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Milton Friedman [Ideological Profiles of the Economics Laureates]

J. Daniel Hammond

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Abstract

Milton Friedman is among the 71 individuals who were awarded the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel between 1969 and 2012. This ideological profile is part of the project called “The Ideological Migration of the Economics Laureates,” which fills [the September 2013 issue of *Econ Journal Watch*](#).

Keywords

Classical liberalism, economists, Nobel Prize in economics, ideology, ideological migration, intellectual biography.

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Milton Friedman

by J. Daniel Hammond¹²

Milton Friedman's ideology remained indiscernible until he was in his mid-thirties. Then, in the late 1940s and early 1950s, it emerged. The three components were Marshallian economic theory, statistics, and political thought that he encountered at Mont Pèlerin in 1947. By the middle 1950s his ideology was set and henceforth changed little except for a decline in his confidence in the public interest motivation of public policies and an increase in his appreciation for insights from the public choice literature.

Records of Friedman's education and early career show little evidence of interest in policy, but they do allow us to see the intellectual formation and work experience from which his ideology developed. Friedman (1912–2006) enrolled at Rutgers University as a 16 year-old in 1928, and graduated in 1932. Friedman's primary interest at Rutgers was mathematics, although he graduated with an economics major and promptly entered the University of Chicago graduate program in economics. After a year of coursework in economics and mathematics he transferred to Columbia University to study mathematical economics. The next

12. Wake Forest University, Winston-Salem, NC 27109.

fall he returned to Chicago to work for Henry Schultz on *The Theory and Measurement of Demand* (Schultz 1938).

In August 1935 Friedman took his first job, with the National Resources Committee (NRC) in Washington, D.C. His work was in the design of survey sampling techniques for a New Deal study of consumer purchases. In September 1937 he moved from the NRC to the National Bureau of Economic Research (NBER) in New York, where he worked with Simon Kuznets on estimates of income of independent professionals. Friedman and Kuznets (1945) found that the premium physicians earned over dentists was due in part to monopoly power of the American Medical Association. But this was a scientific finding without a policy prescription.

While working at the NBER Friedman taught “The Structure of Neo-classical Economics” in the Columbia University Extension. The lectures for this course became the foundation of his graduate price theory course at Chicago. In 1940–41 Friedman taught economic theory, business cycles, and a seminar on income and wealth at the University of Wisconsin. From 1941 until 1943 he worked on tax policy for the U.S. Treasury, which included design of the income tax withholding system.

In March 1943 Friedman joined the Statistical Research Group (SRG) at Columbia, working for the U.S. armed services. When the SRG was closed in 1945 Friedman joined his friend George Stigler at the University of Minnesota. While Stigler was lobbying his Minnesota colleagues to hire Friedman, he received a letter from Friedman reporting that his work for the SRG on sequential analysis had been declassified and was ripe for application in business. If Minnesota hired Friedman they would get credit for introducing this innovation to the public (see Friedman 2006/1945, 16). Friedman got the job at Minnesota, where he and Stigler shared an office. After one academic year Stigler departed Minnesota for Brown University and Friedman departed for Chicago.

Up to the point of his joining Stigler at Minnesota, when he was thirty-three years old, Friedman’s interests and expertise were in technical matters of economics and statistics. Where there were connections with policy his work was in service to policy rather than about policy. For example, when at the Treasury he helped design the income tax withholding system because his job was to design tax policy to finance the war effort. There was no ideological pattern other than the standard fare for economists, to look for an efficient way to attain the objective given to him by others.

During the years 1946–47 this changed. Friedman’s ideology began to emerge when he was at Minnesota. He and Stigler wrote *Roofs or Ceilings? The Current Housing Problem* (1946), a pamphlet critical of rent controls, sponsored by the Foundation for Economic Education (FEE). This essay was Friedman’s first foray

into policy advocacy for the public at large. Friedman and Stigler took two positions in the essay that became components of his ideology. Their primary argument was for removing the wartime rent controls, allowing free-market prices to allocate rental housing. Of less importance for the rent control issue—but of substantial importance for Friedman’s ideology—Friedman and Stigler (1946, 10) expressed desire for greater equality of income.

