Journal of Libertarian Studies
Volume 16, no. 4 (Fall 2002), pp. 37–54

www.mises.org

MILTON FRIEDMAN UNRAVELED

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Mention "free-market economics" to a member of the lay public and chances are that if he has heard the term at all, he identifies it completely with the name Milton Friedman. For several years, Professor Friedman has won continuing honors from the press and the profession alike, and a school of Friedmanites and "monetarists" has arisen in seeming challenge to the Keynesian orthodoxy.

However, instead of the common response of reverence and awe for "one of our own who has made it," libertarians should greet the whole affair with deep suspicion: "If he's so devoted a libertarian, how come he's a favorite of the Establishment?" An advisor of Richard Nixon and a friend and associate of most Administration economists, Friedman has, in fact, made his mark in current policy, and indeed reciprocates as a sort of leading unofficial apologist for Nixonite policy.

In fact, in this as in other such cases, suspicion is precisely the right response for the libertarian, for Professor Friedman's particular brand of "free-market economics" is hardly calculated to ruffle the feathers of the powers-that-be. Milton Friedman is the Establishment's Court Libertarian, and it is high time that libertarians awaken to this fact of life.

THE CHICAGO SCHOOL

Friedmanism can be fully understood only in the context of its historical roots, and these roots are the so-called "Chicago School" of

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economics of the 1920s and 1930s. Friedman, a professor at the University of Chicago, is now the undisputed head of the modern, or second-generation, Chicago School, which has adherents throughout the profession, with major centers at Chicago, UCLA, and the University of Virginia.

The members of the original, or first-generation, Chicago School were considered "leftish" in their day, as indeed they were by any sort of genuine free-market criterion. And while Friedman has modified some of their approaches, he remains a Chicago man of the thirties.

The political program of the original Chicagoans is best revealed in the egregious work of a founder and major political mentor: Henry C. Simons's *A Positive Program for Laissez Faire*.[1] Simons's political program was *laissez faire*ist only in an unconsciously satiric sense. It consisted of three key ideas:

(1) a drastic policy of trust-busting of all business firms and unions down to small blacksmith-shop size, in order to arrive at "perfect" competition and what Simons conceived to be the "free market";

(2) a vast scheme of compulsory egalitarianism, equalizing incomes through the income-tax structure; and

(3) a proto-Keynesian policy of stabilizing the price-level through expansionary fiscal and monetary programs during a recession.

Extreme trust-busting, egalitarianism, and Keynesianism: the Chicago School contained within itself much of the New Deal program, and, hence, its status within the economics profession of the early 1930s as a leftish fringe. And while Friedman has modified and softened Simons's hard-nosed stance, he is still, in essence, Simons *redivivus*; he only *appears* to be a free-marketeer because the remainder of the profession has shifted radically leftward and stateward in the meanwhile. And, in some ways, Friedman has added unfortunate statists elements that were not even present in the older Chicago School.[2]

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[1]Henry C. Simons, *A Positive Program for Laissez Faire: Some Proposals for a Liberal Economic Policy* (Chicago: University of Chicago Press, 1934).

[2]In this article, I am confining discussion to the politico-economic, and omitting the technical problems of economic theory and methodology. It is in the latter where Friedman has been at his worst, for Friedman has managed to change the older Chicagoan methodology, in its essence Aristotelian and rationalist, to an egregious and extreme variant of positivism.

The Chicago School on Monopoly and Competition

Let us take the leading elements of Simonsian collectivist *laissez faire* in their turn. On monopoly and competition, Friedman and his colleagues have happily come a long way toward rationality from the old ultra-trust-busting of Simons. Friedman now concedes that the *major* source of monopoly in the economy is the activity of government, and focuses on repeal of these monopolizing measures.

The Chicagoans have gotten progressively more friendly to large business operating on the free market, and such Friedmanites as Lester Telser have even emerged with excellent arguments on behalf of advertising, previously anathema to all "perfect competitionists." But while in practice Friedman has become more libertarian on the monopoly question, he still retains the old Chicagoite theory: that in some way, the absurd, unreal, and unfortunate world of "perfect competition" (a world in which every firm is so minute that nothing it does can affect its demand and the price of its products) is *better* than the real, existing world of competition, which is dubbed "imperfect."

