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A Fresh Look at the Apostle of Free Markets



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LIBERTARIAN The economist Milton Friedman, who died in 2006, believed government should keep its hands off the economy.

By PETER S. GOODMAN Published: April 13, 2008

Joblessness is growing. Millions of homes are sliding into foreclosure. The financial system continues to choke on the toxic leftovers of the mortgage crisis. The downward spiral of the economy is challenging a notion that has underpinned American economic policy for a quarter-century — the idea that prosperity springs from markets left free of government interference.

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The modern-day godfather of that credo was Milton Friedman, who attributed the worst economic unraveling in American history to regulators, declaring in a 1976 essay that "the Great Depression was produced by government mismanagement."

Five years later, Ronald Reagan entered the White House, elevating Mr. Friedman's laissez-faire ideals into a veritable set of commandments. Taxes were cut, regulations slashed and public industries sold into private hands, all in the name of clearing government from the path to riches. As the economy expanded and inflation abated, Mr. Friedman played the role of chief evangelist in the mission to let loose the animal instincts of the market.

But with market forces now seemingly gone feral, disenchantment with regulation has given way to demands for fresh oversight, placing Mr. Friedman's intellectual legacy under fresh scrutiny.

Just as the Depression remade government's role in economic life, bringing jobs programs and an expanded welfare system, the current downturn has altered the balance. As Wall Street, Main Street and Pennsylvania Avenue seethe with recriminations, a bipartisan chorus has decided that unfettered markets are in need of fettering. Bailouts, stimulus spending and regulations dominate the conversation.

In short, the nation steeped in the thinking of a man who blamed government for the

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Depression now beseeches government to lift it to safety. If Mr. Friedman, who died in 2006, were still among us, he would surely be unhappy with this turn.

“What Milton Friedman said was that government should not interfere,” said Allen Sinai, chief global economist for Decision Economics Inc., a consulting group. “It didn’t work. We now are looking at one of the greatest real estate busts of all time. The free market is not geared to take care of the casualties, because there’s no profit motive. There’s no market incentive to deal with the unemployed or those who have lost their homes.”

To Mr. Friedman, such sentiments, when turned into policy, deprived the economy of the vibrancy of market forces.

Born in Brooklyn in 1912 to immigrant parents who worked briefly in sweatshops, Mr. Friedman retained a sense that America was a land of opportunity with ample rewards for the hard-working.

His intellectual bent was forged as a graduate student at the [University of Chicago](#), a base for those who saw themselves as guardians of classical economics in a world then under the spell of woolly-headed revisionists.

The chief object of their scorn was [John Maynard Keynes](#), and his message that government had to juice the economy with spending during times of duress. That notion dominated policy in the years after the Depression. Mr. Friedman would spend much of his career assailing it: He argued that government should simply manage the supply of money — to keep it growing with the economy — then step aside and let the market do its magic.

So firm was his regard for market forces, so deep his disdain for government, that Mr. Friedman once said: “If you put the federal government in charge of the Sahara Desert, in five years there would be a shortage of sand.”

This antagonism toward bureaucracy seemed to spring from Mr. Friedman’s conception of his country as a bastion of rugged individualism. During an interview on [PBS](#) in 2000, he noted that Adam Smith, the father of classical economics, published his canonical work, “The Wealth of Nations,” in 1776, “the same year as the American Revolution.”

He spoke in the interview of his concern at the end of World War II that socialism was gaining adherents because countries had been forced to organize collectively to produce armaments.

“You came out of the war with the widespread belief that the war had demonstrated that central planning would work,” Mr. Friedman said. “The left, in particular, ... interpreted Russia as a successful experiment in central planning.”

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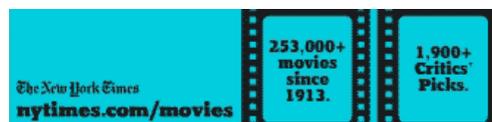
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Mr. Friedman's brand of libertarianism rested on the assumption that economic and political freedom were one and the same. It meshed with and fed the cold war thinking of his time, as the United States offered up capitalism as liberty itself in contrast to the authoritarian Soviet Union.

