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**FROM THE PAST TO THE FUTURE:  
IDEAS AND ACTIONS FOR A FREE SOCIETY**

CHAPTER THIRTY-FOUR

## MAKING THE CASE FOR LIBERTY

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# **MAKING THE CASE FOR LIBERTY**

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According to many economists and pundits, we are living under the dominion of Milton Friedman's free market, neoliberal worldview. Such is the claim of the recent book, *The Economists' Hour* by Binyamin Applebaum. He blames the policy prescriptions of free-market economists for slower growth, inequality, and declining life expectancy. The most important figure in this seemingly disastrous intellectual revolution? "Milton Friedman, an elfin libertarian...Friedman offered an appealingly simple answer for the nation's problems: Government should get out of the way."

A similar judgment is delivered in a recent article in the Boston Review by Suresh Naidu, Dani Rodrik, and Gabriel Zucman:

Leading economists such as Friedrich Hayek and Milton Friedman were among the founders of the Mont Pelerin Society, the influential group of intellectuals whose advocacy of markets and hostility to government intervention proved highly effective in reshaping the policy landscape after 1980. Deregulation, financialization, dismantling of the welfare state, deinstitutionalization of labor markets, reduction in corporate and progressive taxation, and the pursuit of hyper-globalization—the culprits behind rising inequalities—all seem to be rooted in conventional economic doctrines.

A recent essay from Larry Kramer, President of the Hewlett Foundation and former dean of the Stanford Law School, makes similar claims and blames Friedman, Hayek, and the Mont Pelerin Society for laying the groundwork for a free-market policy revolution:

Unfortunately, today's prevailing intellectual paradigm — which has come to be labeled "neoliberalism" — is no longer up to the task. However well this free market orthodoxy suited the late 20th century, when it achieved broad acceptance, it has proved unable to provide satisfactory answers to problems like wealth inequality, wage stagnation, economic dislocation due to globalization, and loss of jobs and economic security due to technology and automation.

Based on these quotes, you'd think we were living in a world where free-market policies dominate, where government keeps getting smaller and where individual liberty is on the rise, a world in other words, with a "broad acceptance" of "free market orthodoxy."

I see the glass as very much half-empty. Or maybe even a lower level.

The nanny state continues to grow. The size of government continues to grow. Crony capitalism seems to get cronier every year. Socialism is back on the table in a serious way that it never was before in the United States. There is a relentless focus on inequality from economists on the left and politicians who have accepted their claims. That capitalism serves only the richest among us has become a mainstream consensus. Economic nationalism and protectionism are on the rise. Occupational licensing is increasingly common. And while some markets have been deregulated, the

commanding heights of the modern economy—health, education, housing, and finance are increasingly distorted by government intervention.

If this is a free-market triumph, give me less of it.

The bottom line is that those of us who care about economic freedom and the classical liberal values of Adam Smith, Hayek and Friedman that emphasize the freedom to choose—we are very much on the defensive. We have lost the moral high ground as well as our footing in the public discourse on these issues. We are increasingly ignored.

In this essay I'd like to make a few suggestions on how we might make some headway in making the case for liberty and for making a move away from growing government more likely rather than less.

### **What About the Poor?**

Free-market economists tend to focus on growth. I'm a big fan of growth. I think a rising tide still lifts most boats. I think people continue to risk their lives to come here to be poor because they believe they will thrive here and their children will thrive. The guards in Cuba face inward not outward—they don't have to keep out Americans seeking an egalitarian paradise. They have to keep Cubans in who wish to escape.

Through videos I've created at the [PolicyEd.org](https://www.policyed.org) website in my series called [The Numbers Game](#) and elsewhere, I've tried to make the case that the claim that the top 1% or the rich or even the top half of the income distribution have captured all the gains from economic growth over recent decades ignores evidence that shows that the gains from economic growth are still widely shared.

But even if a rising tides lifts most boats, it still seems like many boats are indeed being left behind over the last few decades.

Those who did not finish high school, those who finish high school but did not go to college, former manufacturing workers, single men, even, all seem to be having a tough time if not a tougher time than they did in the past.

The standard policies that free-marketers favor don't do much for these groups. Reducing the size of government, lowering tax rates, reducing poorly designed regulation, removing barriers to free trade—these policies seem unlikely to help the least likely among us. And our opponents would argue that they would make things worse.