An infinitely superior view of competition is found in the totally neglected school of "Austrian economics" which scorns the "perfect competition" model and prefers the real world of free-market competition.[3] So while Friedman's practical view of competition and monopoly is not too bad, the weakness of his underlying theory could permit at any time a return to the frenetic trust-busting of the Chicagoans of the 1930s. It was not very long ago, for example, that Friedman's most distinguished associate, Professor George J. Stigler, advocated before Congress the trust-busting break-up of U.S. Steel into many constituent parts.

Friedman's Chicagoite Egalitarianism

While Friedman has abandoned Simons's call for extreme egalitarianism through the income tax structure, the basic lineaments of statist egalitarianism still remain. It remains in the Chicagoite desire to lay the tax structure's greatest stress on the income tax, undoubtedly the most totalitarian of all taxes. Chicagoites prefer the income tax because, in their economic theory, they follow the disastrous tradition of orthodox Anglo-American economics in sharply separating the "microeconomic" from the "macroeconomic" spheres.

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[3]For an excellent introduction to the Austrian view, see of F.A. Hayek, *Individualism and the Economic Order* (Chicago: University of Chicago Press, 1948), chap. 5.

The idea is that there are two sharply separated and independent worlds of economics. On the one hand, there is the "micro" sphere, the world of individual prices determined by the forces of supply and demand. Here, the Chicagoans concede, the economy is best left to the unhampered play of the free market. But, they assert, there is also a separate and distinct sphere of "macro" economics, of economic aggregates of government budget and monetary policy, where there is no possibility or even desirability of a free market.

In common with their Keynesian colleagues, the Friedmanites wish to give to the central government absolute control over these macro areas, in order to manipulate the economy for social ends, while maintaining that the micro world can still remain free. In short, Friedmanites as well as Keynesians concede the vital macro sphere to statism as the supposedly necessary framework for the micro-freedom of the free market.

In reality, the macro and micro spheres are integrated and intertwined, as the Austrians have shown. It is impossible to concede the macro sphere to the State while attempting to retain freedom on the micro level. Any sort of tax, and the income tax not least of all, injects systematic robbery and confiscation into the micro sphere of the individual, and has unfortunate and distortive effects on the entire economic system. It is deplorable that the Friedmanites, along with the rest of Anglo-American economics, have never paid attention to the achievement of Ludwig von Mises, founder of the modern Austrian School, in integrating the micro and macro spheres in economic theory as far back as 1912 in his classic *The Theory of Money and Credit*.[4]

Milton Friedman has revealed his quintessential pro-income tax and egalitarian position in numerous ways. As in many other spheres, he has functioned *not* as an opponent of statism and advocate of the free market, but as a technician advising the State on how to be more efficient in going about its evil work. (From the viewpoint of a genuine libertarian, the more inefficient the State's operations, the better![5]) He has opposed tax exemptions and "loopholes" and worked to make the income tax more uniform.

[4]Ludwig von Mises, *The Theory of Money and Credit*, trans. H.E Batson (Indianapolis, Ind.: Liberty Classics, 1980).

[5]There is a charming anecdote about the distinguished industrialist Charles F. Kettering. Visiting the hospital bed of a friend who was complaining about the growth of government, Kettering told him "Cheer up Jim. Thank God we don't get as much government as we pay for!"

One of Friedman's most disastrous deeds was the important role he proudly played, during World War II in the Treasury Department, in foisting upon the suffering American public the system of the *withholding* tax. Before World War II, when income tax rates were far lower than now, there was no withholding system; everyone paid his annual bill in one lump sum, on March 15. It is obvious that under this system, the Internal Revenue Service could never hope to extract the entire annual sum, at current confiscatory rates, from the mass of the working population. The whole ghastly system would have happily broken down long before this. Only the Friedmanite withholding tax has permitted the government to use every employer as an unpaid tax collector, extracting the tax quietly and silently from each paycheck. In many ways, we have Milton Friedman to thank for the present monster Leviathan State in America.

