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THE INVENTION OF MILTON FRIEDMAN

On a warm evening in the late spring of 1962, Milton Friedman rose to address a group of dinner companions at the University of Chicago's Quadrangle Club. They had been summoned by the student members of the Intercollegiate Society of Individualists in order to honor Friedrich Hayek before his impending departure from the university.¹ With superior financial prospects available at the University of Freiburg, Hayek had recently and reluctantly decided to bring his time at Chicago to a close.² Friedman, who was in the midst of the final manuscript preparations for his first mass-market book, *Capitalism and Freedom*, took the opportunity to reflect on the challenges that Hayek had long faced and that he was preparing to confront. Hayek was notable, Friedman informed the room, because of "the extent to which he has succeeded in straddling two kinds of worlds"; the act of "spreading ideas among the public at large" was "very seldom combined with thorough, deep, and profound scholarly work that can influence the course of science." The scholarly world was not friendly to those who used positions of academic authority to expound minority views to the public, and Hayek's exemplary performance as both academic and advocate had forced him to endure difficulties that were too rarely acknowledged. Such an observation might easily have been a prelude to expressions of frustration, but Friedman was adept at finding inspiration where others saw grounds for despair. Discouragement from colleagues was "a very good thing," he concluded, "because it means that those of us who hold our views have to be better to get recognized than people who hold the other views. And in the long run, what matters is the quality of people who propose the ideas and not their number and not their position."³ Friedman maintained a relentless faith in the ability of unpopular ideas to gain recognition and, over the course of decades, to effect political change.

Hayek was a living testimonial to Friedman's confidence. The participants in the dinner recognized him as one of the very few intellectuals whose career had spanned the trajectory between initial expressions of dissent and derivative signs of political change. He was, George Stigler remarked, "one of three or four economic philosophers who have had a noticeable influence on his times." Even Hayek acknowledged that the ideas espoused in *The Road to Serfdom* were on the ascent. "Many who denounced the book without reading it are now beginning to read it," he told the attendees. "The top layer of intellectual leaders, those whose opinions will be effective a generation later, now have a more genuine belief in liberty than they had before."⁴ With Hayek's return to Europe, America was losing its most prominent and distinguished public advocate of free markets. He was departing with some lingering frustrations and uncertainties, but no little sense of satisfaction at the increasing public acceptance of his ideas.

This was a moment of transition. Hayek's departure for Freiburg signified that his public career was beginning to draw to a close. He had been disappointed by the sales of his magnum opus, *The Constitution of Liberty*, after its publication in 1960. The book had not been reviewed by *Time* or *Life*, and *Reader's Digest* had resisted his entreaties to condense it.⁵ He was nearing a conventional age for retirement, and his retreat across the Atlantic consigned him to a peripheral role in the American academic and political spheres. By the end of the decade he was wrestling with personal depression and diminished productivity that further distanced him from the intellectual communities he had helped create. Friedman, on the other hand, was on the verge of a rapid personal and professional ascent. In the half decade after his remarks at the Quadrangle Club dinner, his reputation as an economist would be solidified with the publication of *A Monetary History of the United States, 1867–1960* (cowritten with Anna Schwartz) and election to the presidency of the American Economic Association, and his popular profile would dramatically expand with the publication of a best-selling book and a prominent advisory role in the Goldwater campaign. He had grown into a leadership position within the Mont Pèlerin Society as well. In 1957 he and his wife Rose ended a decade of inactivity and began regularly attending meetings; after the Hunold affair one of the society's financial supporters told Friedman that the society had been saved "largely due to your interposition . . . and your leadership"; and by the mid-1960s his colleagues were urging him to consider accepting the society's presidency.⁶ Even as Hayek allied himself with Friedman on many matters of

economic policy, he maintained some unease about Friedman's methodology and political philosophy.⁷ But as Friedman addressed the crowd at the Quadrangle Club on the occasion of Hayek's departure, it was clear that the mantle of the leading advocate of free markets in the American public sphere was being passed.

The transfer of leadership from Hayek to Friedman was emblematic of a generational change. With rare exceptions, the careers of academics tend to center on the set of problems that are deemed most pressing by their colleagues in the period when they begin to reach the height of their intellectual and professional powers. For the first generation of leaders of the Mont Pèlerin Society, that period was the Great Depression, and the problems they grappled with were the grim conundrums of Depression economics. The scope of governmental activities was rapidly and massively increasing, and their goal was correspondingly modest: to convince their colleagues that there was some limited space within which, or some degree to which, the government should not intervene. Milton Friedman, in contrast, came of age during the early stages of the Cold War, and the task of his generation would be to determine the economic approach taken by the United States in the face of an extranational other.⁸ While his predecessors' work was ingrained with a sense of caution at the knife's edge of catastrophe, Friedman's was infused with Cold War dualisms. If pure communism was defined by the government's total subsumption of the market mechanism, its most perfect contrast would be defined by a refusal to interfere with the market's invisible decrees. Friedman's philosophical models brooked no concessions to communism, and the America of his time found a ready audience for a philosophy that did not allow itself to be measured in degrees.

While previous members of the Mont Pèlerin Society had labored to develop philosophical models that would prove palatable to their more moderate contemporaries, Friedman did not hesitate to emphasize those points where his perspective diverged from established views. "I believe that people are unduly deterred by the prospect of publicly taking an unpopular position," he asserted in a retrospective at the end of his career. "As someone who has repeatedly done so over a very long period, I believe that doing so seldom involves high costs."⁹ Friedman built his professional and public career on the advocacy of positions that ran contrary to received opinion, and he endured the resulting controversies to find himself regaled with private wealth, academic honors, and lasting political recognition. Most important, in the process he persuaded

substantial portions of the public to adopt an approach to government policy that resembled his own. Even John Kenneth Galbraith would eventually admit that in “the history of economics the age of John Maynard Keynes gave way to the age of Milton Friedman.”¹⁰ To write the history of Milton Friedman is to attempt to situate a point of origin for a dramatic process of social and ideological change.

Given Friedman’s indisputable influence on the political thought of both his time and the present day, he has received remarkably little scholarly attention outside the economics profession.¹¹ He has been the subject of one short popular biography, several books of ideological analysis and synthetic condensation published well over a decade ago, a scattered collection of isolated articles, occasional polemics from his political foes, and countless cursory mentions in popular newspapers and journals.¹² Milton Friedman’s rise to public prominence, despite its world-historical force, has yet to be historicized. This failure is in part a reflection of the academic abandonment of the history of economic thought, which has been marginalized by economics departments focused wholly on the development of contemporary analytics, ignored by historians of science who maintain a restrictive understanding of the parameters of their field, and bypassed by historians wary of the relationship between abstract academic debate and processes of social and political change. The hybrid nature of Friedman’s career poses a further discouragement to research, because he blurred the lines between popular politics, forays into political philosophy, and work in technical economics that can prove difficult for nonspecialists to comprehend. The irony is that scholars have abandoned inquiry into these modes of analysis even as their importance to our public life has grown. For better or for worse, we now live in an era in which economists have become our most influential philosophers, and when decisions made or advised by economic technocrats have broad and palpable influence on the practice of our everyday lives. No figure is more representative of this development than Milton Friedman.

An understanding of Friedman’s life and work requires an engagement with precisely the hybrid aspects of his career that have deterred scholars in the past, because the unique nature of his contribution is most apparent in those instances when his role as an economist, a political philosopher, and a popular polemicist were entwined. And an examination of the intersection of Friedman’s various roles is particularly revealing of the manner in which institutional structures can affect the careers of influential individuals and thereby contribute subtly, but decisively, to

changes in the public policy arena. At various stages in his professional development, Friedman made pivotal decisions that would not have been possible without the availability of the network of peers assembled by the Mont Pèlerin Society or the existence of the early-stage funding institutions that sustained it. The intellectual environment provided by these institutions provoked a cascading effect, creating opportunities that snowballed until they fundamentally altered the nature and structure of Friedman's public career. The influence of organizations like the Mont Pèlerin Society and the Volker Fund can largely be reduced to their effects on the ideas and activities of their constituents. In the case of Milton Friedman those effects were substantial, with social ramifications that exceeded the ambitions that even their founders espoused.

