



THE LEGACY OF MILTON FRIEDMAN

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❖❖❖ **PANEL DISCUSSION** ❖❖❖

The Friedman Legacy

Moderator:

Deroy Murdock

Atlas Economic Research Foundation

Economic Theory:

William A. Niskanen

President Reagan's Council of Economic Advisers

International Impact:

José Piñera

Cato Institute/International Center for Pension Reform

Social Policy:

Paul Gigot

The Wall Street Journal

❖❖❖ **LUNCHEON ADDRESS** ❖❖❖

Milton Friedman and the Power of Ideas

John Stossel

ABC News' 20/20

THE LEGACY OF MILTON FRIEDMAN

MR. LARRY MONE: Good morning, I'm Larry Mone, president of the Manhattan Institute. Thank you all for joining us for our Milton Friedman Day celebration.

As you may know, today numerous events are taking place across the United States and around the world to commemorate the life of Milton Friedman and the impact of his ideas. The Manhattan Institute, in partnership with the *Wall Street Journal* and the Donald and Paula Smith Foundation, is honored to be hosting this New York City event. We have assembled a great lineup, and I look forward to hearing our panelists' discussion on the life and legacy of Milton Friedman. In addition, at 9:00 tonight, PBS will be showing a 90-minute documentary on Friedman titled *The Power of Choice*. I've seen a trailer, and it looks quite interesting. I, for one, am going to try to steal the remote control away from my two teenaged daughters and show them what a real American idol looks like.

Milton Friedman is surely worthy of today's tribute. He was, by anyone's measure, one of the most influential economists in history. It's not an overstatement to say that Friedman built the foundation of modern economic theory, which is responsible for so much of the prosperity that the United States has enjoyed in recent decades, and his ideas have helped lift millions of people around the world out of poverty in those countries that have been smart enough to embrace them.

Friedman also worked hard to ensure that market economics informed social policy—most notably in education, where after 50 years his philosophy of

choice and competition has finally begun to gain traction. Friedman understood the importance of public opinion, and through books, the wonderful *Free to Choose* documentary series, and many personal interactions, he and his beloved wife Rose served as international ambassadors for the principles of economic and individual liberty.

His intellect and the energy, generosity of spirit, and moral clarity that he brought to his work will be sorely missed. However, I'm very glad that we who share Milton Friedman's belief in free markets and free people are gathered here today to reflect on the life of this great man and, I hope, to rededicate ourselves to the ideals to which he was so tirelessly devoted.

I'll now turn the proceedings over to the moderator of our panel, Derooy Murdock, who is himself a great champion of individual and economic freedom and a great friend of the Manhattan Institute. Derooy is a senior fellow of the Atlas Economic Research Foundation, a media fellow with the Hoover Institution, a distinguished fellow with the National Center for Public Policy Research, and president of Loud and Clear Communications. He is a nationally syndicated columnist with the Scripps Howard News Service and a contributing editor to National Review Online. His weekly opinion column appears regularly in the *New York Post* and many other newspapers, and he is a frequent guest on many prominent television and radio programs.

MR. DEROY MURDOCK: Good morning. I use that word "morning" to refer to the time of day and not to the tone of this event. We gather here today not to mourn the loss of Dr. Milton Friedman, although that loss is incalculable. Instead, we're here to celebrate the equally incalculable contribution that Milton Friedman made to the field of economics specifically, and more generally to human freedom on the planet Earth.

I thank Larry Mone for that very generous introduction. Thank you as well to the Manhattan Institute for giving me the high honor of presiding at this morning's prestigious event. I will be your moderator for our panel discussion on Milton Friedman's intellectual legacy.

Before I introduce today's speakers, I would ask you to marvel with me for a moment at the enormous accomplishments of this five-foot-tall public policy giant.



Milton Friedman was born right here in New York City in 1912, the son of Jewish immigrants. He received his B.A. nearby at Rutgers University in 1932 and an M.A. the next year from the University of Chicago. He received a Ph.D. in 1946 from Columbia University.

He served at the U.S. Treasury during World War II and taught economics at the University of Chicago from 1946 to 1976. He also spent 44 years, from 1937 to 1981, as a scholar with the National Bureau of Economic Research. Milton Friedman advised Presidents Richard Nixon and Ronald Reagan. He also authored hundreds of articles, 25 books, and the PBS TV series *Free to Choose*, much of this in collaboration with Rose, his beloved wife of 68 years. Their book *Free to Choose* was 1980's best-selling nonfiction title.

In 1976, Friedman won the Nobel Prize for Economic Science. In 1988, Ronald Reagan awarded him the Presidential Medal of Freedom. On May 9, 2002, President Bush honored Friedman at the White House. As the president put it, "Milton Friedman has shown us that when government attempts to substitute its own judgments for the judgments of free people, the results are usually disastrous. In contrast to the free market's invisible hand, which improves the lives of people, the government's invisible foot tramples on people's hopes and destroys their dreams."

Standing beneath this cascade of accolades, one might have expected Milton Friedman to have had a swollen head. If anyone had a right to be arrogant and pompous, it would have been him. Nothing, however, could have been further from the truth.

Among my proudest accomplishments as a journalist are the two interviews I conducted with Milton and Rose Friedman in their gorgeous apartment on San Francisco's Russian Hill. From their floor-to-ceiling windows, one could see San Francisco Bay, nestled between the Golden Gate Bridge and the Bay Bridge. From the home of one of freedom's greatest friends, I gazed out on the frigid water at one of earth's most powerful symbols of un-freedom, Alcatraz. Milton Friedman absorbed all of this quite serenely. He answered my most basic questions with patience, good humor, and incredible modesty. He was less cocky than an average ninth-grade algebra teacher.

I first met the Friedmans briefly in Hong Kong in the fall of 1988, while studying overseas as part of my MBA program at New York University.

Milton Friedman came to my school, the Chinese University of Hong Kong, to speak on economics. You would think that he'd arrived with an electric guitar to sing pop songs. A crowd of young people lined the road leading to the auditorium. They applauded as he rode in, cheered his remarks from line to line, and waved good-bye warmly as he and Rose shook their hands and then drove away. A friend standing beside me said, "We just watched a Milton Friedman concert."

I also was struck by Friedman's optimism. I asked him in late 1999 if he had any words of advice as the new millennium approached. He laughed and said, "The millennium will take care of itself."

While we all are thrilled that you've decided to spend your Monday morning here with us, we are not alone in marking this occasion. As Larry pointed out, today happens to be Milton Friedman Day from coast to coast. At 2:00 P.M., the University of Chicago is hosting a memorial service for perhaps its most distinguished former faculty member. The Chicago Mercantile Exchange and *The Economist* magazine are planning their own tributes. There's also a "Challenge the Status Quo" video contest—on YouTube, amazingly enough. And as Larry pointed out, tonight PBS will air a documentary on Milton Friedman called *The Power of Choice: The Life and Ideas of Milton Friedman*. Isn't that ironic? Milton Friedman's ideas, airing on the federal government's TV channel!

I would now like to invite our first speaker to the podium. Since 1985, Bill Niskanen has been the chairman of the Cato Institute, which columnist George Will has described as "the foremost upholder of the idea of liberty in the nation that is the foremost upholder of the idea of liberty." Whether the cause has been cutting taxes, modernizing Social Security, or freeing global trade, Bill has spent decades at the forefront of efforts to limit government power. Before joining Cato, he was a member and acting chairman of President Reagan's Council of Economic Advisors. He served as an economics professor at UCLA and, perhaps as an undercover assignment, he also taught economics at UC Berkeley. Bill Niskanen was a defense analyst at the Rand Corporation, assistant director of the U.S. Office of Management and Budget, and was also the director of economics at the Ford Motor Company. Bill, they could use your help there right now.

Bill Niskanen has authored numerous articles and papers on economics and also wrote the seminal work *Bureaucracy and Representative Government*. He holds a B.A. from Harvard University, and an M.A. and Ph.D. in economics



from the University of Chicago. Bill will speak about Milton Friedman's impact on the world of economic theory.

Before he begins, I will add that Milton Friedman was a huge fan of the Cato Institute. However, there was one key decision that Cato's management made on which Dr. Friedman frowned: moving the Cato Institute from San Francisco to Washington, D.C., where it is today. "Washington is an evil city," said the Nobel laureate. "People who move to Washington tend to get corrupted by Washington. Cato will be ruined if it moves to Washington."

Milton Friedman was happy to acknowledge, years later, that Cato had managed to keep itself pure despite being surrounded by the siren song of the state. In his frank and witty way, Friedman explained, "It turns out I was wrong—so far."

DR. WILLIAM NISKANEN: Thank you, Dero. As a graduate student in economics at the University of Chicago in the mid-1950s, I was privileged to be a student of Milton Friedman's. Although his research specialty was monetary theory, he regularly taught the first-year course in price theory. It was an exciting time to be a student at Chicago, where we sensed that Friedman was leading an intellectual revolution in economic theory, research techniques, and policy—a judgment later confirmed by the awarding of the Nobel Prize to Friedman and to several other Chicago professors and then-graduate students of that time. Chicago economics was so distinctive during those years that, some years later, a friend introduced me at a professional meeting by saying that I had the best of both worlds: a Harvard degree and a Chicago education.

Friedman and I had numerous contacts over the years, as he was a special friend of the Cato Institute, where I am chairman. Last fall, during our annual monetary conference, we learned of his death and had the sad obligation to inform Anna Schwartz of it. She was coauthor, with Friedman, of his massive *Monetary History of the United States* and his longest-standing professional colleague. Robert Barro's keynote address later that day, which had been scheduled some months earlier, summarized Milton's major contributions to monetary theory and policy. So we both celebrated his life and were saddened by the news of his death on that day.

