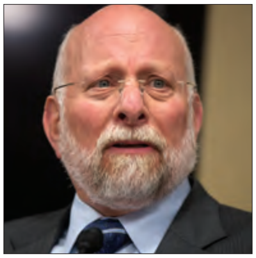

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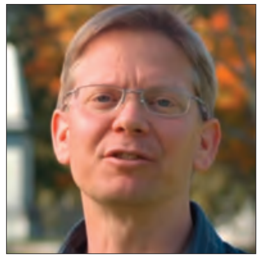

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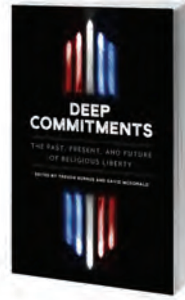

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The Little-Known Story of Milton Friedman in China

BY JULIAN GEWIRTZ

On a hot June day in 1989, the general secretary of the Chinese Communist Party listened in stony silence as the most powerful leaders in Beijing denounced him. Just weeks earlier, as the world watched in horror, China's rulers had turned their troops against the student protesters massed in Tiananmen Square—violence that General Secretary Zhao Ziyang, a steadfast reformer, had opposed.

"[You were] attempting to topple the Communist Party and wreaking havoc with the socialist system in coordination with hostile powers at home and abroad," accused one wizened party elder. Zhao was dismissed as the party's general secretary and placed under house arrest, where he would remain until his death in 2005.

A few days after Zhao's dismissal, on June 30, the mayor of Beijing read out his report on the protests. Zhao had sought to overthrow the socialist order in China and replace it with a liberal capitalist system, the mayor declared. He offered damning evidence of how Zhao developed his supposed plot: "Especially worth noting is that last year on September 19, Comrade Zhao Ziyang met with one American 'extreme liberal economist.'"

Which "extreme liberal" had Zhao met on September 19, 1988? The answer opens the door to a strange, incongruous tale, because the American economist who had allegedly plotted with the general secretary of the Chinese Communist Party was none other than Milton Friedman.

FEAR OF LIBERALS

Friedman first traveled to China in 1980. When he celebrated his 68th birthday that year, he was perhaps the most famous economist in the world. He had appeared on the cover of *Time* in 1969, in an issue that focused on the "new values" that would define the 1970s. With his diminutive stature, forceful

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Milton Friedman (left) meets with general secretary of the Chinese Communist Party, Zhao Ziyang, in China in 1988. Friedman and Zhao spoke for nearly two hours, as Friedman argued that China should decontrol prices in "one bold stroke." Friedman had come to China for Cato's conference in Shanghai and was then personally invited by Zhao to offer advice on China's economy.

JULIAN GEWIRTZ is the author of *Unlikely Partners: Chinese Reformers, Western Economists, and the Making of Global China* (Harvard University Press, 2017), from which this excerpt is adapted.

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personality, and Cold War faith that the free market would inevitably vanquish communism, he was an instantly recognizable public personality, equally at home walking the plush carpets of the White House and expounding to the public from television studios.

Academically, Friedman had established himself as an expert on inflation and consumer behavior. Believing that people behave rationally in their own self-interest, he predicted in 1967 that a sustained period of inflation would not drive down unemployment, directly contrary to the mainstream view at the time. If one test of an economist is the ability to predict economic phenomena and their consequences, Friedman triumphed. He won the Nobel Prize in 1976.

In 1980, Friedman and his wife, Rose, released a popular overview of their ideas entitled *Free to Choose*. This full-throated defense of free-market principles also became a 10-part television series on PBS. It made Friedman's name synonymous with the free market. When he served as a senior economic policy adviser for Ronald Reagan's 1980 presidential campaign, his influence grew even greater.

In a television interview with Phil Donahue that aired in April 1980, wearing a tan suit under the bright studio lights, Friedman had contrasted his ideal society with socialist countries like China. Donahue asked intently, "Did you ever have a moment of doubt about capitalism and whether greed is a good idea to run on?"

