

Milton Friedman: Non-Research Activities 1976-89

By Allan Meltzer*

My assigned topic is to discuss the mostly non-research activities in which Milton Friedman took an active role from the time of his Nobel Prize to the end of the Reagan administration. As always he was extremely active. Judging from his correspondence, he rarely refused a speaking engagement whether from a high school class or a major government.

A typical example is the note from a former graduate student in California who wrote to him in 1984 asking questions about Chile. She wrote: "Twenty years have passed and I have yet to meet anyone of his stature and reputation who was so available." (Hankins, 2002)

I have divided the mass of material into nine topics starting with the disgraceful controversy surrounding the award of his Nobel Prize and ending with several familiar topics including the advice he gave to President Reagan at the President's Economic Policy Advisory Board, (PEPAB). I worked on some similar topics, especially monetary theory and policy so I was always interested in his commentary in Newsweek magazine and elsewhere, and I served on PEPAB with him and others, during part of the Reagan administration. From the mass of material, I selected papers and comments that convey his main themes.

As my discussion brings out, Milton Friedman based his comments on his theoretical and empirical work. His comments reflected and reported the analysis he and others had done. He used his public statements to educate people and policymakers most of whom had never studied economics. He was a master of explaining economic ideas to laymen and governments. He taught me and others that most of economics can be understood by everyone and that in a democracy ...

Milton never left doubt about the kind of society he favored, but I found only one piece, outlining a talk to Stanford students, in which his beliefs are the main theme. (Republican-Libertarian, 1986)

He described his position as libertarian with a small l and Republican with a capital R. "I am a libertarian on grounds of principle, a Republican, on expediency. ... Libertarianism is an

* I thank Robert Leeson for arranging a week at the Hoover Institution Library where Friedman's papers are archived and I thank the Hoover Library for their assistance during my visit.

ideal; Republican politics a means of moving toward the ideal.” He recognized that all major political parties must be expedient, not ideological, but the Republicans were more inclined toward the policies he favored than the Democrats.

Friedman’s Nobel Prize

Very few serious economists could have been surprised that Milton Friedman received the Nobel Prize in 1976. The *Economist* asked two distinguished economists, James Tobin and Harry Johnson to comment on the award. (*Economist*, October 1976.) The *Economist* described Tobin as a Friedman critic and Johnson as broadly sympathetic, but both agreed that Milton’s scientific work merited the award. Tobin noted that the award in 1976 came on the 200th anniversary of The Wealth of Nations and the Declaration of Independence.

Harry Johnson summarized three scientific contributions that the Nobel committee cited—Friedman’s work on the consumption function, his monetary history (with Anna J. Schwartz) and “his demonstration of the complexity of stabilization policy,” especially his 1967 presidential address to the American Economic Association. James Tobin added some other contributions that the committee did not include. One of these was Friedman’s early work with Simon Kuznets on professional incomes that developed and applied the idea of human capital.

Tobin used most of his space to summarize his criticisms of Friedman’s political and policy positions and his methodology. Notwithstanding criticisms and disagreements about policies and methods, both Tobin and Johnson leave no doubt about their belief that Friedman’s scientific achievements merited the prize.

Science asked Karl Brunner to comment on Friedman’s contributions. Brunner (1976). He also both summarized the award and commented extensively on Friedman’s work that was not cited. He offered many comments on Friedman’s statistical training and research. This led Friedman, according to Brunner, to distinguish permanent and transitory changes and to approach economics as an empirical science in ways that influenced many others. Brunner’s comment on empirical work contrasts sharply with some of the critics of Friedman’s work.

Leonard Silk, a columnist for the *New York Times*, wrote a book about six well-known economists. (Silk, 1983). Surprisingly, he praised Paul Samuelson and Wassily Leonteff for the quality of their empirical work and omitted Milton Friedman, the most serious empirical scientist in the group. Elsewhere, Silk criticized the award of a Nobel Prize to Friedman in an article for a

Spanish newspaper that the *New York Times* reprinted. Silk reported that Professor Gunnar Myrdal proposed abolishing the award for economists because Friedman received it. (Silk, 1977). A main criticism of the economics prize was that Milton Friedman was a principal adviser to the Pinochet government in Chile. The *New York Times* printed letters from four winners of the Nobel Prize in medicine and chemistry who repeated such claims and criticized the award to Friedman. None of the four, or other critics including the *Times*, made an effort to verify the charge that Friedman was a principal adviser of Pinochet. And none criticized the award to individuals, including Friedman, who had advised totalitarian governments in China and the Soviet Union.

