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An Appreciation: Milton Friedman, 1912–2006

By Allan H. Meltzer

*On November 16, eminent economist Milton Friedman passed away. Friedman made unparalleled contributions to free-market economics, demonstrating in *Capitalism and Freedom* the close relationship of free enterprise to political liberty. His philosophy has been extraordinarily influential regarding social and economic policies in governments around the world.*

Milton Friedman was an extraordinary economist and individual. Few people have had as much influence on both social policy and economic policy in the United States and the rest of the world. That influence continues to grow.

Many obituaries cited his work on money and inflation as his most significant contribution. That work is certainly impressive and important. His monetary history with Anna Schwartz not only influenced economists and later policymakers but made them change their conclusions about the Great Depression and the roles of money and market failure.

Friedman's work on money and inflation was only one of his lasting accomplishments. In the general interest books *Capitalism and Freedom* and *Free to Choose*, he made the case for free markets, individual choice, and less government involvement. These books encapsulate his policy successes. They omit his impressive list of scientific or analytic contributions, although the scientific work inevitably supported and influenced the policy proposals.

Three aspects of Friedman's method of influencing public policy depart from a typical academic approach. First, he recognized that to change major policies and approaches, he had to educate and inform people who did not appear in his

classes at the University of Chicago. He became a persuasive public personality using television, *Newsweek*, and other media. Second, he bolstered his analysis and arguments by showing evidence. This forced other economists to do the same, thereby changing the discussion by putting evidence in the center. Third, he was an articulate, skilled, and convincing debater.

Changing people's beliefs about the importance and value of freedom meant swimming against strong intellectual currents. And unlike other economists who shared his general outlook, he did not limit himself to general statements about the benefits of freedom and the costs of government programs. He proposed actual solutions that relied on individual choice and then offered evidence of their superiority.

Anyone unfamiliar with the climate of opinion in the 1930s and 1940s will find it difficult to appreciate how much beliefs and opinions have changed since then, both within the economics profession and in society. The dominant view was that capitalism had failed—the future was some form of democratic socialism. The large remaining issue was whether to combine government control and direction of resources with political freedom. John Maynard Keynes called for government direction of investment. Alvin Hansen claimed that market economies faced stagnation unless the state managed investment to maintain full employment. Joseph Schumpeter dismissed

Allan H. Meltzer is a visiting scholar at AEI. A version of this article appeared on American.com on November 20, 2006.

Hansen's argument about stagnation, but he, too, for very different reasons, concluded that some type of socialism was the future. There were exceptions, but this was the mainstream.

Friedman's Influence

Influence is the power to directly or indirectly change the course of events. I counted twenty-five specific recommendations in *Capitalism and Freedom* and some additions, extensions, and repetitions in *Free to Choose* coauthored with his wife, Rose. Whatever their merits, some had scant political appeal—for example, abolishing state universities and licensing of doctors, lawyers, accountants and other professions; eliminating agricultural subsidies or the minimum wage; and adopting a constitutional amendment limiting the growth of government spending.

In *Free to Choose* the Friedmans proposed to phase out Old Age and Survivors' Insurance. They would honor existing obligations, repeal the payroll tax, and rely on voluntary decisions about savings and pensions. The United States has so far rejected every move to permit choice in the government pension program, but other countries have changed their programs in the direction the Friedmans advocated: Chile is a well-known example. Even Russia now relies heavily on private decisions after providing a public minimum. As the present generation of young workers moves toward retirement and recognizes the very low return they will receive on their public pensions, pressure for change will likely increase.

Friedman's four major successes were ending the military draft, floating the dollar and other currencies, removing interest-rate ceilings on bank deposits, and auctioning government debt. Each of these examples shows that a market solution is rarely the first choice of governments. Free-market solutions have a greater chance of success if officials gradually become familiar with the proposal and come to believe it can work.

Friedman first proposed floating exchange rates more than twenty years before their adoption. He predicted that the Bretton Woods system of fixed but adjustable exchange rates would break down. By 1971 the Bretton Woods system reached a crisis. The alternative was

direct control of imports, some of which the government imposed when it floated the dollar in 1971.

Floating exchange rates increased freedom. The United States removed capital controls and permitted citizens to own gold for the first time since 1933; other countries followed. Early in the 1980s, the United Kingdom held its first election without capital controls since 1936.

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Friedman served as a member of the Gates Commission that, in 1970, unanimously recommended an end to the military draft. An initially skeptical military became a significant proponent. After more than thirty years, a volunteer military remains. An occasional critic calls for a return of the draft, but senior military officers and presidents of both parties support the all-volunteer military even in wartime. This is a major victory for personal choice.

Removing interest-rate ceilings and auctioning government bonds freed market prices and improved the functioning of the monetary and financial systems.

Like the volunteer military, floating exchange rates reform succeeded because there were carefully reasoned arguments, evidence, a sense of crisis, and an acceptable market alternative.

Room for Improvement

Three proposals by the Friedmans have had more mixed success. Milton devoted a large part of his later years to urging education vouchers that would permit students or their parents to choose a preferred school. Despite strong opposition—especially from teachers unions—school choice has expanded. The charter-school movement is a widely adopted example of choice. It is not the Friedmans' proposal, but it is a move in their direction.

Welfare reform has emphasized work and choice in place of welfare. The present system is not what the Friedmans proposed. They preferred a negative income tax—a cash payment to the poor that would replace all other programs. The closest we have come is the earned income tax credit that supplements incomes for the working poor. Welfare reform and the earned income tax credit reflect the Friedmans' influence and their emphasis on personal incentives and individual choice in place of bureaucratic regulation.

A rule for constant money growth is one of the proposals most closely identified with Milton Friedman. It has not been adopted in the form he proposed, but his concern was to get central banks to control inflation. Several have adopted inflation targets—rules for guiding monetary policy to maintain predictable low inflation. These rules, if maintained and credible, permit individuals to plan their lifetime savings with lower risk that their assets will be destroyed or reduced by unanticipated inflation.

Friedman, as usual, was early to see the importance of such rules, and he lived to see them adopted.

Milton Friedman swam against a strong and hostile current. Using his intelligence and abilities to communicate, he made major contributions to reverse the current. Facts helped to establish the correctness of his views. Rest in peace, Milton, secure in the knowledge that many others, everywhere, carry on your advocacy of freedom and opportunity as the basis for human betterment.