

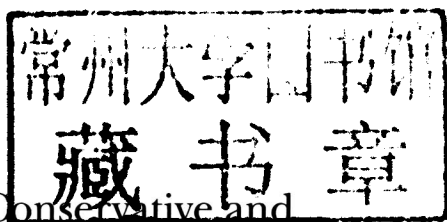


MAJOR CONSERVATIVE AND LIBERTARIAN THINKERS  
EDITED BY JOHN MEADOWCROFT  
MILTON FRIEDMAN



# Milton Friedman

William Ruger



Major Conservative and  
Libertarian Thinkers

Series Editor: John Meadowcroft  
Volume 19



continuum

2011

**The Continuum International Publishing Group**

80 Maiden Lane, New York, NY 10038

The Tower Building, 11 York Road, London SE1 7NX

[www.continuumbooks.com](http://www.continuumbooks.com)

© William Ruger, 2011

All rights reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the written permission of the publishers.

**Library of Congress Cataloging-in-Publication Data**

Ruger, William.

Milton Friedman / William Ruger.

p. cm. – (Major conservative and libertarian thinkers ; v. 17)

Includes bibliographical references and index.

ISBN-13: 978-0-8264-2351-1 (hardcover : alk. paper)

ISBN-10: 0-8264-2351-5 (hardcover : alk. paper)

1. Friedman, Milton, 1912–2006. 2. Economists–United States–Biography.

I. Title.

HB119.F84R84 2011

330.092–dc22

[B]

2010041486

ISBN: 978–0-8264–2351-1

Typeset by Newgen Imaging Systems Pvt Ltd, Chennai, India

Printed and bound in the United States of America

Milton Friedman

### Series Introduction

The *Major Conservative and Libertarian Thinkers* series aims to show that there is a rigorous, scholarly tradition of social and political thought that may be broadly described as “conservative,” “libertarian,” or some combination of the two.

The series aims to show that conservatism is not simply a reaction against contemporary events, nor a privileging of intuitive thought over deductive reasoning; libertarianism is not simply an apology for unfettered capitalism or an attempt to justify a misguided atomistic concept of the individual. Rather, the thinkers in this series have developed coherent intellectual positions that are grounded in empirical reality and also founded upon serious philosophical reflection on the relationship between the individual and society, how the social institutions necessary for a free society are to be established and maintained, and the implications of the limits to human knowledge and certainty.

Each volume in the series presents a thinker’s ideas in an accessible and cogent manner to provide an indispensable work for students with varying degrees of familiarity with the topic as well as more advanced scholars.

The following 20 volumes that make up the entire *Major Conservative and Libertarian Thinkers* series are written by international scholars and experts:

*The Salamanca School* by Andre Azevedo Alves (LSE, UK) and

José Manuel Moreira (Universidade de Aveiro, Portugal)

*Thomas Hobbes* by R. E. R. Bunce (Cambridge, UK)

*John Locke* by Eric Mack (Tulane, UK)

*David Hume* by Christopher J. Berry (Glasgow, UK)

*Adam Smith* by James Otteson (Yeshiva, US)

*Edmund Burke* by Dennis O’Keeffe (Buckingham, UK)

*Alexis de Tocqueville* by Alan S. Kahan (Paris, France)

*Herbert Spencer* by Alberto Mingardi (Istituto Bruno Leoni, Italy)

*Ludwig von Mises* by Richard Ebeling (Northwood, US)  
*Joseph A. Schumpeter* by John Medearis (Riverside, California, US)  
*F. A. Hayek* by Adam Tebble (UCL, UK)  
*Michael Oakeshott* by Edmund Neill (Oxford, UK)  
*Karl Popper* by Phil Parvin (Loughborough, UK)  
*Ayn Rand* by Mimi Gladstein (Texas, US)  
*Milton Friedman* by William Ruger (Texas State, US)  
*Russell Kirk* by John Pafford (Northwood, US)  
*James M. Buchanan* by John Meadowcroft (King's College  
London, UK)  
*The Modern Papacy* by Samuel Gregg (Acton Institute, US)  
*Murray Rothbard* by Gerard Casey (UCD, Ireland)  
*Robert Nozick* by Ralf Bader (St Andrews, UK)