Milton Friedman was born in Brooklyn in 1912. Shortly after his first birthday, his parents—who had immigrated as teenagers from Carpathian Ruthenia, which was then part of Hungary—moved to the commuter town of Rahway, New Jersey. After an unsuccessful attempt to sustain a small clothing factory, his mother ran a dry-goods store beneath their apartment, and his father worked as a jobber in New York City. “I do not know what that meant,” Friedman frankly acknowledged in his memoirs. “The one thing I do know is that he never made much money.” Rahway had a small Jewish community of about a hundred families that defined his family's social circle. Friedman's struggles with religion in the context of a Jewish upbringing demonstrated an early proclivity for earnest conviction. “Until not long before my bar mitzvah, I was fanatically religious,” he recalled, but by “the age of twelve or so, I decided that there was no valid basis for my religious beliefs or for the rigid customs that I had followed, and I shifted to complete agnosticism.” In 1928 he arrived at Rutgers, where he demonstrated a proclivity for math that inspired him to anticipate a career as an actuary, the “only paying occupation I had heard about that used mathematics.” After two years of work in the mathematics department, he switched his major to economics. There he came under the influence of two young faculty members: Arthur F. Burns, the future chairman of the Federal Reserve, who was working to finish a doctoral dissertation at Columbia; and Homer Jones, a former student of Frank Knight at the University of Iowa and the University of Chicago. Friedman remembered Jones as putting “major stress on individual freedom” and expressing skepticism toward “attempts to inter-

fere with the exercise of individual freedom in the name of social planning or collective values,” a set of perspectives that in his recollection “even then was known as the Chicago view.”¹³ With the endorsement of Jones, Friedman declined a graduate position in applied mathematics at Brown to accept a tuition scholarship in the Department of Economics at Chicago. “Put yourself in 1932 with a quarter of the population unemployed,” he recalled over seventy years later. “What was the important urgent problem?”¹⁴ He had decided, in the depths of the Great Depression, to embark on a career as an economist.

A set of highly contingent factors brought Friedman to the University of Chicago when Jacob Viner and Frank Knight were at the height of their careers, but it did not take him long to realize that the department would have a decisive influence on his intellectual development. Jacob Viner’s introductory course on price theory, in particular, came as “a revelation” that opened his eyes to a world he “had not realized existed.” Viner had the capacity to represent economic theory as a source of “beauty” and “power” and to assemble a series of apparently discrete insights into “a coherent and logical whole.”¹⁵ Friedman was less explicit about Frank Knight’s influence, which he admitted was “certainly not on particular points” but rather “on general outlook or general philosophy, general feeling of the limitations of economics and of what economic theory could do.”¹⁶ He attributed the greatest degree of importance, however, to a close-knit circle of graduate students that developed in Knight’s orbit in the fall of 1934, including George Stigler, Aaron Director, and Allen Wallis.¹⁷ Their friendship was formed in regular gatherings at Knight’s or Director’s residence in which they spent hours engaged in cordial but heated debate.¹⁸ All four would later serve as professors at the University of Chicago, and would play decisive roles in developing the institutional orientation and practices that became known as the hallmarks of the Chicago “school.”¹⁹ Collectively, the Department of Economics impressed Friedman as a place where the “general atmosphere” imparted an appreciation for price theory and encouraged students to adopt a skeptical approach to socialist economics.²⁰ Friedman came away from Chicago with a sense of the scope and coherence of economic theory and an increasing conviction that its tenets were incompatible with socialism.

Despite the manifest influence of Chicago on the trajectory of Friedman’s career, it is crucial to understand that his economic methodology did not develop organically out of his studies with Viner and Knight. In

his second year of graduate school, at the urging of the Chicago statistical economist Henry Schultz, Friedman accepted a generous stipend of \$1,500 to study with Harold Hotelling at Columbia.²¹ Under Hotelling, whom he admired as a uniquely capable figure, he engaged in an intensive study of statistics and mathematical economics. “Hotelling did for mathematical statistics what Jacob Viner had done for economic theory,” he later recalled, by revealing “it to be an integrated logical whole, not a set of cook-book recipes.”²² In his remaining time Friedman attended courses taught by the other major figures in the Economics Department at Columbia, including John M. Clark and Wesley C. Mitchell.²³ Under Mitchell and Clark, Columbia had become known for its orientation toward institutionalist economics.²⁴ Mitchell, in particular, emphasized the primacy of careful empirical work: as was evident in his magisterial research into business cycles, he believed that the accumulation of data should precede the construction of interpretive theories.²⁵ Friedman’s initial reaction was to be “contemptuous of what was going on at Columbia in the theoretical area,” concluding that Mitchell “really wasn’t a theorist and didn’t understand economic theory” (which, he added, “was probably true”).²⁶ But over time Friedman’s perspective was decisively influenced by his studies at Columbia and his later work under Mitchell at the National Bureau of Economic Research (NBER).²⁷ His subsequent attentiveness to clear and coherent language derived in part from a harsh scolding he received from Mitchell about carelessness with words.²⁸ He attributed his well-known emphasis on frank and open debate in part to Mitchell’s (and his student Arthur F. Burns’s) willingness to engage forthrightly with all criticism, “asking only the question is it right and not from whom does it come or does it threaten me.”²⁹ Economists oriented toward empirical research, Friedman concluded, tended to be more open to learning from disagreements than economists who were beholden to particular abstract theories. Mitchell constantly reiterated the importance of empirical analysis, referring frequently to John Neville Keynes’s distinction between positive and normative economics.³⁰ “Repeatedly I recall his asserting that we cannot know what we want to do unless we know what the consequences of doing one thing or another are,” Friedman later recalled. “Thus positive economics is an essential foundation for normative statements.”³¹ Friedman left Columbia with a new respect for the virtues of empiricism and a belief that attention to historical evidence could do far more to resolve differences in opinion than normative assertions.³²

As Friedman attempted to articulate his methodology during the subsequent decades, he envisioned it as adopting the virtues of both Chicago and Columbia while discarding the vices engendered by their respective excesses. It was simply impossible, he believed, to pursue empirical research without filtering it through the lens of an interpretive theory. Facts, he repeatedly asserted, “are simply those theories that are currently being accepted for the purpose of discussion or for the purpose of the particular investigation.”³³ Mitchell’s consistent refusal to rely explicitly on economic theory to derive hypotheses was, he argued, not a defensible methodology so much as an indicator that he was “not a good theorist and not really interested in theory.”³⁴ But at the same time, theory was both practically and rhetorically impotent if it was not tested against and refined by the available data. A good economist would use economic theory to derive a hypothesis and then evaluate the hypothesis by its ability to explain and predict actual marketplace behavior. Friedman believed that in this manner economics could become known—to adopt his terminology—as a “serious” subject that helped people solve “real” problems.

Friedman did not begin to develop a coherent articulation of his methodology until over a decade after his year at Columbia.³⁵ Elements of his emerging position were evident in a harshly critical 1946 review of Oskar Lange’s *Price Flexibility and Employment*. Lange, a prominent socialist who had served on the economics faculty of the University of Chicago in the late 1930s and early 1940s, had recently returned to his native Poland to work for its newly formed Communist government. Friedman began his review by complimenting Lange as a preeminent and highly skilled practitioner of a particular form of economic logic, and then excoriated that mode of analysis as “sterile,” “unreal,” and “artificial.”³⁶ By focusing on “the formal structure of the theory, the logical interrelations of the parts,” to the exclusion of virtually everything else, Lange “in the main reaches conclusions no observed facts can contradict.” He created highly formalized representations of imaginary worlds that held no capacity to predict in the “real” world.³⁷ Without being able to judge the theories’ predictive capacities, scientists were left with no ability to evaluate the legitimacy of Lange’s arguments.

It is no surprise, then, that Friedman viewed Karl Popper as a kindred spirit when he first met him at the inaugural Mont Pèlerin Society meeting in 1947. After authoring *Logik der Forschung* and *The Open Society and Its Enemies*, Popper had recently assumed, with Hayek’s assistance,

a position at the London School of Economics. *Logik der Forschung* had rejected an account of scientific research as a mode of inductive logic, arguing that such accounts failed to provide a suitable “*criterion of demarcation*” between the empirical sciences, on the one hand, and mathematics, logic, and metaphysics, on the other.³⁸ Instead, Popper argued that scientists should proceed through a “*deductive method of testing*” that enabled them to arrive at conclusions that could be “*inter-subjectively tested*” and, potentially, falsified.³⁹ Friedman quickly realized that Popper had articulated and systematized a methodological predisposition that he had independently adopted during his time in graduate school.⁴⁰ He was particularly struck by Popper’s insight that scientific observations need to be falsifiable but can never be finally or conclusively verified.⁴¹ Their productive interchange across both disciplines and national boundaries modeled the precise mode of interaction the Mont Pèlerin Society had been intended to foster.

