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'Basically an Optimist'—Still

The Nobel economist says the health-care bill will cause serious damage, but that the American people can be trusted to vote for limited government in November.

By PETER ROBINSON

Stanford, Calif.

"No, no. Not at all."

So says Gary Becker when asked if the financial collapse, the worst recession in a quarter of a century, and the rise of an administration intent on expanding the federal government have prompted him to reconsider his commitment to free markets.

Mr. Becker is a founder, along with his friend and teacher the late Milton Friedman, of the Chicago school of economics. More than four decades after winning the John Bates Clark Medal and almost two after winning the Nobel Prize, the 79-year-old occupies an unusual position for a man who has spent his entire professional life in the intensely competitive field of economics: He has nothing left to prove. Which makes it all the more impressive that he works as hard as an associate professor trying to earn tenure. He publishes regularly, carries a full-time teaching load at the University of Chicago (he's in his 32nd year), and engages in a running argument with his friend Judge Richard Posner on the "Becker-Posner Blog," one of the best-read Web sites on economics and the law.

When his teaching schedule permits, Mr. Becker visits the Hoover Institution, the think tank at Stanford where he has been a fellow since 1988. The day he and I meet in his Hoover office, Mr. Becker has already attended a meeting with former Treasury Secretary Hank Paulson and spent several hours touring Apple headquarters down the road in Cupertino with his wife, Guity Nashat, a historian of the Middle East, and their grandson. "I guess you'd call our grandson a computer whiz," he explains proudly. "He's just 14, but he has already sold a couple of apps."

I begin with the obvious question. "The health-care legislation? It's a bad bill," Mr. Becker replies. "Health care in the United States is pretty good, but it does have a number of weaknesses. This bill doesn't address them. It adds taxation and regulation. It's going to increase health costs—not contain them."

Drafting a good bill would have been easy, he continues. Health savings accounts could have been expanded. Consumers could have been permitted to purchase insurance across state lines, which would have increased competition among insurers. The tax deductibility of health-care spending could have been extended from employers to individuals, giving the same tax treatment to all consumers. And incentives could have been put in place to prompt consumers to pay a larger portion of their health-care costs out of their own pockets.

"Here in the United States," Mr. Becker says, "we spend about 17% of our GDP on health care, but out-of-pocket expenses make up only about 12% of total health-care spending. In Switzerland, where they spend only 11% of

GDP on health care, their out-of-pocket expenses equal about 31% of total spending. The difference between 12% and 31% is huge. Once people begin spending substantial sums from their own pockets, they become willing to shop around. Ordinary market incentives begin to operate. A good bill would have encouraged that."

Despite the damage this new legislation appears certain to cause, Mr. Becker believes we're probably stuck with it. "Repealing this bill will be very, very difficult," he says. "Once you've got a piece of legislation in place, interest groups grow up around it. Look at Medicare and Medicaid. Originally, the American Medical Association opposed Medicare and Medicaid. Then the AMA came to see them as a source of demand for physicians' services. Today the AMA supports Medicare and Medicaid as staunchly as anyone. Something like that will happen with this new legislation."

Bad legislation, maintained by self-seeking interest groups. Back in 1982, I remind Mr. Becker, the economist Mancur Olson published a book, "The Rise and Decline of Nations," predicting just that trend. Over time, Olson argued, interest groups would form to press for policies that would almost invariably prove protectionist, redistributive or antitechnological. Policies, in a word, that would inhibit economic growth. Yet since the benefits of such policies would accrue directly to interest groups while the costs would be spread across the entire population, very little opposition to such self-seeking would ever develop. Interest groups—and bad policies—would proliferate, and the nation would stagnate.

Olson may have sketched his portrait during the 1980s, but doesn't it display a remarkable likeness to the United States today? Mr. Becker thinks for a moment, swiveling toward the window. Then he swivels back. "Not necessarily," he replies.

"The idea that interest groups can derive specific, concentrated benefits from the political system—yes, that's a very important insight," he says. "But you can have competing interest groups. Look at the automobile industry. The domestic manufacturers in Detroit want protectionist policies. But the auto importers want free trade. So they fight it out. Now sometimes in these fights the dark forces prevail, and sometimes the forces of light prevail. But if you have competing interest groups you don't end up with a systematic bias toward bad policy."

Mr. Becker places his hands behind his head. Once again, he reflects, then smiles wryly. "Of course that doesn't mean there isn't any systematic bias toward bad policy," he says. "There's one bias that we're up against all the time: Markets are hard to appreciate."

Capitalism has produced the highest standard of living in history, and yet markets are hard to appreciate? Mr. Becker explains: "People tend to impute good motives to government. And if you assume that government officials are well meaning, then you also tend to assume that government officials always act on behalf of the greater good. People understand that entrepreneurs and investors by contrast just try to make money, not act on behalf of the greater good. And they have trouble seeing how this pursuit of profits can lift the general standard of living. The idea is too counterintuitive. So we're always up against a kind of in-built suspicion of markets. There's always a temptation to believe that markets succeed by looting the unfortunate."