Orval Watts and Leonard Read at FEE wanted Friedman and Stigler to remove their pointed statement about equality from the rent control essay, out of concern that FEE would be associated with support for progressive income taxation. Friedman and Stigler replied that if publication was conditional on the statement being removed they would prefer that the essay not be published. In a letter to Read, Friedman wrote:

I believe it essential to make clear wherein we are criticizing means and wherein ends. Failure of liberals to emphasize their objectives seems to me one of [the] reasons they are so often labeled reactionaries. (Friedman 2006/1946, 21)

Friedman and Stigler stressed to Watts and Read that their intention was to show that rent controls are an ineffective way of aiding the poor, not to argue against public assistance for the poor. A primary concern for common people, including the poor, was a key component of Friedman’s ideology through the rest of his career.

Friedman’s ideology formed rapidly after his year at Minnesota. His preparation for teaching price theory at Chicago was a collaborative effort with Stigler. He wrote in August 1946 that he had been reading Stigler’s *The Theory of Price* (1946) and Alfred Marshall’s *Principles* (1920) to prepare for teaching. A hallmark of the Marshallian approach that he used in his Chicago course was the “forging of tools that can be used fairly directly in analyzing practical problems” (Friedman 1949, 469). In developing and teaching economic theory, policy questions were kept close at hand.

During Friedman’s first year on the University of Chicago faculty (1946–47) he was invited to attend a meeting of liberals at Mont Pèlerin, Switzerland. There he met F. A. Hayek and other European and American liberals. It was at Mont Pèlerin in April 1947 that Friedman took a step beyond economics and statistics to engage with the political and philosophical ideas that undergird policy. Friedman recalled the importance of Mont Pèlerin in an interview:

Mont Pèlerin was the first time that I came into contact with people like Hayek, Lionel Robbins, and the European contingent of that time.

That widened my perspective about issues and policy. (Friedman 1995)

On the macroeconomics side, in September 1947 Friedman presented to the Econometric Society his paper on “A Monetary and Fiscal Framework for Economic Stability” (1948). This paper shows that Friedman believed, prior to his work on money and business cycles with Anna Schwartz, that government policies contributed to cyclical instability. Such thinking set him apart from Keynesians who attributed business cycles to instability in private expenditures. In 1948 he and Schwartz began their collaboration. By the year’s end Friedman came to the conclusion that the Federal Reserve had been a destabilizing force over the period of its existence and that the United States might well have been better off had the Fed not been created (see Hammond 1996, 56).

By the middle 1950s Friedman’s ideology was fully formed. His approach to economics, which he learned first from Arthur F. Burns at Rutgers and then from Jacob Viner at Chicago, featured a close relationship between theory and real-world problems. So now policy and theory would go hand-in-hand. His work on money and business cycles, the basis of which was his training under Wesley C. Mitchell at Columbia and the NBER, led to his conclusions about money, the Federal Reserve, and business cycles. And Friedman’s experience with Hayek and his confreres at Mont Pèlerin helped him to place the technical matters of economics and policy within a liberal political-economy framework.

Friedman’s advocacy of free markets as the starting point for discussions of policy was consistent through his writings. He laid out principles for government policy in two publications that preceded *Capitalism and Freedom* (1962), where the arguments are repeated. In a 1951 article titled “Neo-liberalism and Its Prospects” he wrote:

Neo-liberalism would accept the nineteenth century liberal emphasis on the fundamental importance of the individual, but it would substitute for the nineteenth century goal of laissez-faire as a means to this end, the goal of the competitive order. It would seek to use competition among producers to protect consumers from exploitation, competition among employers to protect workers and owners of property, and competition among consumers to protect the enterprises themselves. The state would police the system, establish conditions favorable to competition and prevent monopoly, provide a stable monetary framework, and relieve acute misery and distress. The citizens would be protected against the state by the existence of

a free private market; and against one another by the preservation of competition. (Friedman 1951a, 92-93)

In “Liberalism, Old Style” (1955a), Friedman expanded the details of these principles by identifying three grounds for government intervention into private affairs: (1) natural monopoly, (2) substantial neighborhood effects (externalities), and (3) to protect children and irresponsible adults. In *Capitalism and Freedom* (1962) he applied these principles to areas of policy such as international finance and trade, education, occupational licensure, and alleviation of poverty.

Friedman’s consistency is illustrated in his writings on education policy (Friedman 1955b; 1962; Friedman and Friedman 1980). He accepted that there were grounds for public subsidies for primary education on the basis of externalities (but not for higher education). The subsidy should be to the family in the form of a voucher rather than to the school. Likewise, he favored public assistance for the poor in the most direct and efficient form possible—cash. Thus Friedman paired reliance on private arrangements, to the extent that would be consistent with efficiency, with a preference for the less powerful customer (or citizen) rather than the more powerful producer (or organization). The capstone was set when he and his wife Rose Friedman founded the Friedman Foundation for Educational Choice in 1996.