A half decade later Friedman published a detailed overview of his approach to economic analysis in his essay “The Methodology of Positive Economics” (1953). Drawing on Popper, he argued that the only relevant test of the validity of a hypothesis was a comparison of its predictions and experience, adding that “evidence can never ‘prove’ a hypothesis; it can only fail to disprove it.” Hypotheses that had “survived many opportunities for contradiction” were accorded “great confidence”; those that were contradicted more often than alternative hypotheses were discarded.⁴² Crucially, the validity of a hypothesis was to be determined solely by its predictive capacity, and not by the conformity of its assumptions with our understanding of reality.⁴³ The most elegant and valuable theories would present a simplistic mechanism to generate consistently successful predictions for the behavior of vastly more complicated sets of data. Friedman appropriated John Neville Keynes’s designation “positive economics” to describe this approach, and announced that it was “in principle independent of any particular ethical position or normative judgments” and could be “an ‘objective’ science, in precisely the same sense as any of the physical sciences.”⁴⁴ In Western societies, he asserted, “differences about economic policy among disinterested citizens derive predominantly from different predictions about the economic consequences of taking action—differences that in principle can be eliminated by the progress of positive economics—rather than from fundamental differences in basic values, differences about which men can ultimately only fight.”⁴⁵ Despite the severity of its implicit criticism of prevalent

modes of economic analysis, “The Methodology of Positive Economics” was a fundamentally optimistic text. In Friedman’s view economists could overcome the particular challenges of the social sciences to achieve an “objective” perspective and in doing so could build a reasoned consensus in the population at large. Friedman put forward a highly controversial methodological claim while at the same time arguing that the role of the economist should largely be one of identifying and broadening points of common ground.

The publication of “The Methodology of Positive Economics” was a pivotal moment in the history of free-market advocacy for two reasons. First, Friedman’s emphasis on the necessary descriptive simplification entailed in the act of generating hypotheses reinvigorated the embattled theory of perfect competition. Economists had long struggled against the descriptive inaccuracies of the *homo economicus*; as Frank Knight had often observed, its atomistic and coldly calculating vision of human activity utterly failed to explain many self-evident aspects of intersocial behavior. To Friedman, the individual falsities were beside the point, because the only criterion to use in evaluating the theory that individuals “single-mindedly” seek to maximize their “money income” was its relative capacity to predict successfully when confronted with aggregated data.⁴⁶ Friedman’s distinction between a theory’s descriptive and predictive capacities helped justify economists’ use of an abstract theory that appeared, when applied to individual cases, to be manifestly untrue. The defense of simplified hypotheses in “The Methodology of Positive Economics” was, implicitly if not overtly, a defense of the model of perfect competition. Friedman’s critics insinuated that the entire dispute over methodology was a displaced substitute for a debate over the legitimacy of that model.⁴⁷ Friedman had opened a formidable new front in an argument that many in the prior generation of free-market economists had abandoned as lost.⁴⁸

Second, Friedman’s treatise put forward a dramatically different understanding of economic methodology than had conventionally been associated with advocates of *laissez-faire*. Since the late nineteenth-century *Methodenstreit* between the Austrian economist Carl Menger and the German economist Gustav von Schmoller, opponents of state intervention had been associated in the public mind with a belief that economic theory could be deduced from a priori principles.⁴⁹ Menger’s methodological views were more complex than such representations allowed; but Ludwig von Mises, the preeminent exemplar of “Austrian”

economics in the interwar years, argued that economics was unique among the sciences precisely because its theories were “not open to any verification or falsification on the ground of experience.”⁵⁰ Friedman worried that Mises’s mode of economics provided no means for the adjudication of conflicting claims. He explained his reservations in a private letter to Hayek after a discussion of methodology at Hillsdale College. “Needless to say,” he wrote, “there was sharp disagreement between the enthusiastic Austrians, who follow Mises on the praxeological method, and myself as a believer with Popper in the testing of scientific hypotheses by attempted disproof or inconsistency of observations with implications.” He asked Hayek to imagine an individual who asserts that a particular theory is true but untestable. “Suppose another individual disagrees with him,” he posited. “How is the difference to be resolved? In the praxeological context, only by either conversion or force.” Friedman’s methodological approach, in contrast, offered a mechanism for adjudication: “You believe a particular theory to be true; I believe that theory to be false or a different theory true. We do not argue for the moment the issues. Rather we agreed between us on what set of facts if observed would lead you to accept my theory and what set of facts if observed would lead me to accept your theory. We thus have a peaceful method of reconciling disagreements between us.”⁵¹ Friedman believed that the practitioners of praxeology were incapable of engaging in productive and open interchange with their colleagues. He told an interviewer that in admitting “no role whatsoever for empirical evidence,” its practitioners developed “an attitude of human intolerance.”⁵² He repeatedly stressed that his goal was to maintain “humility”: to practice a mode of economic reasoning that avoided any claims to absolute truth or certainty, and that provided an objective basis for settling differences of opinion.⁵³

Many of Friedman’s most powerful and distinctive rhetorical tools in the public policy arena derived from his methodological innovations. His belief in the persuasive capacities of empirical evidence inspired his consistent attempts to shift public discussions away from debates over divergent normative ends and toward the means of achieving ends that were broadly shared. Whenever possible, he would concede that he shared the goals of his ideological opponents and then argue that they were misguided about how those goals would best be attained. He foresaw little success in the endeavor to change government policy by at-

tempting to indoctrinate other people with his values. Instead, he sought to convince them that he had assembled material evidence that demonstrated that their own values could best be met through implementation of the policies he recommended. His methodology further undergirded his constant emphasis on toleration of opposing views, openness to new ideas, and willingness to debate anyone whose perspective differed from his own. These qualities lent his ideas a degree of populism and an aura of reasonableness that are crucial to the early public life of positions supported by a radical minority. The relative efficacy of Friedman's approach was demonstrated in the divergent trajectories of Mises's followers and his own: while economists in the Austrian tradition have been ghettoized in a small subset of sympathetic institutions and academic departments, Chicago economists have pervaded the profession and assumed positions of broad political influence.⁵⁴

"The Methodology of Positive Economics" is sometimes cited as Friedman's most influential work.⁵⁵ It played a central role in his research program and public rhetoric, and has long served as a primary point of disputation for his ideological opponents. Its prominent role in Friedman's canon draws attention to his steadfast refusal to engage in any further discussion of its contents. Friedman believed that he would be more persuasive if he performed positive economics and refrained from further discussions of its normative underpinnings.⁵⁶ He was very attentive to his areas of comparative advantage as an economist and likely recognized that establishing the philosophical foundations of the discipline was not one of them. "I don't recall ever having read much philosophy," he acknowledged at the end of his career. "Certainly, about the only methodology philosophy I've read is Popper."⁵⁷ As a debater, he was skilled at shifting discussions away from points of potential weakness in his argument and toward evident flaws in the ideas expressed by his opponents. He may have recognized that his methodology appeared more efficacious when it was practiced than when it was elaborated. And he was canny enough to realize that some essays attract more attention when they are left to stand alone. "The Methodology of Positive Economics" was by no means "the most important thing I've ever done," he told *Reason* magazine in 1995, but it "has probably been reprinted more often and referred to more often than anything else I've written." He explained the disparity: "I made a distinct point of not replying to any criticism of that essay. And I think that's why it's so commented

on.”⁵⁸ Milton Friedman was not known for his love of ambiguity, but in this case he acknowledged that it too could have rhetorical force.

Friedman’s career as an economist was made possible, in a minor irony that he readily acknowledged, by the economic programs of the New Deal. As his second year at the University of Chicago drew to a close in the spring of 1935, he had limited prospects for academic employment. “Absent the New Deal, it is far from clear that we could have gotten jobs as economists,” he recounted in his autobiography. “Academic posts were few. Anti-Semitism was widespread in the academy.” In the midst of this grim professional environment, the “new government programs created a boom market for economists, especially in Washington,” which proved to be “a lifesaver for us personally.”⁵⁹ He benefited from the extraordinary expansion of economists’ influence on public policy during the 1930s, which itself was precipitated by the challenges of economic dislocation and the novel interventions it inspired.⁶⁰ With the assistance of his fellow Chicago graduate student Allen Wallis, he obtained a position at the National Resources Committee, where he worked to calculate a cost-of-living index.⁶¹ It was the first of a series of government posts that he held through the mid-1940s: working closely with Simon Kuznets and under Wesley Mitchell at the NBER from 1937 to 1940, under Hans Morgenthau in the Treasury Department from 1941 to 1943, and in the Statistical Research Group from 1943 to 1945. His academic experience before his return to Chicago in 1946 was sparse: he served as a visiting professor at the University of Wisconsin during the 1940–1941 academic year, ultimately receiving notice that the university had declined to offer him tenure; and he joined George Stigler at the University of Minnesota for the first year after the war.⁶²