In addition to the income tax itself, Friedman's egalitarianism is revealed in the Friedman-Stigler pamphlet attacking rent controls. "For those, like us, who would like even more equality than there is at present . . . it is surely better to attack directly the existing inequalities in income and wealth at their source" than to restrict the purchases of particular commodities, like housing.[6]

The single most disastrous influence of Milton Friedman has been a legacy from his old Chicagoite egalitarianism: the proposal for a guaranteed annual income to everyone through the income tax system—an idea picked up and intensified by such leftists as Robert Theobald, and one which President Nixon will undoubtedly be able to ram through the new Congress.[7*]

In this catastrophic scheme, Milton Friedman has once again been guided by his overwhelming desire *not* to *remove* the State from our

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[6]Milton Friedman and George J. Stigler, *Roofs or Ceilings?* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1946), p. 10.

[7]For a further critique of the Friedman-Nixon guaranteed income doctrine, see Murray N. Rothbard, "The Guaranteed Annual Income," *The Rational Individualist* (September 1969); and Henry Hazlitt, *Man vs. The Welfare State* (New Rochelle, N.Y.: Arlington House, 1969), pp. 62–100.

[*]Rothbard correctly predicted that this Friedman proposal would be part of the 1972 presidential campaign. Interestingly, and tellingly, it was proposed by Nixon's Democrat opponent, Senator George McGovern. Voters considered it to be extremely radical, and McGovern was overwhelmingly defeated.—Ed.

lives, but to make the State more efficient. He looks around at the patchwork mess of local and state welfare systems, and concludes that all would be more efficient if the whole plan were placed under the federal income tax rubric and everyone were guaranteed a certain income floor. More efficient, perhaps, but also far more disastrous, for the only thing that makes our present welfare system even tolerable is precisely its *in*efficiency, precisely the fact that in order to get on the dole one has to push one's way through an unpleasant and chaotic tangle of welfare bureaucracy. The Friedman scheme would make the dole *automatic*, and thereby give everyone an automatic claim upon production.

Welfare's "Supply Function"

We have to realize that being on welfare is *not*, as most people believe, a simple and absolute act of God or nature, a stark *given* like a volcanic eruption. Being-on-welfare, like all other human economic acts, has a "supply function": in other words, if you make welfare pay enough, you can produce as many welfare clients as you wish to have. Pay them little enough and you can reduce the number of clients at will. In short, if the government should announce that anyone who signs up at a "welfare" desk gets an automatic annual check of $40,000 for as long as he wishes, we will find soon enough that almost everyone has become a welfare recipient—and what is more, will join a "welfare rights" organization to lobby for $60,000 to offset the rise in the cost of living.

More specifically, the supply function of welfare clients is inversely proportion to the difference between the *prevailing wage rate* in the area and the *level of welfare payments*. This difference is the "opportunity cost" of going on welfare—the amount that one loses by loafing instead of working. If, for example, the prevailing wage rises in an area and the welfare payments remain the same, the differential and the "opportunity cost" of loafing rise, and people tend to leave the welfare dole and go to work. If the opposite happens, more people will go on the dole. If being on welfare were an absolute fact of nature, then there would be no relation between this differential and the number on welfare.[8]

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[8]For an empirical demonstration of this relationship, see C.T. Brehm and T.R. Saving, "The Demand for General Assistance Payments," *American Economic Review* 54, no. 6 (December 1964), pp. 1002–18.

Secondly, the supply of welfare clients is inversely proportion to another vitally important factor: the cultural or value disincentive of going on welfare. If this disincentive is strong, if, for example, an individual or group strongly believes that it is *evil* to go on welfare, they will not do it, period. If, on the other hand, they do not care about the stigma of welfare, or, worse yet, they regard welfare payments as their *right*—a right to exert a compulsory, looting claim upon production—then the number of people on welfare will increase astronomically, as has happened in recent years.