Let me now turn to Friedman's major contributions to economic theory. Friedman succinctly summarized the distinctive characteristics of Chicago

economics in an address to the university's trustees in 1974, when the term "Chicago economics" was still often used as an epithet.

"In discussions of economic policy," he told the trustees, "'Chicago' stands for belief in the efficacy of the free market as a means of organizing resources, for skepticism about government intervention into economic affairs, and for emphasis on the quantity of money as a key factor in producing inflation.

"In discussions of economic science," he continued, "'Chicago' stands for an approach that takes seriously the use of economic theory as a tool for analyzing a startlingly wide range of concrete problems—rather than as an abstract mathematical structure of great beauty but little power—for an approach that insists on the empirical testing of theoretical generalizations and that rejects alike facts without theory and theory without facts."

This perspective built on Friedman's first major contribution to economic theory, a 1953 article titled "The Methodology of Positive Economics." This article, very controversial at the time, challenged the perspective that theories should be judged by the realism of their assumptions. Friedman contended that the proper test of a theory is whether it successfully predicts conditions that have not yet been broadly observed, not whether the assumptions are realistic. This perspective, now much more broadly shared, was the first step toward transforming economics into a science.

Friedman's most important contribution to economic theory may have been his 1956 article "The Quantity Theory of Money"—the definitive statement, or restatement, of the Chicago perspective on monetary theory. The primary hypothesis of this theory is that the demand for money is a stable function of a small set of variables that Friedman specified, a hypothesis that has been tested by many economists including Friedman and his students. One important policy implication of this theory is that nominal income and the price level are primarily a function of monetary policy and not fiscal policy, as was the conclusion of the then-dominant Keynesian theory.

Another important contribution to economic theory is Friedman's 1957 book *A Theory of the Consumption Function*. The primary hypothesis of this book is that household consumption is a function of expected or permanent income, not current disposable income, as in the Keynesian theory. This hypothesis has been thoroughly tested by Friedman and others. The primary policy



implication of this theory is that temporary changes in government spending or taxes would have no effect on consumer spending except among the poor and others who are liquidity-constrained, a conclusion that greatly weakens the case for discretionary fiscal policy.

Friedman challenged another tenet of the then-establishment macroeconomics in his 1976 Nobel lecture on inflation and unemployment. Beginning in the 1960s, most macroeconomists assumed that there was a stable negative relation between inflation and unemployment that provided an opportunity for economic policymakers to reduce unemployment by increasing inflation. Friedman's hypothesis was that unemployment may decline with unexpected inflation but has no relation with expected inflation. He posed the test hypothesis that current unemployment is a negative function of the change in the inflation rate but not of the level of the inflation rate over time, and that hypothesis has been confirmed by many tests. Last year, Ed Phelps received the Nobel Prize for similar research on the same issue at about the same time.

Friedman observed that there seemed to be a positive relation between unemployment and inflation during the 1970s when he gave his Nobel address, but he expected that this would only be a temporary condition. In fact, there appears to have been a strong positive relation between the current unemployment rate and the lagged inflation rate for the past several decades, greatly reducing concern that the monetary policy necessary to reduce inflation would increase the unemployment rate for more than a short period.

Friedman's monetary perspective has now become the dominant paradigm of macroeconomics in the United States and around the world. As a consequence, the average inflation rate and the variability of demand in the past 25 years have been much lower than in previous years. Few people have ever made such a substantial contribution to economic well-being.

Finally, what is the relation between Friedman's contributions to economic theory and his unusually broad contributions to economic policy? Not much, as it turns out. Only a few of his many policy proposals addressed macroeconomic issues, however important. Some of his proposals, such as for a negative income tax and for a monetary policy rule of maintaining a slow steady increase of the monetary base, were best modified either before or after implementation. One proposal, to reduce federal tax revenues in the hope

that it would reduce federal spending by what he called “starving the beast,” was just plain wrong.

In many respects, however, Friedman was correct to maintain and update a broad menu of policy proposals without much regard to the focus of his professional work or to whether his policy audience was ready to address the issues. As a consequence, there has been little relation between the time that a proposal was first made and the time that it may have been implemented, or little relationship between proposals that were considered for implementation at roughly the same time. Friedman first proposed school vouchers, for example, in a 1955 article titled “The Role of Government in Education,” even though this proposal has yet to be broadly implemented. The first Friedman proposals to be implemented were those that called for a flexible exchange rate and for a voluntary military, both advocated in 1973. Such proposals addressed very different issues and involved different types of argumentation and evidence.

In summary, Milton Friedman was a powerful intellect, a stimulating teacher, a consistent friend of individual liberty and limited government, and the most influential economist of the past 50 years. Thank you.

MR. MURDOCK: Thank you very much, Bill Niskanen. Milton Friedman’s influence was not just theoretical, but also practical. He left large footprints not just at home but overseas as well. Our next speaker, Dr. José Piñera, will discuss Milton Friedman’s international impact.

At age 30, José was secretary of labor and social security in Chile, where he was the chief proponent of Chile’s successful system of personal social-security accounts. It replaced the creaking, wheezy, bankrupt system first conceived by that Prussian economic visionary, Otto von Bismarck. The very idea that President Bush has fought to import to America, so far without success, was born in Chile, and its father is here with us today.

As secretary of labor, Dr. Piñera also designed the laws that introduced flexibility to the Chilean labor market and decentralized collective bargaining even before Margaret Thatcher did so in Great Britain. As mining secretary, José was responsible for the constitutional language that established private property rights in Chilean mines. This yielded a sixfold increase in the production of Chile’s chief export, and turned that nation into the Saudi Arabia of copper.



Dr. Piñera is a distinguished senior fellow at the Cato Institute and the founder of the International Center on Pension Reform. Through that organization, he helps countries around the world liberate their social-security systems. José and I also both serve on the advisory board of the Cato Institute's Project on Social Security Choice. José Piñera has authored eight books and written for numerous publications, among them the *Wall Street Journal*, the *Washington Post*, *Foreign Affairs*, and *Wired*. He received an M.A. and a Ph.D. in economics from Harvard University.

I had the pleasure of hearing José Piñera deliver a passionate and very entertaining speech to a Cato Institute seminar in Shanghai back in 1997. A few minutes after his speech, I was in an elevator with Cato president Ed Crane and a conference guest, an American woman who looked downright smitten. She gushed to Ed about how she loved José's remarks. He's so funny, she said breathlessly, and he's charming, and I just adore that Latin accent of his. Ed Crane replied, "Well ma'am, don't forget about his ideas." Ladies and gentlemen, a man of ideas: Dr. José Piñera.

DR. JOSÉ PIÑERA: Thank you, Deroy, for those remarks. As a young student in the 1960s in Santiago, I read *Capitalism and Freedom* by Milton Friedman. That book changed my life, and that book changed my country, and I do believe that that book changed the world.

I met Milton many times later on, but I remember vividly one time when we traveled together from San Francisco to Palo Alto. Some months earlier, I had been speaking in Davos about privatizing social security—especially in Europe, where they have a huge crisis. A high-tech entrepreneur named Scott Cook, founder and CEO of Intuit, was extremely interested in this idea. He said, "This idea will be very much supported in Silicon Valley. Why don't you come to Palo Alto and speak to all my friends and colleagues?"

Well, it happened that Milton Friedman learned about this speaking engagement, and he decided to ride with me for one hour from San Francisco to Palo Alto, just to introduce me and the subject. You can't imagine the incredible generosity of this man, a Nobel laureate, to have taken that long ride on Highway 101. I still remember how, in the one hour going there and then coming back again at night, we were discussing the state of the free-market revolution—specifically that of my country, Chile.

This revolution began in Chile in 1975 and caught on four years later, of course, with Margaret Thatcher. It continued in 1981 with Ronald Reagan, and then with the fall of the Berlin Wall, with the collapse of the Soviet Union, and with the transformation of China. I believe that Friedman's ideas swept the globe.

I don't have time to go into Friedman's influence in each country, but I have met leaders of the reforms in all of those countries—such as Yegor Gaidar in Russia, or Vaclav Klaus in the Czech Republic, and Mart Laar in Estonia—and all of them have told me that Milton Friedman's ideas were enormously influential.

Just an anecdote: Last May I was in Montenegro, only a week before they had an independence referendum. And they invited me to give speeches explaining how even a very tiny country could prosper if it has free trade. And so I went there the week before the referendum, and everywhere I mentioned, of course, *Capitalism and Freedom*, free trade, and Milton Friedman's ideas, and everyone knew Milton Friedman. In Podgorica, Montenegro, a city previously called Titograd, Milton Friedman is a hero. And on May 21, 2006, Montenegro became the first independent country to be created in the twenty-first century.

Now, you probably know all of this: it's all told in Friedman's extraordinary memoir titled *Two Lucky People*. So let me focus instead on Milton's influence in two emblematic countries: Chile and China.

My country of Chile was, in 1975, one of the most socialist countries in the world. 71st out of 72 countries in the Economic Freedom Index. But something very important had happened two decades before. In 1956, a visionary dean of the Chicago School of Economics, Theodore Schulz, decided to implement an agreement for the transfer of ideas with one university in Latin America. He understood that the ultimate cause of Latin American problems was not the U.S., the multi-nationals, the climate, or the Catholic Church; the cause was bad ideas.

He chose the Catholic University of Chile, and Chicago signed an agreement with the Catholic University for the exchange of students, professors, and ideas. That agreement lasted for nine years and created a critical mass of free-market economists in Chile. Though we didn't know at that time that



we would have the historic opportunity to make an enormous impact in our country, we all learned about Milton's and his colleagues' ideas.

