are focused on their art. If an individual is truly bent on investing his or her energies in the creative process, simple and understandable laws offer significant benefits.

We therefore can think of government regulation as limiting the diversity of our culture. By shutting down small firms and single-artist operations, or stopping them from getting started in the first place, government regulation limits the number and kind of cultural delights.

### **FREE INTERNATIONAL TRADE BENEFITS CULTURAL DIVERSITY**

Just as domestic commerce brings diversity and cultural riches, so does international trade. Indeed, both economic theory and the cosmopolitan view suggest that there is nothing special about the international case. Markets should perform well across borders, just as they work well within borders.

Critics, both on the left and right wing, commonly charge that we are headed toward a homogeneous global culture of the “least common denominator.” McDonalds, Reebok, and Ricky Martin are examples of the supposed sins of global trade in culture. Perhaps no issue today drives greater hostility to markets, globalization, and free trade across nations.<sup>8</sup>

That being said, today’s intellectual elites, including the critics of globalization, rely on globalization like never before. Many American academics, for instance, will shop for French cheeses, buy Japanese automobiles and stereo systems, vacation abroad, use the Internet to write friends in foreign countries, and rent foreign films, all while complaining about the cultural impact of globalization.

A look at the facts shows globalization to be more of a cultural hero than villain. For instance, many non-Western literatures were making few advances until the Western printing press and bookstore came along. Excellent movies are now made around the world (Taiwan, Iran, Hong Kong, and India are some favorite cinematic sources of mine), but the core technologies are Western. Acrylic paints, a product of largely Western technologies, are now used by artists around the world, as is the metal carving knife.

It is difficult to find a cultural product or creation that is not based on trade and cosmopolitan principles. Consider the book. The Chinese invented paper,



the Western alphabet comes from Phoenician culture, page numbers are an Arabic and Indian innovation, and the history of printing runs through Germans (Gutenberg) as well as Chinese and Koreans. Friedman (1980, 11–13, with Rose Friedman) uses the “I, Pencil” example to illustrate the international division of labor; the history of the book shows the generality of this example.

The histories of specific arts illustrate similar themes about the benefits of trade and division of labor. For instance, the so-called golden age of Persian carpets came largely in the seventeenth century. At this time Persia was a stable region with an extensive network of trading connections. Most high-quality Persian carpets were made for export, not only to Europe but also to the Arabic elites of the Ottoman Empire and to India. Without foreign buyers, and the possibility of trade, the Persian carpet tradition could not have flourished. It is no accident that we see so many Persian carpets in the paintings of Van Dyck, Vermeer, Rubens, and others.

Persian carpet making dried up in the eighteenth century and on a large scale came to a virtual halt. Persia lost its political stability, and international trade networks collapsed. Persian property rights no longer were stable. The large-scale carpet factories no longer were profitable, and most of them were closed down, although tribal carpets continued to be made.

Persian carpet making was revived only in the nineteenth century, largely because of contact with the wealthier West. Europeans and North Americans suddenly had great concentrations of industrial wealth and were looking to buy new fineries. Carpet marketing spread to the West quickly, with the aid of high-quality department stores, such as Liberty in London and W. J. Sloane in New York. The Persian workshops restarted, often with the aid of foreign capital; many of them were now owned and run by British and German firms. Production was geared up quickly, and a second golden age of Persian carpet making was under way. Many masterpieces date from this era, and the latter nineteenth century boom produced many more high-quality carpets than the Persians had managed before, largely because of trade with wealthy buyers from other countries.<sup>9</sup>

This story of free trade and creativity runs throughout the history of culture. Claude Monet had little success marketing his paintings to the government-run Salon in Paris in the late nineteenth century. His style and colors were considered to be too radical and too unpleasant. Monet had greater success selling to wealthy North Americans, who were not bound by prevailing French artistic conventions. His haystack paintings proved particularly popular in this country, which is one reason why they appear so frequently in American art museums.

The Monet example illustrates a broader (but sometimes neglected) benefit of international trade. The common arguments for trade cite the benefits of drawing on producers from other countries. But trade also mobilizes the benefits of the *consumers* from other countries. Consumers hold embedded knowledge. Their purchases can induce suppliers to elevate quality, help suppliers

pursue careers of greater pleasure (for example, art), and help generate the artistic heritage of mankind. The greater the diversity of consumers to draw on, the better markets will perform these tasks. International trade, of course, maximizes the diversity of consumers to the greatest extent possible.