Friedman cocked his head to the side and grinned. "Tell me, is there some society you know that doesn't run on greed? You think Russia doesn't run on greed? You think China doesn't run on greed? . . . If you want to know where the masses are worst off, it's exactly in the kind of societies that divert from [free-market principles]."

So Friedman was astonished when, in late 1979, he received an official invitation to visit China. The United States and China had normalized their relations that January. Academic exchanges had just resumed, and Friedman would be part of the first set of scholars invited to give lectures in China through a new official program. Friedman quickly accepted, but he confessed in a letter to a

> "Why had this socialist country invited Friedman, of all people, to provide economic advice? One word: inflation."

MILTON FRIEDMAN takes questions at Cato's 1988 conference on economic reform in Shanghai.

friend that the invitation was "a phenomenon that I find almost literally incredible."

Why had this socialist country invited Friedman, of all people, to provide economic advice? One word: inflation. Under Mao, prices were fixed by state fiat, repressing any inflationary pressures for decades. Propagandists regularly announced that communism had successfully eradicated inflation in China, and they painted inflation as a scourge of capitalist (or "liberal") societies.

As China's rulers under Deng Xiaoping began to loosen controls and free up prices, they knew that inflation might appear. With his academic achievements in predicting the "Great Inflation" of the 1970s, Friedman seemed a natural fit to help teach the Chinese leaders how to avoid this alarming prospect.

But their perception of Friedman was incomplete, to say the least. At one internal meeting of banking officials, a young bureaucrat explained the "two factions" in American economics in broad strokes: "Keynesians advocate inflation, and Friedman is opposed to inflation." They seemed completely unaware of Friedman's commitment to spreading the free market gospel.

Friedman delivered four lectures on topics such as "the mystery of money" and "the Western world in the 1980s." His audiences of officials and scholars listened as he dismissed the idea that inflation appeared only in capitalist societies. Inflation was neither innately "capitalist" nor "communist." Instead, he said, government itself was the root cause of inflation, which could be cured only by "free private markets."

To the Chinese economists in the audience, these ideas were radical; to many of the country's less liberal leaders, they were menacingly extreme.

Shortly after Friedman departed China, a prominent conservative elder delivered a speech that criticized liberalizing foreign influences as a grave danger to Chinese socialism. "Foreign capitalists are still capitalists," he warned. "Some of our cadres are still very naïve about this."

In the years after 1980, China boomed under the policies of "reform and opening." Zhao Ziyang steered the economy as the country's premier. Deng directed him to figure out how to bring the market reforms that had quickly taken hold in agriculture into the cities and state-owned enterprises, which made up the bulk of the economy—and to do so without destabilizing society as a whole.

As one element of this strategy, Zhao and his network of economists devised an ingenious approach. Enterprises would still have to meet planned quotas, and everything they produced to meet the quotas would still be sold at a state-set price. But beyond those quotas, enterprises could produce whatever quantity of goods they wanted and sell them at whatever price consumers would pay. It was a "dual-track" system: the old system remained in place, but it very quickly became only a small part of a much larger and more vibrant economy. Think of the old planned economy as a shriveled bonsai; Zhao didn't suddenly stop watering it, he just planted a forest around it.

This policy worked, and growth skyrocketed in the years from 1984 to 1988. But it was a temporary solution; the unresolved problem of prices remained a thorn in the side of China's rulers. In the summer of 1988, Deng Xiaoping, the paramount leader, finally lost his patience. He decided to order an overnight liberalization of the price system.

A crisis immediately followed. A fear of inflation seized the country, and a survey of 32 cities revealed that prices had risen nearly 25 percent in the month of August. Soon conservatives opposed to market liberalization were preparing retrenchment policies to roll back the reforms and stabilize the economy. At this moment of crisis, Zhao made a characteristically bold decision. He would meet with a leading foreign economist to seek advice about how to get inflation under control—and not just any economist, but the notoriously outspoken Milton Friedman, once again called upon for his expertise on inflation. Subsequent events would show that Friedman was a risky choice indeed.