The charges were not true. Friedman's association with Chile was a six-day visit during which he said he repeated familiar Friedman recommendations about economic policy publicly as well as privately. One of his public lectures was called "The Fragility of Freedom". Also Friedman had taught many of the economists who worked and led Chilean reforms in a program at the University of Chicago that the U.S. Department of State sponsored.

That did not prevent the Swedish press from repeating the incorrect information and characterizing Friedman as a "Detractor of Mankind" (Kramer, 1977). The misrepresentation continued during the prize ceremonies leading 4000 to 5000 protestors to call Friedman a "murderer" at a rally outside the prize ceremony, (ibid., 24). The Swedish police met Milton and his family at the plane and guarded them during their stay.

The charges and demonstrations continued for more than a year. Friedman complained about harassment in a December speech to the Commonwealth Club in San Francisco. He pointed out that he had recently taken about the same role in Communist Yugoslavia without a word or sign of protest. (Turner, 1977). Before the lecture he asked a former student if a topic of his lecture in Chile on "The Fragility of Freedom" still existed. There is no record that it did. Almost five years later, Friedman compared the continued demonstrations against his role in Chile with the absence of any comment or protest against his speaking in China as the guest of the Chinese Academy of Social Sciences. (Friedman, 1981).

Although there were many critics, some academics defended Friedman. Letters from Peter Bauer, Karl Brunner, and Harry Johnson are in his papers among others.

In characteristic form, Friedman wrote: "Despite the ideological differences between China and Chile, I was invited to both for precisely the same reasons. Both have experienced

inflation and were interested in learning the latest findings about its cause and cure. Both have experienced the deficiencies of central planning and want to give a greater role to market forces, so both were interested in hearing the views of a strong proponent of free markets.” (idem). Friedman then offered two explanations for the difference in reaction—bias among intellectuals and journalists and organized protests by opponents of markets. In one of his letters, he expressed no regret about his visit to Chile. He wrote: “There are no free lunches and the cost, while heavy, has not been without sufficient reward.” (Letter to Rolf Luders, 1977)

Years after Friedman’s visit to Chile, in 1977, Harvard University invited his Chicago colleague, Arnold Harberger to accept appointment as a professor and to head the Harvard Institute for Economic Development. Some students and faculty protested Harberger’s and Friedman’s involvement in Chile. A prominent sociologist attacked Harberger, Friedman, and their Chilean students (Jencks, 1977). Friedman wrote to Jencks pointing out that his facts about Chile were out of date and incorrect. After Harberger decided to decline the invitation, President Derek Bok of Harvard published a statement defending academic freedom and opposing ideological requirements for appointment at Harvard, (Bok, 1980).

Looking back after more than 30 years, we can see the result. Following the broad direction of Friedman’s advice has benefitted people in Chile and China, and many other countries.

Inflation and the Federal Reserve

Milton’s efforts to improve Federal Reserve policy are legendary. His well-known advocacy of a monetary rule and his proposal to index contracts were widely discussed. He used his *Newsweek* column frequently to criticize Federal Reserve policy. Although his forecasts were inaccurate at times, his efforts to reduce inflation bore fruit when Paul Volcker adopted “practical monetarism” and succeeded in reducing inflation to 3 or 4 percent after two years of restrictive policy.

In *Fortune* magazine, Milton offered a clear statement of the policies he proposed and a warning about the risk involved. (Friedman, 1974). He proposed voluntary private agreements and legislated indexation of tax rates to compensate for inflationary changes in tax payments, wages and fixed-price financial assets. He called these “escalators” a “lesser evil than badly managed money” (ibid., 94). He favored their use as a way of reducing the revenue governments

received from inflation through increased money, higher tax rates, and reductions in the real value of fixed price contracts. But he warned that temporarily higher unemployment was a side effect of policies that reduced inflation and that relative prices would impose distortions caused by different speeds at which expectations adjust to the reduction in growth of nominal demand. He offered his proposal to index contracts as a way of reducing some of the distortions and the benefit government gained from inflation.

