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and Writings of Milton Friedman
(1912-2006)**

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PERSONAL REFLECTIONS ON THE LIFE AND WRITINGS OF MILTON FRIEDMAN (1912-2006)

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ABSTRACT

Milton Friedman, the Nobel Laureate in economic sciences, died in 2006 at the age of 94. In this paper I discuss Friedman's life and writings. The paper is divided into four sections. Section 1 discusses Friedman's life and the broad sweep of his contributions to economic theory and public policy. Friedman distinguished between his 'scientific work' and his 'writings for the general public' and claimed that economists should judge him by the former, not the latter. In accordance with Friedman's wishes, Section 2 enumerates and evaluates some of his 'scientific' writings. Contrary to his strictures, Section 3 considers Friedman's public policy and 'popular' writings. Some concluding remarks are made in Section 4.

* The author wishes to thank the New Zealand Association of Economists for allowing the republishing of my 3-part obituary on Friedman. The first two parts appeared in *Asymmetric Information* 28 (March, 2007): 5-6 and 29 (July, 2007): 3-4. The third part will appear in *Asymmetric Information* 30 (November, 2007). Corrections and additions to the first two parts have been made here. I wish to thank Professor Gregory Mankiw for his permission to quote from his personal correspondence with Friedman which he placed on his personal web blog. Finally, I also wish to acknowledge the helpful comments of Neil Campbell, Stuart Birks, Alan Duhs and Bruce Littleboy.

This paper addresses the life and writings of Milton Friedman. It is divided into four sections. The first section outlines the main events in Friedman's life and sketches his contributions to economic theory and public policy. Friedman distinguished between his 'scientific work' and his 'writings for the general public.' The second section considers his 'scientific' writings. The third section considers his public policy and 'popular' writings. Some concluding remarks are made in the final section.



This photo of Milton Friedman is used with the permission of Free to Choose Media.

1. BIOGRAPHY

Milton Friedman, the famous American economist, died on 16 November, 2006 at the age of 94. He won the Nobel Prize in economic sciences for his work as an economic theorist, but Friedman was also a columnist, television presenter, author of 'popular' works on public policy, and official and unofficial adviser to governments and (conservative) politicians. Friedman built a reputation for his 'conservative' views of economics and politics. His life can be divided into three periods of roughly equal length: the early years (1912-46); the Chicago years (1946-76); and the San Francisco years (1976-2006). In this section I will discuss Friedman's life in roughly chronological order.

Friedman was born in New York City to Jewish immigrants from the old Austro-Hungarian Empire. His working-class upbringing meant that he had to win scholarships or finance himself through higher education. At Rutgers University he specialized in mathematics. After graduating from Rutgers (in 1932), Friedman went to the University of Chicago as a graduate student. Here he encountered not only intellectual stimulation through the economic theory lectures of Jacob Viner, and others (including Frank Knight), but also Rose Director (a fellow graduate student in economics). Milton and Rose married in 1938 and had two children (Janet¹ born in 1943 and David² born in 1945). Friedman was a short man (5 feet 2 inches tall) and, in all the photographs that I have seen of him in a group, he was the shortest adult except for Rose.

¹ Janet is now known as Janet Martel and practices law in California.

² David became a well-known libertarian economist/lawyer; he currently teaches at Santa Clara University, in California.

In 1933 Friedman was awarded his MA from Chicago and he then continued graduate study at Columbia (in New York). Whereas Chicago was theory-oriented, Columbia had a statistical and empirical orientation. At Columbia he was most impressed with the lectures on statistics of Harold Hotelling. After a year at Columbia, Friedman returned to Chicago as a research assistant. Friedman actually completed coursework requirements (including two foreign languages) for the PhD at both Columbia and Chicago but finishing his dissertation took many years. It was only in 1946 that Friedman received his PhD. In reading the Friedmans' autobiography (Friedman and Friedman 1998), I found almost no discussion of the award of Milton's PhD. Eventually, for 'purely practical reasons,' he chose to have the degree awarded by Columbia in 1946 (Friedman and Friedman 1998, 51). The dissertation requirement was fulfilled by part of Friedman's book (written with Simon Kuznets; published in 1945) called *Income from Independent Professional Practice* (see Friedman and Friedman 1998, 619 n.31).

What transpired during the period 1934 to 1946? This was a period marked by the Great Depression, the Second World War, increasing intervention by government and the rise of Keynesian economics. During these years there was rapid change in Friedman's employment and life before he returned, once again, to Chicago to consolidate his career. In 1935 he moved to Washington to work on the staff of the National Resources Committee in the US federal government. Two years later, Friedman moved to New York to take up a position under Kuznets (another Nobel laureate) at the National Bureau of Economic Research (NBER); his association with the NBER persisted, in one form or other, until 1981. During this period he largely completed his PhD dissertation but disputes on some points delayed its finalization. Next, Friedman returned to a teaching job in academia. At the University of Wisconsin (1940-41) he encountered Anti-Semitism in the tenure process (Modigliani and Samuelson have both stated that Anti-Semitism existed in American universities, see reports of interviews with them in Barnett and Solow 2000, 226-7 and Barnett 2004, 531). After this unhappy experience, Friedman returned to government, working for the US Treasury (1941-43) in the taxation area. During his Treasury period, Friedman adopted Keynesian views; indeed, looking back at one of his documents from the period, Friedman has remarked on 'how thoroughly Keynesian it is' (Friedman and Friedman 1998, 112). His world view developed over time until he adopted libertarianism in the early post-war years. Next, he moved back to Columbia University as the associate director of the statistical research group in the division of war research (1943-5). Finally, Friedman spent a year as an Associate Professor at the University of Minnesota (1945-46). His peripatetic early years may have led to a desire for stability after the end of the war (in 1945 his daughter was an infant and his son was newborn).