There are several recent examples of the "stigma effect." It has been shown that, given the same level of income, more people tend to go on welfare in urban than in rural areas, presumably as a function of the greater *visibility* of welfare clients and hence the greater stigma in the more sparsely populated region. More important, there is the glowing fact that certain religious groups, even when significantly poorer than the rest of the population, simply do *not* go on welfare because of their deeply held ethical beliefs. Thus, the Chinese-Americans, while largely poor, are almost never to be found on welfare. A recent article on Albanian-Americans in New York City highlights that same point. These Albanians are invariable poor slum dwellers, and yet there is no Albanian-American on welfare. Why? Because, said one of their leaders, "Albanians do not beg, and to Albanians, taking welfare is like begging in the street."[9]

Another example is the Mormon Church, very few of whose members are on public welfare. For the Mormons not only inculcate in their members the virtues of thrift, self-help, and independence, they also take care of their own needy through church charity programs which are grounded on the principle of *helping people to help themselves*, and thereby getting them off charity as quickly as possible.[10] Thus, the Mormon Church counsels its members that "to seek and accept direct public relief all too often invites the curse of idleness

[9]*New York Times* (April 13, 1970).

[10]This was the same principle as the one guiding the Charity Organization Society in nineteenth-century England. That classical-liberal organization "believed that the most serious aspect of poverty was the degradation of the character of the poor man or woman. Indiscriminate charity only made things worse; it demoralized. True charity demanded friendship, thought, the sort of help that would restore a man's self-respect and his ability to support himself and his family." Charles Loch Mowat, *The Charity Organization Society* (London: Methuen, 1961), p. 2.

and fosters the other evils of dole. It destroys one's independence, industry, thrift, and self-respect."[11] Hence, the Church's highly successful private welfare program is based on the principles that

> the Church has encouraged its members to establish and maintain their economic independence: it has encouraged thrift and foster the establishment of employment-creating industries; it has stood ready at all times to help needy faithful members.

And:

> Our primary purpose was to set up, in so far as it might be possible, a system under which the curse of idleness would be done away with, the evils of a dole abolished, and independence, industry, thrift, and self-respect be once more established among our people. The aim of the Church is to help the people help themselves. Work is to be re-enthroned as the ruling principles of the lives of our Church membership. . . . Faithful to this principle, welfare workers will earnestly teach and urge Church members to be self-sustaining to the full extent of their powers. No true latter-day Saint will, while physically able, voluntarily shift from himself the burden of his own support.[12]

The Libertarian approach to the welfare problem, then, is to abolish all coercive, public welfare, and to substitute for it private charity based on the principle of encouraging self-help, bolstered also by inculcating the virtues of self-reliance and independence throughout society.

Incentives under the Friedman Plan

But the Friedman plan, on the contrary, moves in precisely the *opposite* direction, for it establishes welfare payments as an automatic *right*, an automatic, coercive claim upon the producers. It thereby removes the stigma effect altogether, disastrously discourages productive work by steep taxation, and by establishing a guaranteed income for not working, which encourages loafing. In addition, by establishing an income floor as a coercive "right," it encourages welfare clients to lobby for ever-higher floors, thus continually aggravating the entire problem. But Friedman, caught in the Anglo-American separation of "micro"

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[11] *Welfare Plan of the Church of Jesus Christ of Latter-Day Saints* (The General Church Welfare Committee, 1960), p. 48.

[12] *Welfare Plan*, pp. 1–2.

and "macro," gives very little attention to these cataclysmic effects on incentives.

Even the handicapped are hampered by the Friedmanite plan, for an automatic dole removes the marginal incentive for the handicapped worker to invest in his own vocational rehabilitation, since the net monetary return from such investment is now greatly lowered. Hence, the guaranteed income tends to *perpetuate* these handicaps. Finally, the Friedmanite dole would pay a higher income *per person* to welfare families, thereby subsidizing a continuing increase in the child population among the poor—precisely those who can least afford such a population growth. Without joining in the current hysteria about the "population explosion," it is certainly absurd to deliberately subsidize the breeding of more pauper-children, which is what the Friedman plan would do as an *automatic right*.