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Among professional economists, Mr.

Friedman's analytical mastery was near-universally admired.

His first breakthrough came in the 1950s with his idea that people's savings and spending were not a function of psychological factors, but based on rational estimations of wealth.

His greatest contribution came the following decade, when Mr. Friedman dismantled the consensus view that inflation was a tolerable byproduct of high employment. He demonstrated that high inflation would eventually cost jobs, as businesses were discouraged to invest by the higher wages they had to pay.

“This triumph, more than anything else, confirmed Milton Friedman's status as a great economist's economist, whatever one may think of his other roles,” Paul Krugman, an economist (and a New York Times columnist) wrote last year in *The New York Review of Books*.

Mr. Friedman captured the era with a new formulation known as monetarism: that the government should gradually and predictably inject cash into the financial system, and then let the market figure out where it should go.

“Any honest Democrat will admit that we are now all Friedmanites,” [Lawrence H. Summers](#), the Harvard economist and former Clinton administration Treasury secretary, wrote in an appreciation published in this newspaper when Mr. Friedman died. “He has had more influence on economic policy as it is practiced around the world today than any other modern figure.”

But the reviews for Mr. Friedman's work grow mixed when the subject moves to his role as chief proselytizer in the drive to reduce the role of government in public life.

He laid out a blueprint in his 1962 book, “Capitalism and Freedom,” calling for the end of the military draft, the abolition of the licensing of doctors and the creation of “education vouchers” that parents could use to send children to private schools, injecting competition into public education.

Two years later, Mr. Friedman put those principles to work as an economic adviser to the presidential campaign of Senator Barry Goldwater, a Republican from Arizona. The campaign called for the abolition of government oversight of the energy, telephone and airline industries and the dismantling of the Social Security system and national parks.

Mr. Goldwater took a drubbing at the hands of [Lyndon Johnson](#). Mr. Friedman would remain in the policy wilderness until the rise of President Reagan. Then, his notions about

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rolling back government took on the force of dogma.

This was so not only in the United States, but also throughout much of the world. As former Iron Curtain countries embraced free markets, they did so with Mr. Friedman's books in hand. The [International Monetary Fund](#) and the [World Bank](#) leaned heavily on his ideas in prescribing policies for countries from Asia to Latin America.

"Among the cognoscenti, he became the figure that represented the war against the overwhelming welfare state," said Hernando de Soto, a prominent Peruvian economist. "The idea that people are responsible for progress far more than government. One should reserve most of the action for the private sector. From Brazil to Mexico, that idea is still in place."

But Mr. De Soto faulted Mr. Friedman for failing to temper his admonitions with an understanding of poverty and [income inequality](#).

"The problem with Milton Friedman and his fellow libertarians is they never took into consideration the importance of class," Mr. De Soto said. "They ignored the way elites were able to distort the policies they prescribed for their own benefit."

In much of Latin America, economic growth never reached the poor, laying ground for the socialist backlash now led by Venezuela's president, [Hugo Chávez](#).

In the United States, the reconsideration of the Friedman doctrine came via the global financial crisis that has resulted from the collapse of American real estate. Many economists blame regulators for ignoring warning signs that banks and investors were growing reckless. One Friedman acolyte has taken the brunt of such criticisms — [Alan Greenspan](#), the former chairman of the Federal Reserve.

But as America reaches for regulation to tame the markets, the keepers of the Friedman flame remain resolute that government is no solution.

"Friedman taught some fundamental long-run truths and he was adept and skilled and almost brilliant at getting them into the public domain," said Allan H. Meltzer, an economist at Carnegie Mellon. "Now we've come into a crisis that has dampened enthusiasm for those policies, and we're headed back into a period of more regulations that will do the same bad things as in the past."

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