Of course, in any series of this nature, choices have to be made as to which thinkers to include and which to leave out. Two of the thinkers in the series—F. A. Hayek and James M. Buchanan—have written explicit statements rejecting the label “conservative.” Similarly, other thinkers, such as David Hume and Karl Popper, may be more accurately described as classical liberals than either conservatives or libertarians. But these thinkers have been included because a full appreciation of this particular tradition of thought would be impossible without their inclusion; conservative and libertarian thought cannot be fully understood without some knowledge of the intellectual contributions of Hume, Hayek, Popper, and Buchanan, among others. While no list of conservative and libertarian thinkers can be perfect, then, it is hoped that the volumes in this series come as close as possible to providing a comprehensive account of the key contributors to this particular tradition.

John Meadowcroft  
King's College London

**To Jennifer, Caleb, and Mason—who waited for me**

## Series Editor's Preface

Milton Friedman was one of the most important twentieth-century advocates of libertarian and conservative ideas in academia and amongst the wider public. As a professional economist and teacher at the University of Chicago, Friedman made a critical contribution to the development of the free market and monetarist economics that challenged the dominant interventionist and Keynesian paradigm throughout the developed world. As a public intellectual, Friedman's books *Capitalism and Freedom* and *Free to Choose*, as well as his shorter popular writings and television programs, were crucial to the advance of public understanding of the role of the market in the promotion of human freedom and well-being.

In this outstanding volume, Dr William Ruger of Texas State University sets out Friedman's intellectual contribution to economic methodology and our understanding of a host of economic phenomena, including the relationship between consumption and income, the workings of flexible exchange rates, and the relationship between inflation and the supply of money in the economy. Dr Ruger also sets out Friedman's contribution to political theory, discussing Friedman's work on the relationship between economic and political freedom; the social responsibilities of business; and the proper relationship between the individual and the state, particularly in the context of conscription, drug prohibition, and discrimination.

By setting out Friedman's thought in a highly lucid and accessible manner, this volume makes a crucial contribution to the *Major Conservative and Libertarian Thinkers* series. It presents Friedman's intellectual contributions in the context of his life



and the turbulent century in which he did most of his work. The book also considers the reception of Friedman's work and its likely long-term relevance. As such, this volume will prove invaluable to those relatively unfamiliar with Friedman's work as well as more advanced scholars.

John Meadowcroft  
King's College London

## Author's Preface

In 2007, Naomi Klein published *The Shock Doctrine: The Rise of Disaster Capitalism*, a scathing critique of global capitalism that placed Milton Friedman squarely in the crosshairs as the evil genius behind our current economic system. Klein, as one review stated, “essentially accuses Friedman of being the godfather of a Mafia-like gang, the Chicago Boys, who have exploited the public disorientation associated with catastrophes and political crises to impose an unwanted free-market ideology on much of the world” (Redburn 2007). Many other Americans, however, picture Friedman as the pleasant, grandfatherly, and unthreatening advocate of freedom and markets from whom they learned economics on PBS’s *Free to Choose* documentary. But who is the real Milton Friedman and which, if either, of these depictions is more accurate? The objective of this book is to help the reader answer these questions and to describe and explain Friedman’s life, thought, and works. It also explores how Friedman was received, his influence, and his contemporary relevance.

Unlike most scholars and lay persons who have taken an interest in or even admired (or despised) Milton Friedman’s work, I became intrigued by this economist and public intellectual through his writings on methodology, on the draft (with which I agreed), and on corporate social responsibility (which I disagreed with and found quite frustrating). Though many people first encountered Friedman through his *Newsweek* column, his famous PBS series, or one of his popular books (*Capitalism and Freedom* or *Free to Choose*), my initial contact with Friedman, oddly enough, was in reading his seminal 1953 essay on methodology

(after seeing it employed in Kenneth Waltz's masterpiece *Theory of International Politics*).