During his time in government service, Friedman did not align himself with any explicit political ideology. He had arrived in 1932 at graduate school in Chicago as what one colleague described—citing the prominent socialist presidential candidate—as a “Norman Thomas–type socialist.”⁶³ In Friedman’s recollection, he “wasn’t very politically oriented,” and although it was “obvious I was not a Marxist or a Socialist or anything like that,” he was also not an ardent opponent of their views.⁶⁴ He recalled objecting to the price- and wage-fixing components of the New Deal but joining his colleagues at Chicago in support of the Works Progress Administration, the Public Works Administration, and

the Civilian Conservation Corps as “appropriate responses to the critical situation.”⁶⁵ He vaguely remembered voting for Roosevelt over Alf Landon in the presidential election of 1936.⁶⁶ And he devoted the majority of his time at the Treasury Department to work with a small team tasked with the development of a federal withholding tax, which he and his colleagues and followers subsequently excoriated as a mechanism to disguise the cost of taxation from its subjects. Friedman later expressed “no apologies,” citing the fact that at the time they “were concentrating on the war.”⁶⁷ The withholding tax entered his pantheon of government programs that were useful when implemented but problematic once entrenched.⁶⁸

In these initial stages in his career, Friedman presented himself as a statistician rather than a macroeconomist and registered little interest in questions of public policy.⁶⁹ His political identity formed slowly during the two decades after his arrival in Washington. Its emergence was unquestionably related to developments in his economic thought. His graduate dissertation, *Income from Independent Professional Practice* (coauthored with Simon Kuznets for the NBER), demonstrated a proclivity to advocate the extension of markets to areas where restrictions were well entrenched and widely assumed to be beneficial. In the densely statistical format common to the NBER, Friedman and Kuznets argued that the high wages of medical doctors relative to dentists was attributable largely to the restrictions on entry to the profession entailed in the licensing requirements enforced by the American Medical Association.⁷⁰ The manuscript inspired a bureaucratic controversy that delayed its approval and, correspondingly, Friedman’s ability to receive an official doctoral degree until after its publication in 1945.⁷¹ But Friedman did not begin to conceive of himself as a political figure or to write tracts accessible to popular readers until he came into contact with a series of institutions developed to advocate for free markets. His emergence as a public intellectual was a product of his interactions in the years after the war with the Foundation for Economic Education, the Mont Pèlerin Society, and the William Volker Charities Fund. Together, these institutions brought Friedman into contact with like-minded intellectuals who led him to reconceive his professional ideas in political terms, and commissioned him to write popular articles and lectures that eventually changed the trajectory of his career.

Friedman’s first major popular tract was a pamphlet on rent control commissioned by the Foundation for Economic Education (FEE) in

1946. The FEE had been founded by Leonard Read, a former executive vice president of the National Industrial Conference Board who had rapidly grown frustrated with the business advocacy organization's policy of presenting "both sides" of political and economic issues covered in its educational activities. With funding from the retired oil magnate H. B. Earhart and a number of major corporations, Read established his new organization in a decaying mansion in Irvington-on-Hudson, New York, with the goal of educating the public on the virtues of free-market economics. By mid-1947 he had accumulated \$254,000 in donations.⁷² As one of its earliest activities the foundation offered Friedman and George Stigler \$650 to write a pamphlet outlining economic reasons to oppose rent controls. It planned to provide 500,000 abbreviated copies of the pamphlet to the National Association of Real Estate Boards, which was in the midst of a concerted lobbying effort to reverse existing rent control policies.⁷³

The resulting pamphlet, entitled "Roofs or Ceilings?," argued that the pressing shortage of housing in the immediate postwar period was attributable to distortions in the market structure caused by rent controls. Friedman and Stigler exhibited their argument through a striking analogy, comparing the housing market in San Francisco after the massive destruction of the 1906 earthquake with its housing market in 1946. The housing situation quickly normalized in the period after the earthquake, they wrote, because of the ability to ration the available units through higher rents and the strong incentives those higher rents created to build more units as quickly as possible. In 1946, despite the absence of a comparable catastrophe, the housing situation was dire, a product, they concluded, of the disincentives fostered by rent control. They called for the abandonment of rent control and the restoration of normal market conditions.⁷⁴ The publication of the pamphlet was an important moment in Friedman's career. The clarity and concision of its argument and the vividness of its examples revealed his capabilities as a popular writer. It was, as Paul Krugman has acknowledged, "beautifully and cunningly written."⁷⁵ It also established Friedman's reputation as a political extremist and popular polemicist within the cadre of academic economists. The pamphlet, Paul Samuelson recalled, "outraged the profession."⁷⁶ Robert Bangs referred to it in the *American Economic Review* as "a political tract, of the same species as, e.g., *The Road to Serfdom*, though even more timely and specific."⁷⁷ He was less forgiving in the *Washington Post*, referring to it as "an insidious little pamphlet" published by "a propaganda front for reactionary interests," and concluding that economists

“who sign their names to drivel of this sort do no service to the profession they represent.”⁷⁸ The central figures in Friedman’s and Stigler’s education at the University of Chicago—Jacob Viner and Frank Knight—had avoided public rhetoric whenever possible, and had adopted a tone of exaggerated equanimity when they were thrust into political discussion. The publication of “Roofs or Ceilings?” provided a preliminary, but unequivocal, indication that Friedman and Stigler would follow a different path.

Even as Friedman’s “Roofs or Ceilings?” revealed his proclivity for, and inclination toward, engagement in public debate, it also introduced him to the challenges of working with ideologically motivated institutions. In the month before the publication of the pamphlet, Friedman and Stigler engaged in a fierce dispute with FEE administrators that nearly led them to withdraw it from publication and decline the attendant compensation. The issue centered on a paragraph professing the authors’ support for economic equality:

The fact that, under free market conditions, better quarters go to those who have larger incomes or more wealth is, if anything, simply a reason for taking long-term measures to reduce the inequality of income and wealth. For those, like us, who would like even more equality than there is at present, not alone for housing but for all products, it is surely better to attack directly existing inequalities in income and wealth at their source than to ration each of the hundreds of commodities and services that compose our standard of living. It is the height of folly to permit individuals to receive unequal money incomes and then to take elaborate and costly measures to prevent them from using their incomes.⁷⁹

As the publication date neared, the FEE expressed concern about the implications of the paragraph and attempted to edit it to remove the phrase “like us.” Stigler protested vigorously. “We have sought to keep more of the original tone of dispassionate evaluation, whereas your suggestions accentuate its polemical character,” he wrote to V. O. Watts at the foundation. In contrast to the contentions in the authors’ version of the article that inequality was undesirable but not a reason for continuing rent controls, Stigler observed that the foundation’s version implied that inequality was a blessing. He concluded that the moderating phrases in the essay were “indispensable in giving the tone of objectivity we seek” and helped them “to convince the open-minded, not those who already favor our position.”⁸⁰ He wrote privately to Friedman of his concern that

they would suffer “the complete loss of our reputations if we started suppressing our own views” for “a little dubious fame.”⁸¹ The staff of the FEE, however, remained concerned that the passage would appear to be “an endorsement by the Foundation of certain collectivist ideas which are repugnant to us” and would violate their pact to avoid “compromising with what we considered to be error.”⁸² They finally reached a compromise wherein the pamphlet included an editor’s footnote indicating that the “long-term measures” might include nothing more than the abolition of special privileges granted by the government.

The brief controversy preceding the publication of “Roofs or Ceilings?” revealed that Friedman and Stigler were fiercely protective of their public reputations and unwilling to alter their arguments to suit the desires of funding institutions. The FEE could, and did, influence their output by convincing them to write for a popular audience and determining the subject matter they would address—in itself a substantial concession in a professional context that viewed public advocacy with considerably more skepticism than is conventional among economists today—but they would not alter the nature or the rhetorical structure of their arguments. Stigler was frankly appalled at what he perceived to be the myopic dogmatism of their funders at the FEE.⁸³ He warned Watts that his ideological strictures would have prevented him from publishing “the articles of Hayek or Henry Simons, or, for that matter, of Ricardo or Adam Smith.”⁸⁴ Both Stigler and Friedman refused to maintain relations with affiliates of the FEE for years after the publication of the pamphlet.⁸⁵

Even at this early stage of his career, Friedman was eager to emphasize that he shared many goals with his colleagues on the left. “I believe it essential to make it clear wherein we are criticizing means and wherein ends,” he wired to Leonard Read, adding that the failure “of liberals to emphasize their objectives seems to me one of [the] reasons they are so often labelled reactionaries.”⁸⁶ Whereas many of the foundations and polemicists on the right devoted their propaganda to the converted, Friedman strenuously sought to engage those with whom he disagreed. He adopted a tone of reasonable moderation while forwarding policies that would otherwise have appeared uncompromising and extremist. The young Friedman, however, was willing to make more substantial concessions to progressives than would subsequently be the case. The implication that inequality was “bad,” and that measures should be taken to reduce it, would fall away from Friedman’s popular writings later in his career. The contrast between the controversial paragraph in “Roofs

or Ceilings?” and his later work indicates that he may have perceived his postwar audience to be more redistributionist than in subsequent years, and demonstrates that his political leanings were still in the midst of an evolutionary process.