MONEY AND THE BUSINESS CYCLE

The third major feature of the New Deal program was proto-Keynesian: the planning of the "macro" sphere by the government in order to iron out the business cycle. In his approach to the entire area of money and the business cycle—an area on which unfortunately Friedman has concentrated most of his efforts—Friedman harks back not only to the Chicagoans, but, like them, to Yale economist Irving Fisher, who was *the* Establishment economist from the 1900s through the 1920s. Friedman, indeed, has openly hailed Fisher as the "greatest economist of the twentieth century," and when one reads Friedman's writings, one often gets the impression of reading Fisher all over again, dressed up, of course, in a good deal more mathematical and statistical mumbo-jumbo. Economists and the press, for example, have been hailing Friedman's recent "discovery" that interest rates tend to rise as prices rise, adding an inflation premium to keep the "real" rate of interest the same; this ignores the fact that Fisher had pointed this out at the turn of the twentieth century.

But the key problem with Friedman's Fisherine approach is the same orthodox separation of the micro and macro spheres that played havoc with his views on taxation. For Fisher believed, again, that on the one hand there is a world of individual prices determined by supply and demand, but on the other hand there is an aggregate "price level" determined by the supply of money and its velocity of turnover, and never the twain do meet. The aggregate, macro, sphere is supposed to be the fit subject of government planning and manipulation, again supposedly without affecting or interfering with the micro area of individual prices.

Fisher on Money

In keeping with this outlook, Irving Fisher wrote a famous article in 1923, "The Business Cycle Largely a 'Dance of the Dollar'"—recently cited favorably by Friedman—which set the model for the Chicagoite "purely monetary" theory of the business cycle. In this simplistic view, the business cycle is supposed to be merely a "dance," in other words, an essentially random and causally unconnected series of ups and downs in the "price level." The business cycle, in short, *is* random and needless variations in the aggregate level of prices. Therefore, since the free market gives rise to this random "dance," the cure for the business cycle is for the government to take measures to *stabilize* the price level, to keep that level constant. This became the aim of the Chicago School of the 1930s, and remains Milton Friedman's goal as well.

Why is a stable price level supposed to be an ethical idea, to be attained even by the use of governmental coercion? The Friedmanites simply take the goal as self-evident and scarcely in need of reasoned argument. But Fisher's original groundwork was a total misunderstanding of the nature of money, and of the names of various currency units. In reality, as most nineteenth century economists knew full well, these names (dollar, pound, franc, etc.) were not somehow realities in themselves, but were simply names for units of weight of gold or silver. It was these commodities, arising in the free market, that were the genuine moneys; the names, and the paper money and bank money, were simply claims for payment in gold or silver. But Irving Fisher refused to recognize the true nature of money, or the proper function of the gold standard, or the name of a currency as a unit of weight in gold. Instead, he held these names of paper money substitutes issued by the various governments to be absolute, to *be* money. The function of this "money" was to "measure" values. Therefore, Fisher deemed it necessary to keep the purchasing power of currency, or the price level, constant.

This quixotic goal of a stable price level contrasts with the nineteenth-century economic view—and with the subsequent Austrian School. They hailed the results of the unhampered market, of *laissez faire* capitalism, in invariably bringing about a steadily *falling* price level. For without the intervention of government, productivity and the supply of goods tends always to increase, causing a decline in prices. Thus, in the first half of the nineteenth century—the "Industrial Revolution"—prices tended to fall steadily, thus raising the real wage rates even without an increase of wages in money terms. We can see this steady price decline bringing the benefits of higher living standards to *all* consumers, in such examples as TV sets falling from $2000 when first put on the market to about $100 for a far better set. And this in a period of galloping inflation.

It was Irving Fisher, his doctrines, and his influence, which was in large part responsible for the disastrous inflationary policies of the Federal Reserve System during the 1920s, and therefore for the subsequent holocaust of 1929. One of the major aims of Benjamin Strong, head of the Federal Reserve Bank (Fed) of New York and virtual dictator of the Fed during the 1920s, was, under the influence of the Fisher doctrine, to keep the price level constant. And since wholesale prices were either constant or actually falling during the 1920s, Fisher, Strong, and the rest of the economic Establishment *refused to recognize* that an inflationary problem even existed. So, as a result, Strong, Fisher, and the Fed refused to heed the warnings of such heterodox economists as Ludwig von Mises and H. Parker Willis during the 1920s that the unsound bank credit inflation was leading to an inevitable economic collapse. So pig-headed were these worthies that, as late as 1930, Fisher, in his swansong as economic prophet, wrote that there was no depression, and that the stock market collapse was only temporary.[13]