I should note that my work on this book was interrupted by a nearly year-long stint on active duty in the U.S. military during which I was deployed to Afghanistan. It was a very tough, long, and frequently frustrating experience. But it was ultimately a rewarding one, and I am proud to be a veteran of that continuing war. It may be amusing to some readers that I brought a backpack full of Friedman works with me, carrying them all the way from Texas to Utah to Las Vegas to Gulfport, MS, to Columbia, SC, to Kuwait to Afghanistan and back. Unfortunately, I had very few spare moments in which to do anything unconnected with the war, let alone read serious economics, so the books basically just gathered the “dust” that fills the air in Afghanistan and lined the “walls” of the shipping container Mike Liles and I called home. However, I could occasionally be found reading *A Monetary History of the United States* or *Capitalism and Freedom* during the few precious moments of downtime I had there. Once I learned two of my senior leaders had been economics majors, though, I would jokingly ask them, “WWFD?” (What Would Friedman Do?), and they would joke back in kind. Given Friedman's role in helping create the military we have today, in a strange way this was all fitting. For I was part of an All-Volunteer Force made up of men and women who freely chose to be what General William Westmoreland, during an exchange with Friedman, infamously called “mercenaries.” I salute all of the fine volunteers/“mercenaries” with whom I had the pleasure to serve in Afghanistan, especially Michael Liles, Liam Corley, Karl Wick, LT Josh “Battle” Welle, LtCol Tyler Bosco, Maj Clay Turner, Doug England, TSgt Ed Colon, CDR James Scarcelli, BG Peter Zwack, and others who preferred not to be identified by name.

\* \* \*

Many people helped me in various ways as I worked on this book.

John Meadowcroft, my patient editor and fellow scholar, deserves special gratitude for his assistance in seeing this through to the end. Jason Sorens and Sven Wilson, two friends and co-authors, exhibited much appreciated patience and support when this book took time away from my separate projects with them. They have also assisted by discussing ideas and offering suggestions, for this book and otherwise. Hans Eicholz has always been a real mensch, helping me better understand the world of classical liberalism and providing constant support.

Special thanks are due to economists Andrew Farrant, David Henderson, Josh Hendrickson, David Beckworth, and an anonymous reviewer. Their feedback and suggestions were quite useful and made this a better book than it would be otherwise. Andrew, in particular, went above and beyond the call of duty. Andy Knauer also merits my appreciation for helping with citation counts.

Thanks for various things are also due to Damon Linker, Marc Eisner, Claire Morgan, James Otteson, Tyler Cowen, Jeffrey Rogers Hummel, David Theroux, David Beito, Doug Den Uyl, Ted Carpenter, Jerry Muller, Marty Zupan, Barkley Rosser, Gary Becker, Dan Hammond, Dan McCarthy, the staff at FEE who tracked down an article for me, and Bob Art (I'm not sure my graduate school mentor would fully understand why I wrote this book, but he played a part in helping me be fit to do so).

I'd also like to thank my colleagues at Texas State University who have supported my eclectic research agenda and helped in one way or another while I wrote this, especially Vicki Brittain, Patricia Shields (who must be tired of hearing Friedman stories!), Ken Grasso, Bob Gorman, Arny Leder, Howard Balanoff, Sherri Mora, Omar Sanchez, and Paul DeHart. I would be remiss not to thank the staff at Texas State who supported me in various ways, including Coleen Rankin, Jenni Small, Jo Korthals, Michelle Williams (who fulfilled many, many ILL requests) and Margaret Vaverek.

I cannot possibly express how much I owe my wife Jennifer and our two boys Caleb and Mason. I could not have finished

the book and survived my crazy life without their strong support and inspiration. Therefore, this book is appropriately dedicated to them. Thanks also to my parents and my brother Matt for their support.

William Ruger  
Texas State University

# Contents

<i>Series Editor's Preface</i>	xi
<i>Author's Preface</i>	xiii
Chapter 1 Intellectual Biography and Historical Context	1
Chapter 2 Economic and Political Thought	69
Chapter 3 Reception and Influence	161
Chapter 4 Contemporary Relevance	186
<i>Bibliography</i>	194
<i>Index</i>	217

## Chapter 1

# Intellectual Biography and Historical Context

On December 10, 1976, Milton Friedman was awarded the Nobel Prize in Economics. For most laureates, this is the crowning achievement of a long, distinguished, but mostly concluded career. Not so for Friedman. After receiving this award, he would live another 30 productive years during which he solidified his reputation as one of America's foremost public intellectuals. Moreover, with what was called his "characteristic gall," Friedman himself downplayed the award, stating at the time that the Nobel was "not the pinnacle of my career." He argued that "the true test of a scholar's work is the judgment that is made not at the time his work is being done but twenty-five or fifty years later" (Friedman and Friedman 1998, 442).