The first Mont Pèlerin Society meeting in 1947 was a crucial moment in the development of Friedman’s approach to public policy. His brother-in-law and longtime colleague Aaron Director, who had previously spent a year at the London School of Economics, asked Hayek to include Friedman on the list of invitees. To Friedman, who was still a young scholar and had never journeyed outside the United States, the opportunity to travel, with all expenses paid, across the Atlantic on an ocean liner to visit war-ravaged Europe seemed extraordinary. “Here I was, a young, naive provincial American,” he later recalled, “meeting people from all over the world, all dedicated to the same liberal principles as we were; all beleaguered in their own countries, yet among them scholars, some already internationally famous, others destined to be.”⁸⁷ He credited the gathering in Switzerland as “what really got me started in policy and what led to *Capitalism and Freedom*.” The society was important less for the particular ideas that arose in its discussions than for the community of supporters it was able to establish. “If you have a person isolated in an environment unfriendly to his ideas and thoughts, he tends to turn bitter and self-directed,” he explained. “But the same person with three or four other people around—it doesn’t have to be a lot of people—will be in a wholly different position since he will receive support from the others.” When Friedman expressed his ideas to fellow economists or to the public at large in the years after the war, he, like many of his colleagues, felt the need to temper statements that might be perceived as extreme with demonstrations of his moderation. The Mont Pèlerin Society provided a culture in which it was possible to express an appreciation for free markets that was undiluted by acts of rhetorical moderation. “Its great contribution,” he maintained, “was that it provided a week when people like that could get together and open their hearts and minds and not have to worry about whether somebody was going to stick a knife in their back.”⁸⁸ Within the confines of the meeting halls at Mont Pèlerin, the institutional incentives were briefly but crucially reversed: whereas elsewhere constant pressures existed to push the society’s members to conform with the vital center, the society welcomed and even admired its members’ statements of ideological dissent.

During his time at Mont Pèlerin, Friedman was introduced to a number of colleagues who would play crucial roles in his political activities

over the next two decades. One of them was Trygve Hoff, the outspoken editor of the Norwegian business journal *Farmand*. At Hoff's request, Friedman provided the journal with an essay outlining his political views under the title "Neoliberalism and Its Prospects" in 1951. The essay provides a comprehensive introduction to his perspectives at this stage in his career and demonstrates their unmistakable differences from his later positions. More than four years into his tenure in Chicago, Friedman continued to hold political views that were closely aligned to those of his predecessors at Chicago and the founding members of the Mont Pèlerin Society. He affiliated himself with a position that he termed "neoliberalism," which had attracted "a strong cross-current of opinion" and offered "a real hope of a better future." Neoliberalism was unambiguously critical of laissez-faire, which relied on "basic error" that had been exposed by the failures of "19th century individualist philosophy": "it underestimated the danger that private individuals could through agreement and combination usurp power and effectively limit the freedom of other individuals; it failed to see that there were some functions the price system could not perform and that unless these other functions were somehow provided for, the price system could not discharge effectively the tasks for which it is admirably fitted." Friedman looked to his mentor Henry Simons as an exemplar of a neoliberal "new faith" that would avoid both the errors of statism and the manifest failures of laissez-faire. While severely restricting government activities, neoliberalism would "explicitly recognize that there are important positive functions that must be performed by the state." As examples, Friedman cited the Sherman Antitrust Act and the "function of relieving misery and distress," which could not be left "to private charity or local responsibility" in a world that was "complicated and intertwined."⁸⁹ "Neoliberalism and Its Prospects" demonstrated that Friedman now included political engagement among his activities as a professional economist. The Mont Pèlerin Society had inspired him to conceive of himself as part of a concerted attempt to generate long-term political change. It is equally clear that Friedman's political thought was, at this point, in close conformity with that expressed by the leading members of the society during the initial meeting at Mont Pèlerin. The basic assumptions reflected in the essay—including the need to overcome the dogmas of nineteenth-century liberalism, the hazards of monopoly, the benefits of corporate regulations, and the desirability of government-sponsored relief for the poor—were parroted from Hayek's

and Röpke's descriptions of their mutual goals. Friedman had aligned himself with an ideological program, but he had not yet elaborated the characteristics that would mark his political philosophy as a distinctive departure from that of his predecessors in Chicago and forebears at Mont Pèlerin.

Friedman's views hardened during the 1950s in conjunction with a network of colleagues at the University of Chicago who had also attended the 1947 meeting at Mont Pèlerin. The society's representation on the faculty at Chicago was enabled in part by the Volker Fund, which underwrote Hayek's salary and funded the Free Market Study that drew Aaron Director to a position at the Law School in 1946.⁹⁰ Hayek only occasionally interacted with Friedman during his time in Chicago because of his separate position on the Committee on Social Thought and his growing interest in problems that were peripheral to the postwar economics profession. Director's close connections to Friedman through both family and graduate school, however, led his presence on the faculty to have a powerful influence on his colleague's social and intellectual world. After shedding the leftist instincts of his youth, Director had come to view himself as a more rigorous defender of the free market than Friedman; before they received their doctorates, he was already joking about his brother-in-law's "very strong New Deal leanings," and he continued to tease him over ideological lapses for the remainder of his career.⁹¹ By the early 1950s Director's assaults on regulatory bodies in the Law School's antitrust course were becoming increasingly notorious. Although he published little, his relentless logic and urbane sensibility exerted a powerful hold over generations of students and earned him broad influence among the faculty; as the founding editor of the *Journal of Law and Economics*, he eventually helped shape an emerging subfield as well.⁹² During the decade Friedman abandoned the sympathy for the Sherman Antitrust Act that he had expressed in "Neoliberalism and Its Prospects" and increasingly concurred with Director's hardened skepticism about government regulation.

George Stigler, who had traveled with Friedman to attend the initial meeting at Mont Pèlerin, left Columbia to accept a position in the business school at Chicago in 1958. He was lured by a professorship endowed by the Walgreen Foundation, which, under the advice of Leonard Read of the Foundation for Economic Education, had found a number of candidates unacceptable before finally acceding to Stigler's appointment.⁹³ Like Friedman, Stigler had expressed some enthusiasm about trust-busting

in the years after the publication of “Roofs or Ceilings?” and had gone so far as to recommend the “dissolution” of all companies that demonstrated “monopoly power” in 1952.⁹⁴ But under the influence of public choice theory, Ronald Coase’s work on transaction costs, and his new colleagues, Stigler began work not long after his arrival at Chicago on a series of articles that reexamined the economic effects of regulation. He emerged with the conclusion that regulators usually failed to achieve their goals and often provided competitive advantages to the very organizations they were intended to oversee.⁹⁵ His work provided a formal validation of his colleagues’ incipient concerns and would later play a decisive role in the early stages of the deregulation movement.⁹⁶

Together, Friedman, Director, and Stigler formed a nexus that connected the graduate program in economics and the professional schools. Over time the interpersonal relationships that drew these programs together were reinforced by a distinctive institutional culture. In the early 1950s Friedman and several of his colleagues used funding from both the Ford Foundation and a Chilean fellowship program to pioneer the development of a novel system of workshops. In an attempt to model social-scientific research after scientific labs, professors and advanced graduate students began meeting regularly to discuss their emerging work in a shared field of interest. Presenters distributed mimeographed papers before the meetings, and the discussions that ensued became notorious for dispensing with the culture of politeness that characterized much of the American academic world. The most distinguished of these workshops, which included Friedman’s on money and banking, Stigler’s on industrial organization, and the Law School’s on law and economics, helped drill students in their professors’ distinctive modes of analysis. The culture of these research communities accounted for much of the shared identity and methodological influence of the postwar Chicago School.⁹⁷

Although Director and Stigler did much to shape the research program of their colleagues and students, they largely avoided public engagement. Director rarely published, and Stigler remained unconvinced of the merits of public advocacy, arguing that popularity and influence were usually “rivals, not partners.”⁹⁸ Friedman became the public rhetorician of the jaundiced view of government intervention that increasingly characterized Chicago economics. Here, too, the Volker Fund played an integral role. Its program officers carefully monitored the participants in the events they sponsored and sought to engage them in its other related activities whenever synergies were apparent. Beginning

in 1952, it assembled a comprehensive directory of liberal intellectuals who were affiliated directly with its programs, or whose participation they sought; by 1956 the list had grown to include over 1,841 names.⁹⁹ In the mid-1950s the fund determined that the time had arrived for it to begin transitioning from “a program centered on the discovery and encouragement of individual scholarship” to one “with an emphasis on effective dissemination.”¹⁰⁰ To that end, it devoted \$100,000 per annum to the development of a summer conference program that by 1956 included eight conferences on subjects ranging from economics and political science to history and sociology.¹⁰¹ As a general model, the conferences involved three or four presenters and twenty or thirty junior academics.¹⁰² Along with Ludwig von Mises, Friedrich Hayek, and Frank Knight, among others, Friedman participated in the early stages of planning for conference activities in his area of expertise.¹⁰³ He went on to participate in Volker conferences at Wabash College, Claremont College, the University of North Carolina, and Oklahoma State University. In each of the meetings he devoted some time to a statement of the foundational principles of his approach to political economy and then proceeded to apply those principles to different aspects of public policy.¹⁰⁴ “Those seminars forced me to systematize my thoughts and present them in a coherent way,” Friedman recalled decades later.¹⁰⁵ Eventually the organizers from the Volker Fund applied “friendly pressures to write them up in tentative form.”¹⁰⁶ Rose Friedman assembled the transcribed tapes of his presentations and consolidated them into the manuscript of *Capitalism and Freedom*.¹⁰⁷

