Milton and David Friedman on Military Intervention

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Nobel laureate in economics Milton Friedman has never, to my knowledge, written on foreign policy. But the framework in one of Friedman's best articles from the early 1950s can be applied directly to foreign policy. As far as I know, no one has done so. This is not surprising for two reasons. First, the article, "The Effects of a Full-Employment Policy on Economic Stability: A Formal Analysis," is not well-known because it was originally published in a French economics journal and its translation appears only in Friedman's 1953 book, Essays in Positive Economics. Second, U.S. economists, in my experience at least, tend not to think of foreign policy in the systematic way they think of domestic policy; instead, they tend to be flag-wavers who talk about our brave young men and women who are "fighting for our freedom." One of my goals in the economics profession is to get my fellow economists to apply some of the powerful analytic frameworks we have to issues in foreign policy. This article is my application of Milton Friedman's reasoning in the above-mentioned article to foreign policy.

Where does David Friedman come in? He does not apply his father's formal economic model as I'm about to do. However, in "Is There a Libertarian Foreign Policy?," a chapter in his outstanding book, The Machinery of Freedom, he makes a case that is very much in the spirit of my application of his father's model. For those who are impatient for the bottom line, here it is. For an interventionist foreign policy to work, the government must be right much more often than it's wrong. This is an unlikely scenario.

Here's the analysis in Milton Friedman's article, written while he was still a Keynesian economist. I'm writing this in words to, as best I can, explicate Friedman's math. Suppose that the government wants to have full employment and wants a countercyclical economic policy to achieve this. It must then have a contractionary economic policy when the economy is at higher-than-full employment (typically defined as an unemployment rate of less than 4 or 5 percent for the U.S. economy) and an expansionary economic policy when the economy is at less-than-full employment. Because there is a lag between the policy and its effects, the government must estimate in advance where the economy is headed and must implement the policy in advance. If it chooses wrong, say by implementing an expansionary policy when a contractionary one would have been called for, or vice versa, the government will actually destabilize the economy. Also, the government must choose the size of the policy – that is, how big a tax cut, government spending increase, money-supply increase, etc. to offset the way the economy is going without this policy. Friedman showed in his article that if the government chooses a policy that cuts the variance of income fluctuations in half, it must, in order to have a net stabilizing effect, predict correctly 70 percent of the time. Friedman expressed skepticism about whether the government could do this.

The same reasoning applies to foreign policy. Because there are costs even of conducting a foreign policy in which the government makes "correct" decisions, for a government's foreign policy to be, on net, stabilizing, the government must be correct much more often than it's incorrect. As David Friedman writes:

"The weak point in the argument [for an interventionist foreign policy] is its assumption that an interventionist foreign policy will be done well – that your foreign minister is Machiavelli or Metternich. In order for the policy to work, you must correctly figure out which countries are going to be your enemies and which your allies ten years down the road. If you get it wrong, you find yourself unnecessarily blundering into other people's wars, spending your blood and treasure in their fights instead of theirs in yours. You may, to take an example not entirely at random, get into one war as a result of trying to defend Japan (and Korea, and Vietnam, …) from China, then finally discover that the Chinese are your natural allies against the Soviet Union." (pp. 213-214)

Does Condi Rice or Dick Cheney sound like Metternich to you? Me neither. Ms. Rice is an expert on Russia, not the Middle East. Mr. Cheney's expertise is in fighting wars and running big firms that contract with the federal government, not on foreign policy.

Had David Friedman been writing in 2006 rather than in the 1970s, he could have written: "You may, to take an example not entirely at random, do the following. First, ally with Iraq because you've decided that Iran is your enemy [1980-1988] after, for some strange reason, Iranians who were finally free to speak out against the U.S. government expressed upset that the U.S. government helped overthrow theirs in 1953. Second, you would tilt to Iran in the same war [think Iran-Contra]. Third, you would attack Iraq because it turned out to be your enemy because it invaded Kuwait [1991]. Fourth, you would attack Iraq because the guy who heads it had the nerve to try to develop weapons to, among other things, forestall future attacks [2003]. Fifth, you would help set up a government in Iraq [2003-2005], and then think about attacking Iran [2006] because the government you replaced in Iraq, a powerful offset to the Iranian government, is now gone."

How likely is it that a foreign policy will be right much more often than it's wrong? David Friedman again:

"The problem with an interventionist foreign policy is that doing it badly is much worse than not doing it at all. Something which must be done well to be worth doing is being done by the same people who run the post office – and about as well." (p. 214)

In other words, not likely. Actually, David Friedman, atypically, understates the case. There are checks on how badly the U.S. Postal Service does. The main one is not congressional oversight but, rather, the fact that many of its actions are there for us to see. Most of us interact with the USPS almost daily. Although our monitoring of the USPS is not as effective as, say, our monitoring of UPS because the latter has no government-provided monopoly whereas the former does, there is, nevertheless, some monitoring. In the realm of foreign policy, by contrast, what do we really know about what the U.S. government is doing in Iraq, Afghanistan, or many of the scores of other places where the U.S. government has chosen to stick its nose? Not nearly as much as we know about the day-to-day activities of the Post Office.

David Friedman does make an important qualification to his argument. He writes:

"To say that our foreign policy is badly run is in a sense misleading. Perhaps when we [sic – see my "Who is 'We'"] support dictators who contribute very little to the defense of the U.S., the reason is that they contribute instead to the profits of American firms who do business in their countries, and the American firms in turn contribute to the politicians who make our foreign policy. If so, what we are observing is not the incompetence of the people making our foreign policy but their competence at achieving objectives other than the defense of the U.S. – most notably their own wealth and power." (p. 214)

In future columns, I'll explore how well U.S. government intervention has done in the last century or so. Has the government been right the 70 percent of the time that Milton Friedman's model says is necessary for the U.S. government intervention in the world's affairs to be on net positive? Stay tuned.