A reduction in money growth was the key to lower inflation. Indexation was a way to smooth the adjustment and reduce distortions caused by different speeds of relative price adjustment. Friedman's proposal did not mention a major problem with his proposal. Measures of inflation can be distorted by large changes in relative prices such as the oil price included in the index. This is a relative price change that increases the level of a price index. Indexing to those changes wrongly embeds inflation in all indexed contracts. When Brazil faced this problem in the 1970s, it ended extensive indexation after seeing the measured inflation rate rise above 100 percent per annum following the increase in oil prices.

In the fall of 1977, the Treasury and the Federal Reserve agreed to intervene in currency markets to prevent "disorderly" markets. In his regular *Newsweek* column, Milton described intervention as gambling and claimed that the United States lost more than \$550 million in the seven years after Bretton Woods ended. (Friedman, *Newsweek*, 1978). He described the Fed's task as providing "stable money at home ... If we succeeded in curbing inflation, the exchange rates would take care of themselves." (ibid., 65).

Many of Milton's *Newsweek* columns explained the economic principles that led him to accept or reject government and Federal Reserve explanations of the reasons they acted or to explain the economic consequences of the actions. In a January 1979 *Newsweek* column, he explained why he believed it was a mistake to sell bonds denominated in German marks, as the Carter administration agreed to do. Again, the government was gambling. And again, the way to strengthen the dollar exchange rate was a successful effort to end inflation.

In a November 2010 speech Federal Reserve Chairman Bernanke claimed that Milton Friedman would support monetary expansion to reduce the unemployment rate, 9.6 percent at the time. His claim is contrary to Friedman's oft-stated view that "unemployment is neither a cure nor a cause of inflation. It is a side effect [of] both." (*Newsweek*, November 12, 1979, 97). The way to lower unemployment, according to Friedman, was by restoring and maintaining price

stability, not by increasing money growth as Bernanke did. Friedman did not neglect the costs of inflation or of lowering inflation. He proposed an inflation adjusted mortgage to smooth housing purchases. (*Newsweek*, May 26, 1980, 80). His “inflation proof contract” provides for adjustment of monthly payments by the price increase to keep the real mortgage payment fixed. He recognized that lenders would not offer the inflation proof contract unless government changed tax provisions and some regulations. His proposed contract, like his support of indexation, is an example of his efforts to reduce the costs and redistribution caused by inflation. He returned to these proposals at other times during the disinflation. (*Newsweek*, October 19, 1981, 88).

Friedman was skeptical after the Federal Reserve announced a major change in policy in October 6, 1979 (as I was). The new arrangement changed policy from control of a short-term interest rate to control of a measure of bank reserves. Interest rates would be determined by the market. He cited the Fed’s past neglect of its announced targets for money growth, and he wondered whether the Fed’s new commitment would “survive climbing unemployment in election year 1980.” (*Newsweek*, October 22, 1979, 39) Nine months later, he offered a way of “Improving Monetary Policy” to reduce the “sharpest swings in monetary growth in decades.” (*Newsweek*, July 28, 1980, 60). He called for monetary targets expressed as levels and rates of growth of monetary aggregates for several years ahead, market determination of the federal funds rate and all other rates, and a stated change in the monetary base required to achieve the monetary targets. In an early 1981 op-ed in the *Wall Street Journal*, Friedman discussed the increased variability of measures of money growth in 1980 and proposed procedural changes. He proposed replacement of the target for the Federal funds rate with a target for the monetary base, ending lagged reserve requirements, introducing a penalty discount rate, and accelerating the end of regulation Q controls on bank interest rates. (January 30, 1981)

Ronald Reagan became president in January 1981. Soon after he appointed George Shultz, Milton Friedman and several others to serve on an advisory group known as the President’s Economic Policy Advisory Board (PEPAB). The Board discussed administration policy. Most of the members endorsed President Reagan’s program calling for reduced inflation reducing spending, lower tax rates and less regulation.¹ Friedman participated in the discussions

¹ Shultz served as the committee chair. When he became Secretary of State, Walter Wriston served as chairman. I became a member later.

with the president and supported his program. He opposed all proposals from David Stockman, Herb Stein and a few others who were willing to raise tax rates to reduce the budget deficit. But Friedman criticized quotas on steel and auto imports that the administration adopted.

