

## Chapter 8

# Policy Analysis

Having drawn the connection between free markets and free people, Friedman moved on to specifics. The later chapters of *Capitalism and Freedom* make the case for limiting the role of government in education, labour markets, corporate governance, housing, old age insurance, the alleviation of poverty, and more.

Each of these chapters is short, engaging, and easily available, so you don't need me to repeat all their contents. Instead, I'll try to convey their flavour by summarizing just one chapter—on occupational licensing—with some of the examples updated for the twenty-first century.<sup>27</sup>

If you live in New York State and you want to be a barber, you'll need to sign up for 53 days of training and then pass an exam. (If that's too onerous, you might consider becoming an Emergency Medical Technician, which requires only 27 training days.) That will qualify you to cut hair in a shop owned by someone else. If you want to open your own shop, the licensing process is far more complex, expensive, and burdensome.

Once you get your license, I hope you never find yourself wanting to move to another state, where you'll have to start all over again. People in state-licensed occupations are 36 percent less likely to move across state boundaries than their demographic counterparts in other occupations. To put that another way, for every 1000 non-licensed workers who move to another state for better weather, a spouse's job, or to be closer to their families, there are 640 licensed workers who move—and another 360 who wanted to move but didn't because of licensing issues.<sup>28</sup>

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<sup>27</sup> Occupational licensing was a lifelong interest of Friedman's; it was the subject of his doctoral dissertation.

<sup>28</sup> J. Johnson and M. Kleiner (2017), *Is Occupational Licensing a Barrier to Interstate Migration?* NBER Working Paper number 24107, National Bureau of Economic Research.

The good news is that once you jump through those hoops and accept those restrictions, you're rewarded with a license that not only lets you cut hair; it also artificially boosts your wages by virtue of its scarcity. Every time someone balks at the licensing requirements, you've got one less competitor to worry about. Recent studies find that licensing requirements tend to boost wages by about 15 to 18 percent. This, of course, is good for barbers.

Who is it bad for? First, and most obviously, everyone who wants to cut hair but is unwilling to pay thousands of dollars to sit in a classroom for 53 days. Second, and a bit less obviously, everyone who ever pays for a haircut—in other words, almost everyone.

How can a requirement that hurts almost everyone survive in a democracy? Why do the voters stand for it? The answer is that the average voter doesn't care very much. An 18 percent premium for a haircut is an annoyance, but probably not enough of an annoyance to change your vote. Barbers, though, care very much about that 18 percent premium and they make sure that their legislators are aware of that.

And so it goes in a great many other licensed occupations: welders, roofers, ticket takers (seriously!), surveyors, salespeople, pharmacists, pipelayers, all matter of medical personnel, engineers, massage therapists, manicurists, lawyers, librarians, loan officers, morticians, bill collectors, boilermakers, cab drivers, architects, and hundreds more. You might not much mind paying an extra 18 percent for the occasional haircut, but if you're paying, on average, an extra 18 percent for *all* of those services, you can bet it adds up. Still, it's not worth your while to fight against any one of these license requirements, whereas the welders, roofers, and ticket takers will all be doing what it takes to maintain their own.

Defenders of licensing claim that it helps to insure quality: A trained and licensed barber or welder is likely to perform better than a professor of economics who decides on a whim to leave the classroom and start cutting hair. But Friedman argues that this is, at best, an argument for *certification*, not mandatory *licensing*. Barbers who complete 53 days of training can display their certificates; barbers who are untrained will have no certificates to display, and customers can decide for themselves who to patronize.

A thinker less rigorous than Friedman might have gone on to make light of the notion that you ever needed the government to protect you from a bad haircut in the first place. But, characteristically, Friedman forgoes the easy path and redirects our attention to what most people will consider the hardest case, namely, medical licensing. Would we really be better off in a world where any fool could practice medicine?

In such a world, there would be many more doctors, and some of them would be much less good at their jobs than the doctors we have today. That's not obviously a bad thing. We don't require every car to be as good as a Lexus, and we don't require every restaurant to earn three stars from Michelin, so why should we need every doctor to attend four years of medical school followed by an internship and a residency, while severely limiting the number of medical schools and training hospitals? Friedman, with remarkable prescience, envisioned possibilities that were largely unthinkable in 1962, but have become commonplace today, including group practices with multiple professionals of different skill levels (we now call them nurse-practitioners and physicians' assistants) authorized to provide care at different levels. But even today, all of those professionals are still licensed, and to become licensed, they must attend training academies that are themselves licensed. This not only restricts the number of medical practices; it also limits experimentation with alternative organizational structures that might be as difficult for us to imagine as group practices were before Friedman's day. What if we abolished the licensing requirements altogether? Would medicine be overrun by quacks?

Part of the answer is that people today routinely consult Consumer Reports before buying a dishwasher and Angie's List before hiring a roofer. In a world with more medical options, there would be no lack of trusted reviewers.

But perhaps a better answer is that we've got some evidence on this. In the US, the requirements for a dental license vary substantially from state to state. By examining the dental health of incoming military recruits from all over the country, economists have found that more stringent licensing requirements have *no measurable effect on quality*, though they do raise the price of dental care.<sup>29</sup>

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<sup>29</sup> M. Kleiner and R. Kudrle (2000), Does Regulation Affect Economic Outcomes? The Case of Dentistry, *Journal of Law and Economics* 43.



It is historically rare for an intellectual to have a direct and immediate effect on even one matter of public policy, let alone several. Milton Friedman was surely one of those rarities. As we've seen, he left a lasting influence on monetary policy and in the minds of many is almost single-handedly responsible for the fact that the mistakes of the Great Depression have never been repeated. In the chapters to come, we'll investigate his direct influence in several other areas, including educational choice, exchange rate regimes, and the end of military conscription in the United States.

More commonly, intellectuals wield their influence a bit more indirectly, by expanding what political scientists call the *Overton Window*—the range of policy ideas that the public is willing to take seriously. In this too, Friedman was extraordinary. He appears to have been the first major public intellectual to advocate for the then-radical notion that you don't need six years of medical training to lance a boil; that expansion of the Overton Window played a role in making the idea of a physicians' assistant at first thinkable and ultimately commonplace. As we'll see in the next chapter, occupational licensing is only one of many issues where the Overton Window was breached by the strength and persistence of Friedman's arguments.

Despite those successes, the role of government in developed countries has grown substantially since Friedman's day. In the United States, a rough measure is the size of the Federal Register, the annual publication that lists all the new, revised, and proposed regulations imposed on businesses by the US government. In 1962, when *Capitalism and Freedom* appeared, the Federal Register filled 13,226 pages. By 2016, at 97,110 pages, it was over six times as long.

This suggests that the message of *Capitalism and Freedom* is as urgent now as it has ever been. Fortunately, it's still in print, still available in over a dozen languages, and consistently near the top of the charts in Amazon's "Economic Theory", "Free Enterprise" and "Political Ideologies" categories.

The celebrity he gained from *Capitalism and Freedom* launched not just Friedman's second career as a public intellectual (after his first career as an academic) but a third and closely related career as an activist in the cause of freedom. We'll turn to that next.