Let us now turn to the second phase of Friedman's life. Most of these years were characterized by high economic growth, the Keynesian consensus, and fixed exchange rates but all of these things began to change in the early 1970s. In 1946 Friedman was appointed as a professor of economics at the University of Chicago and it was here that Friedman (along with George Stigler, another Nobel Prize winner) helped to establish what we now call the

‘Chicago School of Economics.’³ He was promoted to full professor in 1948. In 1963 Friedman became the Paul Snowden Russell Distinguished Service Professor of Economics. After 30 years of teaching at Chicago he retired and relocated to California.

Friedman was a controversial figure inside the profession and outside of it. He was reviled as the head of the ‘Chicago School of Economics,’ the High Priest of Monetarism and a reactionary policy advocate. When I first began to study economics at the University of Queensland (in Brisbane, Australia) in 1976, as far as I can recall, all of my lecturers were Keynesians (See Appendix 1). Friedman was seen as the enemy and I shared that view. When I returned to that university in 1982 as a postgraduate student in economics, I was shocked (as were other classmates) when it became clear that the honours/masters macroeconomics classes were being taught by a supporter of rational expectations; the lecturer⁴ was using a manuscript version of Barro’s textbook (Barro 1984).⁵

Despite the opposition he engendered, even before being awarded the Nobel Prize, Friedman received considerable recognition. He was awarded the prestigious John Bates Clark Medal⁶ in 1951. Friedman served as the President of the American Economic Association in 1967. The hostility to him from within the profession meant that, although the Nobel Prize in Economics was inaugurated in 1969, he was overlooked in favour of the following laureates: Frisch and Tinbergen (1969); Samuelson (1970); Kuznets (1971); Hicks and Arrow (1972); Leontief (1973); Myrdal and Hayek (1974); and Kantorovich and Koopmans (1975). Walters has remarked that Friedman’s Nobel award was ‘long overdue’ by 1976 (Walters 1987, 426). Excluding the awards to Samuelson, Hicks, and perhaps Arrow, there is considerable justification for Walters’ view.

Let me now turn to the third and final phase of Friedman’s life. These years saw the rise of the New Right, the winding back of the role of government and the collapse of the Old Keynesian views. Whilst retaining the Chair at Chicago until 1982 (then Emeritus until his death), Friedman transferred his primary allegiance to the Hoover Institution at Stanford University in 1977. The institute was named to honour the US President during the Great Depression who preceded Franklin D. Roosevelt and who became a severe critic of the latter’s ‘New Deal’ because of the scale of interventionism that it entailed. Friedman

³ This school of economic thought has received much critical commentary over the years (Samuels 1976).

⁴ Dr Geoffrey Kingston, is now an Associate Professor of economics at the University of New South Wales in Sydney, Australia.

⁵ This textbook went through five editions between 1984 and 1998. Mankiw (2006a) has recently noted that the book was well reviewed but that most university teachers decided not to select it as a textbook for their own intermediate macroeconomics course; the new classical revolution that Barro sought to promote was not achieved.

⁶ After the Nobel Prize, this is regarded as the second most prestigious prize in economics. It is awarded by the American Economic Association to ‘that American economist under the age of forty who is adjudged to have made a significant contribution to economic thought and knowledge.’

supported the orientation of the institute and served as a Senior Research Fellow there until his death.

In the thirty years after the award of the Nobel Prize, and retirement from regular academic life, Friedman remained active in many areas. He continued to publish in a wide range of places, including books, journals and magazines; indeed, as late as 2005 he was publishing in the *Journal of Economic Perspectives*, an 'A' list journal. Friedman continued pushing his policy agenda. He received many accolades, including the Presidential Medal of Freedom in 1988 (for a list of his honorary degrees, elections to societies, and so on, see Friedman's details provided in Friedman and Friedman 2006).

In Friedman's twilight years, hostility to him moderated. Although some critics persisted in stigmatizing him as an arch reactionary, he came to be regarded as 'mainstream' by many economists.⁷ Some people regarded Friedman with awe for his promotion of views in the early post-war period that were out of step with the time (I will elaborate on this later). My own assessment of him and his contributions to economics has become much more sympathetic over the last 30 years.

Friedman said little about his own religious beliefs. Despite this reticence, a cursory look at his work leads one to infer that he was a secular Jew dedicated to religious freedom. In *Two Lucky People* Friedman describes himself as 'a Jew sympathetic to Israel' (Friedman and Friedman 1998, 460). Contrary to the state socialist tradition in Israel, and the spirit of the *kibbutz* movement, Friedman implies that he supports traditional 'Jewish values: an individual's responsibility before God for his own actions; personal charity; voluntary community; respect for diversity of opinion; [and] an abiding faith in reason' (Friedman and Friedman 1998, 466). When pressed on his views on religion by John Lofton, a conservative Christian political activist, Friedman declared himself to be an agnostic; the belief in god, he hastened to add, is irrelevant to economics (Lofton 2006). On the other hand, 'values' do matter for economics and these tend to be similar across the spectrum of religions; 'values' have a transcultural similarity because they are the product of some (species-wide) 'evolutionary process' (see Lofton 2006). An elaboration on what he meant would have been helpful but even this brief statement provides a major clue to the foundations of Friedman's philosophy.⁸

Friedman is survived by his wife of 68 years, two children, four grandchildren and three great grandchildren. Immediately after his death, rather than sending flowers or gifts, the family requested that contributions in Milton Friedman's honour be made to the Milton and Rose D. Friedman Foundation; the foundation (set up in 1996) is dedicated to promoting school choice (see Friedman and Friedman 2006). Setting up the Friedman Foundation, and requesting that gifts go there, shows the commitment of Milton Friedman and his family to promoting public policy reform and public spiritedness (see his list of Jewish values above). From Friedman's life, I turn to his writing in sections 2 and 3.