By July 1983, Friedman told the president that he expected inflation to increase in 1984. In September, he published his thoughts in the *Wall Street Journal* starting with an explanation of the much discussed relatively large decline in velocity from 1981 to 1983. Critics of monetarism and of Friedman made much use of the decline to claim that monetarism was unreliable. At the July 1984, PEPAB meeting, he repeated his warning about inflation, predicting a resurgence of inflation to 6 to 9 percent by the end of 1984. Paul Volcker was present but did not respond.

Friedman used the meeting to urge the president to seek a constitutional amendment in his second term. The proposed amendment required a balanced budget, limits on spending, and a line item veto. Several participants disagreed saying the amendment would not be enforced.

In “The Fed Has No Clothes,” Milton criticized Federal Reserve policy for its inconsistencies and excuses. “The Fed has consistently resorted to statements of good intentions both with respect to the future and with respect to its past actions ... No major institution in the U.S. has so poor a record of performance over so long a period as the Federal Reserve, yet so high a public reputation.” (*Wall Street Journal*, April 15, 1988).

The Federal Budget and Budget Amendment

Friedman wrote many pieces on the budget and government spending. He was a principal architect of a spending limitation amendment to the constitution. His proposal limited growth of budget outlays to growth of output. Efforts to get states to call for a constitutional convention fell short of 2/3 of the states required for the call to be effective.²

Milton wrote and spoke in favor of tax limitation with his usual enthusiasm and energy, but he usually added that the most important change was spending limitation. Over and over again, he tried to teach that government spending was the cost of government, not taxation or the budget deficit. He pointed out that if government taxed less than it spent, the balance was either borrowed, a cost, or paid for by issuing money. Too much money issues caused inflation and

² My son, Eric, took a major role in this effort, when he worked at the National Taxpayers Union. As the number of states approached 2/3 of the total, opposition strengthened greatly. A positive vote was no longer a free ride.

inflation taxed the public stealthily. At the time, Milton wrote that he regarded tax limitation as a useful step until the public came to approve limits on government spending. He noted that spending limitation, though desirable, was only part of the problem. “Many of the worst kinds of government intervention do not involve much spending. Some examples are tariffs, or regulation of industry ... or the controls on the price of natural gas. (Elko, NV Free Press, July 17, 1978).³

At about the same time, voters in California voted on a ballot initiative to limit the property tax in California. The constitutional amendment reduced taxes by \$7 billion dollars. Friedman criticized the amendment because, he said, it was loosely drawn and did not directly limit government spending. But he supported passage on grounds that it was a step toward less government.

In his *Newsweek* column for April 10, 1978, Friedman hailed the first success for spending limitation. In March voters in Tennessee approved a constitutional amendment limiting government spending growth to “the estimated rate of growth of the state’s economy (80). He was heartened by the decision because it came after California defeated Governor Reagan’s Proposition 1 that limited state spending to a slowly declining fraction of the state’s personal income.

Other states introduced limitation proposals. Milton consulted with voter groups in Michigan and Illinois and probably elsewhere.

Opponents of tax or spending limitation responded. Public employee unions, business groups, and academics were active in opposition in California. The proposition passed by a nearly 2 to 1 margin.

John Kenneth Galbraith spoke against the California amendment. He called it “a reckless risking of reckless disorder.” (*Chicago Sun Times*, June 8, 1978). He blamed Friedman. David Broder, a columnist for the *Washington Post*, listed criticisms of the proposition, but he also quoted a city manager of a California city who praised tax limitation as a way of forcing better use of the city’s revenues. (*Washington Post*, August 13, 1978).

Separately from the constitutional amendments, Friedman actively opposed President Carter’s program to stimulate the economy shortly after his election. In an interview with *U.S.*

³ The editorial came from a speech Milton gave that The Heritage Foundation published. The archives contain reprints from newspapers across the country.

News and World Report, he criticized a proposed distribution of \$50 to the public pointing out that recipients would spend more but taxpayers would spend less at the time or in the future. He insisted again that the better policy was permanent tax reduction. He proposed, also, a reduction in money growth to slow inflation, indexation of personal and corporate tax rates, and a 10 percent across the board reduction in government spending. (*U.S. News and World Report*, March 7, 1977, 20-22).