Capitalism and Freedom codified a political philosophy that departed significantly from Friedman’s description of his positions in the early 1950s. He now referred to himself as a “consistent liberal” but was adamant that the label was not commensurate with anarchism. There was, he admitted, a role for government that maintained law and order, preserved property rights, adjudicated disputes, enforced contracts, provided a monetary framework, protected the incompetent, and mitigated “technical monopolies” and neighborhood effects. Despite this acknowledgment of an appropriate sphere for government action, Friedman was beginning to retreat from his earlier opposition to monopolies and support for poor relief. He argued that private unregulated monopolies were far less troubling than private monopolies regulated by the state or government operations, because they were “generally unstable and of brief duration unless they can call government to their assistance.”¹⁰⁸ And he

emphasized that although a liberal “may approve state action toward ameliorating poverty,” he would do so “with regret . . . at having to substitute compulsory for voluntary action.”¹⁰⁹ The book then went on to advocate an extension of market principles that was breathtaking in its audacity. Among many other policy proposals, Friedman called for the elimination of agricultural price supports, tariffs and export restrictions, the minimum wage, the regulatory activities of the Interstate Commerce Commission and the Federal Communications Commission, social security, public housing, the military draft, all systems of professional licensure, and all national parks.¹¹⁰ The popular success of *Capitalism and Freedom* was limited at first, in part because it went largely unnoticed in both general-interest magazines and professional journals; but over time the pace of its sales began to increase, and eventually well over half a million copies were printed.¹¹¹ If *The Road to Serfdom* had presented a defensive manifesto for an ideology in a state of retreat and disarray, *Capitalism and Freedom* provided a platform for a movement that was prepared for an aggressive offense. As was readily apparent to the book’s growing readership, the era of apologetic moderation had passed.

Friedman’s career as a public intellectual was initiated, cultivated, and promoted by a series of institutions designed to further the cause of free-market ideas. His first foray into popular pamphleteering had been precipitated by a generously funded commission from the Foundation for Economic Education; his political awakening had arrived under the auspices of the Mont Pèlerin Society and been nurtured and enriched by its members; and the systematization and popularization of his incipient ideas had been inspired and enabled by the ambitious summer conference program arranged and underwritten by the Volker Fund. His personal narrative provides an example of the cascading effect that minor institutional influences can have on the structure of an intellectual career, and an implicit validation of the long-term approach to ideological change that Hayek expounded and the administrators of the Volker Fund deliberately employed. These organizations did not create Friedman’s ideology; he was uncowed by public controversy and fiercely protective of his independence as a scholar, and in many cases his positions represented a departure from his predecessors’ ideas and his funders’ expectations. Instead, they created an environment in which he was inspired to perceive his career in a political context and encouraged to share his perspective in a language that a general population could understand. To adopt terms that Milton Friedman would appreciate, institutions like

the Volker Fund and the Mont Pèlerin Society are the venture capitalists of the intellectual world, allocating a broad dispersion of small investments with an extended time horizon and an understanding that one spectacular success can compensate for the toll of many minor failures. Friedman was the beneficiary of a network of organizations established by individuals who were uniquely reconciled to the assumption that the nature of their impact would not be revealed until long after their ability to appreciate it had passed.

In an implicit recognition of the changing framework of his social philosophy, Milton Friedman had stopped referring to himself as a “neoliberal” by the late 1950s. But he, too, suffered from the terminological challenge that had been discussed ad nauseam among free-market sympathizers since they first assembled at the “Colloque Lippmann” in Paris in 1938. During his career in the public arena, Friedman never settled on a consistent term to define his point of view. The word “libertarian” might have seemed a natural choice, but as early as 1957 he had determined to avoid it whenever possible. His problem with the term was purely “semantic”: “It seems to me to lend itself greatly to confusion with the word ‘libertine’ and gives the impression of an anarchistic kind of a view.”¹¹² Friedman sympathized with anarchism and admitted that he “would like to be a zero-government libertarian,” but he believed that a society with no government whatsoever was not “a feasible social structure.”¹¹³ He was also highly conscious of a need to distance himself from anarchism in order to maintain credibility in public debates, and was constantly forced to defend himself against respectable opponents—like Senator Joseph Clark of Pennsylvania—who dismissed him as a “neo-anarchist” who would be “a fine candidate for president of the John Birch Society.”¹¹⁴ Although he sometimes acknowledged that popular parlance would label him a “conservative,” Friedman expressed dissatisfaction with that term as well.¹¹⁵ He could not identify himself with a social philosophy that implied a respect for the status quo. He told an interviewer in 1967 that “conservatism” is equivalent to a blind acceptance of the past, “including all the foolish legislation put in place from the New Deal forward.”¹¹⁶ When he was asked whether he was a conservative a decade later, he responded: “Good God, don’t call me that. The conservatives are the New Dealers like Galbraith who want to keep things the way they are. They want to conserve the programs of the

New Deal.”¹¹⁷ As he had explained in *Capitalism and Freedom*, the problem with conservatism lay in its implied rejection of radicalism.¹¹⁸ He later clarified that “radical” meant to him “going to the root of the matter,” and that he viewed himself “as a radical in the same sense in which John Stuart Mill, Jeremy Bentham and others in 19th-century England regarded themselves as philosophical radicals.”¹¹⁹ He believed that the “rightful and proper” description for this social philosophy was “liberalism,” but invoked a famous predecessor’s explanation of the difficulties posed by the term. In his *History of Economic Analysis* Joseph Schumpeter wrote that it “has acquired a different—in fact almost the opposite—meaning since about 1900 and especially since about 1930: as a supreme, if unintended, compliment, the enemies of the system of private enterprise have thought it wise to appropriate its label.”¹²⁰ The only term Friedman could find to describe himself had come to hold a contradictory connotation in the public mind. In this single area, for once in his life, he was at a loss for words.

Friedman’s approach to the problem of terminology distinguished him from his predecessors in the Mont Pèlerin Society in significant ways. His concerns about the term “liberalism” were wholly semantic and not at all substantive. An earlier generation at Chicago and in the Mont Pèlerin Society had expressed explicit dissatisfactions with the “Manchester liberalism” of their ostensible predecessors and a desire to replace it with a novel worldview. In contrast, Friedman explained that he thought he “was going back to some fundamentals rather than creating anything new”; to him, the word “liberalism” was inadequate only because of the loss of the meaning it had once held.¹²¹ His unequivocal representation of himself as a “radical” and his professed abhorrence of the term “conservative” revealed a sensibility that was unafraid of rapid and transformative social change. Hayek, Röpke, and Knight had emphasized the importance of continuity, and had centered their criticisms of the New Deal on the unprecedented pace and scope of the social transformations it entailed. Even in “Why I Am Not a Conservative,” Hayek allowed that conservatism was “a legitimate, probably necessary, and certainly widespread attitude of opposition to drastic change,” and he joined many conservatives in expressing respect for the benefits of gradual and organic social evolution.¹²² With sensibilities formed in reaction to the dramatic political and economic upheavals of the first half of the twentieth century, the founders of the Mont Pèlerin Society perceived the maintenance of social stability as a foundational goal. Friedman, in

contrast, advocated for the immediate implementation of his policy suggestions regardless of the difficulties entailed in a process of transition. He deliberately cultivated and carefully protected the persona of a contrarian gadfly in the venues of public debate. When he received an inquiry about joining Eisenhower's Council of Economic Advisers, he worried that in such a position it would seem "right and natural to compromise" and turned it down. "I think society needs a few kooks, a few extremists," he explained. He adopted a similar persona in his academic career. "To keep the fish that they carried on long journeys lively and fresh, sea captains used to introduce an eel into the barrel," his frequent sparring partner Paul Samuelson said. "In the economic profession, Milton Friedman is that eel."¹²³

In his capacity as a "radical liberal," Friedman created a social philosophy that was much less conflicted than those of the leading figures in the early Mont Pèlerin Society. Whereas they tied themselves in philosophical and rhetorical knots attempting to escape failings of nineteenth-century liberalism that they readily acknowledged, Friedman simply argued that those ostensible failures were mythical creations of his ideological opponents. "The closest approach that the United States has had to true free enterprise capitalism was in the nineteenth century," he said. "Anybody was free to put up an enterprise, anybody was free to come to this country: it was a period when the motto on the Statue of Liberty meant what it said. It was a period in which the ordinary man experienced the greatest rise in his standard of life that was probably ever experienced in a comparable period in any country at any time." Against the contemporary historical profession's contention that nineteenth-century America was not a land of unencumbered capitalism, as well as the widely shared belief that the extremes of wealth and poverty in the nineteenth century had fostered social instability and discontent, Friedman sought to rehabilitate the classic narrative of the American frontier.¹²⁴ He then held that vision of a vibrant frontier capitalism against a depiction of a contemporary America overwrought by misguided bureaucracies.