Nor is the case of Monet a unique or outdated example. To provide a more modern example, the music of Jamaica has relied on foreign buyers since the late 1960s. Since that time, North American and UK buyers have accounted for more revenue than Jamaican buyers. The growth of the market has allowed Jamaican music to become very innovative, very popular around the world, and also very diverse. We think commonly of reggae, but in fact Jamaica has supported many kinds of music, including dancehall, lovers' rock, ska, mento, ragga, and dub.

We might think of Jamaica as a prime candidate for the model of cultural imperialism. After all, it is very close to the United States, a former British colony, English-speaking (albeit with dialects), very small, and relatively poor. As late as 1950, Jamaica had no recording industry of its own. We might think that Jamaican music would simply be overwhelmed by American music, but this has not been the case. Jamaican music borrowed from American (and British) music without being dominated by it. Jamaican popular music borrowed from American rhythm and blues, heard over radio broadcasts from New Orleans, but rapidly pursued its own course. Since this time, American and British music has arguably borrowed as much from Jamaican music as the other way around. Paul Simon, Paul McCartney, Blondie, and the Clash have all looked to Jamaica for musical inspiration. Electronic music, such as techno, jungle, and rave, took a big initial cue from the Jamaican dub style. Jamaican artists Shaggy and Sean Paul have topped the American charts in recent years.

All of these examples represent a more general historical pattern. Eras with growing international trade tend to be creative and diverse; eras with shrinking international trade tend to exhibit cultural decline. For instance, the period between 1800 and World War I brought an unprecedented boost to globalization. The steamship, the railroad, and the motorcar, embedded within a broadly classical liberal European order, supported international trade, investment, and migration. The nineteenth century in turn was an extremely creative, diverse, and culturally fruitful time.

In contrast, the most prominent period of cultural decline for the West coincides with falling trade relations. The Dark Ages that followed the collapse of the Roman Empire brought a massive contraction of foreign trade and investment. Trade routes fell into disuse, cities fell, and nobles retreated to heavily guarded country estates, giving rise to feudalism. Architecture, writing, reading, and the visual arts all declined during this period. The buildings of antiquity fell into disrepair or were looted and destroyed. Greek bronzes were melted down for their metal, and many books and plays from the antique world were lost.

A society with retrogressing trade relations will find it harder to innovate and harder to preserve the best of its past.

The critics of globalization often confuse differing kinds of diversity. Trade does often decrease diversity *across* societies. That is, different places become more alike. But these societies become more alike by offering more choice across the board. Today it is possible to buy Milton Friedman's writings in Germany, France, China, Russia, and Mexico, among many other countries. But these societies have become more alike by offering more choice, a commonly diverse menu of options. So diversity *within* societies goes up.

Alternatively, it can be said that diversity for individuals goes up, even though diversity for collectives may fall. Individual Americans can now choose from more differing life paths, and from more differing cultural items, than ever before. It is this individual notion of diversity that is most important for economists, and most important for Friedman, who emphasizes consumer sovereignty at the individual level. Yet, at the same time, societies are more similar in the aggregate and crossing a border is less of a shock than it used to be.

### **The Friedmans on Tourism and Globalization**

Milton Friedman never outlines such a cultural vision for international trade, but I hope he would welcome the overall tenor of these remarks. The Friedmans' memoir, however, offers some briefly skeptical remarks about cultural globalization. They write:

The character of Bali had changed since we visited it a third of a century earlier. Tourism had overwhelmed it. We had brought back beautiful carvings from Bali on our 1963 visit. This time, everything seemed to be mass-produced. Hugo took us to the best current carvers and craftsmen, but we were unable to find any small-scale carvings that seemed to us to match in quality the ones we already had. No doubt they exist, but they account for a much smaller fraction of the market. (Friedman and Friedman 1998, 581)

Consistent with the analysis from above, I believe that the effects of tourism on Bali are more positive than this passage would suggest. First, the island of Bali is very small and relatively poor. Tourism, directly or indirectly, accounts for most of the economic activity. Without tourism, Bali probably would be depopulated and run down. It is easy to see what tourism has ruined, but without tourism the island's culture would not have been preserved in the first place.

Second, tourism has a long history of supporting native Balinese art forms. Sculpting, naïve painting, Balinese dance, and Balinese music all have owed significant debts to tourist demands and foreign influences. Dances are preserved to market to tourists, and some of these dances draw upon foreign inspirations.

Perhaps the most famous Balinese dance is the Kecak, where dozens of Balinese sing the rhythmic vocal of the “monkey chant” while waving their upper body and arms. Walter Spies, a German artist, choreographed the Kecak in 1932 for a German film (*The Island of Demons*). Even if Balinese carving has declined in quality more recently, we must evaluate tourism in terms of this overall picture.