⁷ See comments by Bernanke below.

⁸ Hayek also denied any belief in god and relied upon some theory of evolution.

2. 'SCIENTIFIC' CONTRIBUTIONS

In this section I discuss Friedman's 'scientific' contributions. Friedman often distinguished between his 'scientific work' and other work, which included his 'writings for the general public' (Friedman 1995, 87). Friedman claimed that economists should judge him by the former, not the latter. His 'scientific' writings are vast and of high quality.⁹ Thus, Friedman would not have had any problem during his Chicago years in obtaining an 'A' in any research evaluation exercise comparable to the Performance-Based Research Fund in New Zealand. In what follows, I will comment upon a) Friedman's 'scientific' research contributions mentioned by the Nobel committee, b) other 'scientific' research that he completed, and c) his role as a university teacher of 'scientific' economics.

According to the official citation, the Nobel Prize was awarded to Friedman for 'his achievements in the fields of consumption analysis, monetary history and theory, and for his demonstration of the complexity of stabilization policy.' This list gives some insights into the breadth of his 'scientific' work but is silent about the controversies surrounding it.

A Theory of the Consumption Function (1957) is regarded by many as Friedman's best work. It rejected the Keynesian view that consumption is a fixed proportion of *current* income and asserted, in opposition, that it is a function of *expected long-term* income (assets, physical and human, play the decisive role). Friedman's permanent income hypothesis has had a major impact on macroeconomics.

Friedman's work on the other three fields mentioned in the Nobel citation merged together over time and all three (monetary history and theory and macroeconomic stabilization policy) met with great hostility from Keynesians. Friedman dates the start of his 'counterrevolution in monetary theory' to the publication of the *Studies in the Quantity Theory of Money*, which he edited in 1956 (Friedman and Friedman 1998, 228). The most famous piece from the volume was Friedman's own 'The Quantity Theory of Money: A Restatement.'¹⁰ Probably his most famous theoretical proposition from his monetary theory work was that: 'Inflation is always and everywhere a monetary phenomenon' (Friedman 1963).¹¹ *A Monetary History of the United States, 1867-1960* (1963, with Anna Schwartz) was one of Friedman's seminal works in the field of monetary history.¹² A table from this work is even used in a widely used first-year principles textbook to show the fall in the money supply during the 1930-33 banking panics in the USA (Frank and Bernanke 2007, 661). Friedman's assault on Keynesian monetary theory continued throughout the 1960s and 1970s; it eventually led to his attack on Keynesian stabilization policy in his 1967 Presidential Address to the American

⁹ For a good listing of Friedman's writings up to 1977, see Thygesen 1977.

¹⁰ Friedman stressed the 'Chicago' lineage of his version of the quantity theory in the paper. This led to a controversy with Patinkin and Johnson. For a discussion, see Cole (2007, 121-2 n. 11).

¹¹ This statement was repeated frequently by Friedman (Friedman 1992, 193, 262; see also Friedman 1966; Friedman 1974). For a discussion of this proposition, see Grauwe and Polan 2005.

¹² This work also stated the gist of Friedman's famous doctrine about money.

Economic Association (published as Friedman 1968). Here Friedman objected to the Keynesian understanding of the relationship between inflation and unemployment, as depicted in what we now call the ‘Phillips Curve.’ The New Zealand-born Phillips, in his 1958 article, showed a backward-looking empirical relationship between *wages* and unemployment in the United Kingdom (Phillips 1958). When Phillips wrote the article he could never have known that it would be seized upon by two Keynesians, Samuelson and Solow, for other purposes. These two authors modified Phillips’ results into a more general relationship between the *price level* and the rate of unemployment (Samuelson and Solow 1960). They also proposed that macroeconomic policy makers apply the Phillips/Samuelson/Solow model. The Keynesian adaptation of Phillips’ article was rapid and the Samuelson/Solow version of the ‘Phillips Curve’ became widely used by them in the 1960s. The orthodox Keynesian understanding of the Curve was that there was a ‘stable long-run trade-off which offered the authorities a menu of possible inflation-unemployment combinations [in a particular economy] for policy choice’ (Snowdon and Vane 2005, 144). The policy implication of the ‘Phillips Curve’ for Keynesians (but not Phillips himself) was that some *extra* inflation could be traded-off for a *lesser* unemployment rate; the latter, in turn, could be induced, they claimed, by government manipulation of aggregate demand. In 1967, Friedman attacked the Keynesian ‘Phillips Curve’ as a *short-run* relationship based on *given* inflationary expectations. Government attempts at manipulating aggregate demand (and hence the unemployment rate), beyond the short run, were generally doomed to fail once expectations adjusted to the higher price level. These points were developed further by Friedman in his Nobel Lecture (Friedman 1977a). The essence of Friedman’s theoretical critique of a *stable* Phillips Curve relationship is now widely accepted in the economics profession, as is his notion of a ‘natural rate’ of unemployment. No doubt, his success was aided greatly by the emergence of stagflation in the 1970s.

Some of Friedman’s other contributions in the fields mentioned in the Nobel citation should also be noted. In 1975 he published *Milton Friedman’s Monetary Framework*. In 1982, he published (with Anna Schwartz) *Monetary Trends in the United States and the United Kingdom: Their Relation to Income, Prices and Interest Rates. 1867-1975*. In 1991, Friedman published *Monetarist Economics*. One other paper should also be mentioned here: ‘A Theoretical Framework for Monetary Analysis’ (Friedman 1970a).

