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Mistah Friedman? He Dead.

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Link to Abstract

I knew Milton Friedman slightly. We met on three occasions. Once was at my parents' home in Cambridge in the late 1970s, to my surprise since I didn't suspect that my father and he were on speaking terms. Once was by happenstance at Alta in 1983; we skied together for three days. And once in 1990 he invited me to debate, along with David Brooks, for the re-release of the first hour of *Free to Choose*.

I think there were two Milton Friedmans. One was an economist in the Age of Keynes, but in that special enclave, Chicago, which rejected every part of the New Deal including the Wagner Act, Social Security, public works and jobs programs, and also the early postwar resolve that "maximum employment, production and purchasing power" should be our national goal. In those years, too, Swedish social democracy and the British move to national health care were models, the next big thing in many American eyes. In protected isolation and non-conformity, Chicago rejected them all.

At that moment, Friedman's genius lay in his line of attack. He did not reject Keynesian models outright; rather he probed for vulnerability to clever modification. Though he had published essays tying economics to logical positivism, hypothesis testing and evidence had nothing to do with his method here, which was that of the pure thought experiment. Two episodes stand out in memory: those of the permanent income hypothesis and the effect of adaptive expectations on the Phillips curve.

The permanent income hypothesis asserted that one-time windfalls would be treated as transient and saved. Hence there would be no multiplier effect. The point to notice is that this argument accepts Keynes's assault on the virtue of saving and the structure of the consumption function. It merely denies a causal link between transient income and the marginal propensity to consume. The Keynesian theory is

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now warped so as to yield an anti-Keynesian result, and Friedman thus established a powerful case against stimulus programs, especially tax rebates and other one-time cash transfers.

The Samuelson-Solow Phillips curve view that one could have a permanent reduction of unemployment for a modest increase in the inflation rate was based (roughly) on demand-pull wage bargaining. Again, Friedman accepted all of this. He merely argued that the theory was inadequate, for it assumed money illusion. Adaptive expectations were a rough-and-ready approach to modeling foresight and shedding money illusion. Adaptive expectations generate an upward shift in the short-run Phillips curve. Then, merely adding an equilibrium assumption gave you the long-run Phillips curve and an open road to the natural rate of unemployment and to the triumph of monetarism.

In both instances, Friedman's appeal was to tenets of economic rationality and equilibrium that his supposedly Keynesian opponents—the neo-Keynesians—had already embraced. A few close followers of Keynes, including Nicholas Kaldor, Joan Robinson, and Robert Eisner, had spotted the trap and evaded it—and they had suffered a fair amount of professional ostracism as a result. My father had by that time moved on to other issues and was not vulnerable. But the neo-Keynesian mainstream, the MIT crowd, had nowhere to hide. They were caught out and outsmarted; Friedman had them cold.

The second Milton Friedman is the one seen in his columns, on the lecture podium and on *Free to Choose*, the television series and the book. The spirit of that Friedman is of the dime-store free-marketeer, with the occasional *frisson* of unconventional thought, such as his position on drugs, and the occasional crowd-pleaser, such as his case against the draft.

In this role, Friedman's appeal came from simple arguments and from the optimism with which he made them. He recast the dour and unpalatable pose of the old Austrians, from von Mises to von Hayek, who shared (despite numerous differences) an autocratic and unforgiving demeanor, and a distinct coldness toward the losers under capitalism. Friedman lived and wrote in an optimistic age for optimistic readers. He urged that in a free-market economy, most people would win out in the end anyway. So why not *be* optimistic? In Friedman's vision, the losers largely disappeared.

In *Free to Choose* historical and institutional subtlety weren't merely lost. They were crushed. The entire program consists of one categorical assertion after another, with barely perceptible caveats—"if you compare like with like..."—thrown in. As I pointed out in my half-hour on camera with Friedman in 1990, his first program, mainly filmed in Hong Kong—that bastion of liberty, then still a British colony—drew no distinction between the government of the United States and that of the People's Republic of China. He couldn't deny this; it was evident to anyone who'd watched the show.

We may surmise that Friedman's affinity for first principles were behind his support for the Chilean dictator Augusto Pinochet, a man who granted freedom—and life itself—only to those who dared not oppose him. Here was a grisly contradiction between "economic freedom" and the real thing. My impression is that Friedman did his best to ignore Pinochet's crimes, and then made up excuses when he had to. This is perhaps harsh. But it's a more generous view than the alternative, which is to believe that he thought the socialists, communists, poets and musicians in the National Stadium got what they had coming.

No economist from today's Chicago School will ever replicate the great achievement of the first Milton Friedman, as I have described him. Today's Chicagoans have no dominant tradition to oppose. They *are* the dominant tradition. Thanks to Friedman, they have been so for over thirty years. And as such, they've fallen prey to the same philosophical rigidity, to the same indifference to fact, and in many ways to the same complacency and arrogance that mainstream neo-Keynesians displayed a generation back. The Great Financial Crisis provides sufficient evidence of this; the work of Philip Mirowski (forthcoming) will soon demonstrate it in detail. If the Chicagoans were vulnerable—as the neo-Keynesians were—they too would lose out in the next generation of academic jobs. They won't; in these matters the economics profession has moved beyond shame.

The second Milton Friedman, on the other hand, has many epigones. It's not hard work. The cable networks are full of sloppy sloganeers, with their jeremiads against the state, except when the heavy hand is directed at protesters against free markets. Friedman substantially created this media niche and his successors often know their debt. The same is true of his followers in government, including Ben Bernanke at the Federal Reserve, who paid tribute directly to Friedman on his 90th birthday. Bernanke has applied Friedman's anti-depression medicine—printing money—with real tenacity and sadly little effect.

Occasionally reality shakes the faith of economists in their doctrines. To be fair, that was true of Friedman himself on some things; late in life he even repudiated the money growth rule, for which in some quarters he was most famous. We shall see whether Ben Bernanke, in due course, expresses similar reservations about quantitative easing.

References

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Go to May 2013 issue

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