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Why Is There No Milton Friedman Today?

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LINK TO ABSTRACT

The short answer to the question posed by *Econ Journal Watch* is that Milton Friedman combined, with enormous success both within the economics profession and in the society at large, three distinct roles. He was an analyst, using conventional analytical methods, of technical issues in macroeconomics, such as business cycle economics (with emphasis on the role of money), inflation and deflation, international exchange rates, and the consumption function. He was an advocate on economic grounds of specific public policies, such as an end to conscription, a negative income tax (of which the Earned Income Tax Credit is a variant, adding a work requirement surprisingly absent from Friedman's proposal), and school vouchers. And he was a public intellectual/guru/philosopher, advocating in books, magazines, op-ed pages, and electronic media a politically controversial return to libertarian (equivalently, free-market, laissez-faire, classical-liberal) economic policy.

Friedman also made an influential contribution to economic methodology in arguing that an economic theory should be tested by its predictive accuracy alone, without regard to the realism or unrealism of its assumptions (Friedman 1953). The argument is questionable because, owing to the difficulty of assessing such consequences (reliable experiments concerning economic behavior are very difficult to conduct), economists have tended to rely heavily—certainly Friedman did—on assumptions, often assumptions based on priors rooted in ideology, personality, or other subjective factors. In Friedman's case, the dominant prior was

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a version of classical libertarianism based on a faith, akin to a religious faith, rather than on robust empirical findings.

With the growing attention that economics has received in the wake of the 2008 financial crash and the ensuing global economic crisis (from which the world, including the United States, has, five years later, not yet recovered), and with the rampant growth of the electronic media, an increasing number of economists attempt with more or less success to combine Friedman's three roles, doing technical economics, advocating economic policy changes, and opining on issues of economic policy in the media. But no living economist has the scope, or is having the political impact, of Friedman—or seems likely to. In part this is because economics has become a more technical, specialized, mathematized field since Friedman's day, increasingly attracting to the field persons with mathematical skills and interests rather than with the broad policy and political interests of a Milton Friedman. In part it is because few if any economists have Friedman's rhetorical skills or political passion. (Oddly, Friedrich Hayek, who had none of Friedman's rhetorical skills, was a classical libertarian with influence in Europe comparable to Friedman's in the United States.) A related point is that writing well is no longer valued in economics as it once was. This is a natural concomitant of increased mathematization of a field.

But I think there's a more interesting reason why we are not likely to see another Friedman, at least if to be "another Friedman" an economist must be a zealot for libertarian economics; for had Friedman lacked that—the faith I mentioned and the determination and ability to propagate it—he would be remembered only as one of a number of very important economists contemporary or nearly contemporary with him, such as Kenneth Arrow, Gary Becker, Ronald Coase, John Hicks, Herbert Simon, Paul Samuelson, Robert Solow, George Stigler, and James Tobin, rather than being frequently bracketed with John Maynard Keynes—generally regarded as the most influential twentieth-century economist—and thus put ahead of the other distinguished economists whom I've listed.

The more interesting reason is that Friedman's mature work, which can be said to have begun with his book *Capitalism and Freedom* (1962), largely overlapped economic and associated political developments that provided support for Friedman's economic philosophy. His timing was perfect! The combination of slow economic growth and high inflation in the 1970s, coupled with growing evidence of excessive regulation of the transportation, telecommunications, broadcasting, electrical power, and other major industries, gave rise both to a deregulation movement at the end of that decade and to increased receptivity to Friedman's emphasis on the economic virtues of free markets. His economic doctrines were eagerly embraced by both President Reagan and Prime Minister Thatcher, and by the governments of the newly free nations of central and eastern

Europe when Soviet control of the region suddenly collapsed at the end of the 1980s. That collapse, moreover, seemed an empirical vindication of free-market economics.

Yet Friedman's influence on public policy, like that of Hayek in Europe, as distinct from the celebrity generated by the congeniality of his ideas to government leaders, probably was small. If one asks oneself whether Reagan and Thatcher needed Friedman to see the economic libertarian light, the answer is likely to be no. For it is not as if Friedman ever made a compelling economic case for libertarianism. His main argument for it, like Hayek's, was not so much economic as moral and political. People had a "right" to guide their lives, decide what to buy, what to pay an employee, etc. The government should respect that right rather than try to increase social welfare by regulatory programs or by redistributive policies requiring heavy taxes. Markets could safely be left alone because they are self-regulating (Adam Smith's "invisible hand"). A powerful government leads to tyranny. These were assertions not backed by evidence. Capitalism beats communism—sure; we knew that much even before communism collapsed. Yet the 1950s were a highly prosperous period for Americans and the overall American economy, but according to *Capitalism and Freedom* the scope of regulation and level of taxation were dangerously high then, for it was against the economic policies of that decade that Friedman was writing. It is the period since 2001 in which Friedman's ideals have been most fully realized in the United States, yet this has been a period of economic and political decline, in significant part as a result of regulatory laxity in banking and securities regulation (financial markets, it turns out, are not self-regulating) and exaggerated belief in the economic efficacy of reducing taxes as a method of stimulating economic activity, a dogma that risks starving government for funds needed for infrastructure, basic research, and combating global warming. What is called "behavioral economics," including its subfield "behavioral finance"—but should be called the psychology of economic activity—has undermined the economic model of man as a rational maximizer of his self-interest and helped to expose the rampant exploitation by business of consumer psychology. Businesses know, and economists are learning, that consumers are easily manipulated by sellers into making bad choices—choices they would never make if they knew better—in borrowing and investing, and in buying goods and services, such as food, health care, and education.

Although economic libertarians advocate a number of sensible reforms, such as ending the war on drugs, authorizing physician-assisted suicide, allowing the sale of kidneys and other organs, deregulating the adoption market, abolishing tax deductions for employer-provided health insurance, liberalizing immigration, privatizing the postal service, and abolishing agricultural subsidies, many of these and other libertarian reforms are politically infeasible. The Friedmanite tide has crested and is receding. Reagan and Thatcher are dead, and a second coming of Friedman does not seem imminent.

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Go to archive of Character Issues section
Go to May 2013 issue

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