We have now entered that judgment period for the majority of Friedman's work. And given that many of his views on economics and public policy are being debated in the current economic and political climate, the timing of this book could not be better.

The objective of this book is to explain Milton Friedman's vast corpus of work so that the reader can judge for himself what to make of this interesting and controversial thinker. It also describes the personal and historical context of Friedman's thought while also showing how his work was received in his time as well as how it continues to be judged in the present. While economists and economic historians may find the original contributions offered here of interest, this book is intended

for a general, educated audience rather than for specialists alone.

Friedman will never be ranked with the hallowed liberal thinkers of history such as John Locke and Immanuel Kant. However, he was a great economist whose scientific contributions place him on a footing with Irving Fisher, John Maynard Keynes, and Paul Samuelson—men who have vastly enlarged our understanding of the workings of the market. As economist and progressive columnist Paul Krugman argued recently, Friedman “was one of the most important economic thinkers of all time” (Krugman 2007).

Friedman, though, should not be viewed merely as a great economist. He was also a powerful purveyor of free-market and libertarian ideas, a Bastiat for the age of the welfare state, whose applications of both his economic knowledge and his liberal values made him an unrivaled public intellectual.<sup>1</sup> Indeed, Friedman’s influence went well beyond his discipline.

Yet even this description of Friedman as an articulate, influential advocate of a certain vision of the good does not quite adequately capture his role in public life. Friedman was not a Krugman-like character—a powerful economist donning the cap of the partisan, general-purpose critic after earning his scientific bona fides. Instead, as he showed in his work on exchange rates, school choice, conscription, and the negative income tax, Friedman had great acumen in conducting and communicating policy analysis that was intellectually rigorous and rose above both the partisan and received wisdoms of his day. Yet he can be criticized for sometimes providing weakly grounded arguments that dodged or failed to capture the complexities of certain issues or the value trade-offs that bedevil less consistent or less ideological thinkers. Nonetheless, Friedman was certainly a world-historical figure who will be long remembered as both a first class economist and a beacon for individual freedom and free markets in an age with very mixed feelings about both.



Friedman achieved such a level of public stature that most learned people of a certain age have a fairly good picture of him in their heads: a physically diminutive, balding older man sporting large, thick-rimmed glasses and a conservative suit and tie. He seemed to look this way his whole life, though that says more about his longevity in the public eye than reality. Few think of him as the young vibrant man at Rutgers University or in wartime Washington. Indeed, the details of his early life and background are not common knowledge to most people.

## Origins

Friedman was born in Brooklyn, New York, on July 31, 1912. He was the youngest of four children and only son of Jenö Saul Friedman and Sarah Ethel Landau Friedman. His parents were Jewish immigrants from Carpatho-Ruthenia, then in the Kingdom of Hungary within the Austro-Hungarian Empire but today on the western edge of Ukraine.<sup>2</sup>

Unlike John Maynard Keynes or even his contemporary, free-market economist Friedrich Hayek, Friedman came from a very humble background. Narrowly speaking, he grew up poor. In an interview later in his life, Friedman explained that “by today’s standards, my parents in the whole of their life never had an income that came anywhere close to what we now regard as a poverty standard” (Academy of Achievement Interview 1991—hereafter AoA Interview). His father worked in New York City as a “jobber” and died at the early age of 49, while Milton was in high school.<sup>3</sup> His mother, once a seamstress in a “sweatshop,” also had to work; she operated a dry goods store on the first floor of their house in Rahway, New Jersey, where the family had relocated when Friedman was 13 months old.<sup>4</sup> Despite the two incomes, Milton’s parents still argued about money, often getting by through borrowing from relatives and check “kiting” (Friedman and Friedman 1998, 21; AoA Interview 1991). In contrast to many well-known thinkers such as John Stuart Mill,