In addition to the fields mentioned in the Nobel citation, Friedman contributed ‘scientific’ work to other areas, including methodology, statistics, labour economics, international economics, utility and demand theory. I will comment on the first three in this section and the fourth in the next section.

Friedman’s article called ‘The Methodology of Positive Economics’ is the opening and most famous chapter in *Essays in Positive Economics* (1953). Here Friedman set out his methodological views on economic science, including the dividing line between positive and normative economics, and the role of assumptions in economic theories. Friedman neither revised his methodological views nor made any significant comment on his methodological

critics (but see his critique of Myrdal in Friedman 1995, 90-2).¹³ In his own work, Friedman strove to remain bound by his own methodological strictures. While Friedman's methodological views were highly influential, and widely adopted in the economics profession, they met with mixed reviews from methodologists. Popperian methodologists, like Boland, are sympathetic (Boland has written at least five articles on Friedman's methodology: Boland 1979, Boland 1980, Boland 1984, Boland 1987, and Frazer and Boland 1983). Others, such as Caldwell, are critics not only of Friedman's methodological views but of the consistency of his writings with his 'official' methodology (see Caldwell 1980). A special conference was held in 2003 in Rotterdam, the Netherlands, to celebrate the fiftieth anniversary of Friedman's 'Methodology of Positive Economics': what the organizers said was 'the most important piece of methodological writing in twentieth century economics' (see conference announcement on the History of Economics Society List 2007). Friedman himself claimed that this paper and his 1968 paper on 'The Role of Monetary Policy' were his two most influential papers (Snowdon and Vane 2005, 204). Nevertheless, a central claim of Friedman's methodology, that the predictive power of a model is the *only* measure of a theory's worth (and that the reasonableness of the assumptions can be ignored), remains highly contested.

In the field of statistics, Friedman made a number of contributions in the years between completing his MA and his PhD degrees (see Walters 1987, 422-4). He developed a non-parametric test which came to be called the Friedman test. After World War II, Friedman largely discontinued his work as a *pure* statistician and tended thereafter to *apply* statistical techniques as one of the means to complete his research task at hand.

Let us now consider Friedman's contribution to labour economics. In his book on professional income in 1945 (mentioned in section 1), Friedman claimed (with Kuznets) that licensing procedures restricted entry into the American medical profession and that competitive rates of remuneration would be lower than those that then existed. He said that 'a storm of protest' developed 'from accusing the American Medical Association of monopolistic practices that raised the cost and reduced the supply of medical care' (Friedman and Friedman 1998, 74). Even at this early stage of Friedman's career, his views on a competitive labour market were clearly visible. He returned to this issue in *Capitalism and Freedom*, where he made similar criticisms of the medical association.

In addition to Friedman's 'scientific' writings, one assumes that he would also consider it reasonable to be evaluated by his economist peers on the effectiveness of his 'scientific' teaching. A later Nobel Laureate, James Buchanan, has stated that he was a graduate student of Friedman's in 1948 and that Friedman was 'a kind of intellectual guru for many of us' (Abate 2006). As part of the Intellectual Legacies of Modern Economics series published by Edward Elgar, Daniel Hammond edited a two-volume work called *The Legacy of Milton Friedman as a Teacher* (Hammond 1999). These volumes contain personal accounts by four of Friedman's PhD students, and 42 articles and book chapters written by his students (including E.J. Mishan, Phillip Cagan and David Meiselman). The set is over 1,100 pages

¹³ As well as those discussed below, see also Rotwein 1980 and Wible 1982.

long. Although not the chairman of Gary's Becker's PhD committee, Friedman was a very influential member of the committee and thus this set includes contributions from Becker to both parts.¹⁴ Friedman was clearly an influential teacher.

Friedman helped to revive some pre-Keynesian views and to establish an alternative to the mainstream Keynesian view. Despite Friedman's objections, many questions can be asked about his 'revolution.' Were the views of the Monetarist school that he led purely 'scientific'? Were the 'scientific' assaults that Friedman and his colleagues launched against 'Keynesians' free from ideology? Were the policies that they advocated—including monetary policy—'scientific,' or were they, like any public policy, part of the normative realm (in the realm of 'art' rather than 'science')? Can Friedman's 'popular' writings be clearly separated from his 'scientific' writings? Even if they can be separated, why *should* an assessment of Friedman be restricted to the latter (especially if there is merit in Caldwell's claim that Friedman failed to adhere to his own methodological strictures)? We now leave the 'scientific' Promised Land behind. In the next section, I will transgress into the *verboten* land: Friedman's public policy and 'popular' contributions.

3. PUBLIC POLICY AND 'POPULAR' CONTRIBUTIONS

In this section I will deal with a number of Friedman's public policy and 'popular' contributions. Friedman was a libertarian and these views were unfashionable in the period from the Great Depression until the late 1970s (see the 1982 preface to Friedman 1982 and Friedman and Friedman 1998, 362).¹⁵ In his role as a public intellectual, for many years Friedman swam against the tide of popular opinion. He lived long enough, however, to see the tide turn.

Shortly after Friedman's death, on New Zealand National Radio, on 19 November 2006, Dr Alan Bollard, the current Reserve Bank Governor of New Zealand was interviewed about Milton Friedman. He called Friedman one of the 'rock star' economists and, in this context, mentioned names like Adam Smith, J.S. Mill and J. M. Keynes. Despite the anachronistic flavour of Bollard's remarks, and despite the elitist views so antithetical to rock music embraced by some of those mentioned, I assume that Dr Bollard had in mind by the term 'rock star' something like the great economists treated by Heilbroner in *The Worldly Philosophers* (an introductory history of economic thought book). In my view, Friedman was one of the three most *influential* economists in the twentieth century (Keynes and perhaps Hayek surpassed him). Would he have been elevated to the 'rock star' status solely on the basis of his 'scientific' contributions? Perhaps, but it is interesting that Dr Bollard stated that Friedman had two big ideas: money and small government. Much of Friedman's 'popular' writings and policy advice concerned the latter: how to increase the role of markets and reduce the role of government.

