

Milton Friedman (1912-2006)

By Fred E. Foldvary

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Milton Friedman was one of the giants of economics, probably the second-best known economist in the world, after former Federal Reserve chairman Alan Greenspan. In economics, Friedman's main contributions were on the theories of consumption and money. "Money matters," he said, not just for personal wealth, but as its changes in supply affect the economy via inflation and economic stability. More importantly, though, Friedman explained to the world that freedom matters, and he is best known to the public from his works, *Free to Choose*.

Milton Friedman was the greatest advocate of freedom in our times. His stature brought his influence to President Reagan and Prime Minister Thatcher, both of them reinvigorated the economies of their countries. The Friedman prescription was to cut taxes, deregulate, privatize, and avoid an excessive expansion of the money supply.

Friedman was not a libertarian purist. During World War II, he designed the system of withholding to pay income tax whenever wages are earned, which makes the income tax less visible and results in less political resistance to high taxes. This could be forgiven as an expedient to finance the war, although this policy has continued ever since.

To adherents of the public finance method of Henry George, tapping the land rent and abolishing taxes on production and trade, Friedman was also a mixed blessing. He was not a Georgist, and said so. But he did utter a statement that has been widely quoted in geoist books, web sites, and articles. Milton Friedman stated, "the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago" ("An Interview with Milton Friedman," *Human Events* 38 [46], November 18, 1978, p. 14.)

Friedman would point out that there are other types of "rent" in the economy besides on land, such as the gains from talent, providing gains beyond sheer exertion. Friedman's Chicago-school approach seemed to only appreciate the absence of the excess burden with land, and not the fundamental role played by land by capitalizing progress and benefits into higher rent and site values, and by overly optimistic speculation that by pushing development to less productive fringes, lowers real wages and contributes to the boom-bust cycle. Thus Friedman saw land-value taxes as least bad rather than the "better than neutral" effect that has been explained by T. Nicolaus Tideman and other geoclassical economists.

While Friedman did not advocate land rent as a single or major source of government revenue, nevertheless he greatly helped the geolibertarian cause by promoting free trade and by providing this famous quote on taxation. The value of invoking the great Friedman as a friend of using land value for public revenue cannot be underestimated. It at least makes free-market advocates as well as those who only pretend to be free-market fans pause before they reject the concept.

For a long time, Friedman was a professor of economics at the University of Chicago. In 1976, he won the Nobel Prize for his contributions to economic theory and research in economic history. He was instrumental in overturning much of the dominant Keynesian doctrine that claims that markets are faulty and often break down, and so need the government doctor to fix them and continuously provide corrective medicine. For example, during the 1960s, the mainstream view was that low unemployment is associated with high inflation, and high unemployment with low inflation, so to reduce unemployment, government needs to inflate. Friedman showed that this could not work in the long run, as anticipated inflation has no effect on unemployment, an analysis that turned out to be correct during the 1970s, when there was both high inflation and high unemployment.

Friedman's 1963 book *Monetary History of the United States, 1867-1960*, co-written with Anna Schwartz, showed how the Great Depression was made much worse by the failure of the Federal Reserve system to counter the huge deflation of the money supply. Friedman's contribution to monetary theory involved the quantity theory of money, by which price inflation is usually caused by monetary inflation, the excessive creation of money. Rather than trying to manipulate interest rates and the money supply, Friedman advocated that the Fed have a predictable rule, which would then provide monetary stability during normal times. He later recognized that since governments have an incentive to manipulate, it would have been best not to switch from gold to fiat money.

Before his popular 1980 book and television show "Free to Choose" (written with his wife Rose), Friedman's 1962 book *Capitalism and Freedom* proposed free-market reforms to abolish the military draft, to provide school choice with vouchers, and to replace expensive welfare programs with a simple negative income tax, whereby folks with very low incomes would receive instead of pay money. Friedman's advocacy of liberty involved positions just past the edge of current policy and thinking, rather than purist radical policies. This strategy maximized his influence, as Friedman made reforms such as legalizing drugs thinkable to the mainstream. His son, David Friedman, has gone further and has proposed how anarchism could work in publications such as *The Machinery of Freedom*.

In 1947 Friedman was invited by the Austrian-school economist Friedrich Hayek to attend the founding meeting of the Mont Pelerin Society in Switzerland to help establish a global network of classical-liberal scholars which continues to hold meetings. I was happy to attend as a guest its 2006 meeting held in Guatemala, hosted by the private and liberty-oriented Universidad Francisco Marroquin. During

that week, we were saddened to learn that Milton Friedman had fallen ill and was in a hospital. Friedman died the following week on Thursday, November 16.

To those who seek freedom, Milton Friedman will always be a hero and a major thinker on par with other giants such as Ludwig von Mises and Henry George. With terrorism, environmental problems, and the resurgence of intolerant religion, the world is retreating from the progress towards liberty that was taking place after the collapse of the Soviet empire 15 years ago. We need Friedman's thought now more than ever to solve these problems without losing our remaining liberties. "Friedman" in its German origin means "peace maker," and Friedman's legacy will be of utmost importance in the quest for both social peace and a world at peace.