MILTON FRIEDMAN–A MAN WHO REALLY *DID* CHANGE THE WORLD

By JAMES R. LOTHIAN

Milton Friedman, passed away last month at the age of 94. Short of physical stature, he was an intellectual giant. He was, moreover, a truly fine and honourable man. I take pride in having been one of his students and having written my doctoral dissertation under his guidance.

Milton taught at the University of Chicago from shortly after WWII to 1977 in an economics department that was unparalleled for its scholarly achievement. Nine Nobel prizing winning economists, including Friedman himself, graced the halls of that university during Friedman's tenure there – six in the economics department, one in the committee on social thought, one in the school of business and one in the law school. Many of the non-Nobelist economists, had they been at any other major university would have been ranked among the brightest and most productive members of their faculties.

Milton Friedman was a, if not *the*, major reason for the success of that group. He in very many ways set the tone, not just as a researcher, but also as a colleague and teacher. He was an overwhelming intellectual force. On top of that he worked exceptionally hard at whatever it was that he was doing. His command of basic economic theory – price theory – was exceptional. It informed everything he did in economics. This stress on theory and the belief that it could and should be applied to real-world problems was in fact the hallmark of Chicago economics in that era. Milton was one of the major reasons this was so.

Individual freedom

To most people, many economists included, Friedman, however, is known principally for his positions on public policy and for his defense of the market economy and individual freedom.

His long-time friend, colleague and fellow Nobelist, George J. Stigler, used to quip that while he – Stigler – just wanted to understand the world, Milton wanted to change it. I repeated that story to a fellow economist several years ago, a man of considerable ability and accomplishment, who both knew Milton and was well acquainted with his work. He gave me a quizzical look and with several seconds delay said "Well, Jim, George was wrong. Milton did change the world."

Milton himself, however, claimed that events had a lot to do with any success he had in the policy realm. He might have provided the analysis of what was wrong and why, he argued, but only when things actually went completely awry – as they did with inflation in the late 1970s – did policies actually get changed.

Nevertheless, the worlds major central banks, now no longer attempt to manipulate employment, something they cannot control. They focus instead on inflation, which they can control. And that in a nutshell is a major reason that the inflation spiral of the mid-1960s through the early 1980s ended. Milton provided the intellectual rationale for that to happen. He also did much more, speaking out for limiting governments' roles in the economic realm, a limitation that when it came about, enabled countries as diverse as India and Ireland to undergo spurts in economic growth that four decades ago were almost unimaginable.

Friedman's first major foray in the areas of social policy and political philosophy came in 1962 with the publication of his *Capitalism and Freedom*. I t is still a book very much worth reading. Someone who does so today, however, will find much of what Friedman wrote then rather familiar. Forty something years ago, however, it was anything but.

Opposition to Keynes

In *Capitalism and Freedom*, Friedman put himself in direct opposition to the Keynesian orthodoxy and the statist solutions to economic problems that were so ubiquitous in the early post-war decades. Friedman advocated a system of floating exchange rates, free trade in goods internationally, the ending of capital controls, control of the money supply to counter inflation, a flat-rate as opposed to progressive income tax, a voucher system for primary and secondary education to enable parents to send heir children to whatever school – pubic or private – they desired, a volunteer as opposed to conscript army, substitution of a negative income tax for the jerry-built system of public assistance then still completely in place.

The book was widely ignored in the official organs of the chattering classes when it came out. As Friedman described the situation two decades later in a preface to the new edition of the book:

> [W]hen this book was first published, its views were so far out of the mainstream that it was not reviewed by any major national publication--not by the New York Times or the *Herald Tribune* (then still being published in New York) or the *Chicago Tribune*, or by *Time* or *Newsweek* or even the *Saturday Review*--though it was reviewed by the London *Economist* and by the major professional journals. And this for a book directed at the general public, written by a professor at a major U.S. university, and destined to sell more than 400,000 copies in the next eighteen years. It is inconceivable that such a publication by an economist of comparable professional standing but favorable to the welfare state or socialism or communism would have received a similar silent treatment.

Indeed, even after he was well established as a scholar, Friedman was viewed in the economics profession at large, as idiosyncratic. Much of the intellectual wariness bordering on hostility with which his ideas was ideologically motivated. Some, perhaps even a good deal of it, however, was simply due to the fact that Milton was a man who was well ahead of his time.

Prodigious scholarship

His scholarship was prodigious. His major contributions were major indeed – tours de force. One was a classic study of consumer behavior that overturned the then prevalent and in retrospect decidedly silly view that, as income rose, savings would become an ever higher proportion of income and consumption therefore an ever smaller proportion with economic stagnation the end result.

A second was his and Anna J. Schwartz's monumental *A Monetary History of the United States,* which among other things demonstrated convincingly that the Great Depression of the 1930s rather then being a failure of capitalism and the market economy, was due to a colossal failure of Federal-Reserve monetary policy. The book is still in print and continues to be well cited by other scholars.

A third was his demonstration that there could not logically be a tradeoff between inflation and unemployment. Continued attempts by central banks to exploit this non-existent relation by printing money to lower unemployment, Friedman argued, would fail miserably. They would have no permanent salutary effect on employment and in the end would lead to ever-higher inflation. A decade later, events proved this rather audacious forecast completely correct.

His other scholarly contributions ran almost the whole gamut of economics and spilled over into statistical theory. They included a major work in labour economics that arguably gave birth to a whole new branch of that discipline, a host of additional articles and several books on various aspects of monetary economics, important articles on income distribution and demand theory, a price theory textbook that influenced several generations of economists and that was itself the direct impetus for scholarly research, as well as important work in mathematical statistics. Milton's last scholarly article was published this past year. A shortened version appeared in the Wall Street Journal November17, the day after Milton died.

Philosophical realist

What I believe has often been missed is that Friedman's views on the role of government and economic policy did not arise *sui generis*. They were a direct outgrowth of his scholarship. Milton was a realist in the philosophical sense of the term. Facts and the analyses that made sense of the facts mattered greatly to him. And the facts led him to his policy views.

As a teacher, Milton was in one very important sense unparalleled. He was well-prepared and intellectually rigorous in the classroom. But that is not what set him apart. It was his work with the doctoral students such as I whose dissertations he supervised.

This took place in the weekly Money Workshop that he ran. It was a seminar-type setting but different from any other seminar I have encountered. To begin with a student had to be admitted to the workshop. The cost of entry was a passing grade on the difficult preliminary exam in money and banking. To remain in the workshop, a student was required to write a scholarly paper on some aspect of his or her dissertation work each year. There were no free riders.

Each week there was a different paper, but the workshop format was the same. The paper was distributed the week before so workshop participants could read it. At the start of the meeting, Milton would give the paper's author a minute or so to, as he would put, "add anything to what was written, or retract anything." Then the group went through the paper one page at a time.

"What's wrong with page one?" Milton would intone. "What's wrong on page two?" Dumb statements, incorrect inferences, haphazard theorizing, all provided grist for the mill and the mill wheel did indeed turn. Academic one upmanship was not the game and attempts at it were not tolerated. Ours was an apprenticeship and the message was very clear: We had the chance to become masters in our field, but would not become such if we engaged in shoddy scholarship and dilettantism. In imparting this message and, more important, in teaching us how actually to do good research, Milton was the teacher par excellence. I for one remain greatly in his debt.

Requiem aeternum, dona ei: et lux perptua luceat ei.

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