That was 1956. Two decades later, we were almost becoming a second Cuba. The Chilean armed forces liberated Chile from becoming a Communist dictatorship. Regrettably, that produced a very dramatic quasi-civil war in 1973. But then in 1975, after that process, with the economy experiencing hyperinflation of 500 percent, rationing, and crisis, the group of economists who had graduated from the Catholic University and who were called the Chicago Boys—not because they necessarily went to Chicago but because they studied at a Chicago-influenced university—led a friendly takeover of the government in order to produce first economic freedom and then political freedom. And this was almost a miracle.

Milton said, “How were you able to persuade all those people to liberate prices, to privatize everything, to go to free trade, and even to privatize social security?” Well, we did it, and the result was a second miracle. For 200 years, our income growth per capita had been one percent per year. With that amount you cannot solve poverty and underdevelopment. Since the Chicago Boys' policy, the per capita income growth has risen to 4.3 percent each year for the past 20 years, which means that our grandchildren will be eight times richer than we were. That is the real revolution that completely changed the lives of the people.

Now, this happened in April 1975. At the same time, we, the Chicago Boys, invited Milton Friedman to Chile. This was at a very delicate time: he could have said, “No, I won't go to a country that's been in a civil war. I'd prefer to stay in Chicago or to go to Davos.” But he had the moral courage to go to Chile during a difficult situation in order to push economic and political freedom. He was there not supporting the government but supporting us, his disciples. He was an inspiration to us.

Then came another Chilean miracle: after this enormous economic transformation, our country decided to go to full political freedom. The economic system was a great help because it created a middle class that wanted democracy. We introduced democracy into the labor sector in 1979. Only four years after that, we had total freedom to choose labor leaders. William Thayer, a former minister and a Christian Democrat president, said that it was a dress rehearsal for future democracy in Chile.

In 1980, we drew up a constitution and introduced many of the ideas of James Madison. I'm a great admirer of Madison, the *Federalist*, and Jefferson. We introduced a Bill of Rights, and we introduced the freedom to join a union. We introduced very strong protections on property rights. And we introduced a timeline for the return to free elections.

You may have read Fareed Zakaria's book *The Future of Freedom*. Zakaria says that it's not enough to vote: you need the rule of law and many other things for a democracy to work. In eight years, we, the Chicago Boys, promoted free television, which we didn't have before; only the state and the Catholic Church could have a TV channel. We established free universities. We established an independent central bank. We created "institutions of liberty," as Zakaria calls them.

And then in 1990, we had a constitutional, peaceful, gradual transition to full democracy. Today, Chile is ranked number 11 of 157 countries in the *Wall Street Journal*/Heritage Foundation's Economic Freedom Index, and enjoys full political freedom.

Another important country where Milton had enormous influence is China. Milton went to China in 1980, and in 1988 with the Cato Institute, and again in 1993. In 1988, he even met Zhao Ziyang, the secretary general of the Communist Party. For hours, Milton expressed his views, without compromising them. He explained that economic freedom is essential and is a requisite for political freedom. Only two weeks ago, the *Wall Street Journal* published a very interesting interview with Milton in which he worried that China has moved to greater economic freedom but not yet to political freedom. The Chilean experience may eventually prove very relevant for China.

Milton was criticized for going to Chile, and also for going to China, even though his courage helped enormously to advance human freedom. And here I want to be clear: I've traveled the world, and what is important is not to focus on the initial state of a country but to push the trend toward human freedom. If you want to help only those countries that are perfect, well, you can only help Swiss cantons. Maybe not even the U.S., after all. But as long as through your values you are able to advance the trend toward economic and political freedom, then you will be able to change the world. So I believe that Milton was unfairly criticized. He should be enormously praised for his willingness to go to China, to Chile, and to many other countries.



I always carry with me the thought of Friedrich Hayek, another hero of liberty, with whom Milton Friedman created the Mont Pelerin Society, also an enormous help for freedom. I'm always reminded of this Hayek observation when I think of freedom. Hayek said, "Political philosophy is the art of making politically possible the seemingly impossible. Unless the political philosopher is prepared to defend values which seem right to him, he will never achieve that comprehensive outline which must then be judged as a whole."

Milton Friedman was far more than a great economist. In my view, he was a great political philosopher who played a central role in laying out that comprehensive outline, which is the road map for human liberty. So let's honor Milton Friedman by daring to take, again and again, the bull by the horns, to engage in a principled way an imperfect world, and to defend the values which seem right to us, whatever the consequences.

MR. MURDOCK: Milton Friedman changed the world of economics and the economics of the world, but he did not limit his genius to those spheres. He was also heavily involved in social policy, ranging from military conscription to education to health care. Our next speaker will enlighten us on this important, if less heralded, aspect of Friedman's legacy.

In September 2001, Paul Gigot became editor of the *Wall Street Journal's* editorial page, having written the much-read Potomac Watch column for nearly 14 years. For that effort, Paul won the 2000 Pulitzer Prize for commentary.

Paul joined the *Journal* in 1980 as a reporter in Chicago. In 1982, he became its Hong Kong-based Asia correspondent. He won an Overseas Press Club award for his reporting on the Philippines. In 1984, he was named the Hong Kong-based *Asian Wall Street Journal's* first editorial-page editor. Paul is a summa cum laude graduate of Dartmouth College, where he chaired the daily student newspaper.

As are many in the vast right-wing conspiracy, Paul is an alumnus of *National Review* magazine. Atop all of his print work, Paul hosts the *Wall Street Journal* editorial report on the Fox News Channel, Saturdays at 11 P.M. I think it is fitting that our next speaker hangs his hat at the *Wall Street Journal* editorial page. Thanks to its expression of free-market principles every day but Sunday, the *Journal's* editorial page in many ways is the keeper of the Friedman flame.

MR. PAUL GIGOT: Thank you, Deroy. I want to talk about Milton Friedman’s social policy, and in particular about his prescience on educational choice. But first, I want to add my own story to José’s about having my life changed by reading Milton Friedman.

I don’t really like to admit this, but in high school and the first couple of years of college I was something of a liberal—a social-justice Catholic, I guess you could say. But on a couple of terms off from Dartmouth as a college sophomore, I spent six months working the night sports desk at the *Green Bay Press–Gazette* in my hometown, from six until midnight. There’s really not a lot to do in Green Bay after midnight, I have to tell you, particularly in February. So I would come home from work, and I would start to read. I’d stay up reading until three, sometimes four, in the morning.

Among the things I read were the works of Milton Friedman, especially *Capitalism and Freedom*, but also his monetary history and other works. Then I started to read his *Newsweek* column, and before I knew it, I had returned to college as something of a free-market conservative or, as I think Milton would have said, something of a classical liberal.

Years later, I was working as a columnist in Washington for the *Journal*, and I happened to write a column that made a reference to the dollar and to the benefits of fixed exchange rates. And what should arrive in the mail but a letter from none other than Milton Friedman. I thought, “Well, this is pretty cool,” until I opened the letter to discover that it was about two sentences long and it said, basically, “Young man, you need to go back and reread your Adam Smith.”

I sent back a note saying, “Look, on exchange rates I’ve been hijacked by Bob Bartley and Robert Mundell, so don’t hold it against me.” As Bob Bartley once wrote, “Being spanked by Milton Friedman is one of life’s most humiliating experiences.” And having been spanked more than once myself, I know how Bob felt.

I also had the good fortune later to meet Milton and Rose in person several times, including a very memorable meeting of our editorial board a year or so ago. One of the defining traits of Milton was that, while he was ferocious in intellectual debate, he was also extraordinarily warm as a human being—a real pleasure and a great difference from what we see in many of our debates today.





Many non-economists may think that Milton's social policy doesn't have much to do with economics, but it has actually been one of the most exciting areas for economic research in recent years, and much of that research goes on at the Chicago school that Friedman helped to make so famous. Gary Becker, for example, another Nobel laureate from Chicago, has applied economic principles to social policy and social decision making.

Friedman's views on social policy tended toward the libertarian, with some exceptions. He favored the legalization of drugs, for example, on grounds that prohibition created more problems than it solved. I don't personally share that view, preferring James Q. Wilson's analysis on the consequences of proliferating drug use if the price of cocaine were to fall, say, to the price of Cheerios. But I certainly appreciate Friedman's arguments, and it is possible that he will be proved right over the coming years. One of my colleagues at the *Journal*, Mary O'Grady, is more of a Friedmanite on drug legalization than I am, and she would argue that Friedman has already been proved right by the level of corruption in law enforcement in Mexico and elsewhere in Latin America that has been caused by the efforts to block the flow of drugs into the United States. So I wouldn't say that the debate is settled.

Friedman also took a libertarian position on immigration: in favor of open borders, except, he said, if you have a welfare state. He distinguished between the immigration flows of the early part of the last century, when we had very little government and very few government benefits, and the current immigration flow when we now have a substantial array of government-supplied benefits that arguably attract immigrants. We at the *Journal* have disagreed with Friedman on this point also, because the evidence does seem to me to be clear that most of the immigrants who are coming to America today do not come for welfare benefits; they come to work. In fact, if you look at the rate of welfare in the United States over the last decade or so, despite rising immigration levels, there's been a decline in welfare use, in particular since the 1996 reform. But I don't dismiss Friedman's arguments, and they seem to have played out in a country like France, where the welfare state and the public dole are more firmly rooted and much more pervasive. The same thing could happen in the United States if our politicians move in that direction.

What I really want to focus on in particular today is Friedman's prescience about the necessity of freedom in education, particularly his call to vouchers as the solution to faltering public schools. As Bill Niskanen mentioned, Friedman wrote his famous essay *The Role of Government in Education* in 1955,



some 50 years ago. That happens to be the year I was born, but if you reread his essay, as I did recently, his arguments really are about as fresh as this week or last week.