Friedman criticized the so-called supply-side proposal advanced by Congressman Jack Kemp and Senator William Roth. Their proposal called for reduction over three years in individual and corporate tax rates. Friedman always favored lower tax rates, but he always insisted that the cost of government was the spending not the revenue collection. He disagreed with the claim that lower tax rates would stimulate greater activity by increasing incentives. He accepted that lower rates would have the incentives effects claimed for them. But with spending unchanged, there were hidden taxes required to pay for the budget deficit. (*Newsweek*, August 7, 1978, 59)

In 1976, Milton published his proposal for reforming the tax system. It called for a maximum rate of 25 percent with all lower rates unchanged. He reasoned that taxpayers would report more income because most so-called loopholes would be less valuable. He called his proposal "An Impossible Dream" citing opposition from lawyers, tax accountants and government officials. (*Newsweek*, April 12, 1976, 93)

In 1988 President Reagan proposed a 28 percent maximum rate. It became law. Friedman was skeptical about the durability of provisions lowering rates and closing loopholes. He predicted that rates would rise and loopholes return. He was right. The Clinton administration raised the maximum rate to 39.6 percent and Congress enacted new loopholes.

In unpublished notes written for his presidential address to the Western Economics Association, he discussed the role economists should take in proposing policy changes. He accepted that policy officials were motivated by their own interests, not solely by the public interest.

Economists could educate the public about their own interests. He used tariffs as a familiar example. Also economists could recommend institutional change such as a balanced budget amendment to the constitution, a monetary rule, or the benefits of floating exchange rates.

Milton wondered whether economists might also serve their private interest. New Deal legislation increased their role. Do they use externalities or market imperfections to justify a larger role for government?

People often wrote to Friedman asking him to endorse proposals. One proposal that appeared several times asked for his support of a national sales tax in place of the income tax. He wrote that he favored a flat income tax and a balanced budget amendment for states and the federal government.

Tariffs, Restrictions, Exchange Rates and Trade

Several *Newsweek* columns and pieces elsewhere defended free trade and criticized trade restrictions. True to his beliefs, he criticized some of the actions taken by the Reagan administration. As pressures to protect the steel industry rose, Friedman made the economist's case for free trade. He explained that the pressure for industrial protection gains adherents because everyone can see the loss of steel worker jobs. But, exports pay for imports. Restricting imports also restricts exports by depriving foreigners of dollars to purchase what we sell. The loss of exports is less visible, often invisible, unlike the jobs of steel workers lost to imports. ("In Defense of Dumping," *Newsweek*, February 20, 1978, 73)

He repeated and extended the argument, taking up the case for protection as a way of maintaining a steel industry for defense and weapons production. Milton pointed out that the entire steel industry would not disappear. Domestic producers have the advantage that comes from proximity to materials and customers and lower transport costs. Further, he pointed to alternatives to tariffs such as stockpiling inventory of essential material for weapons production.

Friedman also highlighted the role of exchange rate changes. A permanent trade surplus for a foreign country would revalue their currency or cause them to have inflation, changing the real exchange rate and raising the prices foreigners pay for their exports while lowering the prices they pay for others exports. His insistence on exchange rate adjustment recognizes the adjustment mechanism that U.S. negotiators neglected when they agreed to admit China to the world trading system. ("The Need to Embrace Free Trade", *San Francisco Chronicle*, January 23, 1979).

In 1979, Chrysler Corporation asked for government assistance to prevent failure arguing that if it failed, the economy would lose 500,000 jobs at Chrysler and its suppliers. Friedman

pointed out that productive plant had value that would not disappear. “Bailing out Chrysler would simply preserve unproductive jobs at the expense of productive jobs.” (“Chrysler: Are Jobs the Issue?”, *Newsweek*, September 10, 1979, 66) Friedman’s analysis did not prevent the government from lending to “save” Chrysler. About 30 years later, the government made a similar decision, to prevent failure of Chrysler and General Motors based on similar arguments about saving jobs.

Despite his admiration and support of President Reagan’s monetary and fiscal policies, Friedman did not hesitate to criticize some trade policies. In 1981, the administration negotiated “voluntary” restrictions on Japanese automobile imports. Friedman pointed out to the public that voluntary restrictions were worse than tariffs that limited exports to the same extent. The reason is that the tariff provides revenue to the government while the voluntary restrictions transfer the rents either to the Japanese government or Japanese auto producers. Consumers in the United States pay the higher prices in both cases. (“Voluntary Restrictions,” *Newsweek*, April 6, 1981, 81) In practice, Japanese producers shifted the mix toward more expensive cars increasing competition in the markets for more expensive cars.