Friedman on Money

And now, in his highly touted *Monetary History of the United States*, Friedman his demonstrated his Fisherine bias in interpreting American economic history.[14] Benjamin Strong, undoubtedly the single most disastrous influence upon the economy of the 1920s, is lionized by Friedman precisely for his inflation and price-level stabilization during that decade.[15] In fact, Friedman attributes the 1929

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[13]Irving Fisher, *The Stock Market Crash—And After* (New York: Macmillan, 1930).

[14]Milton Friedman and Anna Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton, N.J.: Princeton University Press, 1963).

[15]See Murray N. Rothbard, *America's Great Depression* (Princeton, N.J.: D. Van Nostrand, 1963), for a contrasting view of the 1920s. More on the Friedmanite vs. Austrian view of the business cycle can be found in Murray N.

depression *not* to the preceding inflation boom but to the failure of the post-Strong Federal Reserve to inflate the money supply *enough* before and during the depression.

In short, while Milton Friedman has performed a service in bringing back to the notice of the economics profession the overriding influence of money and the money supply on business cycles, we must recognize that this "purely monetarist" approach is almost the exact *reverse* of the sound—as well as truly free-market—Austrian view. For while the Austrians hold that Strong's monetary expansion made a later 1929 crash inevitable, Fisher-Friedman believe that all the Fed needed to do was to pump *more* money in to offset any recession. Believing that there is no causal influence running from boom to bust, believing in the simplistic "Dance of the Dollar" theory, the Chicagoites simply want government to manipulate that dance, specifically to increase the money supply to offset recession.

During the 1930s, therefore, the Fisher-Chicago position was that, in order to cure the depression, the price level needed to be "reflated" back to the levels of the 1920s, and that reflation should be accomplished by:

(1) the Fed expanding the money supply, and

(2) the Federal government engaging in deficit spending and large-scale public works programs.

In short, during the 1930s, Fisher and the Chicago School were "pre-Keynes Keynesians," and were, for that reason, considered quite radical and socialistic—and with good reason. Like the later Keynesians, the Chicagoans favored a "compensatory" monetary and fiscal policy, though always with greater stress on the monetary arm.

Some might object that Milton Friedman does not believe so much in a manipulative monetary and fiscal policy as in an "automatic" increase by the Federal Reserve at a rate of 3–4 percent per year. But this modification of the older Chicagoans is purely a technical one, stemming from Friedman's realization that day-to-day, short-term manipulations by the Fed will suffer from inevitable time lags, and are therefore bound to aggravate rather than ameliorate the cycle. But we must realize that Friedman's automatic inflationist policy is simply another variant in his pursuit of the same old Fisherine-Chicagoite

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Rothbard, "The Great Inflationary Recession Issue: 'Nixonomics' Explained," *The Individualist* (June 1970), pp. 1–5.

aim: stabilization of the price level—in this case, stabilization *over the long run*.

Thus, Milton Friedman is, purely and simply, a statist-inflationist, albeit a more moderate inflationist than most of the Keynesians. But that is small consolation indeed, and hardly qualifies Friedman as a free-market economist in this vital area.

Fisher, Friedman, and the End of the Gold Standard

From his earliest days, Irving Fisher was—properly—considered to be a monetary radical and a statist for his desire to scrap the gold standard. Fisher realized that the gold standard—under which the basic money is a commodity mined on the free market rather than created by government—was incompatible with his overpowering desire to stabilize the price level. Hence, Fisher was one of the first modern economists to call for the abolition of the gold standard and its replacement by fiat money.

Under a fiat system, the currency *name*—dollar, frank, mark, etc. —*becomes* the ultimate monetary standard, and absolute control over the supply and use of these units is necessarily vested in the central government. In short, fiat currency is inherently the money of absolute statism. Money is the central commodity, the nerve center, as it were, of the modern market economy, and any system that vests the absolute control of that commodity in the hands of the State is hopelessly incompatible with a free-market economy or, ultimately, with individual liberty itself.

