

Milton Friedman Day January 29, 2007

Some Ideas for Classroom Discussion

Milton Friedman, who died in November at age 94, was arguably the most influential and important economist and political philosopher of the late 20th century. On January 29, 2007, the ideas and life of this Nobel-prize winning shaper of the world's economies will be featured in the national PBS documentary "The Power of Choice."

Viewers of the biography will understand Friedman's brilliance as an economist, his passionate belief that individuals usually make better decisions about their own welfare than do governments, and his energy and skill at persuading his colleagues and the world that there was a better way to organize governments and economies.

To make the lessons of the biography more accessible, we offer below some thoughts that may help prepare students for viewing the program and also help them discuss it afterward.

Introduction

Milton Friedman's great influence can be seen as occurring in two main areas. First was his contribution to the scientific study of economics, which he produced in large part while he was a professor at the University of Chicago. (He is often thought of as synonymous with the "Chicago School of Economics," but in fact he is only the best known of the scholars who created that way of thinking about economics.)

The second was the work he did to influence the views of people about the role their governments should play in the economy. For many years, most economists, politicians and ordinary people believed that governments should play an ever larger role in centrally planning how a nation's economy should work. Friedman showed that government planning usually produced less economic growth, less stability and greater restrictions on citizens' freedoms.

Friedman's Influence on Economics and Government Policy

- 1) The Monetary History of the United States (with Anna Schwartz) which explained, among other things, why the Great Depression was *not* an example of the failure of capitalism or market economies, but primarily of poor decisions by the Federal Reserve.
- 2) The permanent income hypothesis, in which he showed that citizens calibrate their spending not just according to what they earn today, but according to what they believe will be their average income over many years. This meant, among other things, that they could not be "fooled" into spending their way

out of a recession when the government printed more money, because they understood that more money in circulation creates inflation, which would eventually erode their earning power.

- 3) The importance of *monetary* policy. For decades, most governments followed the views of the economist John Maynard Keynes in believing that economies could be “fine tuned” by adjusting a government’s “fiscal policies” i.e.: how much it taxed its citizens and how much it spent. Friedman showed that a government’s *monetary* policy—its influence over the money supply and interest rates—was more important to inflation and employment than its fiscal policies, and that “fine tuning” an economy was in any case seldom effective. Most governments today now base their policies on his ideas.
- 4) Friedman also helped persuade the U.S. and other governments to stop trying to control how much their currency was worth compared to other currencies. Thanks to him, currencies now “float” and adjust quickly and naturally through international trading.

Friedman’s Influence on Social Policies

- 1) His belief in the ability of individuals to make the best choices about their own welfare is one of the foundations of Friedman’s political thinking. He helped people understand that government power grows more easily than it shrinks, and that centralized attempts to enforce equality of outcomes often come at the expense of individual freedoms.
- 2) School choice is the focus of the continuing work of the Milton and Rose Friedman Foundation. That work is built on the firm belief, as Friedman says in the biography “Not that private schools are better than public schools, or that public schools are better than private. But simply that competition will produce better schools for everyone.”
- 3) Friedman played perhaps the greatest role of any individual in persuading the U.S. government to experiment with eliminating the draft and relying on an all-volunteer army.
- 4) He wrote two influential books that helped millions of ordinary people to understand his ideas. “Capitalism and Freedom” appeared in 1962, and the best-seller “Free to Choose,” written with his wife, Rose, appeared in 1980. Free to Choose was derived from the widely syndicated public television series of the same name.

Some Suggested Questions

- 1) What did most economists and people think about the proper role of the government in the economy during the middle years of the 20th century?

- 2) How did Milton Friedman feel about that role, and what did he say to convince people of his ideas?
- 3) Milton Friedman has said that people who put equality of outcomes ahead of liberty often wind up with little of either, but that putting freedom ahead of equality leads to a good deal of both. Can you cite examples of this today? Counterexamples?
- 4) Some people still believe that it is better for a government to redistribute income among citizens fairly aggressively in order to make sure people have similar incomes. In the biography, Professor Gary Becker says that Milton Friedman has helped many millions of poor people to lift themselves out of poverty by urging governments to interfere less in people's economic choices. Who do you agree with? Why?

Suggested Reading

http://nobelprize.org/nobel_prizes/economics/laureates/1976/friedman-autobio.html

<http://cepa.newschool.edu/het/profiles/friedman.htm>

http://www.freetochoose.net/article_2.html

<http://www-news.uchicago.edu/releases/06/061116.friedman.shtml>

http://en.wikipedia.org/wiki/Milton_Friedman