Friedman repeated some of his reasons for opposing restraints on auto imports, but he added criticism of several other trade restraints accepted or promulgated by Reagan administration trade officials. By 1987, the auto restraint policy had ended, but the Japanese government continued the restriction to profit from the resulting higher prices of its autos. Also, administration officials had encouraged several other agreements, including a restriction on computer chips. (“Outdoing Smoot-Hawley”, *The Wall Street Journal*, April 20, 1987)

In 1980, President Carter embargoed all grain shipments to the Soviet Union. Milton used his *Newsweek* column to show why the embargo would fail. Other countries, especially Communist countries, would sell more grain to the Soviet Union. If the U.S. government compensated farmers by purchasing to replace lost sales, total demand and price would increase. The price is a world price, so the Soviet Union and everyone else would pay more. Consumers everywhere would be worse off. (“Economic Sanctions”, *Newsweek*, January 21, 1980, 76)

Milton remained an advocate of flexible exchange rates. When he received an honorary doctorate from Hebrew University in 1977, he used his speech to make the case for a flexible exchange rate in a small open economy, Israel. He began by noting that flexible exchange rates had become the world’s system.

During the fixed exchange rate period, Israel had devalued several times, and it had often chosen selective changes, multiple exchange rates, export subsidies, and import restrictions. Milton, of course, favored a flexible exchange rate for Israel, and he urged that all the exchange restrictions be removed at once. Tariffs should be removed gradually to allow time for adjustment.

In a 1982 talk at the Mont Pelerin Society meetings, Milton reviewed his earlier argument for flexible exchange rates as necessary for the success of the European Common Market (Friedman 1982a). Later, he criticized the decision to have a common currency.

Foreign Travel

As his reputation grew, Friedman was invited to talk and advise governments in many countries. For example, in 1980, he travelled to China, in 1976 to South Africa, and he took a major role in advising the Thatcher government in Great Britain after 1979. He visited Poland and Israel several times. In each of these countries, and many others, he gave the same general advice, modified in most countries by the institutional arrangements. For example, he talked about the disadvantage of state ownership in China and the advantage of mostly private ownership in South Africa. Unlike his visit to Chile, no criticism of the China or South Africa trip can be found in his files. I do not recall any at the time. However, his proposals for Britain were criticized heavily by Mrs. Thatcher's opponents. When they succeeded in raising the growth rate, reducing inflation and the budget deficit, and increasing employment, the critics did not praise the result. They criticized the social system and the income distribution.

One of the most strident attackers on monetarist policy in Britain appeared in the *Times* for February 25, 1980. Professors Frank Hahn and Robert Neild wrote that Friedman's arguments were flawed. (Hahn and Neild, 1980). Their main argument was that the stringent conditions required for a full employment equilibrium were not satisfied in practice. Hahn later led a large number of British economists to protest Thatcher policies claiming that they would not produce full employment and low inflation. When the economy recovered with low inflation, they did not respond.

A Volunteer Army

The military draft became very unpopular during the Vietnam War. Some left for Canada to avoid the draft, some enrolled in college or universities, and some burned their draft cards. President Nixon appointed the President's Commission on an All-Volunteer Armed Forces. Former Secretary of Defense Thomas Gates served as chairman. Milton Friedman was a member. In early 1970, the GATES Commission submitted a unanimous report calling for an end to the draft and reliance on volunteers paid the market price. Technical econometric studies of the demand for and supply of personnel suggested that the volunteer army was economically feasible.

Milton Friedman responded to criticisms and advanced the positive case for volunteers. At the Commission's start, half of the 14 voting members favored continuing a military draft. The final report, however, was unanimous. ("Letter," *Wall Street Journal*, June 11, 1981). Although the number of recruits fell below the desired number in some years, no serious effort to restore the draft has occurred.

Education

In his late years, Friedman devoted much of his energy to promoting voucher programs that permitted students and parents to choose schools. His proposal transferred control of school funding to parents who could use the voucher to withdraw funding from poor schools and support better schools.

