

BY ROBERT J. BARRO

MILTON FRIEDMAN: BEING RIGHT IS THE BEST REVENGE



REVERSAL:
Once upon a time, Keynes was king and Friedman was ridiculed; now, his free-market theories rule the roost

At the Harvard University I knew as a graduate student in the late 1960s, Milton Friedman was treated as a right-wing Midwestern crank. Most of the derision applied to his views on money, including the argument that inflation was always and everywhere a monetary phenomenon. Even the permanent-income theory of consumption—his scientifically impeccable model in which consumer demand depended on a household's anticipated long-run income—was subjected to poorly reasoned criticism.

Friedman's contributions to public policy, as expressed most effectively in *Capitalism and Freedom*, were dismissed by being ignored. Thus, we unfortunate PhD students did not learn about his prescient ideas. Many of these once radical ideas have become mainstream policies and others are on the active agenda. The all-volunteer army has worked well for many years, the earned-income tax credit is a boon for the working poor, the flat-rate income tax is a serious proposal in Congress, and school vouchers are under consideration in many states. The current debate on Social Security reform is primarily over the extent and form of private accounts, rather than the wisdom of any privatization. Some years from now we will perhaps be seeing a similar debate over the details of drug legalization, one of Friedman's most recent policy proposals.

MONETARY GURU. Ironically, the only person to rival Friedman for policy influence in the 20th century is John Maynard Keynes, who had a strikingly different view of the role of government. Keynes was influential because he advocated more government intervention into what he perceived as poorly functioning private economies caught up in the Great Depression. In contrast to Keynes, Friedman put the primary blame for the depression on government failures, especially of monetary policy. Hence, the Depression did not conflict with Friedman's preference for less government and tighter rules to constrain macroeconomic policies. He also found in the Federal Reserve's failure to prevent deflation an argument in favor of monetary rules. As the world evolved—with price stability becoming the major mission of central banks and free markets, and property rights becoming the central policies to promote economic growth—Friedman surely won the intellectual battle.

Noneconomists who want to know about Friedman's ideas are best advised to read

Capitalism and Freedom and *Free to Choose*. But his recent autobiography—*Two Lucky People*, written with his wife, Rose, and published last month by the University of Chicago Press—fills in many of the facts about his transition from pariah to priest. For me, a key lesson is that Friedman's influence was achieved mainly through the force of ideas, not by direct participation in the policy process. Except for work during World War II, including his unfortunate contribution to the establishment of income-tax withholding, Friedman has avoided government employment. Thus, the key advice to academic economists in his memoirs is: "...by all means spend a few years in Washington—but only a few. If you stay more than two or three you will become addicted and will be unable effectively to return to a scholarly career." My only disagreement is that two or three years in Washington is too long to retain one's scientific edge.

OP-ED EXPERT. In a similar vein with regard to congressional testimony, Friedman says: "I long ago decided it was a waste of time to testify before congressional committees. Spending the same time writing an op-ed piece or giving a talk is a more efficient use of time for the purpose of influencing policy." (I am, of course, pleased to learn from Friedman that op-ed pieces are an O.K. use of one's time.) Friedman particularly had great influence in writing for *Newsweek* from 1966 to 1984, although his termination in favor of a couple of mere journalists was perhaps not the most brilliant decision in the history of publishing.

My biggest complaint about Friedman's memoirs is the omission of the best photograph of him that I know of. This photo, taken by George Stigler, the codeveloper of the Chicago school of economics, shows Friedman receiving a speeding ticket from a policeman on Lake Shore Drive in Chicago. Although Milton apparently found it optimal to break the law, the picture shows clearly that he was cooperating fully with the local authorities.

We are fortunate that Friedman had the good humor and self-confidence to persevere in the face of many years of scorn by liberal economists and journalists. The tables were turned on his detractors many years ago, and—to paraphrase Milton's famous quote about Keynes—we're all Friedmanians now.

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