¹⁴ Becker won the Nobel Prize in 1992.

¹⁵ One famous example of his libertarianism was his proposal in 1972 to legalize drugs (see Friedman and Friedman 1998, 362). In his policy proposals Friedman sometimes compromised his principles. One example was his education voucher proposal. This left him open to criticism from other true believers, such as Murray Rothbard.

Friedman was active in promoting public policy. Much of this advocacy was conducted in ‘popular’ writings with his wife Rose; in addition, Friedman enthusiastically engaged in public debates and even presented his views on television. In 1962 he wrote a ‘popular’ book called *Capitalism and Freedom*.¹⁶ Here Friedman set out his broad philosophy and some of the policies that followed from it. He wrote triweekly columns on current affairs in *Newsweek* from 1966 to 1984.¹⁷ Friedman’s first television series, *Free to Choose*, was presented on the American PBS network, the BBC, and elsewhere. A ‘popular’ book with the same title resulted (with Rose Friedman, 1980).¹⁸ A little later, in 1984, he wrote (again with Rose Friedman) *Tyranny of the Status Quo*. This book was linked to a television series of the same name broadcast on the PBS network. Here Friedman showed his disappointment with Reagan’s attempts to scale back the role of government.

As I stated last year (Alvey 2006), Friedman often engaged in public battles with Galbraith (his first television series was clearly designed to counter Galbraith’s earlier television series, *The Age of Uncertainty*).¹⁹ The two men must have made quite a sight in campus debates: the 5 foot 2 inch Friedman standing next to the six foot seven inch Galbraith. If Friedman was a ‘rock star,’ this had nothing to do with his physical stature. Galbraith may not have been one of Bollard’s ‘rock stars’ but he was certainly one of the ‘beautiful people,’ the in-crowd in the 1960s; Friedman, however, was reviled by the ‘beautiful people.’

What sorts of policies did Friedman advocate? Some of the policy proposals derived from his ‘scientific’ work. In the domestic economy, Friedman’s monetarism embraced a framework which included ‘goals’ (price stability), ‘targets’ (a fixed rule of money supply growth), ‘instruments’ (government-issued money which was both a reserve requirement of banks and under the government’s control) and ‘policy authorship’ (monetary policy officials directed by the executive in a democratic polity) (Coleman 2007, 4). The view of goals, policy authorship and, to some degree, targets, can be traced back to Friedman’s ‘scientific’ work. As I argued in Section 2 above, Friedman came to reject the Keynesian view that monetary policy should be used to achieve full employment; this led him to conclude that *the*

¹⁶ A conference and a book have been devoted to discussing this work. In 1972 a special conference at the University of Virginia (to celebrate Friedman’s sixtieth birthday) was devoted to the book; a book of papers from the conference was published a little later (Seldon 1975).

¹⁷ *An Economist’s Protest* (Friedman 1972) consists primarily of columns from the first six years of these columns; *There’s No Such Thing as a Free Lunch* (Friedman 1975) was a second collection of these columns.

¹⁸ The Federal Reserve Bank of Dallas also recognized the importance of this book by sponsoring a special conference devoted to it; see the proceedings in Wynne, Rosenblum, and Formaini 2004.

¹⁹ At the end of his life Friedman said that Galbraith was ‘a lifetime friend despite our sharply different political views’ (Friedman and Friedman 1998, 305). Friedman devoted half a monograph for a free-market think tank to attacking Galbraith (Friedman 1977b). The competition between the two reached the level of absurdity at times. Galbraith was interviewed by *Playboy* in 1968. Not to be outdone, Friedman also was interviewed by that magazine in 1973.

goal of monetary policy was price stability. The monetarist view of ‘policy authorship’ stemmed from Friedman’s studies (with Schwartz) of American monetary history, which showed that the Federal Reserve played a destabilizing role in the Great Depression.²⁰ Friedman formed the view that discretion in monetary policy conduct should *not* be given to central bankers. In the absence of discretion, Friedman was drawn to targets based on rules. Having established the outline of his monetary framework, Friedman began to consider money in the open economy context. As a result of his work on monetary theory, he concluded that a target rate of growth of the money supply was not attainable under a fixed exchange rate. Friedman therefore began advocating flexible exchange rates in 1953 (Friedman 1953: 157-203). In the heyday of the Bretton Woods system, once again, Friedman was swimming against the tide.²¹

How does Friedman’s monetary framework look today? First, flexible exchange rates have become mainstream. Second, Friedman’s stress on the goal of price stability came to be widely adopted; indeed, over the long run around the Western world, especially in New Zealand, price stability came to be seen as the primary goal of macroeconomic policy. This priority accorded to price stability was a triumph for Friedman. Third, the rest of the monetarist framework has not survived, partly because money supply targeting proved to be more difficult than Friedman imagined. The target is now the inflation rate, the instrument is now the official cash rate (the interest rate is the price whereas Friedman focussed on the quantity of money) and the policy author is an independent central bank (sometimes, as in New Zealand, authorship is complicated by the fact that the government sets the inflation target) (Coleman 2007, 5). Friedman, however, as late as 2006, restated many of the main elements of the monetary theory and policy framework that he devised decades earlier.²²

Outside of monetary policy, many policies that Friedman advocated seem to arise from his libertarian philosophy, as spelt out in *Capitalism and Freedom*. In an obituary of Friedman, Allan Meltzer refers to twenty-five policy proposals in *Capitalism and Freedom* (Meltzer 2006). Meltzer goes on to mention Friedman’s four major successes: ‘ending the military draft, floating the dollar and other currencies, removing interest rate ceilings on bank deposits, and auctioning government debt.’ I have mentioned the second point above. Let me now elaborate on the first point.

