Books in Review

Counterrevolutionary

Milton Friedman:
A Biography
by Lanny Ebenstein
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Reviewed by
James Nuechterlein

The career of Milton Friedman, who died last November at ninety-four, provides a revealing insight into the course of American politics in the second half of the 20th century. In the immediate post-World War II era, Friedman's free-market sympathies marked him, at least among intellectuals, as something of a crank. Yet by the 1980's his theories had made a notable comeback in academic circles, and in economic policy they had gained ascendancy over the liberal Keynesian consensus that prevailed in the 1950's and 60's.

As the left-wing Harvard economist John Kenneth Galbraith ruefully conceded, "the age of John Maynard Keynes gave way to the age of Milton Friedman." And as we see in this new biography by Lanny Ebenstein—a professor at the University of California in Santa Barbara and the author of two books about Friedrich Hayek—Friedman's journey from the fringe to the mainstream offers testimony both to his own considerable abilities and to the long-term drift of American political and economic thought from Center-Left to Center-Right.

James Nuechterlein, *a former professor of American studies and political thought at Valparaiso University, is a senior fellow of the Institute on Religion and Public Life.*

Milton Friedman grew up in Rahway, New Jersey, the son of Hungarian Jewish immigrants. (His parents were moderately observant, but Friedman, after an intense burst of childhood piety, rejected religion altogether.) Intellectually precocious, he entered Rutgers on a scholarship in 1928 when he was just sixteen. Graduate fellowships in economics took him to the University of Chicago, where he earned his M.A.—and met Rose Director, a fellow student whom he married in 1938—and then to Columbia for his doctorate. University positions were hard to come by in the Depression years, and from 1935 until the end of the war Friedman held a number of government-related research and policy appointments, including at the U.S. Treasury Department.

In 1946 Friedman joined the economics faculty at Chicago, where he remained until his retirement three decades later. He was a major presence from the beginning, and over the years gained fame (or notoriety) as the leader of the "Chicago school" of free-market economists. That label was somewhat misleading. The department was home to a number of market-oriented scholars but was never monolithic in its approach to the discipline; it prized excellence over ideology. What distinguished Chicago from its rivals, as Ebenstein notes, was not a monopoly there of economists favorable to the market but their marked scarcity elsewhere.

Friedman always insisted that the greatest contribution he and his colleagues made to the revival of classical economic theory and practice lay not in their skill at promoting ideas but in their academic rigor and expertise. Within the profession, even those highly critical of Friedman's policy preferences recognized his brilliance and scholarly proficiency. In 1951 he received the American Economic Association's John Bates Clark medal as the most distinguished economist under the age of forty; a quarter-century later, the Royal Swedish Academy of Sciences awarded him the Nobel Prize in economics.

Friedman regarded economics as a science like physics or chemistry, and one with real-world implications when properly practiced. He had little use for the esoteric subdiscipline of econometrics, whose elaborate models and abstruse mathematics hid, in his view, its empirical emptiness. In an early and often-cited paper, "The Methodology of Positive Economics," he identified true science with predictive value, arguing that economic hypotheses should be evaluated not according to their theoretical elegance but by their capacity to anticipate economic consequences. The point is to understand, regardless of preconceptions or preferences, how the world actually works.

THUS, FRIEDMAN insisted, the essential error of Keynes and his disciples came not because they held the wrong preferences—though he was sure they did—but because their theories of economic behavior were inaccurate. Much of the conventional understanding of the Great Depression and subsequent economic development was tied to the Keynesian assumption that developed economies are subject to long-term stagnation because of a declining marginal propensity to consume as incomes rise. From this "underconsumptionist" thesis—that economic downturns result from inadequate consumer demand—followed the essence of the Keynesian public program: deficit spending by government to pick up the slack on consumption (and produce desired public goods), a progressive tax system to encourage consumption and discourage excess saving, and government regulation of the economy to even out the boom-and-bust cycle to which unfettered markets were naturally given. The Keynesian prescription, it was thought, would make capitalism both more just and more efficient.

Friedman described Keynes's theory of a declining propensity to consume as "very imaginative and thoughtful." But in *A Theory of the Consumption Function* (1957), he demonstrated that while the hypothesis seemed to make psychological sense, it was empirically false. In relating income to propensity to consume, Keynes had erred in not distinguishing between "transitory" and "permanent" income. In fact, consumption does not decline as incomes generally rise.

Economists across the political spectrum agreed with Friedman's refutation of Keynes; as the liberal Paul Krugman of Princeton (and of the *New York Times* op-ed page) noted recently, Friedman's ideas on the subject provide the foundation "of how economists think about spending and saving to this day." More controversial was the belief among Friedman and his followers that in disproving this key Keynesian assumption he had undercut the entire Keynesian public-policy enterprise.

EBENSTEIN characterizes Friedman's magnum opus, *A Monetary History of the United States, 1867-1960*, written with Anna Jacobson Schwartz and published in 1963, as an extension of the critique of Keynes and Keynesianism begun in *A Theory of the Consumption Function*. If the earlier work showed that the Great Depression was not caused by a declining propensity to consume, the most influential (and hotly debated) section of *A Monetary History* undertook to explain what *did* happen.

As Ebenstein summarizes the argument, "the Depression was primarily the result of inappropriate monetary policy that allowed the money supply to contract." The failure of the Federal Reserve Board to offset the decline in the money supply resulting from the economic downturn and massive bank failures of 1929-31 turned what might have been an ordinary recession into a cataclysmic depression.