The teacher's union opposed actively, vociferously, and politically. The unions contributed to campaign funding, so a large bloc of Congressmen opposed competition and vouchers. Friedman wrote and spoke often about the need for school reform. He left a large part of his estate to a foundation that promotes competition and vouchers.

An example of his campaign in a *Newsweek* column presented data showing that from 1970 to 1982 spending adjusted for inflation increased fivefold while measures of school quality declined. Friedman wrote: "You cannot make a monopolistic supplier of a service pay much attention to its customers' wants—especially when it does not even get its funds directly from its customers. The only solution is to break the monopoly, introduce competition and give the customers alternatives. A voucher system is such a solution." ("Busting the School Monopoly", *Newsweek*, December 5, 1983, 96).

Energy

In 1973, the cartel of oil producers began a series of price increases that substantially increased the cost of gasoline, electricity, and power. Friedman wrote several *Newsweek* columns opposing oil price controls. He reasoned that, by keeping the price below the market clearing price, controls encouraged consumption and reduced domestic production. Controls strengthened the energy cartel and taxed domestic users to subsidize foreign producers.

Friedman's columns criticized President Ford for approving a bill that continued controls on "old" oil and put controls on "new" output. And he called President Carter's energy proposal "a monstrosity" because it increased taxes on "old" oil thereby increasing incentives to use less but doing nothing to increase production. ("A Monstrosity", *Newsweek*, May 2, 1977). The right solution, he said, was to end controls and let prices rise.

President Carter defended his proposal by claiming, as politicians often do, that it was fair. Friedman's response did not discuss energy. It compared fair and free pointing out that "fair" requires an arbiter, the government, to make and enforce its idea of fair. "Free" means that markets determine outcomes based on decisions of individuals.

Friedman then asked: "Is the search for fairness all a mistake?" ("Fair Versus Free", *Newsweek*, July 4, 1977, 70). His answer: "There is a real role for fairness, but that role is in constructing general rules and adjudicating disputes about the rules, not in determining the outcome of our separate activities" (idem.). This answer reminded readers of the differences between the rule of law and the decisions of regulators that is a fundamental attribute of the founding documents of the American republic.

Energy policy gave Friedman many opportunities to speak, criticize, and propose alternatives. On one occasion he gave a long news conference in Los Angeles. He began by blaming government interference for the so-called energy problem. He went on to insist that government, labor unions and industry threaten individual freedom. He criticized minimum wage laws because they harm those they claim to help. Proposals to reform government and zero based budgets would not achieve much. A constitutional amendment to limit the percentage of spending relative to gross national product was his preferred solution. ("Friedman Blames Energy Mess on Federal 'Helpers'," *Los Angeles Times*, February 10, 1977, 12-13.) Here, and elsewhere, Friedman emphasized political restrictions on freedom. His solutions were not limited to optimizing economic welfare. Unlike most welfare analysis, Friedman understood that

political constraints often mattered a great deal and drove the outcome far from the optimum found in economic models. Although he did not often mention James Buchanan's work, he appears to have agreed with its main thrust.

Other Familiar Topics

Unlike many who complained about government inefficiency, Friedman welcomed it. He reasoned that if governments efficiently carried out their programs, the public would lose more, perhaps most, of its remaining freedom.

In a *Wall Street Journal* op-ed, Friedman analyzed the social security system. The main fault of the system was its regressive structure. The poor begin work earlier and, on average, die at younger ages. On both counts, the system is regressive. The law offsets part of the regressivity by mandating higher payments relative to taxes paid for recipients with low earnings. Friedman wrote that neither of the regressive features was desirable. He concluded that, like many government programs, the middle class gained at the expense of the rich and the poor. ("Social Security: The General and the Personal", *Wall Street Journal*, March 15, 1988.) He did not go on to recognize that redistribution toward the middle class resulted from the concentration of voters in the middle class.

One subject on which Friedman expressed a strong view in 1952 but to which he never returned to my knowledge is the relation of economics to behavioral science. The report of an advisory group on that topic suggested foundations should promote interdisciplinary work. Friedman was not opposed to such work, if it arose from the interests and efforts of scholars. His friend and colleague Gary Becker was a leader in bringing economic analysis to crime, marriage, discrimination and other topics traditionally part of sociology. But he objected strongly to using foundation resources to encourage such work because "interdisciplinary work for the sake of interdisciplinary work seems to me almost certain to be a failure." ("Letter to Thomas H. Carroll", Friedman's Papers, August 6, 1952.)