Friedman played a leading role in the President’s Commission on an All-Volunteer Armed Force (the Gates Commission, 1969-70), arguing against the military generals that conscription was a tax on the military recruits that needed to be removed (Rostker 2006). Galbraith, who appeared before the commission, agreed with Friedman on this occasion. The Commission’s recommendation for an all-volunteer army was implemented soon after the

²⁰ See comments by Bernanke below.

²¹ In the early post-war years, the Bretton Woods system relied upon ‘pegged but adjustable rates’ (Appleyard, Field and Cobb 2006, 720); exchange rates which were by and large fixed prevailed until the early 1970s. In the years that followed Friedman’s policy proposal, market-determined exchange rates gradually gained support until the whole Bretton Woods system began crumbling in the early 1970s.

²² See Appendix 2 below.

final report was presented. Friedman has stated that his work on this commission gave him the most satisfaction of any public policy activity in which he had engaged (Friedman and Friedman 1998, 381).

While Friedman may have won some support from the left for his opposition to conscription, this was an exception. In a notorious article, Friedman addressed the issue of whether business should show ‘social responsibility,’ by acting so as to ‘restrain inflation, improve the environment, fight poverty,’ and generally contribute to achieving social objectives (Friedman 1970).²³ According to Friedman, if these social goals were to be pursued, they ought to be handled by the government or by individuals through private charity. Friedman emphatically declared that it was the responsibility of business to make profits and nothing else. The doctrine of ‘corporate responsibility’ was, according to him, ‘socialist.’ Naturally, such views provoked howls of protest against Friedman.

Dearest to Friedman’s heart in his final decades was school choice (see Section 1 above). Friedman began to advocate education vouchers in 1955 and kept promoting this policy for the next fifty years. The movement that he inspired has achieved limited success in the US. On the other hand, the school choice movement had a major impact in New Zealand: the ‘Tomorrow’s Schools’ programme (see Fiske and Ladd 2000). Indeed, the New Zealand Association of Economists was involved in the publication of Caroline Hoxby’s *School Choice* (Hoxby, 2006; Education Forum 2006).

Friedman’s role as an economic adviser led to considerable abuse. He served as an informal economic adviser to several Republican candidates in their Presidential campaigns: Goldwater (1964), Nixon (1968), and Reagan (1980). He was a member of President Reagan’s Economic Policy Advisory Board. Perhaps his most controversial role was as an unofficial adviser to General Augusto Pinochet Duarte, the former Chilean dictator.

Friedman also joined the libertarian Mont Pelerin Society founded by Hayek in 1947; he later served as its President (1970-2). The Society was accused by its critics of being a secret cabal plotting against social democracy. It is interesting to note that, other than Friedman, seven Society members have won the Nobel Prize in Economics (Hayek, Stigler, Buchanan, Becker, Coase, Allais, and Smith) and, of these eight, five have served as the President of the Society (Friedman, Hayek, Stigler, Buchanan, and Becker).

Friedman came to be seen as a sort of hero for the political and economic right. In May 2002, President George W. Bush, at a celebration of Friedman’s ninetieth birthday, called him a ‘hero of freedom’ (see Cato Institute 2002). Other conservatives and libertarians (such as William F. Buckley and Alexander Tabarrok) have also called him a hero.

²³ This doctrine about the social responsibility of business was first enunciated by Friedman in *Capitalism and Freedom*.

What many of Friedman's right-leaning admirers do not mention, or are ignorant of, however, is that he endorsed a negative income tax.²⁴ This 'tax' meant that those on low earned incomes (after tax) would receive government transfer payments to take their total income up to a certain level. The tax was designed to replace the multiplicity of welfare programmes which then existed. The left-leaning economist Robert Frank used the occasion of Friedman's death to sing the praises of this aspect of Friedman's work. Friedman was 'the architect of the most successful welfare programme of all time' (Frank 2006). I do not believe, however, that Friedman spent much effort promoting this programme.

Unlike Galbraith, Friedman was not a literary stylist. He was, nonetheless, a relentless, effective and persuasive communicator (see Cole 2007, 123-5). It was due to this, and his practical orientation, that Friedman was highly influential inside and outside of the economics profession. Some of the time Friedman was engaged in rational debate as a public intellectual, but in my view at least some of the time he acted as an ideologist.²⁵

4. CONCLUSION

In the first section I discussed Friedman's life and the broad sweep of his contributions to economic theory and public policy. The title chosen by the Friedmans for their joint autobiography, *Two Lucky People*, captures *part* of the truth of Milton Friedman's life.

He was lucky to have lived a long life and to have remained intellectually active until his death. Friedman was lucky in other respects as well: his intellect, his birth into the success-oriented Jewish culture and his choice of marriage partner. Others may have squandered these advantages. We must also consider, however, the disadvantages that he confronted. He was born into a family of new immigrants who had little money and his Jewish ancestry sometimes counted against him.

In the second section I discussed Friedman's contributions to producing the 'milk and honey' of the Promised Land, namely 'scientific' economics. He contributed to many sub-disciplines in economics, as well as the discipline of statistics. Friedman's views on many matters have become mainstream. First, his view of the importance of price stability now reigns supreme. Second, his views on the natural rate of unemployment, the Phillips Curve, and the factors underlying consumption are now widely accepted. Third, his view that the Federal Reserve played a destabilizing role in the Great Depression has now become widely accepted, even by leaders of the Federal Reserve. In 2002 Ben Bernanke, now the Chairman of the US Federal Reserve, endorsed Friedman's view of the destabilizing role of the Federal Reserve in the Great Depression:

Let me end my talk by abusing slightly my status as an official representative of the Federal Reserve. I would like to say to Milton and Anna: Regarding the Depression.

