## Risky Governments, Safe Markets

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The amount of economic freedom you favor, I've heard people say, depends on your attitude toward risk. The more accepting you are of risk, according to this line of thinking, the more you will like free markets; the less accepting you are of risk, the more you will want the government to protect you from the sometimes-harsh consequences of free markets. Even some of my political allies who favor economic freedom have taken this view.

But this outlook assumes that government intervention typically reduces risk and increases security. That premise is unsound. Although government regulation may occasionally reduce risk, it more often trades one risk for another, usually bigger, risk. And whereas free markets let people choose which risks they are willing to take, government regulation often puts us all in one big lottery--sometimes with life-and-death stakes--from which there is no way out.

**Drug problem**

Take regulation by the Food and Drug Administration. Since 1962 the FDA has required that the efficacy of drugs and medical devices be demonstrated before they go on the market. The efficacy requirement, pharmacologists and economists have shown, has added years to the approval process and hundreds of millions of dollars to the average drug's development costs. Even lifesaving drugs that are already available in many other countries must go through the entire approval process. Consider Misoprostol, which, according to the drug's manufacturer, reduces by more than 90 percent the increase of gastric ulcers caused by aspirin and other anti-inflammatories. Misoprostol was approved in some countries as early as 1985, and it was in use in 43 countries by December 1988, when the FDA finally decided to let Americans take it. By keeping it off the market, the FDA effectively caused 9,000 to 18,000 deaths a year, according to the public interest researcher Sam Kazman.

On the whole, though, aren't Americans still more secure because of FDA regulation? We may feel more secure. But we can get security without losing freedom by stripping the FDA of its power to prohibit drugs and making it instead a certification agency. The FDA could insist that the packaging of drugs that it hasn't certified contain this warning: "The FDA has not approved this drug for human use." That's the worst case, and it's pretty good; those who put a lot of trust in the FDA would be free to act on that trust and avoid unapproved drugs, and those who don't much trust the FDA would be free to use these potentially lifesaving products.

We could even do better. Look at any piece of electrical equipment in your house. You'll probably see on it the letters UL, which stand for Underwriters Laboratories, a private certification agency. The UL stamp of approval is your assurance that the product is safe. If the FDA were to lose its power to prohibit new drugs and regulate old ones, private certification agencies similar to UL would likely arise and figure out lower-cost and quicker ways to certify drugs.

Some government regulation carries risks less obvious than those that accompany the FDA's requirements. Unemployment insurance, for example, ensures that if you're fired and don't find another job you can get up to 26 weeks of unemployment benefits at a rate of up to 55 percent of your previous base pay. Taken in isolation, this system does reduce freedom and increase security. Unemployment insurance reduces your freedom to contract with an employer for a slightly higher-paying job with no unemployment insurance. It increases your security because if you are fired, you have a safety net that you wouldn't have had otherwise.

But unemployment insurance doesn't exist in isolation. It came along with a host of government regulations giving unions power to force people to join or at least pay dues. Unions have used that power to prevent competition from other workers so that they can bargain for higher wages. At those higher wages, new workers are less likely to find jobs and must settle for lower-paying jobs in nonunion sectors of the economy. And when there's a downturn in the economy, employers, facing unions that want to preserve higher-paying jobs for their more senior members, lay off the more junior workers. Absent the unions' legal monopoly, the employers and workers would have had the option of bargaining for lower wages that preserved more jobs. So the loss in freedom due to government-granted privileges for unions went hand in hand with a loss in security for younger, less-experienced workers.

It's the same story with international trade. Imagine you work in an industry that starts to face stiff competition from foreign imports. The trade association for your industry lobbies for tariffs on imports on the grounds that the foreign firms are competing unfairly. Various politicians and bureaucrats in Washington decide to slap punitive tariffs on the foreign imports, and your firm's market share is preserved. Again, an apparently clear-cut case in which consumers' freedom to buy is reduced so that your security is increased. But look again. A government with the power to limit imports from your competition also has the power to limit imports that you might like to buy.

**Memory loss**

An example of an import restriction that backfired: in 1986 the Reagan administration limited imports of DRAM chips from Japan--and in doing so drove up the cost of computer manufacturing in the United States. The economist Arthur Denzau, in a study done for the Center for the Study of American Business at Washington University in St. Louis, estimated that the trade restrictions created 5,000 to 10,000 jobs in the U.S. computer chip industry but destroyed 11,300 jobs in the U.S. computer industry. The government's power to limit imports reduced freedom but clearly did not increase economic security.

Big government is a big lottery in which, as in all lotteries, your expected winnings (which equal the probability of winning multiplied by the prize) are substantially less than the price you pay for the ticket. But there is a fundamental difference between the big-government lottery and the more typical game of chance. In the latter, the participants choose to play; in the big-government lottery, by contrast, everyone is forced to play.

Benjamin Franklin once said that those who are willing to trade liberty for security deserve neither. They'll also get neither. If my major goal were security, I would want, even more than I do, freedom from government regulation.