Contrary to what many of his critics might say, Friedman did not argue that government should have no role in education—far from it. He conceded that there were what he called “neighborhood effects” in education, by which he meant that there are collective societal benefits from every one of us receiving an education. Likewise, society as a whole suffers if I or Dero, or José, or Bill, decide against getting an education and instead end up creating all kinds of social problems as a result. If all of us do not get an education, we create a broader social burden.

Friedman said that because of these neighborhood effects, government has a twofold role in education: first, to set certain minimal standards that everyone ought to achieve; and second, to provide some form of financing for those people who may not have access to sufficient education. Where he disagreed with most of the experts, certainly in the 1950s and even today, is whether government should have a monopoly on the administration of education—that is, whether the government should be the only provider of schooling. But keep in mind, this was 1955, when the public schools were actually pretty good, and as Friedman and wife Rose both said, they were products of the public schools and had been quite happy with their own experiences. And this was about 30 years before that seminal report “A Nation at Risk” came out in 1983 and really created the impetus for the modern education reform movement.

Yet, despite the fact that it was written more than 50 years ago, Friedman’s essay anticipated all the problems that a public monopoly on schooling would create and the damage that it would do to the quality of American education.

I’ll give you a couple of quotes, because I had fun reading this:

“The problem is not primarily that we are spending too little money...but that we are getting so little per dollar spent.”

Or this:

“With respect to teachers’ salaries, the major problem is not that they are too low on the average...but that they are too uniform and rigid. Poor teachers are grossly overpaid and good teachers grossly underpaid.”





Thus did Friedman anticipate Mayor Bloomberg's recent attack on teacher tenure about 50 years—a full half-century—ahead of his time.

Friedman's solution was vouchers, or letting public money follow the children. He argued that the more choices you created for children, especially children of poor parents, the better opportunities you would create as well.

I don't have the time to relate the full subtlety of Friedman's argument on education, but I think if you read the essay you will see that Friedman anticipated and rebutted almost all the objections to vouchers that are still heard today—for example, that vouchers would lead to discrimination by race or by income, or that they would somehow damage our common civic culture. One of the great things about Friedman, and one major reason for his influence, was that he never ducked his opponent's strongest arguments. Instead, he assumed a measure of goodwill among his opponents and among those who disagreed with him, and he responded to their arguments in good faith. Again, that's another habit that seems to have vanished from much of our public debate these days.

Fifty years on, where are we in the fight for school choice? Obviously, we've only made halting progress. Voucher experiments have been tried in Milwaukee, Cleveland, Washington, D.C., and Florida, with some promising early results. Charter schools are multiplying, and where they're allowed to have maximum freedom they're doing quite well. Individual scholarships for private schools, thanks to the generosity of many philanthropists, are also doing well, giving opportunity to kids one at a time. However, we still don't have a single statewide voucher program, and everywhere that it has been on the ballot it has been defeated, whether in Michigan or California, thanks in part to heavy spending, lobbying, and advertising by opponents such as teachers' unions.

Nonetheless, Milton Friedman wrote only last year, at the ripe young age of 93, that the battle for school choice is only beginning. I agree, especially because I think that those of us who favor vouchers have an ally in technology. It's easier to maintain a monopoly on public education when education is defined and limited by geography—that is, by the neighborhood schoolhouse. It's not so easy to maintain that monopoly if your children can be educated in cyberspace and have access to Internet communities of the kind that I think are going to be available to everyone not too many years from now.



If you want to be optimistic about it, you could say that the analogy is mail delivery. What broke up the post office's monopoly was not some kind of pitched political battle in Congress; it was the innovation and technology that created UPS and FedEx, and then the fax machine, and now e-mail. No one thinks much about the post office any more: it's nice to get a letter once in a while, and to get your magazines, but other than that we don't think about it. Likewise, I expect that in the long run the Internet is likely to have a revolutionary impact on public schooling. It may well enable supporters of school choice to do an end run around the teachers' unions and the bureaucracy.

Some of you may consider this speculation a bit woolly-headed, and you may be right: but then again, Friedman, as Derooy said, was nothing if he wasn't an optimist. And if you consider the arc of his ideas over his own lifetime, he certainly had reason to be an optimist. In 1962, when *Capitalism and Freedom* came out, he barely got a review in any major publication. I don't even know if the *Journal* reviewed it. *When Free to Choose* came out in 1980, it was a best seller and sold 400,000 copies.

I'll close with Milton Friedman's thoughts from just last year on the prospect for educational choice. "I am not discouraged," he said. "Public support for educational vouchers is growing. More and more states are considering proposals for vouchers or tax-funded scholarships. Pressure is building behind each of the 50 dams erected by the special interests. Most major public policy revolutions come only after a lengthy buildup of support. But when the break comes, what had been politically impossible quickly becomes politically inevitable. So it will be for a competitive free-market educational system compatible with our basic values."

MR. MURDOCK: Thank you very much, Paul. We'll now have a panel discussion on a number of questions I will pose to them.

Was Milton Friedman's greatest contribution in the academic realm, which received high-level but limited exposure, or was it in the popular realm—through his best-selling books, his *Newsweek* columns, and his *Free to Choose* TV series, which were perhaps less elevated but enabled him to reach a larger audience?

DR. NISKANEN: I don't see any reason to choose between those. He made very large contributions to economic theory, and also made enormous



contributions to general policy. I'm asked frequently about what the Cato Institute is going to do next year, and my typical response is, "We're going to go back and look at *Capitalism and Freedom* and *Free to Choose* and the things that have yet to be implemented from those books." They have provided our agenda for nearly 30 years.

MR. GIGOT: One of the great things about Friedman was that he was a popularizer: he didn't write like an economist or, at least, like most economists. His prose was so engaging, and it allowed him to reach a far broader audience than if he had just stuck to the level of theoretical academics. For example, his *Newsweek* column was a revelation each week. If you were, as I was, a young man who was looking for ideas and looking to be surprised by something that cut against conventional wisdom, his *Newsweek* column provided it. That was what I read for years, before I got a job and started reading the *Wall Street Journal*. It was one of the few outlets for free-market advocacy for a very long time.

DR. NISKANEN: One of the reasons for Milton's successes is that he never impugned motive. He always assumed the best of the people who would comment on his views. He never impugned motive, and that is a lesson that all of us, I think, need to remind ourselves of in political discussion.

MR. GIGOT: I'd like to quibble with Bill on one point: about Friedman and "starving the beast." Bill argues that Friedman was wrong about that, but I'm not sure he was. Granted, it's very difficult to control politicians in Washington and their spending, and I know that Bill has supported the Balanced Budget Amendment. But I watched the course of spending in the early 1990s when there was a large deficit, and it did provide some discipline on Congress. It was actually the only restraint that I've seen on congressional spending in my lifetime.

After we got to the balanced budget in the late 1990s, that's when the pent-up demands started to flower, and that's when politicians said, "Look, we're getting this surplus cash, let's spend it." That's when you saw Al Gore come out for more Social Security spending in the 2000 campaign, and that's when even Republicans started to say that we needed a prescription drug benefit for Medicare. So "starving the beast," as Friedman put it, even if it's not perfect, may be the best strategy that we have.

DR. NISKANEN: Trying to starve the federal government is like giving a child a credit card. The federal government has a credit card. It is not

liquidity-constrained. But giving a child a credit card and then saying, “Be careful about your spending,” is simply unrealistic. Empirically, over the past 25 years or so, there has been a strong negative relationship between changes in the spending share of GDP and changes in the revenue share of GDP, controlling for certain factors that you’d expect to affect spending, such as unemployment, interest payments, and things of that nature. The evidence is really quite clear. My last telephone conversation with Milton was about this issue. He immediately turned around to his computer, punched in the data, and finally conceded to my remarks.

Unfortunately, others who have endorsed this starve-the-beast idea include Gary Becker and the current chairman of the Council of Economic Advisors, but Milton’s hypothesis is unusually inconsistent with his other writings in that the whole idea of the consumption function is based upon the fact that most people are not liquidity-constrained. In other words, their spending is not a function of the temporary amount of revenue that they have. But he made a different argument with respect to the federal government, acting as if somehow the federal government were liquidity-constrained, and that’s simply not true.

DR. PIÑERA: I tend to agree with Bill. You have to kill the beast! Honestly, you have to kill government programs, replace them, substitute, reinvent. You cannot starve the beast; the beast is very powerful. You have to kill the beast, and you have to make the case, and you have to persuade, and you have to convince public opinion. You have to turn what is difficult into what is politically popular.

DR. NISKANEN: At least the government’s interest payments aren’t actively destructive. They go to bondholders. So much of what the federal government actually spends is destructive. I’m not talking about things like defense, but transfer payments, for example, which encourage bad behavior. I’m less worried about debt payments, as long as they’re within some kind of reasonable boundary, than I am by much of what the government actively spends money on.

MR. MURDOCK: If Milton Friedman were alive today and President Bush called him and asked, “Milton, what should I do next?,” what do you think Dr. Friedman would tell the president to do first?

DR. NISKANEN: Resign.



DR. PIÑERA: Privatize Social Security.

MR. GIGOT: Win the war in Iraq.

MR. MURDOCK: All right, very good. Three concise answers. Of all the proposals that Milton Friedman advocated, which would you point to as his most radical?