This argument featured two of Friedman's continuing major themes. First, economic misfortune typically results not from the inherent instability of the market but from maladroit government behavior. Second, monetary factors play a far larger role in economic developments than the prevailing wisdom would suggest. The New Deal's interventionist fiscal policies had made a bad situation worse; they were, in Ebenstein's terms, "the wrong cure for the wrong disease." The nation would have been far better served had the government kept its hands off the economy and restricted itself to helping ensure a sufficient and stable money supply.

The response to *A Monetary History* was mixed. The book was widely regarded as a work of prodigious scholarship, and its monetarist accounting for economic phenomena was generally thought to provide a necessary balance to the conventional emphasis on fiscal policy. But the details of Friedman's analysis were subject to demurrals, and, more important, a great many critics still resisted its noninterventionist policy implications.

There was near unanimity, however, on another major challenge by Friedman to prevailing opinion. In 1958, the economist A.W. Phillips put forward the notion, which soon became a commonplace, of a continuing trade-off between inflation and unemployment: the more an economy had of one, the less it would have of the other.

But in his 1967 presidential address to the American Economic Association, "The Role of Monetary Policy," Friedman refuted the idea of the "Phillips curve." The relation, he said, worked only in the short run; over the long haul, a society that fueled inflation to fight unemployment would wind up with high rates of both. Here as elsewhere he gave major emphasis to monetary stability as a source of general economic stability: inflation, as he frequently observed, "is always and everywhere a monetary phenomenon."

The emergence of "stagflation" in the 1970's—under Jimmy Carter, the annual inflation rate came to exceed 12 percent, and unemployment hovered above 7 percent—bore out Friedman's predictions. His prophetic analysis was, in Krugman's estimation, "one of the great triumphs of postwar economics," confirming his status as "a great economist's economist."

From the 1960's onward Friedman increasingly shifted his emphasis from technical economic analysis to popular writing on public policy in which he preached a consistent gospel: individualism, severely limited government, and free competition. Economic liberty, he insisted, is a necessary if not sufficient condition for political liberty. In presidential politics, he actively supported Barry Goldwater, Richard Nixon (until Nixon adopted wage-and-price controls in 1971), and Ronald Reagan. His book *Capitalism and Freedom* (1962), his regular column in *Newsweek* from 1966 to 1984, and his hugely popular TV series and book *Free to Choose* (1980) won him a large and growing influence on political and economic thought not just in the U.S. but around the world.

Milton Friedman's rising star makes for a fascinating story. Unfortunately, Lanny Ebenstein's biography does not do it justice.

In his coverage of the details of Friedman's life, Ebenstein proceeds in a bare-bones manner that lacks depth or resonance—which is odd considering the five interviews he conducted with Friedman himself as well as the many others he reports with Friedman's wife, two children, and various colleagues. Similarly underdeveloped is the book's treatment of the political and intellectual context in which Friedman operated. Here Ebenstein thinly sketches what needs to be fully elaborated in order properly to locate his subject and measure his significance.

These substantive shortcomings are made the more obvious by the book's literary infelicities: the writing is too often artless and inept, the organization sometimes scattershot. Finally, a number of casual errors suggest that the volume was rushed into print after Friedman's death without careful editing.

For all that, however, Ebenstein's account is not devoid of redeeming qualities. He displays a solid grounding in economic thought, and his quite thorough introduction to Friedman's ideas will be of particular value to non-experts. He also appends a lengthy bibliographical essay whose range and liveliness make his generally inert text the more regrettable and puzzling. In any case, the information and analysis he does provide in *Milton Friedman* enable a basic appreciation of what his subject thought and what he accomplished.

That accomplishment was considerable. In his earlier years as an advocate, Friedman was a voice crying in the wilderness, but by the 1980's he was, if not quite the voice of the establishment, a man to whom attention was widely paid. He had not changed position: the world had moved toward him.

Though not, it should be noted, all the way. In his heart of hearts, Friedman was a pure libertarian. Freedom was the paramount social goal, assuming priority when in conflict with other goals. Ideally, he thought, government should make no provision for the poor, sick, unemployed, aged, or disabled—voluntary action was preferable. Few people, even those of a post-Keynesian and post-New Deal persuasion, would take the ethic of individual responsibility quite that far.

Economics as a science involves trade-offs among values that are not themselves subject to scientific analysis. At the outset of his academic career, Friedman specified the objectives of his ideal economic system: "political freedom, economic efficiency, and substantial equality of economic power." His commitment to the first two objectives never wavered. The third, for perhaps understandable reasons, disappeared from his cognitive map.

Freedom and efficiency are surely values essential to any decent economic system; moreover, they have worked historically to foster a greater degree of generally shared prosperity than any other system. But they do not exhaust the universe of acceptable normative goals. Although few Americans put a high premium on "substantial" equality of economic condition, most would insist on at least a measure of economic security. Friedman's simplicity of ends made him a more effective communicator than he otherwise would have been; it did not necessarily make him always right.

But that is a question at the margins. Milton Friedman led a largely successful counterrevolution against a system of thought so entrenched it seemed beyond serious challenge. "We are all Keynesians now," said none other than Richard Nixon. Friedman did not think so. Thanks in large part to him, most of the rest of us do not think so, either.