"Friedman advocated that China decontrol prices in 'one bold stroke' and 'end' inflation by tightening money and limiting the government deficit."

CATO'S TRIP TO SHANGHAI

When the Friedmans planned their September 1988 trip, Milton did not yet know that he would be invited to meet with Zhao. The occasion for the trip was a conference on economic reform hosted in Shanghai by the Cato Institute and Fudan University.

Despite the summer's economic chaos, the moment seemed right to Friedman to press his case for a rapid liberalization of the economy. The 76-year-old economist lectured to a crowd of 400 students at Fudan University, where he received an honorary professorship.

At the Cato conference at the Shanghai Hilton, he sat behind a table in the front of the room, his head just barely peeking over the microphone and jug of water provided for him. Next to him sat a Communist Party economist named Pu Shan, who wore a tightly buttoned Mao jacket and a crewcut like a silver helmet.

Friedman gave his usual impassioned case for free private markets. In his response, Pu Shan upbraided the distinguished visitor and asserted that China's economic system might, in fact, prove superior to an economic system based on free private markets. Friedman dismissed the critique as the political correctness of an uncreative apparatchik—but it was clear that Friedman's evangelizing message had once again failed to find as warm a reception from Chinese leaders as he had hoped.

In what was the trip's most dramatic development, Friedman received word that Zhao had requested to meet with him. At the suggestion of his Chinese hosts, Friedman submitted a memorandum to Zhao, that laid out his views on the best direction of China's reform. Friedman began the document with a direct refutation of the central Chinese idea during this period that China's experiences were exceptional and that "Chinese characteristics" were an aspect of every problem the country faced. "Every country always believes that its circumstances are special," Friedman wrote, but the acceptance of free-market principles would be necessary regardless. Friedman advocated that China decontrol prices in "one bold stroke" and "end" inflation by tightening money and limiting the government deficit financed by money creation and credits granted to enterprises.

When they met in Beijing, Zhao Ziyang thanked Friedman for his memo but attempted to set the discussion on his own terms. Although he acknowledged difficulties in realizing the goals, Zhao referenced the Party's 1987 decision to establish an economy in which "the state manages the market, and the market guides the enterprises."

Friedman's response was highly critical, as he believed the 1987 decision was "impossible": "The state is organized from the top down; the market, from the bottom up. The two principles are incompatible." He asserted that the dual-track system was making goods "more expensive, not less," because, although prices were still held down, the costs of queuing, shortage, and other negative effects were high. Thus, inflation would persist as long as the dual-track system remained in place, Friedman argued.

However unconvinced Friedman and Zhao may have been with each other's arguments, they spoke for nearly two hours with a friendly rapport. Friedman was clearly impressed with the Chinese leader's command of economics. He remarked, "On hearing your analysis of China's economic situation, I believe you are a professor by nature."

"I only went to high school," Zhao replied, laughing.

Zhao usually remained seated as his guests departed, but on that September day he had something else up his sleeve. He stood, walked

> "Zhao's name was eliminated from official histories and has rarely appeared in print in China."

Friedman all the way out to his car, and even opened the car door for the American economist. Despite the inconclusive tone of the meeting, this extraordinary gesture provided ample fodder for Beijing's gossipy network of policymakers and scholars, who were used to parsing senior leaders' views from such minutiae. Rumors began spreading about the close connection forged between the two men.

In the Chinese press, Friedman's trip was reported in laudatory terms. The official *People's Daily* wrote buoyantly about the meeting. Meanwhile, Friedman remained optimistic about China's future. In a December 1988 interview with *Forbes*, he predicted that major pro-market changes were imminent.

ZHAO'S DEMISE

Yet almost immediately thereafter, the reform agenda in China collapsed. Soaring inflation made daily life more expensive and hurt job prospects for young people graduating from college. Many Chinese were angry about pervasive corruption and the lack of political reform.

Students nationwide launched protests centered on Beijing's Tiananmen Square in the spring of 1989. As weeks passed and the crowds in Tiananmen Square grew larger, the world watched the protesters with fascination, enthralled by their conviction, bravery, and youth.