I think these are good policies. But I don't think they would do a lot for the worst off in America's cities, the people struggling with opioid addiction in parts of America that no longer have much opportunity for men without a college degree or just generally people with low educational attainment.



When interventionists claim that inequality is destroying the fabric of the American economy and our political system, it is not enough to say that capitalism still works well. At least on the surface, it doesn't seem to be that helpful to the groups I mentioned earlier.

Regardless of whether smaller government and more economic freedom would help poor Americans, how often do you hear free market economists argue on behalf of smaller government on the grounds that it is good for the poor? In the 1970s and 1980s, free-market economists regularly advocated for policies like urban enterprise zones that would help the poor. You can argue that those were not a good idea. But I think the attentions of the advocates were honorable. When was the last time you heard an economist make the case that free markets are good for poor people? How would you make the case that someone without a college degree is helped by any of the standard policies that free-market advocates frequently speak about?

I worry that part of our silence comes from a self-satisfied myopia. In America today, there is still enough liberty for my children to acquire skills, to dream, and to thrive, finding opportunity and using their gifts and skills to flourish. For many of us, America is "free enough." You can still start a company or create a product that is transformative. You can raise money from venture capitalists. Or you can go out and get a STEM degree and work for the companies that entrepreneurs can start in America and live very well. I don't think we can say the same thing for children growing up in poor households. America is not free enough for them. It is those children and the adult lives they will lead who we should use to make the case for freedom.

When I attend conference dinners with free-market speakers, I often think about the wait staff who often are in the room waiting for the speaker to finish so they can serve the meal or clear the tables. What is in that speech for them? Is there something in speaker's message that resonates with their lives. If not, we are failing to make the case for freedom.

At a minimum, I think it is important that we emphasize the harm that comes from various interventionist policies and in particular how that harm is borne by the least fortunate among us.

Classical liberals need to advocate for repealing the rise in occupational licensing that makes it hard for those with little education to be part of the modern economy. We need to fight against zoning and other land use restrictions that push poor people out of cities and away from the economic opportunity in those cities. Those same restrictions make it hard for workers in towns that have lost factories and other economic activities to move more easily to cities with more opportunity. We need to advocate for radical reform of the schools that the poorest Americans attend. They do not serve the poor very well.

Of course, most if not all free-marketers favor these policies to help the poor. But they are usually not at the top of the list of policies free-marketers are passionate about.

Growth is probably a good thing. But to advocate for policies that lead to growth or to argue for policies that are “good for the economy” without discussing their impact on those at the bottom of the income distribution is to cede the moral high ground to our ideological opponents.

So I would suggest on both rhetorical and moral grounds that we focus on the poor and the least fortunate when we make the case for smaller government.

## **Have a Plan**

My second suggestion is that we do more than criticize interventionist policy we don't like. I think our current health care system is a disaster. We subsidize demand while restricting supply of providers like doctors and hospitals. We make competition among hospitals difficult. This system provides excellent care most of the time to seniors, employees of large corporations, and the poor. For others, the cost is extremely high. And while the quality is high for those who are subsidized, it's not clear that the value provided is worth the cost. It's hard to say because so few people are spending their own money. The result is a Kafkaesque labyrinthine system with fake prices, and few if any of the feedback loops that make markets work well.

So what should replace this disaster? I would like to see us move in the direction of increasing the role of market forces in health care—an expansion of health savings accounts, eliminating certificates of need for new hospitals to open, encouraging the role of generics in prescriptions, increasing the potential role of nurses in providing basic health care. I am encouraged by the potential of the idea of mandating more price transparency although I am always a little uneasy about attempts to mimic markets through legislation rather than having such features emerge via competition.

But is this grab bag the best approach? Should everything else be left in place? Even now, in the current system there are a number of people taking initiative to get around the horrible system we have. This would include the Surgery Center of Oklahoma, various so-called blue-collar concierge practices, and clinics for the poor outside of the traditional channels of provision. Should we just hope that these expand? What about the Affordable Care Act? Should it be left in place or replaced?

I don't know of a comprehensive free market approach to health care other than simply saying we should get government out of the health care business or at least dramatically reduce its role. John Taylor can tell us how he'd like to see the Fed behave—he'd like the Fed to follow the Taylor rule. What's the equivalent policy prescription in health care? How does a free-market advocate respond to the worries about Big Tech? What policies should replace the current zoning and land use regulations in American cities? What policies should be in place to replace bailouts when the next financial crisis arrives.