As he speaks, Mr. Becker appears utterly at ease. He wears loose-fitting clothes and slouches comfortably in his chair. His hair, wispy and white, sets off his most striking feature—penetrating eyes so dark they seem nearly black. Yet those dark eyes display not foreboding, but contentment. He does not have the air of a man contemplating national decline.

I read aloud from an article by historian Victor Davis Hanson that had appeared in the morning newspaper. "[W]e are in revolutionary times," Mr. Hanson argues, "in which the government will grow to assume everything from energy to student loans." Next I read from a column by economist Thomas Sowell. "With the passage of the legislation allowing the federal government to take control of the medical system," Mr. Sowell asserts, "a major turning point has been reached in the dismantling of the values and institutions of America."

"They're very eloquent," Mr. Becker replies, his equanimity undisturbed. "And maybe they're right. But I'm not that pessimistic." The temptation to view markets with suspicion, he explains, is just that: a temptation. Although voters might succumb to the temptation temporarily, over time they know better.

"One of the points Secretary Paulson made earlier today was how outraged—how unexpectedly outraged—the American people became when the government bailed out the banks. This belief in individual responsibility—the belief that people ought to be free to make their own decisions, but should then bear the consequences of those decisions—this remains very powerful. The American people don't want an expansion of government. They want more of what Reagan provided. They want limited government and economic growth. I expect them to say so in the elections this November."

Even if ordinary Americans still want limited government, I ask, what about those who dominate the press and universities? What about the molders of received opinion who claim that the financial crisis marked the demise of capitalism, rendering the Chicago school irrelevant?

"During the financial crisis," he replies, "the government and markets—or rather, some aspects of markets—both failed."

The Federal Reserve, Mr. Becker explains, kept interest rates too low for too long. Freddie Mac and Fannie Mae made the mistake of participating in the market for subprime instruments. And as the crisis developed, regulators failed to respond. "The Fed and the Treasury didn't see the crisis coming until very late. The SEC didn't see it at all," he says.

"The markets made mistakes, too. And some of us who study the markets made mistakes. Some of my colleagues at Chicago probably overestimated the ability of the Fed to smooth disruptions. I didn't write much about the Fed, but if I had I would probably have overestimated the Fed myself. As the banks developed new instruments, economists paid too little attention to the systemic risks—the risks the instruments posed for the whole financial system—as opposed to the risks they posed for individual institutions.

"I learned from Milton Friedman that from time to time there are going to be financial problems, so I wasn't surprised that we had a financial crisis. But I was surprised that the financial crisis spilled over into the real economy. I hadn't expected the crisis to become that bad. That was my mistake."

Once again, Mr. Becker reflects. "So, yes, we economists made mistakes. But has the experience of the past few years invalidated the finding that markets remain the most efficient means for producing economic growth? Not in any way.

"Look at growth in developed countries since the Second World War," he continues. "Even after you take into account the various recessions, including this one, you still end up with a good record. So even if a recession as bad as this one were the price of free markets—and I don't believe that's the correct way of looking at it, because government actions contributed so greatly to the current problem—but even if a bad recession were the price, you'd still decide it was worth paying.

"Or look at developing countries," he says. "China, India, Brazil. A billion people have been lifted out of poverty since 1990 because their countries moved toward more market-based economies—a billion people. Nobody's arguing for taking that back."

My last question involves a little story. Not long before Milton Friedman's death in 2006, I tell Mr. Becker, I had a conversation with Friedman. He had just reviewed the growth of spending that was then taking place under the Bush administration, and he was not happy. After a pause during the Reagan years, Friedman had explained, government spending had once again begun to rise. "The challenge for my generation," Friedman had told me, "was to provide an intellectual defense of liberty." Then Friedman had looked at me. "The challenge for your generation is to keep it."

What was the prospect, I asked Mr. Becker, that this generation would indeed keep its liberty? "It could go either way," he replies. "Milton was right about that."

Mr. Becker recites some figures. For years, federal spending remained level at about 20% of GDP. Now federal spending has risen to 25% of GDP. On current projections, federal spending would soon rise to 28%. "That concerns me," Mr. Becker says. "It concerns me a great deal.

"But when Milton was starting out," he continues, "people really believed a state-run economy was the most efficient way of promoting growth. Today nobody believes that, except maybe in North Korea. You go to China, India, Brazil, Argentina, Mexico, even Western Europe. Most of the economists under 50 have a free-market orientation. Now, there are differences of emphasis and opinion among them. But they're oriented toward the markets. That's a very, very important intellectual victory. Will this victory have an effect on policy? Yes. It already has. And in years to come, I believe it will have an even greater impact."

The sky outside his window has begun to darken. Mr. Becker stands, places some papers into his briefcase, then puts on a tweed jacket and cap. "When I think of my children and grandchildren," he says, "yes, they'll have to fight. Liberty can't be had on the cheap. But it's not a hopeless fight. It's not a hopeless fight by any means. I remain basically an optimist."

Mr. Robinson, a former speechwriter for President Ronald Reagan, is a fellow at Stanford University's Hoover Institution.

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