The turning point in his narrative came in the 1930s, when socialist ideas that had long been germinating among the intellectual classes finally gained traction in the midst of a global economic catastrophe.¹²⁵ In his understanding of world history, there was an unproblematic correlation between government intervention and national decline: "Whether we look at the Golden Age of Ancient Greece, or the early centuries of the Roman era, or at the Renaissance, we see that widening individual

freedom and quickening of economic growth went hand-in-hand—and that when freedom was destroyed, economic decline was not far behind.”¹²⁶ With all the bureaucratic accretions of the decades after the implementation of the New Deal, America was approaching “a real dividing point, a real crossing point in our national development.” In the near future, he ominously predicted, the scales would tip, and the country would lose the spoils it had reaped in its less encumbered years.¹²⁷ Friedman valorized an idealized vision of the nineteenth century and then leveraged that vision to lambast the administrative practices of the present day. Through the sheer force of certainty he sought to turn what his predecessors viewed as a potentially insurmountable weakness for advocates of free markets—the example of the nineteenth century—into a source of rhetorical strength. Its factual merits aside, the endeavor was not without success. As one colleague ruefully allowed, “I wish I was as sure of one thing as Milton Friedman is of all things.”¹²⁸

Friedman’s consistent preference for unconstrained markets combined with his methodological orientation toward empiricism to inspire him to propose an astonishing range of specific alterations to governmental practice. With few exceptions, the previous generation of academics in the Mont Pèlerin Society had limited their engagement in public questions, and their discourse tended overwhelmingly to unfold at the level of the general rather than the specific. Friedman, in striking contrast, filled his speeches with detailed suggestions about the myriad ways in which his philosophical orientation could be reflected in legislation. In the decades after the publication of *Capitalism and Freedom* in 1962, he advocated a range of ideas that restructured the terms of public debate about issues of fundamental importance.

Friedman’s popular rhetoric drew heavily on his academic work from the 1950s and early 1960s, which launched a multipronged assault on the Keynesian consensus. In *A Theory of the Consumption Function* Friedman challenged the belief that households would rapidly shift their consumption habits to incorporate new infusions of capital, arguing instead that they made such decisions on the basis of longer-term estimates of their “permanent income.” This contested the assumption that temporary shifts in income would have a significant effect on aggregate demand and raised new questions about the capacity of fiscal policy to counteract an economic downturn.¹²⁹ Meanwhile, in *A Monetary History of the United States* and a collection of articles from his workshop at Chicago, he also brought renewed attention to the importance of money.¹³⁰ Along with

his collaborator, Anna Schwartz, he pored over historical data to argue for a close relationship between movements in the stock of money and changes in income and prices.¹³¹ They assailed the historical record of monetary authorities, describing the Great Depression as the “Great Contraction” and blaming its severity on the deflationary policies of the Federal Reserve.¹³² Elsewhere, Friedman attacked the international monetary framework, criticizing both the Bretton Woods system and the gold standard in order to make a case for the feasibility of flexible exchange rates.¹³³ And in a presidential address before the American Economic Association, he criticized the widespread assumption that there was a long-term trade-off between inflation and unemployment. Unanticipated inflation, he acknowledged, would lead real wages to go down and thereby precipitate a temporary increase in employment. But employees would rapidly account for this new inflation and begin bargaining for commensurate increases in their nominal wages. As a result, inflation could stave off unemployment only as long as it grew at an accelerating rate. Such a path was self-evidently unsustainable: in attempting to inflate their way to full employment, governments were courting disaster.¹³⁴

Friedman readily acknowledged that it was “difficult” to relay these views in a form that was “accessible to the general reader,” but such concerns did not stop him from trying.¹³⁵ He devoted two early chapters in *Capitalism and Freedom* to monetary policy and international finance, his first collection of popular essays focused almost exclusively on these issues, and he dwelled on them more frequently than any other topic in his columns for *Newsweek*.¹³⁶ His most persistent theme was the need to establish a rule forcing the monetary authority to keep the growth of the stock of money within a specified range.¹³⁷ He missed few opportunities in the late 1960s to contrast what he saw as the lurching behavior of the Federal Reserve with the apparent consistency and predictability of his rule-based approach. A series of prescient predictions in the late 1960s, followed by the onset in the 1970s of precisely the kind of inflationary recession he had anticipated in his presidential address, led Friedman’s suggestions on monetary policy to achieve broad influence. In 1979 Paul Volcker set aside his reservations and embraced a central tenet of Friedman’s advice, inducing the Federal Reserve to begin targeting the money supply rather than interest rates. It soon became clear that the proliferation of new financial vehicles muddied the estimates that this approach required, and Volcker’s monetarist experiment was abandoned.¹³⁸ Its adoption in the midst of an employment crisis and runaway

inflation, however, signified the degree to which Friedman's popular and professional writings had shifted prevailing views on monetary policy.

In conjunction with his peers at Chicago, Friedman also came to adopt a much more audacious and aggressive stance against antitrust activities than his mentors. One of the simplest ways to restore the competitive landscape of the nineteenth century, he argued, was to abandon the ongoing attempts to restrict private monopoly. He called for the repeal of all aspects of the Sherman Antitrust Act excluding those that involved the nonenforcement of certain contracts. In justification, he argued that "there has hardly ever been a private monopoly that has been able to maintain its monopoly position without assistance from the government."¹³⁹ He asserted that with the removal of tariffs, significant revisions to the corporate tax code, and the elimination of special governmental support, all serious problems related to monopoly would be solved.¹⁴⁰ The very notion of "pure monopoly" was troubling to him because "everything has substitutes," even if those substitutes take a very different form.¹⁴¹

He also targeted the system of federal taxation. In contrast to the current system in which he thought taxes were much too high and much too complex, he advocated a single flat rate on income with none of the "loopholes and deductions that enable so many persons to avoid paying their fair share of the taxes and that require so many more to take tax considerations into account in their every economic decision." To address the needs of poorer citizens who would thereby need to pay higher rates, he proposed a doubling of the "disgracefully low" personal exemption.¹⁴² He would eliminate the tax exemption for charities, which he believed had "no justification," left nonprofits beholden to the state, and encouraged their institutional constituents to advocate higher taxes since it "cost them nothing" and increased "the value of the tax exempt privilege."¹⁴³ He argued against the taxation of corporations, suggesting that any earnings above dividends should be attributed to the individual stockholders and taxed appropriately.¹⁴⁴ He also sought to abolish the estate tax. "There is no such thing as an effective inheritance tax," he stated. "People will always find a way around it."¹⁴⁵ Counterarguments on ethical grounds failed to move him. "This distinction is untenable," he wrote. "Is there any greater ethical justification for the high returns to the individual who inherits from his parents a peculiar voice for which there is a great demand than for the high returns to the individual who inherits property?"¹⁴⁶ Friedman also identified areas of the tax code that advantaged "living in sin" and argued that they should be restructured either to become neutral

or to encourage marriage.¹⁴⁷ He was a tireless advocate for “constitutional measures that set a limit to total government spending both at the state level and at the federal level,” often participating in advocacy tours on their behalf.¹⁴⁸ Many of these policy proposals became central components of the Republican platform in the final quarter of the twentieth and the beginning of the twenty-first century.

