

Chapter 9

Activism

After the success of *Capitalism and Freedom*, Milton Friedman became the world's most widely recognized advocate for economic freedom. His op-ed columns in *Newsweek*, appearing every three weeks for 18 years, reached a direct audience of about three million subscribers and were widely quoted in other media. Soon his face and his voice were familiar to many millions more, through his frequent congressional testimony, public speeches, and media appearances.

Friedman wielded his celebrity and his rhetorical skills as powerful weapons not just in the battle of ideas, but also in the arena of practical policymaking. Here were some of the causes with which he was most clearly identified:

The volunteer military

Throughout the 1960s, American society was torn apart by bitter controversy over military conscription. The pro-conscription case rested largely on the fallacious assertion that low-paid draftees are somehow less costly to society than higher-paid volunteers. In reality, the social cost of converting Carl the Carpenter into Sam the Soldier is equal to the forgone value of Carl's carpentry services, regardless of what Carl is paid. If Carl is conscripted, he bears much of the cost himself; if he's induced to volunteer via a market wage, the cost is transferred to taxpayers. But the cost is the same either way.

So a conscripted army is exactly as costly as a hypothetical volunteer army with exactly the same personnel. But a *real* volunteer army is always cheaper because instead of having the same personnel it tends to attract recruits with less valuable alternatives. If Carlos is a less productive carpenter than Carl, then Carlos is more likely than Carl to volunteer. When Steve Jobs was

on the verge of inventing the modern personal computer in his garage, there was never a threat that he might give it all up to join the army. By contrast, a selective service board—with no way to distinguish Jobs from a host of far less inspired and industrious tinkerers—could easily have made the monstrously costly mistake of drafting him.

The draft, then, was as much an affront to economic common sense as it was to personal freedom, and on both accounts it naturally attracted Friedman's attention. In 1966, he participated in a now legendary conference at the University of Chicago, organized by the anthropologist Sol Tax. By all accounts, the shining star of that conference was Friedman's former student (and my own former colleague) Walter Oi, who estimated the full cost of conscription in brilliant detail. Before Oi's presentation, a poll of the 74 attendees found two-thirds in favour of the draft; afterwards, a follow-up poll found two-thirds opposed.

Three years later, President Richard Nixon appointed Friedman to a special commission to make recommendations regarding the future of the draft. The 15 members were deliberately chosen to represent a diversity of views: Friedman was one of five who vocally opposed the draft; another five vocally supported it; and the remaining five were declared agnostics. After extensive debates and meetings, Oi and Friedman won over every one of the draft's supporters and agnostics, and the commission delivered a unanimous report to the president recommending that the draft be abolished. Shortly thereafter, it was.

Educational choice

Should there be public schools, and if so why? It's not enough to argue that schooling is valuable, because many things (including food and shelter) are valuable, but most people don't think those things should be provided by the government. What makes schooling different? One possible answer: The food you buy benefits your own family, whereas the education you buy benefits your entire community because literacy and other basic skills are needed to maintain a stable democracy. Therefore, unless you're extraordinarily community-minded, if you had to provide for your children's education yourself, you might choose to under-educate them.

But even that is at best an argument for public *funding* of education, not an argument for public *provision* of education. Those are very different things, and you can have one without the other. In a 1955 essay, Milton Friedman proposed exactly that: A system of educational vouchers, where governments require a minimal level of schooling and provide parents with vouchers redeemable for that schooling at any certified institution of the parents' choice. Those who want to purchase education beyond the minimum would of course be free to do so, at their own expense.

A voucher system would meet the goal of providing education for all in a way that minimizes the role of government and maximizes the opportunity for parental choice. It brings all the benefits of competition, with schools given the incentive to attract students by maintaining quality. It means, too, that if you're very poor, you have a chance of sending your kids to a pretty good school without having to uproot your family and find a way to move across town to another school district.

The alternative is essentially a government monopoly. As Friedman wrote, "You cannot make a monopolistic supplier of a service pay much attention to what its customers want, especially when it does not even get its funds directly from its customers." As a general rule, people are frugal when they spend their own money, and they demand good value when they spend money on themselves. But for the most part, school administrators are spending other people's money on other people's children, which is a recipe for both profligacy and carelessness. Between 1970 and 1982, US school spending increased fivefold, but measures of quality declined.

Friedman's essay on school choice was first written for an audience of economists, but he included an updated version as a chapter in *Capitalism and Freedom*, introducing the idea of vouchers to the public at large. (As Friedman pointed out, the idea was not without precedent—it was partly inspired by the GI Bill, whereby soldiers returning from World War II were presented with educational vouchers as a reward for their service.) From there, the idea entered the policy mainstream.

For the rest of their lives, Milton and Rose Friedman served as crusaders in the cause of educational choice, making their case in print and in media appearances, lobbying decisionmakers, raising funds to support

political initiatives and referenda, and creating the Milton and Rose Friedman Foundation (now renamed edChoice) which carries on the Friedmans' work, along with sponsoring research and educating parents about the choices that are now available.

Today educational vouchers are a reality in 15 of the 50 United States, plus the District of Columbia. Another 6 states facilitate educational choice through systems of educational savings accounts, 18 through tax-credit scholarship programs, and 8 through tax credits and deductions. Over 3 million children in 44 states attend charter schools, which Friedman characterized as a "step in the right direction," though a limited one, as they are still part of the government system. In almost every case, the political will to institute these reforms can be traced back directly to the work of the Friedmans.

