Introduction to Volume 2


As discussed in volume 1, Friedman was firmly established as a monetarist by 1951, and chapter 10 considered the activities and debates in which Friedman was engaged during the 1950s—the first decade of his monetarist years. The five chapters that constitute volume 2 cover the twelve years from the beginning of 1961 to the end of 1972. The start of this period saw the coming to office of President Kennedy—whose electoral victory in 1960 Friedman had attributed to the unintentionally sharp tightening of monetary policy in which the Federal Reserve had engaged during the late 1950s.

As will be discussed in chapter 11, events in the early 1960s initially seemed inimical to the success of the critique of Keynesian economics—and the corresponding revival of the quantity theory of money—that Friedman was developing. The perspective on economic theory and policy held by the Kennedy administration was more overtly Keynesian than those of previous US governments, while senior Federal Reserve officials in the early 1960s had negative perspectives on Friedman’s work or professed to be barely familiar with it. But Friedman’s approach to monetary economics would gain enormous attention from 1963 onward. Over the late 1960s, the dramatic change in the situation was evident in Friedman’s appointment as a *Newsweek* columnist in 1966, in his ascension, in 1967, to the position of president of the American Economic Association, and, in 1969, in the development of an economic strategy by the Nixon administration that owed much to Friedman’s work.

At the 1980 Christmas party of Harvard’s University’s economics department, Martin Feldstein gave a lighthearted retrospective on this turn of events in the form of a poem on Friedman, titled “’Twas a Night in the
Sixties” (Feldstein 1981). Feldstein painted a picture of success, but also complacency and hubris, on the part of Keynesian economists in the early 1960s: “Paul with his textbook / And Art with his gap / Had settled their brains / For a long postwar nap.” On being violently disturbed from this comfortable situation, Feldstein observed, “They knew in a moment / It must be Milton.” Feldstein described the unfolding of Friedman’s research, alluding both to Friedman and Schwartz’s *Monetary History* and to the Friedman-Meiselman work that suggested that money/income relationships were more stable than fiscal-multiplier relationships. He noted further themes that Friedman pressed on the economics profession during the 1960s: “That curve by Phillips / It really is straight / And the cost of funds / Is the real interest rate.”

Feldstein’s poem was well received at the party. But it surely generated unhappy recollections among some of his senior colleagues at Harvard University—perhaps most notably James Duesenberry, one of the Keynesians against whom Friedman had been arrayed in those 1960s debates.

It was, however, from two other major universities, Yale University and the Massachusetts Institute of Technology, that the principal Keynesian fight back against Friedman emerged during the 1960s. Paul Samuelson would figure prominently in this counterattack, although principally in contributions to media forums (including his own *Newsweek* column). In the research literature, Friedman’s main Keynesian adversaries during the 1960s were two figures discussed prominently in the chapters that follow: James Tobin and Franco Modigliani.

An enormous setback for the acceptance of Friedman’s monetarist and free-market ideas occurred in August 1971 when President Richard Nixon, with the encouragement of Federal Reserve chairman Arthur Burns, imposed wage-price controls. These controls remained in force throughout 1972. The imposition of controls, their acceptance by the public, and the endorsement by government officials of the cost-push theories of inflation that motivated the controls, all seemed to amount to a devastating rebuke to Friedman’s approach to economics, and the account provided in this book ends in December 1972 with both his influence and his physical health at a low ebb. Friedman rebounded sharply to good health in 1973, but the recovery of his influence on US economic policy would be a slower process—one spanning the rest of the 1970s.

Acknowledgments

The author is grateful for the guidance and encouragement of current and former editors at the University of Chicago Press, in particular Joe Jackson, who organized the commissioning of the book, and Jane Macdonald and
Alan Thomas, who have seen the project through to completion. The author is also indebted to Kathleen Kageff for meticulous copyediting and to Mark Reschke and Alicia Sparrow for their production advice.