In the secret halls of the leadership compound, the top party chiefs fought fiercely over whether to impose martial law and quell the protests by force. Zhao vociferously opposed turning the military on the people, but his views lost out after a string of combative meetings in May. Following the last of those heated sessions, Zhao walked out to the square to speak to the students directly. He held a small megaphone close to his mouth as his voice filled with emotion. "We came too late," he told the students. "Whatever you say and criticize about us is deserved."

The next day, with the approval of Deng Xiaoping, martial law went into effect across the land. The bloody crackdown began during the night of June 3. By the morning of June 4, Tiananmen Square had been emptied of the students who had camped there for weeks. An unknown number of protesters had been killed and wounded. They left behind only a few bloodstains on the stones, newly scarred with the tread marks of tanks.

Zhao was formally denounced for supporting the protests, "splitting the party," and undermining socialism. The engagement with foreign economists pursued by Zhao and his network of economists came under direct assault, evidence of his alleged mission to push China to abandon socialism. And there was the Beijing mayor's report citing Milton Friedman. Zhao's name was eliminated from official histories and has rarely appeared in print in China.

FRIEDMAN RETURNS TO CHINA

But Deng Xiaoping refused to abandon all the progress that China had made since the late 1970s. On January 17, 1992, he traveled to southern China for what was supposedly a family vacation. Putting his accumulated credibility on the line, the 88-year-old Deng surprised the world by giving a series of informal speeches urging the resumption of intensive reforms. The gambit worked: by mid-February, after two and a half years of deep freeze, reformers burst back onto the scene with sizzling vigor. Although Zhao remained under house arrest, many of his policies resumed—without acknowledgment of their supposedly treacherous origins.

Even the "extreme liberal" Friedman was welcomed back to China. Traveling to Shanghai and Beijing in October 1993 for official meetings, he was astonished at the rapid pace of development. At the end of his trip, he returned to the Great Hall of the People, the site of his fateful encounter with Zhao, to meet with China's new president, Jiang Zemin.

In more recent years, the senior echelons of the Chinese Communist Party have occasionally returned, like Zhao 30 years ago, to an interest in Friedman's inflation-fighting wisdom. Senior officials at the People's Bank of China, the central bank, have even quoted from Friedman's *Free to Choose* to describe their anti-inflationary goals.

A more extreme and outspoken pro-market faction than existed in the 1980s has also emerged, with economists like Zhang Weiying and his mentor Mao Yushi asserting their intellectual lineage from Hayek and Friedman and calling for the radical removal of the state's role in the economy. Mao Yushi, now 88, founded the Unirule Institute of Economics, dedicated to free markets and reform. In 2012, the Cato Institute awarded him the Milton Friedman Prize for his advocacy of individual rights and free markets. And in 2015, Cato published a book of essays on reform by Zhang. Mao Yushi is regularly attacked as a "traitor" and a "slave of the West"—and in January 2017 the Chinese authorities closed down the social media accounts and websites of Mao and Unirule—but he continues undaunted.

I asked Mao in an interview for *The American Scholar* why he thought Friedman remained an important figure in China today. "Since the new government came to power, China's reforms have moved backward," he told me. "China is a state that opposes liberalism. The government places many unnecessary restrictions on the people's freedoms . . . so it is extremely important to promote liberal ideas in China. And this is the reason why [Friedman] is in demand."

WHITHER REFORM?

How can we understand the mixture of wariness and interest that occasioned Milton Friedman's invitations to China? China's rulers clearly believed that economics—and economists—could be dangerous. But their consistent interest in this particular interlocutor, as unpredictable and pugnacious as he was, reveals

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so forth. It is not broken down by how many patients you saw, just how many prescriptions you wrote. And it ranks you in ranges from normal to outlier, to extreme outlier.