DR. NISKANEN: The one that I think has the smallest amount of support is his support of drug legalization. But I think it points in the right direction. We should handle drugs the same way that we handled alcohol in 1933. During Prohibition, the federal government prohibited the importation, manufacturing, and sale of alcohol. In 1933, all that it did was to end those federal prohibitions and leave the states to set the rules for alcoholic sale and consumption. There was a good bit of variance among the states initially, and some states were dry for a while; there are still some dry counties in Kentucky that make the world's finest bourbon. So their rules are very discriminating at the state level.

The way around a lot of social problems, whether it's abortion or drug use, is not to make these decisions at the national level because there's enormous variance at the state level about preferred rules on these matters. That's the way to handle the drug issue: just stop the federal prohibitions on importation, manufacturing, and sale.

There are other ways to handle Milton's recognized conflict between open borders and the welfare state. As I wrote in an article 18 months ago, we should build a wall around the welfare state, not around the country. In other words, have rather strict rules for access to federal welfare but don't build a fence around the country, which I think is really quite offensive. Not very long ago, President Reagan went to Berlin and said, "Mr. Gorbachev, tear down this wall." We are building a very high wall right now, and someday the Mexican president is going to come to the border and say much the same thing.

DR. PIÑERA: From a world perspective, I believe that Friedman's most radical prescription was the idea that economic freedom is a necessary condition, not just a sufficient one, for political freedom. That's in chapter 1 of *Capitalism and Freedom*, and it has influenced many people around the world. It's so easy to say yes, let's vote. The difficult thing is to create the free-market institutions that really give people daily freedoms.

DR. NISKANEN: On school choice, the California initiative on the statewide ballot was defeated primarily by suburban white Republicans. The money and the organization came from the teachers' unions, but a careful analysis of the voting patterns made it quite clear that the pro-voucher people had not persuaded suburban white Republicans to vote for it, whatever the reason. That's the major challenge: we still do not yet have a broad consensus for school choice and for school vouchers. Until we have broad public support of the idea, the teachers' unions are going to look as though they're the victors.

MR. GIGOT: The reason, Bill, is that most suburban parents actually think that their schools are pretty good. Such a big change on a ballot initiative is something about which most voters are very cautious. So I'm not surprised that those statewide ballots failed. But I agree that we need to change minds over time.

To answer Deroy's question, I think we probably underestimate the degree to which Friedman's major economic work was radical, and was considered radical at the time. Friedman's core insight—that money matters, and that it matters much more than fiscal policy—at the time was considered to be heresy. When you're working in an academic environment, that's a very brave thing to do. Just look at our college faculties these days: How many dissenters do you really have from the orthodoxy? What Friedman did was radical in his core discipline, and it has been radical in its effects. The world's central bankers have learned an enormous amount over the last 30 or 40 years from Milton Friedman, Ed Phelps, and others, about how to run monetary policy, and that's been enormously beneficial. At the time, however, it was truly radical.

MR. MURDOCK: I believe that I read an interview once in which Milton Friedman said, "I'm not a conservative; I'm a free-market radical." So I think that he would embrace that label. We will now welcome questions from the audience.

DR. KOSSMANN: Regarding the economics of medical care, please remind us what Milton Friedman had to contribute to that issue.

MR. GIGOT: I think that he understood the many problems with third-party payments, and the fact that medical care ought to be allocated based upon market principles just like all other services and products in a free society. If he were alive today and looking at President Bush's recent proposal, for





example, I think he would say that it's moving in the right direction and that it's a step toward leveling the playing field on the tax treatment of health care. I think that Friedman would support a transition toward more consumer-driven individual judgments about how you spend your health-care dollars and the kinds of treatment you get.

MR. WALTER RILEY: How many years do you think will pass before there is broad-based national support for school vouchers? What's going to precipitate that change? Would it be suburban schools starting to fail so that no one's having a good time?

MR. GIGOT: I think technology is going to help us enormously on that front. I just think it's very difficult to beat, in a frontal assault, an interest group that is as dug-in as the teachers are. In what is fundamentally a risk-averse society, when it comes to parents dealing with their children, they don't want to endorse a high-risk policy change. So I think change is going to have to be incremental. How many years? I don't know.

DR. NISKANEN: One thing that has to happen, I think, is for suburban parents to recognize that their public schools really are not very good. American students place 10th to 20th on international tests of reading and mathematics and so forth, while the spending per student is typically twice that in places like Ireland and Finland, where they're doing much better than us here in the United States.

I don't know what's going to force that recognition. I agree with Paul that technology is going to be an end run around this, because I think you can have a lot of schooling online these days with much more freedom of choice and with the possibility of getting a much better education. A good experiment on that is already under way in Arizona.

MR. STEVE SAVAS: I'm with the City University of New York. I understand that some problems have recently emerged with respect to the privatized social security system in Chile, and the Left in the United States has seized upon that as proof that privatization doesn't work. Could you enlighten us about that?

DR. PIÑERA: We just celebrated 26 years of the private account system. In 26 years, not a peso has been lost to mismanagement, fraud, or anything. The annual rate of return on the funds has been 10.1 percent above inflation



over the past 26 years. We now have a new president in Chile, a charismatic woman who was a youthful follower of Che Guevara and yet she has decided to keep the private account system intact. What she proposed is to use the enormous budget surpluses that we are having in Chile—last year 8.4 percent of the GNP—to increase the safety net. Because we have a private account system, we have a safety net for the very poor, the unemployed, and the informal workers. She has proposed to increase the safety net—a subject that is debatable but is perfectly reasonable. There are some problems with incentives and so on, but they are secondary.

The private account system is totally successful—so much so that we have been able to export it to 31 countries in the world. Today, 125 million workers have a Chilean-type personal account system, a system that those countries would not be following if they were reading the *New York Times*. You should read the *Wall Street Journal*, sir.

MR. GIGOT: I think one country that before too long will come to think about this personal account system very seriously is China. I don't think that they will go for a social-security type of retirement system. They need their population to build up assets, and I bet they will turn to the Chilean model. And when they do, that might even have an effect on Congress. Well, maybe not, but we can hope.

MR. BARRY MILLIKEN: If Dr. Friedman were here today debating the current chairman of the Federal Reserve, how would they disagree?

DR. NISKANEN: I think that they would not disagree much. Friedman was not specifically an advocate of an inflation rule or an inflation target. Bernanke, I think, has backed away from a strict interpretation of the idea. He has learned, correctly, that he has to restrict his public comments to matters over which the Federal Reserve has some responsibility. Unfortunately, I think the same was not true of Alan Greenspan in his later years on the job, because he got involved in too many issues and became regarded by Congress in many cases as a spokesman for the Republican administration. Bernanke has done a very good job in terms of his actual policies since coming into office a year ago, and he's much more careful about his public remarks.

MR. ALEX LUBARSKY: I'm with Health Media Group. Dr. Piñera, having reformed pension plans around the world, what is your perspective on American health care, and what possibilities are there for a market approach toward it?



DR. PIÑERA: I'm not an expert on America's health system, but my view is that if you moved to personal accounts in Social Security and then you changed the way people think about incentives and about savings, you would then have an enormous impetus to reform health care, along the lines of large medical savings accounts and so on. That's what we did in Chile. We did old age first, then health, and now we even have unemployment accounts. That is, instead of having subsidies, we encourage workers to save in an account, and whenever they're unemployed they can withdraw money from the account. If you are never unemployed, then that account mixes with the retirement account.

This is a paradigm change. Once you give people the idea that they are not entitled to all sorts of government benefits—that they have to save, to be responsible, to rely on their responsibility, with a safety net—then people begin to think differently in many other areas of social policy.

DR. NISKANEN: I think that's a good general rule. The two institutions that have worked on this matter the longest are the National Center for Policy Analysis in Dallas and the Cato Institute, and we have come to more or less of a consensus about the steps that need to be taken on this issue. One is that insurance is a very large part of the problem. Broadening insurance is not part of the solution. People ought to be able to buy any kind of insurance they want, but we should restrict any governmentally-subsidized insurance to high-deductible policies where the deductible may be a function of income, or age, or something of that nature.

But health care is a much bigger problem and a much more complicated problem than Social Security. We ought to go ahead and sort out Social Security; it's a much easier problem to address. But many things need to be done in health care. We need to change any government-provided health insurance from a defined-benefit program to a defined-contribution program. As long as it's a defined-benefit program there's always going to be some kind of medical care that's not listed and not covered, which provides an incentive for broadening the system.

We also need to take the responsibility for providing health insurance away from the employers. We have employer-provided health insurance by historical accident in the United States. You don't get your life insurance, fire insurance, or auto insurance through your employer. You get your health insurance through your employer because of, believe it or not, wage and price controls during World War II. Kaiser Permanente, then building big ships,

recruited labor by offering workers a health plan, which was not covered by the wage controls. We need to separate health insurance from the employer so that we buy our health insurance the way that we buy any other kind of insurance. We should allow individuals to buy insurance from companies that are not chartered in their state. We ought to create a national market for health insurance so that people are not restricted to the options that are offered in their own state.

Where we ought to end up is with a publicly financed health insurance system that has, say, an income-tested and maybe an age-tested deductible but is not a defined-benefit program, it's a defined-contribution program, and it does not in any way specify what individuals might choose for themselves. In that case, the only political decision would be the rules for the deductible. All other decisions would be made by the patient and the physician.

That's the direction in which we should be going. In many cases, we can do this step by step, piecemeal. It doesn't have to be done all at once. The president's proposal at the State of the Union message, though limited, was unusually creative, and it deserves understanding and support.

MR. J. P. DONLON: I'm with *Chief Executive* magazine. In the next generation, who would you say has picked up the Friedmanite torch among the intellectual community? Whom shall we be paying attention to?

DR. PIÑERA: Let the market decide that.