The author is grateful also to a number of people for providing comments on drafts of this book. In many cases, the comments pertained to drafts of specific chapters. Accordingly, each of the individual chapters of this book contains an acknowledgments paragraph recognizing feedback received on earlier versions of those chapters. In addition, the author is grateful to Michael Bordo, Charles Goodhart, David Laidler, and David Lindsey for remarks on the whole of the manuscript and to William A. Allen, Russell Boyer, Thomas Humphrey, Douglas Irwin, James Lothian, Ann-Marie Meulendyke, the late Allan Meltzer, Michael Parkin, Charles Steindel, George Tavlas, Roy Weintraub, and the late Donald Winch for supplying comments on a large number of chapters. The late Julio Rotemberg provided much advice and encouragement concerning the writing of this book and also supplied detailed comments on several chapters.

Furthermore, in the years prior to starting this book, the author benefited from extensive discussions with a number of individuals concerning Friedman’s place in monetary economics. These individuals include Michael Bordo, Tim Congdon, Robert Hetzel, Bennett McCallum, the late Allan Meltzer, Christina Romer, David Romer, the late Anna Schwartz, George Tavlas, and John Taylor; as well as current and former colleagues at the Federal Reserve Board, including Mark Carlson, Burcu Duygan-Bump, Neil Ericsson, Jon Faust, Christopher Gust, Andrew Levin, David López-Salido, John Maggs, Ellen Meade, Jonathan Rose, Jeremy Rudd, and Robert Tetlow; former colleagues at the Federal Reserve Bank of St. Louis, including James Bullard, Riccardo DiCecio, William Gavin, and David Wheelock; and former colleagues at the Bank of England, including Christopher Allsopp, Nicholas Oulton, and Geoffrey Wood. In more recent years, the author has benefited from discussions on the matter with former colleagues at the University of Sydney, including Colin Cameron, Daniel Hamermesh, and Colm Harmon.

For research assistance on various matters, the author is grateful to Miguel Acosta, George Fenton, William Gamber, Christine Garnier, and Andrew Giffin. For help in finding and obtaining archival material and related information, the author is indebted to Riccardo DiCecio, Andrew Ewing, Johanna Francis, Kurt Gooch, Daniel Hammond, Özer Karagedikli, Stephen Kirchner, Levis Kochin, Terry Metter, Eric Monnet, Charles Palm, Jeremy Piger, Marcel Priebsch, Hugh Rockoff, Glenn Rudebusch, Bernd Schlusche, Tara Sinclair, David Small, Katrina Stierholz, Paolo Surico, Gloria Valentine, Mark Wynne, and the staffs of the libraries of Duke University, the Federal Reserve Board, the Federal Reserve Bank of Dallas, the
Federal Reserve Bank of San Francisco, the Federal Reserve Bank of St. Louis, and the University of Sydney. In addition, the following individuals kindly shared material from their own collections: Douglas Adie, James Bullard, Nigel Duck, Claire Friedland, John Greenwood, Christopher Gust, R. W. (Rik) Hafer, Robert Hall, Rudolf Hauser, James Heckman, Douglas Irwin, Michael Keran, David Laidler, Leo Melamed, Ann-Marie Meulendyke, Michael Mork, Charles Nelson, Gerald O’Driscoll, Pascal Salin, Roger Sandilands, the late Anna Schwartz, Christopher Sims, Stephen Stigler, and Lester Telser. The author is also indebted to Milton Friedman’s daughter, Janet Martel, for providing clearances and for making herself available for a conversation with the author in September 2016 about her father. The author extends sincere apologies to any individuals who also provided help for this project but who have inadvertently not been mentioned in the preceding acknowledgments.

The author is also grateful to many individuals for making themselves available for interviews for this book. A full list of interview subjects is provided in the introduction to volume 1.

Notwithstanding the acknowledgments given above, the views and conclusions expressed in this study are the author’s alone, and the author is solely responsible for errors in this study. In addition, the views expressed in this book should not be interpreted as those of the Federal Reserve Board or the Federal Reserve System.