Yet, Milton Friedman is a radical advocate of cutting all current ties, however weak, with gold, and going onto a total and absolute fiat dollar standard, with all control vested in the Federal Reserve System.* Of course, Friedman would then *advise* the Fed to use that absolute power wisely, but no libertarian worth the name can have anything but contempt for the very idea of vesting coercive power in any group and then *hoping* that such group will not use its power to the utmost. The reasons that Friedman is totally blind to the tyrannical and despotic implications of his fiat money scheme is, once again, the arbitrary Chicagoite separation between the micro and the macro, the vain, chimerical hope that we can have totalitarian control of the macro sphere while

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*This is, in fact, exactly what happened within a few years of this article's original publication. See Murray N. Rothbard, *What Has Government Done To Our Money?* (Auburn, Ala.: Ludwig von Mises Institute, 1990).—Ed.

the "free market" is preserved in the micro. It should be clear by now that this kind of a truncated, Chicagoite micro-"free market" is "free" only in the most mocking and ironic sense: it is far more the Orwellian "freedom" of "Freedom is Slavery."

A Return to the Gold Standard

There is no question about the fact that the present international monetary system is an irrational and abortive monstrosity, and needs drastic reform. But Friedman's proposed reform, of cutting all ties with gold, would make matters far worse, for it would leave everyone at the complete mercy of his own fiat-issuing state. We need to move precisely in the opposite direction: to an international gold standard that would restore commodity money everywhere and get all the money-manipulating states off the backs of the peoples of the world.

Furthermore, gold, or some other commodity, is vital for providing an *international money*—a basic money in which all nations can trade and settle their accounts. The philosophical absurdity of the Friedmanite plan of each government providing its own fiat money, cut loose from all others, can be seen clearly if we consider what would happen if every region, every province, every state, nay every borough, county, town, village, *block, house, or individual* would issue its own money, and we then had, as Friedman envisions, freely fluctuating exchange rates between all these millions of currencies. The ensuing chaos would stem from the destruction of the very concept of *money*—the entity that serves as a general medium for all exchanges on the market. Philosophically, Friedmanism would destroy money itself, and reduce us to the chaos and primitivism of the barter system.

One of Friedman's crucial errors in his plan of turning all monetary power over to the State is that he fails to understand that this scheme would be inherently inflationary. For the State would then have in its complete power the issuance of as great a supply of money as it desired. Friedman's advice to restrict this power to an expansion of 3–4% per year ignores the crucial fact that *any* group, coming into the possession of the absolute power to "print money," will tend to . . . print it! Suppose that John Jones is granted by the government the absolute power, the compulsory monopoly, over the printing press, and allowed to issue as much money as he sees fit, and to use it in any way that he sees fit. Isn't it crystal clear that Jones will use this power of *legalized counterfeiting* to a fare-thee-well, and therefore that his rule over money will tend to be inflationary? In the same way, the State has long arrogated to itself the compulsory monopoly of legalized counterfeiting, and so it has tended to use it: hence, the State is *inherently inflationary*, as would be any group with the sole power to create money. Friedman's scheme would only intensify that power and that inflation.

The only *libertarian* solution, in contrast, is to make the State disgorge its hoards of commodity money. Franklin Roosevelt, under cover of a "depression emergency," confiscated all of the gold held by the American people in 1933, and nothing has been said for nearly four decades about giving our gold back. In contrast to Friedman, the genuine libertarian must call upon the government to give the people back their stolen gold, which the government had seized from us in return for its paper dollars.

NEIGHBORHOOD EFFECTS

Thus, in the two vital macro fields of taxation and money, Milton Friedman's influence has been enormous—far greater than in any other area—and almost uniformly disastrous from the point of view of a genuinely free market. But even on the micro level, where his influence has been smaller and usually more beneficial, Friedman has provided to interventionists a theoretical loophole as wide as a barn door. For Friedman maintains that it is legitimate for the government to interfere with the free market whenever anyone's actions have "neighborhood effect." Thus, if A does something which will benefit B, and B does not have to pay for it, Chicagoites consider this a "defect" in the free market, and it then becomes the task of government to "correct" that defect by taxing B to pay A for this "benefit."