DR. NISKANEN: It's probably best to ask that question of an active professor. Active professors see the young people who are coming up, whereas I don't see them unless they're applying for a job. One of the more encouraging developments in economics is that many schools that were not very long ago dominated by Keynesians are now quite Friedmanite, including Harvard. So I think that there's a much better average quality of education in the economics departments now than was the case 20 or 30 years ago.

MR. GIGOT: I agree with Bill and there are no longer so few of them like Milton Friedman that you can say there's one, or two, or three. There's a multitude of younger economists who are doing interesting research. Kevin Murphy, at the University of Chicago, for example, on school choice; and Caroline Hoxby, at Harvard, has also done some very interesting work on the



impact of school choice. There's a couple of economists at Dartmouth doing good work on free trade. There are many more, which is very encouraging. Many send op-eds to us. The intellectual paradigm in economics has changed so fundamentally that even Paul Krugman used to be a free trader when he was an academic, before he became a columnist.

MR. MURDOCK: I would add that the places where you now will find the future Milton Friedmans of the world are not just universities. Milton Friedman did much of his excellent work as a think tank scholar at the Hoover Institution, and I would look to the think tanks in the United States, like the Manhattan Institute, Cato, and the Heritage Foundation. I work at the Atlas Economic Research Foundation. We work with or support about 250 free-market think tanks in about 75 countries around the world, and we work with the Milton Friedman of Bangladesh, or the Milton Friedman of Nigeria. There are people around the world who are advancing these ideas and helping people become free to choose.

MR. DONALD SMITH: Did Friedman ever give any guidelines on when the United States should intervene militarily abroad?

DR. NISKANEN: Not to my knowledge. He was a very strong and effective advocate for ending conscription, but to my knowledge he never made public remarks about how big an army, or navy, or air force, or marines, we ought to have and what they ought to do.

MR. GIGOT: When he came to see us at the editorial board a year or so ago, he did talk about the threat from Islamists and about their ability to obtain a nuclear weapon or a weapon of mass destruction as being the foremost threat of our time, but I don't recall him having very strong views about how to deal with it—particularly as it relates to the Bush doctrine or anything like that.

MS. CHARLOTTE FRANK: Back in the 1950s, *Life* magazine produced a full issue on the problems in education, which has continued to plague us. It's a wonderful document if you ever want to take a look at it.

What would you like us to do about education? We talk about vouchers. One-third of our students don't graduate from high school, and one-third of our students who do go on to college end up leaving. We have 2,000 high

schools in which we have kids locked in, and we know that they are under-performers. What would you want to have happen? What should we do to start to deal with this situation?

DR. NISKANEN: The common word behind all the changes that ought to be made is “choice;” choice by parents. Choice within the public school system is desirable. The charter school movement should not be dismissed. It provides choice within given school districts. Choice between public and private schools, whether by a voucher or by a credit, should be at the top of the list.

In many cases, however, we need to reverse the two major changes within the public school system that have been made over my adult lifetime. First, when I started high school, there were 140,000 school districts in the country. There are now about 14,000. So the school districts have grown enormously in terms of the number of students that they handle, and that centralization has been counterproductive to student performance.

Second, when I started high school, almost all school finance came from the local district. Public school was financed out of property taxes. Now, the dominant financing agent for schools is the state, with an unfortunately increasing role by the federal government. So we need to decentralize the choice about where to go to school to the parents and decentralize the choice about what kind of school will be provided and where to the level of the local school districts. To do that, we need to reverse these two major changes in American public schooling over the past 60 years.

MR. KEN SILBER: I’d like someone on the panel to address a complaint sometimes heard from harder-line libertarians: that Friedman allowed too much scope for government action with his ideas about school vouchers and negative income tax, and with his role in setting up income tax withholding.

DR. NISKANEN: Friedman wanted to work on the edge of what was feasible and to make the best case possible for moving the feasible in the direction of individual liberty. I think that he typically despaired about utopianism, libertarian or otherwise. I think that he was embarrassed about the fact that the first policy issue on which he worked was income tax withholding during World War II, working for a man who was later proved to be a Communist agent. But he wanted to pull the edge of what was feasible in the direction



of individual liberty, and he recognized that to do that, one doesn't want to adopt anyone's model of utopia, libertarian or otherwise.

DR. PIÑERA: I totally agree with Bill, and incidentally I discussed this once with Milton at length. In our reform, we allowed the worker to place the full FICA tax into a personal retirement account. That is a huge step toward choice and freedom, but it's not all the way. All the way would be to tell people that they can do whatever they want with their FICA tax, but that is completely impossible. I have been to 80 countries in the world. You cannot even begin saying that you should go from 60 years of social security given by the government to nothing at all, because people believe that the government has some role.

So what we did in Chile was to go to private accounts, but—and I told this to Milton, and he loved it—in a little article of the law I stipulated that the compulsory account only go up to a certain level of income. In Chile it's \$25,000 a year. So you have to put 10 percent of the \$25,000 into the account. So if you make \$100,000 you put much less than \$10,000. Since we did this 25 years ago, the income per capita of Chile has gone up three times but the ceiling has not been touched in 25 years. So the mandatory element has been going down enormously.

I don't emphasize this very much in Chile, because someone will realize it and then will try to raise the ceiling. But to libertarian groups, I say we are moving toward a totally free social-security system, only gradually. The day will come when every Chilean makes \$100,000 a year and will only have to put away 10 percent of \$25,000, or \$2,500. That is 2.5 percent, you see? So that is the way change is effected.

I don't have much patience for the libertarian who says, "Why don't you simply eliminate social security?" Well, you would only last one second if you proposed that to any prime minister in the world. But if you propose changing the system to personal retirement accounts, you have already moved 90 percent down the road. Then you can move the other 10 percent in time through intelligent, well-designed mechanisms like the one I'm explaining. Milton liked this process enormously.

MR. GIGOT: I don't have much patience, either, with those who say that vouchers would allow the government to infiltrate and take over private

schools. Private schools would still have the capacity to resist that money if they wanted to. Meanwhile—what is it?—78 or 80 percent of the kids are in public schools, and to say that we don't want to worry about them because we're worried about what government might do to this or that private school is, I think, irresponsible.

Friedman operated at the nexus of ideas and politics, and when you do that, you have to make some accommodation for what is achievable. As he said in his essay on education, there are “neighborhood effects”: there is some public good from ensuring that everyone has a public education. Within that framework, vouchers seem to me to be about as libertarian an idea as is practically achievable.

MR. MURDOCK: Thank you all for your questions and comments. Please join me, once again, in thanking our panelists: William Niskanen, José Piñera, and Paul Givot.

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MR. MONE: Good afternoon. I am Larry Mone, president of the Manhattan Institute. I hope everyone is enjoying our Friedman Freedom Fest.

Milton Friedman had a gift for being thought-provoking, for challenging the conventional wisdom, and for helping people to look at an issue from a fresh perspective. He understood the power of ideas and the importance of conveying those ideas to the general public in ways that were entertaining and easy to understand.

These are all attributes that are equally shared by our luncheon speaker today: John Stossel.

As you all know, John is the coanchor of ABC News' 20/20 where his commentaries often take a skeptical look at a wide array of issues, from education, to government waste, to the threat of junk science and unscrupulous trial lawyers.

John is the author of two best-selling books, has received 19 Emmy awards, and has been honored five times for excellence in consumer reporting by the National Press Club. Among his other awards are the George Polk Award for Outstanding Local Reporting and the George Foster Peabody Award.



Please join me in welcoming John Stossel.

MR. JOHN STOSSEL: Thank you Larry. What was so remarkable about Milton Friedman was that he was not only able to do the economics, but he really communicated the economics as well. The book *Free to Choose* was a huge bestseller. I mean, he did both. I'm just a TV simpleton trying to pass on his ideas. Milton could cross into both worlds. The current issue of *Reason* magazine has a number of quotations from him, a couple of which I'd like to read, and they really illustrate how he would say things much more simply than most of us do.

"A state law requiring people who ride motorcycles to wear helmets is the best litmus paper to distinguish true believers in individualism...because the person riding the motorcycle is risking only his own life. He may be a fool to drive that motorcycle without a helmet but part of freedom...is the freedom to be a fool."

"Many people complain about government waste, but at least waste brings home to the public at large the fact that government is not an efficient and effective instrument for achieving its objectives. One of the great causes for hope is a growing disillusionment with the idea that government is the all-wise, all-powerful big brother who can solve every problem that comes along."

This, in some ways, makes me nervous about the fall of the Soviet Union. We no longer have wonderful models for failure that are so glaringly obvious. We have North Korea, Cuba, the Motor Vehicles Department. We need models, of course, because the mainstream media is so hostile. Paul earlier talked about how *Capitalism and Freedom* was not reviewed when it first came out by any of the mainstream media. It actually was never reviewed, and in 1987 Milton Friedman wrote that *Capitalism and Freedom* was "a book directed at the general public that was destined to sell more than 400,000 copies in the next 18 years, written by an established professor at a leading university and published by a leading university press. Yet it was not reviewed by a single popular American publication."

I complain now that I've had two best sellers and the *New York Times* won't mention either one; but the climate was much more hostile for Milton Friedman, and he cheerfully went on about it. Bill said something like, "It's very important not to impugn the motives of these people," but that's very

hard to resist. I impugn their motives all the time. We live among them here in New York and I often wonder: Why are they so hostile?

Milton wrote, “I think a major reason why intellectuals tend to move toward collectivism is that the collectivist answer is a simple one. If there’s something wrong, pass a law to do something about it.” That is the way people think. You would think that intellectuals would know better, but I guess you need to read Hayek and Friedman—or at least study economics—to understand that the spontaneous order can work better.