²⁴ This proposal was first made by Friedman in *Capitalism and Freedom*. Others had mentioned similar ideas before Friedman, however.

²⁵ Samuelson was also left-leaning but Friedman did not attack him as openly and frequently as he did Galbraith. This may have been because he saw Galbraith as an ideologist of the left.

You're right, we did it. We're very sorry. But thanks to you, we won't do it again.
(Bernanke 2002)

Despite these successes and the demise of Old Keynesianism in the late 1970s, the 'scientific' community has not entirely endorsed Friedman's theoretical views. While his view about the relationship between money and the price level in the long run is now widely accepted by economists the same cannot be said about the short run relationship. Also, the rise of the New Keynesians must have been somewhat troubling to Friedman in his final years.

In terms of 'scientific' innovation, once again, there is some foundation for the view that Friedman was lucky. His famous paper on stabilization policy appeared virtually simultaneously with work by Phelps which made a similar argument (Phelps 1967, and Phelps 1968). Both introduced adaptive expectations to the Phillip Curve and made the case for a natural rate of unemployment. Yet it was Friedman who has received most of the publicity for these innovations.²⁶

Despite Friedman's claims that his 'scientific' work is separate from his role as public policy activist, they are mutually dependent. As I stated in the second section, his methodology is debatable.

In the third section I discussed Friedman's public policy and 'popular' works. Several of his proposals have become mainstream. For example, his views that exchange rates should be flexible and that the goal of monetary policy should be price stability are currently widely accepted.

Much of Friedman's 'popular' work was done in collaboration with his wife. Nevertheless, it is hard to see any difference in the content of work written by him alone and those that he co-authored with Rose. It would seem that either their views were remarkably similar or that his views ultimately prevailed.²⁷ As a consequence, I can conveniently refer to this body of work as also his.

Recall that Friedman did not wish to be judged by economists on his 'popular' writings but only on his 'scientific' work. Friedman may honestly have believed that at the university/institute 'office' he did serious 'scientific' work but when he came home he did the 'popular' writing with Rose. Two questions arise about Friedman's 'popular' writings. First, is there a consistency between his 'scientific' works and his 'popular' works? Yes. Both show not only his opposition to Keynesian views but also betray his libertarian leanings. Second, is the flow of ideas from the 'scientific' to the 'popular' work, or the other way around? To even ask the question is to breach Friedman's strictures about the separation of

²⁶ In 2006, Phelps duly won the Nobel Prize himself.

²⁷ Another alternative, given our contemporary predispositions, is to suggest that it was Rose who secretly converted Milton to her view. Even though the third interpretation is a possibility, I will provisionally rule it out. Rose Friedman wrote a series of articles on her husband for the *Oriental Economist* in 1976 and 1977. These may shed some light on this matter.

the ‘scientific’ from the ‘popular.’ Yet could he really split his mind into two? It seems to me to be preposterous to claim that he divided himself in some such manner. If pressed, Friedman may have said that there was a flow of ideas from the ‘scientific’ to the ‘popular’ but that the latter stated rather loosely the conclusions of the former. I concede that the former may be a sound representation of more than half of his *oeuvre*. On the other hand, for three reasons, it seems to me to be impossible for there to have been no flow/feedback from the ‘popular’ writings to the ‘scientific.’ First, in the process of writing about a ‘scientific’ topic for a general audience, the task of simplifying and clarifying often entails oversimplification and obfuscation but equally it can suggest questions which are addressed in later (serious) study which can yield new ‘scientific’ insights. It may have helped to keep Friedman’s feet on the ground when others were tending to drift into purely speculative mathematical models which are often entirely detached from reality. Second, being required to write on an unfamiliar topic may initiate ‘scientific’ investigations into that area. Third, and most controversially, in the ‘popular’ writings Friedman often lays out his ideological foundations which remain in his ‘scientific’ writings but hidden from view (recall what Bollard called the second of Friedman’s big ideas).²⁸ In short, I believe that Friedman’s attempt to hermetically seal his ‘scientific’ writings failed.

Next, let me turn to whether Friedman was lucky as a public intellectual/ideologist. Was he lucky to be on the right side of history? For most of his life Friedman’s views were disparaged or marginalised. Indeed, Hayek, who was also regarded with contempt by many and deliberately ignored, abandoned economics for many years because he felt that he could not make any headway against the Keynesian mainstream. Hayek only returned to economics once the tide of opinion had turned.²⁹ By contrast, Friedman remained in economics and persisted in his campaign against Keynesians.

During the late 1960s and early 1970s the tide of economic thought turned against Keynesianism. Because Friedman lived so long, he was able to see it turn. Had he died in the 1960s, Friedman may have received muted posthumous applause in the 1990s but he would have died dishonoured. By living into the twenty-first century, Friedman was able to experience the rapturous adoration of those seeking ‘heroes of freedom’: those who had fought the earlier ideological war against the Keynesian ‘infidels.’ So, again, it seems that Friedman was lucky but consider the situation more closely. It was hard work, and constant publication of his criticisms of Keynesianism, which elevated Friedman to the position of High Priest of Monetarism. Once anointed into this position, he remained active and Friedman (along with others) undertook what some would consider to be the Herculean task of slaying the Keynesian beast. He made the most of his fortunate opportunities and, when circumstances were not propitious, Friedman turned adversity into his friend (as Nietzsche had advised).

²⁸ Myrdal wrote very effectively on this matter.