Since Friedman's letter economists have worked on subjects once left to political scientists, sociologists, and psychologists. Much of this work has been fruitful. I am not sure whether Friedman would have regarded favorably the efforts of individual scholars or the influence of foundations. Both Gary Becker and James Buchanan received the Nobel Prize for their work in these areas. More recently Elinor Ostrom is another recipient.

Friedman also opposed government funding of the National Science Foundation (NSF). In a *Newsweek* column, he partly defended the 1983 reduction in NSF funds for economic research. His defense was partial because the NSF did not reduce funding for science. (“An Open Letter on Grants”, *Newsweek*, May 18, 1981, 99)

Friedman acknowledged that basic research brings benefits to society for which society would not voluntarily pay. But he opposed forcing taxpayers to pay and suggested that voluntary contribution by individuals or private organizations could fill the gap. He argued also that NSF funding in economics has favored some types of work over others because peer review discourages innovations.

Friedman’s opposition had no discernible effect. NSF has expanded its activities and seems likely to continue to do so especially for basic science.

A few years later, Mexico and several other countries were unable to service the debts to international lenders incurred during the preceding boom. Major countries agreed to expand the IMF’s lending by increasing its resources. The U.S. share was \$8.4 billion. (“‘No’ to More Money for the IMF”, *Newsweek*, November 14, 1983, 96).

Friedman opposed the increased quota. He preferred to close the IMF. His article pointed out that many countries—Japan, Korea, Taiwan, Hong Kong—had prospered mainly by competing in world markets. Countries in or near default—Argentina, Brazil, Mexico—have a history of heavy government involvement in the economy. If the IMF did nothing, creditors would learn to negotiate with debtors to reschedule payments. Argentina later had the largest debt default and renegotiation without IMF involvement.

In March and April 1982, Friedman’s *Newsweek* column considered budget proposals to reduce spending on milk price supports, student loans, and poverty programs. Friedman pointed out again that programs to help the poor rarely succeed in doing so. The proposed \$6.5 billion of current spending for aid to college students mainly benefitted middle class students. Friedman favored lending programs without subsidy that permitted students with low incomes to pay for higher education. (March 8, 1982, 82)

Turning to so-called poverty programs, Friedman quoted a *Newsweek* report that “by some estimates, for every dollar spent on the war on poverty today, only 10 cents ever directly reaches the poor.” (April 19, 1982, 80) He favored a negative income tax to give a direct cash payment to the poor.

Friedman discussed drug and product regulation in a speech to officials of Pfizer in 1977. His two main points were support for Sam Peltzman's study of drug regulation that compared the benefits from rejecting harmful substances to the costs of failing to approve useful and helpful drugs. Peltzman found that the net costs greatly exceeded the benefits. Friedman claimed that this was a not surprising result. Employees of the agency would be pilloried and disgraced for approving harmful substances. They face no opprobrium for the hidden costs to those who would benefit from good drugs they rejected.

He wrote several pieces calling for legislation of narcotics. His support for an article in *Science* supporting legislation, drew several critical comments.

Proponents of regulation and publicly administered health care often claim that consumers cannot know enough to choose wisely. Friedman responded that consumers do not require detailed knowledge of their own. They can rely on professional middlemen to supply product information.

Although Friedman often talked and wrote about ethics in a capitalist system, I found only one piece on "Capitalism and the Jews," (Friedman, 1972). His theme is the paradox between the benefits Jews (and minorities) gain from competitive markets with unrestricted entry and Jewish opposition to capitalism and support of political parties that increase the government's role. After examining several explanations in the literature, he concludes that left-liberal parties in the nineteenth century Europe were more open and not restrictive of membership while pro-market political parties favored established religions. I confess skepticism that this explains behavior into the 21st century.

Conclusion

Reading many of Milton Friedman's public papers reminds the reader of his remarkable ability to succinctly explain complex economic issues in a way that most can understand. We all benefitted from his tireless and fruitful efforts to defend liberty and individual choice. His influence continues in education, monetary policy, and the recent efforts of Congressional Republicans to shift their focus from deficit reduction to spending reduction.

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