Milton also went on to say, “It’s fortunate that the capitalist society is more productive, because if it were not it would never be tolerated. The bias against it is so great that it’s got to have a five-to-one advantage in order to survive.” How true that is; it has been demonstrated again and again. Look at the success that José talked about in Chile: taking it from Third World poverty to First World prosperity, and yet ten years after this huge success of private social security accounts, the *New York Times* is still writing hostile stories, as one of the questioners mentioned.

I was trying to explain Social Security privatization before President Bush talked about it, and I went to Chile, thinking that I could get success stories from enthusiastic people on the street, but I couldn’t. Everybody I talked to said, “Yeah, it’s okay, but so-and-so’s earning more interest than I am, and the paperwork is bothering me.” People take the benefits of capitalism for granted, and that is one reason that it is an endless battle to explain this to people. In New Zealand, they had free-market reforms that lifted the country out of horrible stagnation, and a few years later they voted the collectivists back in.

What is this hostility toward capitalism? I’ve tried to understand it among the intellectuals in New York City and at the *New York Times*. Is part of it just the envy of wealth? Certainly, the unequal distribution of the wealth makes people uncomfortable; it seems unfair. But if you think about the kings and queens of England, they were absurdly wealthy; yet they were liked. People hated the bourgeoisie, not the kings and queens. They hated the people who sold them the very things that they needed to make their lives better. There’s something instinctive about this fear and hatred of capitalism. Perhaps it’s the belief that when someone sold them something, they were taking something from them—the belief that business is a zero-sum game. It’s what Gordon Gecko said in the movie *Wall Street*: “It’s a zero-sum game, somebody wins, somebody loses.”



I understand why lawyers and politicians think this way, because if one lawyer wins, someone else loses. It's the same for politicians running for elections. But as the study of economics has taught us, business is not a zero-sum game. It's not like somebody eats part of the pie and that means we have that much less. Business bakes whole new pies; business is win-win. But the intellectuals don't get that. Capitalism, which has lifted more people out of the mud and misery than any system ever, continues to be vilified despite the cheerfulness of Milton Friedman.

Now, the new movement says, "Okay, capitalism brings us material stuff, but it corrupts our spirit." Again, Milton Friedman was clear and ahead of us. He wrote, "The argument has always been made that the trouble with capitalism is that it's materialistic, while collectivism can afford to pay attention to the nonmaterial. But the experience has been the opposite. There are no societies that have embraced the purely material requisites of well-being as much as the collectivist...It is in the free societies that there has been a far greater development of the nonmaterial, spiritual, artistic aspects of well-being." Once again, he was well ahead of us.

I try to communicate Friedman's ideas in my TV programs, in between doing stories on diet and breast enlargement to keep my job. One of the programs in which we tried to explain his ideas was one we called "Is America Number 1?," which discussed what makes a country prosperous. If you ask high school kids, "Why is America prosperous when so many other countries are poor?" they say things like, "Well, we have all these natural resources." So I say, "Well, India has equal natural resources and India is poor," and they say, "Well, India's overpopulated." And I can point out that the population density of India is actually the same as that of New Jersey. New Jersey's doing okay. Or take Hong Kong, which has 20 times as many people per square foot as India and no natural resources, yet Hong Kong has become rich. What's the difference? It's economic freedom, and this came from *Free to Choose* and Milton Friedman. We have a short video clip of "Is America Number 1?" to illustrate what he taught me.

That piece is now in most of America's high schools, thanks to a charity that some of you have supported. Andrea Rich and I are beginning to get more of these ideas into high schools. Kristina Kendall is also working with us. If any of you want to help with that project, please do so; I'd like to get kids to think about this. Kristie initiated the last interview that Milton did before he died, it was for a story that we did after Hurricane Katrina in praise of price-gouging.

After the hurricane, some guy from Tennessee, after watching people struggle to get power, bought 20 generators, put them in his truck, drove 600 miles to Mississippi, and started selling them. People were eager to buy them. But the police quickly showed up and locked him up, and they locked up his generators, where they still are to this day.

I was trying to make the point that these price-gouging rules, all well intended, as Milton said, hurt more people than they help, and that it's only through sudden price spikes that suppliers rush in to bring us the things we want most. Why would you leave your home in Tennessee to bring people generators unless you could make some extra profit? The people for whom I work said, "This can't be true," and "You can't just say this." I said, "How about if I get three Nobel Prize-winning economists to say that it's true?" So I rounded up bites from three of them. Two, of course, were unintelligible, but Milton, God bless him, always makes it clear, and he said that the price gougers were heroes. We will all miss him.

Paul talked about Milton's optimism. I, too, always thought of Milton as a very optimistic man. He certainly was more optimistic than I. But reading these quotations, I see that in some ways his optimism was tempered. He said, "There have been a few victories. We did, after all, get rid of the Civil Aeronautics Board that regulated the airlines. We did get rid of military conscription—that's something truly to celebrate. But the improvement has been meager."

Another time, he said, "There's a great deal of basis for believing that a free society is fundamentally unstable—we may regret this but we've got to face up to the facts... I think it's the utmost of naiveté to suppose that a free society is somehow the natural order of things." I think the odds are that a free society is on the way out, but that doesn't mean we shouldn't fight for it, or that sulking in our tents, explaining to one another how nice it would be if we could only get our way, is an effective means of fighting for a free society.

So he fought. I thank you for continuing the fight; we must all keep fighting. Thank you very much.

MR. MARK SKOUSEN: I've shown "Is America Number 1?" to students all over the country, and I think that it's your best program in terms of projecting



economic freedom. Are you're telling me that we can't do this any more? What's going on with this ABC News restriction?

MR. STOSSEL: A nonprofit had been created by Bob Chittister of Free to Choose Media, who did the *Free to Choose* book with Milton Friedman and produced that first documentary, which I showed you a minute from and which will be shown tonight as part of documentary on PBS. Chittister took samples from ABC. ABC gave him permission, and he started selling them to schools for \$80 each. Nobody bought, so we started raising money ourselves and giving them away to teachers who applied for a scholarship. Over several years, we were able to penetrate most of America's government schools—Milton Friedman liked to call them “government schools” rather than “public schools.” Then ABC decided that Chittister was a right-wing ideologue and that it would besmirch ABC's name to continue to work with him, so they killed it off.

We are starting over again. ABC has approved The Center for Independent Thought, which is a nonprofit run by Andrea Rich, whom some of you know. She used to run Laissez-Faire Books. We have offered new materials like Milton's price-gouging story to teachers, and 40,000 have already signed up. If you estimate that they show it to about a hundred kids each, that's about 4 million kids per year who will at least get to think about these ideas. So we are beginning again.

MR. ED HOCHMAN: There's an old joke: How many libertarians does it take to change a lightbulb? The answer is none; the market will do it. Did Milton Friedman believe that there was such a thing as market failure, where he would have preferred government intervention?

MR. STOSSEL: I'm not enough of a learned person to explain that. Maybe Bill could answer that.

DR. NISKANEN: Friedman talked about conditions in which there are methods or costs external to those borne by the acting party, and that is the fundamental reason for government's existence. He thought that it doesn't take very much government to solve those problems, but he did acknowledge that particular basis for government.

MR. STOSSEL: Certainly, when people talk to me about market failure, it's always trivial problems, and the perfect becomes the enemy of the good. The market sorts most everything out.

MR. TOM BROWN: John, I once saw a report of yours on 20/20 that I thought was very biased. I don't remember—this was years ago—it was probably an environmental issue, which I'm more familiar with than other issues. With some environmental issues, there is a real problem that exists when there isn't private ownership, and that makes public policy a little more difficult than it would be in other cases. I'm not sure what Milton would think of that.

Bill probably has a lot more to say about it than I do, but my question is oriented toward what's happening with the media today. There is a feeling that most of the mainstream media is very liberal and, on the other side, are Fox and more conservative commentators like you. I'm thinking that maybe, somewhere in the middle, we're missing something. I'd like to hear what you have to say about that.

MR. STOSSEL: The middle—I think Vaclav Klaus called that a road to the Third World. Clearly, the media was all liberal until Fox and conservative radio appeared. I find that the media is still suffocatingly liberal. It's interesting that I am called a conservative. I believe that abortion should be legal, that homosexuality is natural, that drugs should be legal—and they call me a conservative. Conservatives would have it really tough in the mainstream media, but at least now we have more choices. I know that Milton liked what I did, so I was happy with that. And I'm sorry you thought I was biased about my environmental story.

MR. MARSHALL JAFFE: You attended Princeton University, you work in the news media, and you live and work in greater New York. Having been through all those extensive brainwashing processes, how do you explain having turned out with your set of ideas? What would you recommend to parents for preventing their kids from being brainwashed in the way that you might have been but weren't?

MR. STOSSEL: I was pretty well brainwashed. I came out of Princeton in 1969, believing that the Great Society would solve poverty and all problems with the central planners' expertise. It's kind of natural to think, "It's a complicated world; we can't figure all this out—we want the wise elites in state capitals and Washington, D.C. to set the rules."

Then I was mugged by reality, but it was very slow. I was a consumer reporter in Portland, Oregon, and I got to watch the regulatory state every day. I had



an unusual ringside seat. Somebody would complain that they had been ripped off by a repair shop, so we would send a TV set with a loose tube into 20 different repair shops to see what they would do. Some shops would fix the TV by just pushing the tube back in. Others would say, “Oh, big problems,” and charge us several hundred dollars. Then we’d return to the latter shops and say, “Would you ever cheat us like this?” “Oh no, never.” “Oh yeah? Well, watch this”—and we’d play the hidden camera tape.