In a sense Friedman never rejected the New Deal goals of relief, recovery, and reform. He rejected the means to those goals, however, when he came to believe that they were counterproductive. His recommendations for monetary policy are a case in point. One of the lessons Friedman learned from Arthur Burns and Wesley Mitchell was that economists know less than their pretensions suggest. This was Friedman’s first and most crucial difference with Keynesians. This can be seen in his comments on work by Jan Tinbergen (Friedman 1940), Oskar Lange (Friedman 1946), Abba Lerner (Friedman 1947), and Carl Christ (Friedman 1951b), and it was the basis of his advocacy of monetary policy rules (Friedman 1948; 1960; 1972).

One aspect of Friedman’s thinking about public policy did change substantially over the course of his career. This was a decline in his confidence in the ability and willingness of public officials to pursue the public interest. In 1953 Friedman wrote that:

I venture the judgment, however, that currently in the Western world, and especially in the United States, differences about economic policy among disinterested citizens derive predominantly from different predictions about the economic consequences of taking action—differences that in principle can be eliminated by the progress of

positive economics—rather than from fundamental differences in basic values.... (Friedman 1953, 5)

His confidence in the public spiritedness of citizens and public officials declined as he saw representatives of vested interests resist reforms that were backed by what he thought was compelling economic evidence. He also became more acutely aware of the power of special interests in resisting reform. Thus, for example, in the 1980s Friedman was an active supporter of efforts to pass an amendment to the U.S. Constitution requiring Congress to run a balanced budget and setting controls on spending. Also important was his exposure in the 1960s to the new literature on public choice. As he and Rose Friedman wrote in the preface to *Free to Choose*:

[T]his book is influenced by a fresh approach to political science that has come mainly from economists—Anthony Downs, James M. Buchanan, Gordon Tullock, George J. Stigler, and Gary S. Becker, who, along with many others, have been doing exciting work in the economic analysis of politics. *Free to Choose* treats the political system symmetrically with the economic system. Both are regarded as markets in which the outcome is determined by the interaction among persons pursuing their own self-interests (broadly interpreted) rather than by the social goals the participants find it advantageous to enunciate. (Friedman and Friedman 1980, ix-x).

We have seen that as a youth and young man Milton Friedman did not have an active interest in economic and social policy. His intellectual interests were first in mathematics and statistics, and then economics. However, the statistics and economics that he learned were not theory for the sake of theory, but theory in service of understanding concrete problems of life and society. This led naturally to Friedman forming an interest in economic policy. His participation in the Mont Pèlerin meeting exposed him to liberal ideas beyond economics. From the middle 1950s on, though details of his views on particular policy matters may have changed as the economic and political landscape changed, his way of thinking about the role of government and his fundamental principles for public policy were stable.

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Ragnar Frisch

by Arild Sæther¹³ and Ib E. Eriksen¹⁴

Ragnar Frisch (1895–1973) was the son of a gold- and silversmith, Anton Frisch, and his wife, Ragna Fredrikke Kittilsen. Frisch states in his autobiography that his mother had had a great impact on his “general outlook and view on life” (Frisch 1992/1970). It was more or less taken for granted that he should follow in his father’s footsteps and take over the family firm. The young Frisch therefore became an apprentice to become a goldsmith. His mother saw, however, that this would not be satisfactory for him in the long run. She insisted that he should enrol at a university. He chose political economy because, according to himself, that was the “*shortest and easiest* study” at the University of Oslo (*ibid.*, emphases in original).

He graduated with distinction from the Royal Fredericks University of Oslo in 1919, with the degree Cand.oecon. in political economy. A year later he completed his handicraftsman’s probation work as a goldsmith. On completion of his studies he was rewarded a fellowship from the university and went abroad to study mathematics, statistics and economics. He stayed nearly three years in France, but visited also Germany, Great Britain, and Italy. On his return to the university he continued his scientific activity believing that research was his calling. In 1925 he became an assistant on a research programme in production theory led by Professor Petter Thorvald Aarum (1867–1926). In 1926 Frisch defended his doctoral thesis, “*Sur les semi-invariants et moments employés dans l’étude des distributions statistiques,*” a work on time series and statistics, at the Faculty of Mathematical and Natural Sciences.

13. Agder Academy of Sciences and Letters, 4604 Kristiansand, Norway.

14. University of Agder, 4604 Kristiansand, Norway.