Friedman’s most famous, and perhaps most influential, proposal in the area of taxation was his scheme for a “negative income tax.” In *Capitalism and Freedom* he argued that if the government was going to provide aid to the poor, it could do so more efficiently in the form of an income-tax credit than in the existing network of welfare benefits and target programs. He proposed a graduated subsidy for individuals who earned an income below a preestablished floor. Such a system, he asserted, would eliminate much of the waste entailed in administering conventional welfare and substantially ameliorate its market-distorting effects.¹⁴⁹ It had the further virtue, he added in an article in 1968, of treating its recipients “as responsible individuals, not as incompetent wards of the state.”¹⁵⁰ The idea was one of Friedman’s most popular with the political Left; he told the Chamber of Commerce of the United States in 1966 that it had “been greeted with considerable (though far from unanimous) enthusiasm on the left and with considerable (though again far from unanimous) hostility on the right.”¹⁵¹ He viewed the program as clearly beneficial to advocates of limited government and was puzzled by both parties’ responses. Nevertheless, he embraced the issue as a demonstration that market-friendly policies could manifest compassion, and over time he succeeded in generating significant political interest in his proposal. Although a negative income tax has never been pursued in the mode Friedman suggested, his arguments helped inspire the reappraisal of welfare that led to the Earned Income Tax Credit programs that were first implemented in 1975, made permanent in 1978, and dramatically expanded between 1986 and 1993, as well as the subsequent welfare-to-work programs implemented in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.¹⁵²

Friedman brought an equally prolific policy imagination to areas of governmental management and regulation. He was uniformly skeptical of regulatory agencies and argued that many of them should be shuttered altogether. One of his most frequent targets was the Federal Communications Commission; he proposed “abolishing the FCC and having a truly free radio and TV to parallel a free press” by auctioning “off to

the highest bidders the rights to specified channels now embodied in licenses.”¹⁵³ He argued that the Food and Drug Administration (FDA) “should be abolished” as well, because the harm caused by its excessively cautious delays in approving drugs outweighed the dangers entailed in making those same drugs available on an open market.¹⁵⁴ The failures of the FDA, in his opinion, were irremediable: “The way the FDA now behaves, and the adverse consequences, are not an accident, not a result of some easily corrected human mistake, but a consequence of its constitution in precisely the same way that a meow is related to the constitution of a cat.”¹⁵⁵ Friedman was also an implacable opponent of the minimum wage, which he provocatively described as “the most anti-Negro law on our statute books—in its effect not its intent.”¹⁵⁶ Agricultural subsidies should, he argued, be abolished altogether.¹⁵⁷ If the public wanted to regulate environmental pollution, he was adamant that it should do so through effluent taxes rather than regulatory standards.¹⁵⁸ And in the wake of Hurricane Agnes in 1972, he implied that the federal government should not provide aid after a natural disaster. Such aid encouraged the inhabitation of unsafe areas, he asserted, and would inevitably lead to a situation in which the government needed to regulate where one could and could not live. Here, as elsewhere, he urged a devolution of responsibility to private individuals and organizations. “Surely,” he wrote, “nothing has done so much over the years to destroy a sense of human community, of individual responsibility for assisting the less fortunate, as the bureaucratizing of charity.”¹⁵⁹

Often to the dismay of his Republican admirers, Friedman was equally iconoclastic in his approach to foreign policy. He was an ardent opponent of the military draft and vigorously lobbied Nixon for its abolishment. Nixon appointed him to the Advisory Commission on an All-Volunteer Armed Force, which precipitated the official elimination of the draft in 1973.¹⁶⁰ Friedman later recalled the event as his “most important” policy accomplishment.¹⁶¹ He believed that the country’s borders should be completely open and unrestricted to immigrants, although he stipulated that this would only be practicable if accompanied by a complete rollback of government welfare.¹⁶² He was a consistent critic of the Marshall Plan and disapproved of all foreign aid, which he said tended “to strengthen governments in the foreign countries relative to the private sector, to promote centralized planning and socialist methods of control, and to reduce the strength and the force of the free enterprise sector, political democracy and freedom.”¹⁶³ And he favored the unilateral imposition of free trade,

arguing that reciprocal negotiations would be “lengthy, time-consuming, and ineffective.”¹⁶⁴ Cumulatively, these proposals reveal the uniformity with which Friedman argued that markets should remain free from coercive incursions, and demonstrate the disagreements with the Republican Party that his consistency sometimes inspired.

Despite having spent his life in a university environment, Friedman was sharply critical of government aid to institutions of higher learning. He excoriated state-financed universities for imposing “costs on low-income people to provide subsidies to high-income people.”¹⁶⁵ Taxing poor citizens to help finance the education of middle- and upper-class citizens was, he dramatically asserted, the “great scandal of our times.”¹⁶⁶ He recognized that emphasizing the portion of tax revenue that came from the poor could make cultural institutions appear frivolous, and he leveraged that rhetorical insight in his assaults on state financing of the Corporation for Public Broadcasting and the National Endowments for the Arts and the Humanities as well. Such uses of government funds were “particularly indefensible,” he asserted, because they targeted programs that “have traditionally been supported by private funds” and imposed “taxes on low-income people to finance luxuries for high-income people.”¹⁶⁷ He was also deeply suspicious of government involvement in the earlier stages of schooling, but was willing to consider alternatives that fell short of the complete termination of financial support. In *Capitalism and Freedom* he suggested a voucher system: “Parents who choose to send their children to private schools would be paid a sum equal to the estimated cost of educating a child in a public school, provided that at least this sum was spent on education in an approved school.” Such an approach “would permit competition to develop. The development and improvement of all schools would thus be stimulated.”¹⁶⁸ This proposal inaugurated decades of intensive public policy debates, and remained one of Friedman’s primary interests; in 1996 he and his wife Rose jointly established the Friedman Foundation for Educational Choice to continue advocating for voucher proposals in the public sphere.

Milton Friedman had arrived at a philosophy of capitalism and a program for political action that differentiated him from all of his mentors and most of his peers. In contrast to their deliberate moderation and rhetorical restraint, he expressed an uncompromising belief that markets would engender better social outcomes than programs administered by the government. This unapologetic support for *laissez-faire* made him an unprecedented anomaly among respectable academics in the postwar

American public sphere and in itself generated substantial interest in his ideas. Friedman's scientific reputation and radical self-presentation alone would have made him a formidable figure in the conservative intellectual world, but he multiplied his influence by combining these attributes with an extraordinarily inventive approach to public policy. The unorthodoxy of his perspective enabled him to apply a single set of analytic tools to generate a profusion of novel ideas, and he presented his readers with an abundance of explicit proposals that were clearly derived from and representative of a singular worldview. Over time and in combination, these qualities enabled him to shift the parameters of public debate.

Friedman's career has been patterned by Paul Krugman on the model of a counterreformation: a return to the status quo before Keynes. "If Keynes was Luther," Krugman quipped, "Friedman was Ignatius of Loyola."¹⁶⁹ But the narrative of Friedman's influence cannot be traced through such a clean reversal of the lines his predecessor traced. For one thing, Krugman's imputation of the hegemony of neoclassicism and laissez-faire in the years preceding Keynes's *General Theory* was misplaced; economists at the time relied heavily on institutionalist methodologies with an implicit leftist valence that were discarded by most of the profession, with the notable exception of Galbraith, in subsequent years.¹⁷⁰ Perhaps more important, the positions advocated by the conservative economists of the previous generation bore little resemblance to those espoused by Friedman in the years after the publication of *Capitalism and Freedom*. By the early 1940s Frank Knight, Jacob Viner, and Henry Simons in the United States, Wilhelm Röpke in Geneva, and Friedrich Hayek and Lionel Robbins in London all recognized a broad scope for the government to intervene, with beneficial effects, in the workings of the economy and the distribution of goods. All of them manifested reservations about the effects of unhindered competition and increasing skepticism toward the social and political viability of laissez-faire. In the case of Friedman, as Krugman accurately observed, it is "extremely hard" to find places where he "acknowledged the possibility that markets could go wrong, or that government intervention could serve a useful purpose."¹⁷¹ The universality of Friedman's belief in the efficacy of free markets exceeded even that of the nineteenth-century theorists whose legacy Hayek had spent the postwar years working to overcome. His was not a Spencerian or Sumnerian world in which free markets dealt crushing blows to some in order

to contribute to the greater advancement of humanity. Rather, it was one in which incontrovertible benefits redounded, in a display of spectacular bounty, to people of all kinds and in all situations. He represented markets as an unremitting good.

When Hayek first spoke before the members of the Mont Pèlerin Society, he explained that his goal was to consolidate the efforts of those who sought “to reconstruct a liberal philosophy which can fully meet the objections which in the eyes of most of our contemporaries have defeated the promise the earlier liberalism offered.”¹⁷² The rise of Milton Friedman represents both the realization of Hayek’s dream of inspiring broad popular support for the benefits free markets have to offer, and the final failure of his ambition to create a new social philosophy that would moderate the excesses of prior modes of market advocacy. The irony of the Mont Pèlerin Society is that it achieved its goal of generating social change at the expense of the new philosophy that its members had assumed any such change would require. Friedman served as both the society’s greatest engine of influence and its most forceful exponent of an uncompromising adherence to the market mechanism. To Hayek and the other founders of the Mont Pèlerin Society, Friedman’s ascent within its orbit reflected the collapse of its attempt to integrate a restrained defense of free markets into a traditionalist worldview. In the broader social environment Friedman’s rise portended, and precipitated, the triumphant return of *laissez-faire*.