After it aired, politicians would call up and say, “That was a great story, and we’re going to take action now—we’re going to regulate TV repair.” As a young reporter, I loved this; I loved the attention I was getting. Suddenly, I was this important person, and they were passing laws to solve these problems, and that was great. But because I was on the beat, I got to see the results five years down the line. I saw that they had a bureaucracy. They mainly had people fill out forms; they sat on their duffs; they didn’t do the kind of simple stings that we did.

Of course, the end result was that it cost more to open a TV repair shop. If you were an immigrant and you were on the margins, you might have to do it illegally to serve the poor people in your neighborhood. The regulation, again and again, didn’t help. I kept reading the *New York Times*, which was proposing more regulation, and then I found *Reason* magazine, which showed me that Milton Friedman and others had come up with a much better system that I had never learned about at Princeton.

MR. HENRY STERN: The operation of the free market, which I generally believe in, has to do with excessive corporate salaries, where people use their positions of power to give themselves eight- or nine-figure salaries, whether their companies succeed or not. Do you think there is any remedy for this situation? If so, what do you think that it might be?

MR. STOSSEL: Yes, the market is a remedy. I know that as Parks Commissioner you were sympathetic to the free market, but I don’t believe that you really believe in the free market, from our prior conversations. Forgive me. Yes, it’s gross that Pfizer pays McKinnell \$200 million as they fire him. But the press rarely points out—although the *Wall Street Journal* does—that this wasn’t just a matter of, “We’re going to reward our rich friends.” This was part of the hiring deal for the most part, to get these guys to take the job. The man who sits at the switch can make far more than a \$200 million difference to the

stockholders, so they often have to offer big severance deals in case that it doesn't work out.

First, how will it be solved? It's being solved now. The bad publicity is deterring boards of directors from being sloppy about this. Second, how big a problem is it, really? When government messes up, when the Bureau of Indian Affairs loses \$3 billion of the Indians' money, as it did, nothing happens. No one's reprimanded, let alone fired. They just go back to Congress and say, "We need another \$3 billion." But if the company overpays its executives, it will start to lose money. It will go out of business. It will be taken over by somebody else. If the payment is excessive at Pfizer, then stockholders will shy away. Apparently, the amount wasn't excessive, because what the company produces is still more valuable than what they overspend on, so I don't see that as a big market failure. But it is gross, yes.

MR. WALTER RILEY: How many Emmys did you win when you were a consumer reporter—a liberal type of reporter—and how many Emmys have you won since you “found the truth”?

MR. STOSSEL: Thank you for that question—it is very telling. I won 19 Emmys bashing business, and since I started to change my focus toward being skeptical of regulation, I haven't won any. I went on CNN's *Reliable Sources* program, and when I got there, I found that they had titled it “Objectivity and Journalism: Does John Stossel Practice Either?”

There's a real collectivist feeling among my colleagues in the media. I'm not sure why. My only theory is that something happens in high school. There's the left brain and the right brain—you've heard that theory. The left-brain thinkers are the analytical, critical thinkers, and the right-brain thinkers are the ones who feel your pain. The latter were the slicker ones who got the girls, and they went into law and journalism. The critical thinkers went into science and business, and they don't talk as well, so they don't participate as much in the public debate. It's a silly theory, but I don't have another one. I don't know why all my colleagues are so hostile to markets.

MR. MICHAEL MYERS: I'm with the New York Civil Rights Coalition. Despite the criticism of the media, you have access to major media. Milton Friedman may not have been a darling of the media, but he certainly had access to media. As laypeople, we know Milton Friedman because he was always on



TV, and in the newspapers, and he had his column. Regardless of how liberal or left-wing the media has been, they still had “balance,” so they at least saw the value of a Milton Friedman espousing his ideas in a massive way.

With respect to Milton Friedman’s ideas as a libertarian, as opposed to an economist, how much do you think he believed he had accomplished what he needed to accomplish, at least in terms of the American system? I don’t think you could have Hong Kong, for example, in New York. Everything is regulated in New York. We’re prosperous but we’re still regulated. Spitzer became a “great” attorney general because of regulation. What is the balance that we make in terms of being an extremist libertarian versus the necessary regulation to ensure safety, national security, and so forth?

MR. STOSSEL: There were a lot of points in there. I quibble with your saying that Milton got to have his ideas go out in the media. He barely did. As Paul pointed out, *Capitalism and Freedom*, this huge success, was barely mentioned by the mainstream media. He got a column in *Newsweek*—one column in *Newsweek*! I’m one guy on network TV, and I got there only by coming in as a liberal consumer reporter; I got my nose under the tent and then changed my point of view. These ideas are simply not welcomed in the mainstream media.

The idea that we need a middle ground to keep us safe is intuitive, and there are a thousand examples of it, but as I’ve read Milton Friedman, I think that he would argue that we don’t need any of that because the private market could do it better.

Take the FDA, for example. Even my brother, a research doctor who is reading Hayek and Adam Smith, is uncomfortable with saying that the FDA should be privatized. But consider what the FDA does. It takes 15 years to get a new drug approved. Intuitively, I’m glad; I want to make sure that the drug is safe and effective. That’s the FDA’s mandate. Otherwise, greedy people would sell us snake oil. But what this also means is that government, in protecting us from bad things, protects us from good things.

Some years ago, the FDA announced they were approving a new heart drug. This new beta blocker would save 14,000 American lives a year, they said. Nobody stood up at the news conference and said, “That’s great, but doesn’t that also mean you killed 14,000 people last year, and the year before?” Reporters didn’t ask that because they don’t think that way; but it did mean that. Reporters just

can't cover that. We can cover the thalidomide baby. We put the thalidomide baby on the cover of *Life* magazine. We can see the failures. But I don't know which of you might have been saved by the new heart drug. I don't know whose picture to take. So the bias goes in favor of more safety regulation.

Europe is now run under the precautionary principle, which sounds so good: don't approve anything unless we can ensure that it's safe. But that also means: don't do anything for the first time.

What Milton pointed out is that if the government doesn't have a monopoly on these things, private alternatives can step forward to do the job better. I don't know how it would work for the FDA. It's a fatal conceit to predict how it might work, but let's say that maybe Underwriters Laboratories, or perhaps Consumer Reports, would step in and do the testing cheaper. Isn't allowing us the choice what America's supposed to be about?

Likewise, food safety. I think that if you didn't have all these food safety rules, people, when they shopped, would look for labels. They would look for the Oscar Mayer label to know that the hot dog was safe, and they would be protected that way. This job on safety does not need to be done by the government; the private sector would do it better.

MR. ALVIN LURIE: Wouldn't you agree that there are limitations on freedom and that at some point, the government must interpose its role? Don't you agree with Holmes, who said that freedom is not the ability to cry "Fire!" in a crowded theater? I can't extend my arm to punch the next guy in the nose. In those cases, do we wait for an uprising among the populace, or do we rely on government in the extreme? Are any of these things not subject to abuse, even in the extreme?

For instance, the question with reference to CEO salaries today: Congress has a bill on the floor right now that is going to deal with excessive executive salaries. Isn't that appropriate at some point? Don't you create an adverse reaction among the public when you permit this situation to go unbridled? Shouldn't there be some point at which government steps in and says, "This has become so abusive that it's creating a counter-effect on society"?

MR. STOSSEL: Milton Friedman certainly would have said yes, there is a role for government, and the worst places to live are the places that don't have any government—the African country where you're afraid to build a factory to produce something good, because maybe your neighbor will take what you



make, or the dictator will take your whole factory. You need rule of law. Clearly, government's role is to stop me if I'm going to punch you in the face.

But the genius of the Founders was limited government. And CEOs' salaries certainly don't rise to that. America grew fastest when government was less than 5 percent of the GDP. It's now at 40 percent, and that hasn't stopped the desire for more. Thomas Jefferson said, "It's the natural progress of things for government to gain and liberty to yield." And that's what's been happening.

MR. MURDOCH: While we're on this topic of excessive CEO salaries: a few years ago, I think that Barbra Streisand made \$5 million singing one night at the MGM Grand in Las Vegas. Does that strike you as excessive, and should we perhaps have some legislation on that?

MR. STOSSEL: No.

FEMALE VOICE: John, look at thalidomide. Now it's the basis for Celgene's best-selling drug, Thalomid, for hematological cancers. So thalidomide is back on the market. Patients who are taking it have to be monitored, but it's helping many people. Maybe if we had left it on the market, people with hematological cancers could have had years more of life.

MR. STOSSEL: That's a good point. Thalidomide is saving lives now. Milton Friedman would have pointed out the folly of this one-size-fits-all solution from the federal government. In the case of Vioxx, some people are willing to take Vioxx because they're in horrible pain, and the tiny increased risk of a heart attack may be worth it to them. Others will feel differently. But that has to be decided by individuals.

In the case of thalidomide, we could warn people: "It can cause horrible things—children born without arms and legs—so don't take it when you're pregnant. But it may have other uses."

Beyond that, don't you own your own body? How have we become so wimpy that in this free society we let the state say to us: you are forbidden to put that in your own body. Patrick Henry didn't say, "Give me absolute safety or give me death." It's supposed to be about freedom. Thank you.

MR. MONE: Thank you all. *The Power of Choice* will be televised at nine o'clock tonight on PBS.



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One of the greatest proponents of individual freedom and individual choice, Milton Friedman was a teacher, scientist, author, revolutionary intellectual, and winner of the 1976 Nobel Prize in economics. On January 29th, numerous events were organized to celebrate Milton Friedman's impact on American life and business and the spread of the benefits of free markets to nations around the globe. As part of this commemoration, the Manhattan Institute gathered a number of respected figures who discussed the Friedman legacy and celebrated the life of this extraordinary champion of individual and economic freedom.