I am not saying that plans or proposals to deal with those issues don't exist. They may be out there. But they don't have any traction in the public eye or even among economists or policy analysts. We need to do a better job providing a road map for free-market policies. It's not enough to explain what's wrong with the current system.

### **Don't Defend Cronies**

If we're going to reclaim the moral high ground and make progress fighting for liberty, we should stop defending cronies who benefit from crony capitalism. Yes, the left hates the financial sector and finance. But sometimes the left is right. I've heard free-market economists defend the financial sector's accepting of bailouts as a simple case of self-interest and profit-maximization.

The defense goes something like this: "You can't blame financial institutions for their behavior during the housing crisis and the financial crisis that followed. They were just responding to the incentives put in place by government." Sort of. First, not everything self-self-interested is moral. This is a fundamental error that our students often make. Just because it can be in your self-interest to keep a wallet that you've found as long as no one sees you pick it up doesn't mean it's moral to ignore looking for the previous owner.

But the bigger problem with the argument defending the financial sector is that investment banks are often more than passive responders to incentives. They create the incentives. They influence the regulators. They influence the people who write the regulations. They make the case for bailouts claiming the world will end if they do not get 100 cents back on the dollar. They are part of the problem. They are not pristine capitalists.

A similar mistake gets made in discussing the pharmaceutical industry. I have heard economists defend their price increases because after all, that is what the market will bear. That market is distorted by subsidies and barriers to competition that the industry has helped put in place. The pharmaceutical industry has delivered benefits to humanity through the profit motive. I'm a big fan of the profit motive. Many on the left feel that profits should not be part of medicine. I think that's fundamentally wrong. But the world of pharmaceutical pricing is not a market in any normal sense of the word. Not because there are patents. But because most consumers of pharmaceutical products are not paying with their own money. The third-parties that pay for those products often have very little skin in the game. Big Pharma is not some evil villain. But many of the practices of Big Pharma should not be defended. And certainly the system that creates the incentives should not be defended.

The feedback loops in finance and medicine have been broken partly through the lobbying efforts of the players in those industries. Other problems persist because of the unintended consequences of various interventions. This is not free-market capitalism. We who support free markets should not pretend it is simply because our more

interventionist friends don't like those players. We shouldn't like them either. The enemy of our enemy is not always our friend.

## Flourishing and Dignity Cannot be Found in a Spreadsheet

My final suggestion is that we remember as economists and thinkers that there is more to life than what can be measured. The true value of liberty is to create the potential for each of us to pursue our dreams using our skills. The result is more than just a high standard of living. It is the opportunity for human flourishing. Human flourishing is about much more than financial well-being. It is about agency, and pride, and dignity.

None of these central human urges can be measured or put in a spreadsheet. When I tell economists this, they usually say things like, sure, I can't put that into say, a cost-benefit analysis. So we look at what can be measured and use that as best we can to evaluate a policy relative to the intangibles.

That is all well and good. In my experience, we then just forget about the intangibles. This seems to be a natural human impulse. I urge us to fight against it. Remember the intangibles.



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Russ Roberts is the John and Jean De Nault Research Fellow at the Hoover Institution. He hosts the award-winning weekly podcast *EconTalk*, which reaches an audience of more than one hundred thousand listeners in more than sixty-five countries. His two rap videos on Keynes and Hayek, created with filmmaker John Papola, have had more than ten million YouTube views and are used in high school and college classrooms around the world.

Roberts's poem and animated video "It's a Wonderful Loaf" ([wonderfulloaf.org](http://wonderfulloaf.org)) is an ode to emergent order. His series on the challenges of using data to measure economic progress, *The Numbers Game*, can be found at [PolicyEd.org](http://PolicyEd.org). His latest book is *Gambling with Other People's Money: How Perverse Incentives Caused the Financial Crisis* (Hoover Institution Press, 2019).

Other books include *How Adam Smith Can Change Your Life: An Unexpected Guide to Human Nature and Happiness* and *The Choice: A Fable of Free Trade and Protectionism*, which was named one of the top ten books of 1994 by *Businessweek* and one of the best books of the year by the *Financial Times*. Roberts holds a PhD in economics from the University of Chicago and received his undergraduate degree in economics from the University of North Carolina at Chapel Hill.



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