That casts a chilling effect on doctors. Nobody wants to be seen as an outlier. It pressures doctors to cut back on prescribing, and then their legitimately suffering patients are driven to the illegal market where they get laced opioids, or they go to cheaper heroin and, of course, that is where the overdoses occur. A study just came out in May from the University of Pennsylvania that examined the effect of PDMPs from 1999 to 2014, and they found that PDMPs were not associated with reductions in drug overdose mortality rates, and may be related to *increased* mortality from illicit and other unspecified drugs.

So what can we do from a policy standpoint? I'm an advocate of what's known as harm reduction: if we can't stop people from using these drugs, at least let's do what we can to make sure they don't harm themselves.

An example of harm reduction is methadone maintenance, which has been around for decades. You basically replace an addiction to heroin with an addiction to methadone in the form of a pill, which prevents withdrawal but doesn't give you the euphoria. It's sort of like the opioid version of a nicotine patch.

Another policy being used in several countries is—and this may sound weird—heroin maintenance programs. Now remember, heroin is diamorphine, which is a pharmaceutical that is available and used in many developed countries. In 1994, Switzerland started a heroin maintenance program. There are criteria to join it to make sure you're not trying to game the system, but you declare yourself a heroin addict; you come into a clinic in the morning; you're given pharmaceutical-grade diamorphine with a clean needle and syringe; a nurse is there watching you; you inject yourself; and then you leave. You sign in and sign out. They've found that many addicts, once they aren't spending their whole day looking for their connection, get a job, some get married and have a family, and as they resume a more conventional lifestyle a significant number of them actually detox themselves off. A smaller program like this in the United Kingdom has been going on for about 10 years. In Vancouver, British Columbia, one just began in December 2016. Since heroin is a banned substance in this country, we would need to pass legislation to allow a few heroin maintenance pilot programs.

> "We need to address drug prohibition, not the patient-doctor relationship."

Another form of harm reduction, from the clinician's standpoint: Instead of pressuring doctors through things like these prescription drug monitoring boards to decrease the amount of prescriptions we give to our patients, why don't you just let us be doctors? That's our job. When I have a patient who has recovered from major trauma surgery, and I know he's physically dependent, and he's asking me for another refill of oxycodone, and I think this has been going on a little longer than it should be—what I do ethically, as part of my profession, is have a discussion with my patient and see if I can get the patient to go along with my tapering him off. Sometimes patients are in denial. If they're addicted, I can refer them to someone who has more expertise in treating addiction. But if I'm faced with the decision between giving this guy another prescription under the condition that he'll see me in two weeks so we can talk about this again, or cutting him off and risking that he'll go get some counterfeit Percocet and maybe die of an overdose because it contained fentanyl or carfentanil—I think you should leave that judgment call to me, the doctor. If we can keep people on methadone maintenance, why can't I decide, under close supervision, to keep a person on oxycodone maintenance? There's no difference, chemically. My advice would be to stop interfering in the patient-doctor relationship—you're actually making it worse.

In summary, our opioid overdose problem is not a product of the patient-doctor relationship. It's a product of drug prohibition, because it's the illegal market that has led to all these impurities and to people getting substances that kill them. We need to address drug prohibition, not the patient-doctor relationship. ■

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their extraordinary fascination with this dangerous knowledge. They needed the best ideas from around the world to allow the Chinese economy to boom, and sometimes that required dealing with thinkers whose expertise was invaluable but whose views were unpalatable. No outsider personifies this complex duality better than Milton Friedman.

The exploratory, open-minded spirit that brought Friedman to China has weakened considerably there today. In August 2013, shortly after Xi Jinping came to power and began establishing his centralized, strongman style of rule, cadres from across China massed in Beijing to hear him speak. Facing the assembled officials at this National Propaganda and Ideology Work Conference, Xi painted an ominous landscape in dark brushstrokes. "Western anti-China forces" are seeking "to overthrow the leadership of the Chinese Communist Party and China's Socialist system," he reportedly told his subordinates. In the face of these threats, Xi said, the party must "dare to bare the sword." ■

From Unlikely Partners: Chinese Reformers, Western Economists, and the Making of Global China *by Julian Gewirtz.*