Third, even the Friedmans, obviously two authors sympathetic to the market, may have confused the issue of average quality with the question of whether consumers get what they want. The Friedmans, for instance, probably would not write that the automobile industry has been “overwhelmed” by the cheap demands of the ordinary public. Indeed, toward the end of the passage the Friedmans note that high-quality Balinese carvings still probably exist. The most likely scenario is the Smithian story of “the division of labor is limited by the extent of the market.” Now that the demand for Balinese carvings has grown, we would expect to find carvings of many different kinds, and of many different qualities. There will be more low-quality carvings, but not necessarily at the expense of high-quality carvings. The casual tourist may find it difficult to sort through the larger market, but the same could be said for just about any other market. The more choice in that market, the more bewildering that market can be to the uninformed.

Refer to the distinction between diversity for individual choice and the more collectivist question of how much different geographic regions resemble each other. Bali may have become less diverse in the sense of offering commodities, namely cheap carvings, that the richer countries offer as well. At the same time, diversity within Bali has gone up, as it is now possible to buy either very good or very cheap carvings within Bali. People in Bali, be they tourists or natives, have a richer menu of choice.

In contrast to this case, Friedman was more optimistic about another instance of cross-cultural clash—the West Bank in the Middle East. Friedman visited the West Bank in 1969 and wrote the following for his *Newsweek* column:

Much to my surprise, there was almost no sign of a military presence.... I had no feeling whatsoever of being in occupied territory.... This wise policy [of the Israelis] involved almost literal laissez-faire in the economic sphere.... To a casual observer, the area appears to be prospering. (Friedman 1975 [1969], 298–99)

Why be so optimistic about the West Bank and so relatively pessimistic about Bali? We can only speculate about the answer. In part, many commentators did not foresee the 1973 Yom Kippur War, which made it harder for Israel to pursue liberal policies. In part the Friedmans’ earlier visit to Bali may have led them to expect the “idyllic paradise” to continue, whereas he clearly expresses surprise at seeing the West Bank as anything but an armed camp (“Much to my surprise, there was almost no sign of a military presence,” 298).

So many of our evaluations, including those of a market economy, are relative to our expectations, and the Friedmans, however astute their observations, are no exception in this regard.

## CONCLUDING REMARKS

Milton Friedman already has gone down as one of the most important thinkers and social scientists of the twentieth century. In addition to his numerous famous contributions, his works hold significant lessons for anyone approaching an analysis of culture, diversity, and aesthetics.

## NOTES

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- <sup>1</sup> See Friedman (1987, 53) [1984]. This interesting and underrated piece represents one of Friedman's rare forays into cultural analysis. He sought to explain why, in the course of European history, so many Jews had become socialists or expressed opposition to a market economy.
- <sup>2</sup> The legacy does not end there. Friedman was instrumental behind the development of currency futures at the Chicago Merc in the 1970s. These hedging and risk management instruments have increased the volume of international trade and investment and gave Friedman a permanent place in history as a practitioner and not just an economist.
- <sup>3</sup> See Johnson (1997, 9); the data refer to 1995. On foundations, see Dowie (2001, 169).
- <sup>4</sup> My *In Praise of Commercial Culture* (Cowen 1998) discusses these claims in more detail.
- <sup>5</sup> I recall hearing this comment on his *Free to Choose* TV series.
- <sup>6</sup> It is an interesting theoretical question why private monopoly might be expected to damage product diversity. After all, a single firm can supply many different kinds of products, and monopolies still have incentives to innovate. Most likely, the presence of only a single firm would limit the number of sources of new ideas and limit cross-firm learning externalities. But in some sectors monopoly may encourage rather than discourage innovation, a claim that dates at least as far back as Joseph Schumpeter. For a survey of the relevant literature, see Kamien and Schwartz (1982).
- <sup>7</sup> Oddly, the income tax has a partially positive effect on culture. Of course, the negative income effect lowers the demand for culture. But the substitution effect encourages additional interest in fun, lower-paying jobs, which probably includes many cultural sectors. And a given creator will be more likely to produce as he sees fit, rather than maximize (taxable) profits by meeting market demand.
- <sup>8</sup> France, Spain, Canada, Brazil, and South Korea are among the nations that practice cultural protectionism. For a critique of cultural globalization, see Barber (1995).
- <sup>9</sup> See Cowen (2002) on this whole episode.

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