Regulation

Counterproductive regulation is a recurring theme in *Capitalism and Freedom*, but one regulatory agency that goes unmentioned is the US Food and Drug Administration, which, among other things, prohibits the sale of any new drug that has not met the FDA's standards for safety and efficacy.

Perhaps that was because even Milton Friedman, in 1962, had no way of knowing how much damage the FDA had wrought. In 1973, Friedman's student Sam Peltzman filled that gap with a blockbuster paper comparing the (considerable) number of lives the FDA had saved by keeping bad drugs off the market with the even greater number of lives that had been lost because of good drugs that the FDA had failed to make available.³⁰ Friedman immediately took notice and publicized Peltzman's results in a widely quoted *Newsweek* column calling for the abolition of the FDA.

In retrospect, said Friedman, Peltzman's results are exactly what we should have expected. As long as there is an FDA, it will occasionally make mistakes in both directions, approving some drugs that turn out to be harmful and

³⁰ The FDA's regulatory powers were suddenly and dramatically increased in 1962. Immediately thereafter, there was a sharp, lasting, and unprecedented decrease in the rate at which new drugs entered the marketplace. By 1973, Peltzman had enough data—including data on differences between new drug introductions in the US versus other countries—to argue that the decline had in fact been caused by the FDA, and to estimate the number of lives lost as a consequence.

rejecting or delaying others that might have saved lives. The first kind of mistake makes headlines: **“Mother of three dies after taking FDA-approved drug.”**

The second kind of mistake is invisible; nobody ever sees a headline that says: **“Father of two dies of heart attack that could have been prevented if FDA regulations had not made it prohibitively expensive to develop the drug that would have saved him.”**

Given that asymmetry, the FDA far prefers making the second kind of mistake and therefore errs far too much in that direction. To those who continued to call for reform instead of abolition, Friedman followed up with another column entitled “Barking Cats”:

What would you think of someone who said I would like to have a cat, provided that it barked? Yet your statement that you favor an FDA provided it behaved as you believe desirable is precisely equivalent... The way the FDA now behaves, and the adverse consequences, are not an accident, not a result of an easily corrected human mistake, but a consequence of its constitution in precisely the same way that a meow is related to the constitution of a cat.

The FDA is still around, and still, according to many contemporary researchers, causing a great deal of harm both by delaying the introduction of some new drugs and deterring the development of others. But thanks largely to Friedman’s insistence on keeping this issue in the public eye, it has—contrary to Friedman’s most pessimistic expectations—been at least partially reined in. Since 1992, pharmaceutical firms have been allowed to fund drug investigations that substantially speed up the FDA approval process. Doctors routinely prescribe FDA-approved drugs for nonFDA-approved purposes. The FDA has accelerated approvals during public health crises, particularly at the height of the AIDS epidemic.

Exchange rate policy

Prior to 1971, much of the world operated on a system of fixed exchange rates. A United States dollar could be bought (or sold) for 360 Japanese yen, or 4.373 Swiss francs, or 26 Austrian schillings, or 1.23 grams of gold. Under a system

of international agreements, monetary authorities around the world agreed to maintain these exchange rates by adjusting their money supplies if necessary. If, say, the yen appeared to be rising in value, then the Japanese authorities increased the supply of yen to counteract the rise. If traders started offering less than 1.23 grams of gold for a dollar, the US authorities reduced the supply of dollars to restore their value. Beginning in 1950, Milton Friedman was a vocal critic of this system, arguing (among other things) that, like any attempt to control prices, it was inimical to freedom, it burdened the monetary authorities with obligations that prevented them from doing their jobs properly, and it was in any event doomed to fail as domestic pressures frequently prevented the authorities from fulfilling their nominal obligations. Those periodic failures were a significant source of just the kind of uncertainty and instability that the system was supposed to prevent.

For decades, Friedman was the intellectual leader of a (very) small band of advocates for flexible exchange rates, and produced a series of memoranda detailing exactly how such a system could be made to work. These memoranda proved invaluable in 1971 when the United States announced that it would, for the first time, allow the US dollar to float freely with respect to gold, and the entire system of international agreements came tumbling down overnight. A new system of flexible rates was smoothly ushered into place, largely following the guidelines that Friedman had developed. Had those guidelines not been available, the world might have moved in the opposite direction, toward more extensive and unwieldy capital and exchange controls, likely necessitating new and oppressive restrictions on international trade.

Friedman later wrote that this lesson illustrates the way economists exert influence: “I have long believed that we do not influence the course of events by persuading people that we are right when we make what they regard as radical proposals. Rather, we exert influence by keeping options available when something has to be done at a time of crisis.”

That seems right. The crisis of the Vietnam War brought the issue of the military draft to a head; the crisis in America’s public schools inspired an urgent search for alternatives; the crisis of the AIDS epidemic inspired the FDA, for the first time, to liberalize its drug approval process. In each case, the transition to a new policy required a lot of intellectual groundwork, laid down

over many years, both as a detailed guide for policymakers and to win support from the general public.

Laying that kind of groundwork was the role Friedman was born for, by virtue both of his intellectual heft—about which we’ve said much—and his extraordinary skill as a communicator, about we will next say more.