²⁹ Perhaps Hayek was more Machiavellian than Friedman. While some fall victim to the wheel of Fortune, Hayek was able to jump from wheel to wheel as Fortune changed (see Patapan 2006, 55-8).

Friedman's achievements were considerable but not without blemish. These days few central bankers target money supply (as Friedman's strictures required). A number of his proposals have failed to attract much political support. The negative income tax and education vouchers are two examples.

Friedman's unfashionable views, his looks (including his height and baldness), and his pedestrian writing style, ensured that (unlike Galbraith) he was never one of the 'beautiful people' of the 1960s. Nevertheless, by the end of his life Friedman had been elevated to the status of 'rock star' and 'hero.' For a boy from a poor, immigrant household, who chose to study a dismal science, these were considerable achievements.

APPENDIX 1 (with the assistance of Bruce Littleboy)

Keynesian and Heterodox Economists at the University of Queensland (1976-82)

The first-year macroeconomics economics course (taught by Geoff Price) used the Australian edition of Samuelson's textbook (Samuelson, Hancock and Wallace 1975). (Lapse's book was a permissible alternative at some stage in the 1970s.) The course emphasized national accounting, Samuelson's 45-degree diagram, and the accelerator-multiplier interaction; 'the microeconomic foundations of macroeconomics' and open economy issues (except as they related to national accounting and the position of the aggregate expenditure line) were never mentioned. Also the competitive small open economy was not introduced (perhaps because Australia was then a relatively high-tariff virtually closed economy with a few exports in which it rather dominated international supply). I cannot remember any mention of long-term growth in the course. (Bruce Littleboy suggested to me that it was always the last topic to be discussed, time permitting; seldom, if ever, did time permit! I was not sure, however, if the optional topic was the open economy rather than long economic growth.) Dr Tony Little, a British-born and educated economic historian, taught a very conventional Keynesian intermediate economic theory course (in semester 1). This course focussed on the IS-LM framework.³⁰ I recall that Little always asked one final examination question which required students to give the Keynesian explanation for the paradox of thrift. Athol Fitzgibbons taught the second semester unit of intermediate macroeconomics called Macroeconomic Policy. This idiosyncratic course included discussion of various economic policy debates in Australia; it also included study of Marx's *Capital* and *Grundrisse*. Fitzgibbons was a Post Keynesian; he published a book on Keynes and a book on macroeconomics from a Post Keynesian perspective (Fitzgibbons 1988 and Fitzgibbons 2000). For a period leading up to the publication of his book on Keynes he was influenced by Dr R. W. Staveley (see below). Dr Ghanshyam Mehta was a sort of Keynesian who taught a third-year Advanced Macroeconomics course based on the differing interpretations of Keynes's *General Theory* (including those of Hicks, Shackle, Clower, and Leijonhufvud). For several years, he also taught the fourth-year macroeconomics course. Mehta also published a book on Keynes (Mehta 1977) and co-wrote articles on Keynes and Keynesian economics with Bruce Littleboy (now a Senior Lecturer at the University of Queensland), who was a couple of years senior to me.

Dr R.W. Staveley taught various history of economic thought courses. He adopted a sort of Post Keynesian economics with a blend of Straussian political philosophy (see Staveley 1972

³⁰ Bruce Littleboy informs me that there were two textbooks for the course, one by Wonnacott *Macroeconomics* and the other by Shapiro *Macroeconomic Analysis* (both were 'steady, standard and Keynesian') (Littleboy 2007a). I seem to recall that that there were two economics textbooks: the second was Shapiro but that the first had two authors (perhaps Wonnacott and Wonnacott). Littleboy adds: 'The choice of textbooks was in opposition to (rather than in mere ignorance of) the surge of monetarism. While this obstinate Keynesianism may have contributed to UQ being regarded as part of the "deep North," of course it turned out that we were right to maintain a Keynesian orientation. And it was only when Geoff Kingston arrived that new classicism was first taken seriously as cutting-edge science—and indeed as best science' (Littleboy 2007b).

and Staveley 1996).³¹ Hal Richards in the first-year political economy course taught a type of soft Marxism. Alan Duhs in the same course promoted an eclectic mix of heterodox views (including those of Galbraith, Myrdal, Sen and Strauss). I remember that the IS-LM-BP model was taught somewhere but that may have been in one of the two international economics courses.

In a later generation, other heterodox types joined the staff at the University of Queensland. Economists such as John Foster, Peter Earl and Jason Potts adopted a type of behavioural/evolutionary economics. Others who adopt heterodox views include Clem Tisdell and John Quiggan.

³¹ Some insights into the Straussian view of economics can be found in the two papers by Staveley. See also Cropsey 1955; Cropsey 1957; Minowitz 1993; and Alvey 1989.

APPENDIX 2

Friedman's Views on Monetary Theory and Policy in 2006

Friedman wrote to New Keynesian Gregory Mankiw on 14 August, 2006. He stated that his own aphorism about money had been 'converted from an object of derision to a near truism' (Mankiw 2006b). Friedman added approving comments about Alan Greenspan (the former Chairman of the Federal Reserve) and Donald Brash (former Governor of the Reserve Bank of New Zealand). Then he added the following:

I have come to the conclusion that the central bankers did a marvellous job in pulling the wool over the eyes of economists. They led us all to believe that maintaining a relatively stable price level is a very difficult problem that requires the judgment of the wisest of experienced bankers and business people....[But the evidence] suggests that maybe it isn't such a hard job at all.... Nothing that I have observed in recent decades has led me to change my mind about the *desirability of a monetary rule* which simply increased the quantity of money at a fixed rate month after month, year after year *Even better would be to abolish the Fed* [the US Federal Reserve] and mandate the Treasury to keep high-powered money at a constant numerical level. (Mankiw 2006b emphasis added)

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