It is for this reason that Friedman endorses government supplying funds for mass education, for example; since the education of kids is supposed to benefit other people, then the government is allegedly justified in taxing these people to pay for these "benefits." (Once again, in this area, Friedman's pernicious influence has been in trying to make an inefficient State operation far more efficient; here he suggests replacing unworkable public schools by public voucher payments to parents—thus leaving intact the whole concept of tax-funds for mass education.)

Apart from the vitally important realm of education, Friedman would, in practice, limit the neighborhood effects argument to such measures as urban parks. Here, Friedman is worried that if the parks were private, someone might enjoy looking at one from afar and not be forced to pay for this psychic benefit. Hence, he advocates public *urban* parks only. *Rural* parks, he feels, can be private for they can be secluded enough to force all users to pay for services rendered.

It is small comfort that Friedman himself would confine this neighborhood-effects argument to a few instances, such as education and urban parks. In reality, this argument could be used to justify almost any intervention, and subsidy and tax scheme. I, for example, read Mises's *Human Action*; I therefore imbibe more wisdom and become a better person; by becoming a better person, I benefit my fellow man; yet, hang it, they are not being forced to pay for those benefits! Shouldn't the government tax these people and subsidize me for being so worthy as to read *Human Action*?

Or, to take another example, whether Women's Libbers like it or not, many men obtain a great deal of enjoyment from watching girls in mini-skirts; yet, these men are not paying for this enjoyment. Here is another neighborhood effect remaining uncorrected! Shouldn't the men of this country be taxed in order to subsidize girls to wear mini-skirts?

There is no point in multiplying examples; they proliferate almost endlessly, and expose the total absurdity and the pervasiveness of Chicagoite neighborhood-effect concessions to statism. The only reply that Chicagoites have been able to make to this *reductio ad absurdum* is that *they* wouldn't carry government intervention that far, though they concede the logic. But why not? By what standard, by what criterion, do *they* stop at parks and schools? The point is that there is no such criterion, and this only points up the intellectual bankruptcy, the lack of logical rigor, at the core of most current-day economics and social science—Friedmanism included.

THE IMPACT OF FRIEDMAN

And so, as we examine Milton Friedman's credentials to be *the* leader of free-market economics, we arrive at the chilling conclusion that it is difficult to consider him a free-market economist at all. Even in the micro sphere, Friedman's theoretical concessions to the egregious ideal of "perfect competition" would permit a great deal of governmental trust-busting, and his neighborhood-effect concession to a government intervention could permit a virtual totalitarian state, even though Friedman illogically confines its application to a few areas. But even here, Friedman uses this argument to justify the State's provision of mass education to everyone.

But it is in the macro sphere, unwisely hived off from the micro by economists who remain after sixty years ignorant of Ludwig von Mises's achievement in integrating them, it is here that Friedman's influence has been at its most baleful. For we find Friedman bearing heavy responsibility both for the withholding tax system and for the disastrous guaranteed annual income looming on the horizon. At the same time, we find Friedman calling for absolute control by the State over the supply of money—a crucial part of the market economy. Whenever the government has, fitfully and almost by accident, stopped increasing the money supply (as Nixon did for several months in the latter half of 1969), Milton Friedman has been there to raise the banner of inflation once again. And wherever we turn, we find Milton Friedman, proposing not measures on behalf of liberty, not programs to whittle away the Leviathan State, but measures to make the power of that State more efficient, and hence, at bottom, more terrible.

The libertarian movement has coasted far too long on the intellectually lazy path of failing to make distinctions, or failing to discriminate, of failing to make a rigorous search to distinguish truth from error in the views of those who claim to be its members or allies. It is almost as if any passing joker who mumbles a few words about "freedom" is automatically clasped to our bosom as a member of the one, big, libertarian family. As our movement grows in influence, we can no longer afford the luxury of this intellectual sloth. It is high time to identify Milton Friedman for what he really is. It is high time to call a spade a spade, and a statist a statist.

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