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**A TRIBUTE TO MILTON FRIEDMAN.
CLUB DE LA LIBERTAD**

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Roque Fernández, Santos Mercado Reyes,
Bernard Munk and Edgardo Zablotsky**

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A Tribute to Milton Friedman Club de la Libertad¹

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December, 2021

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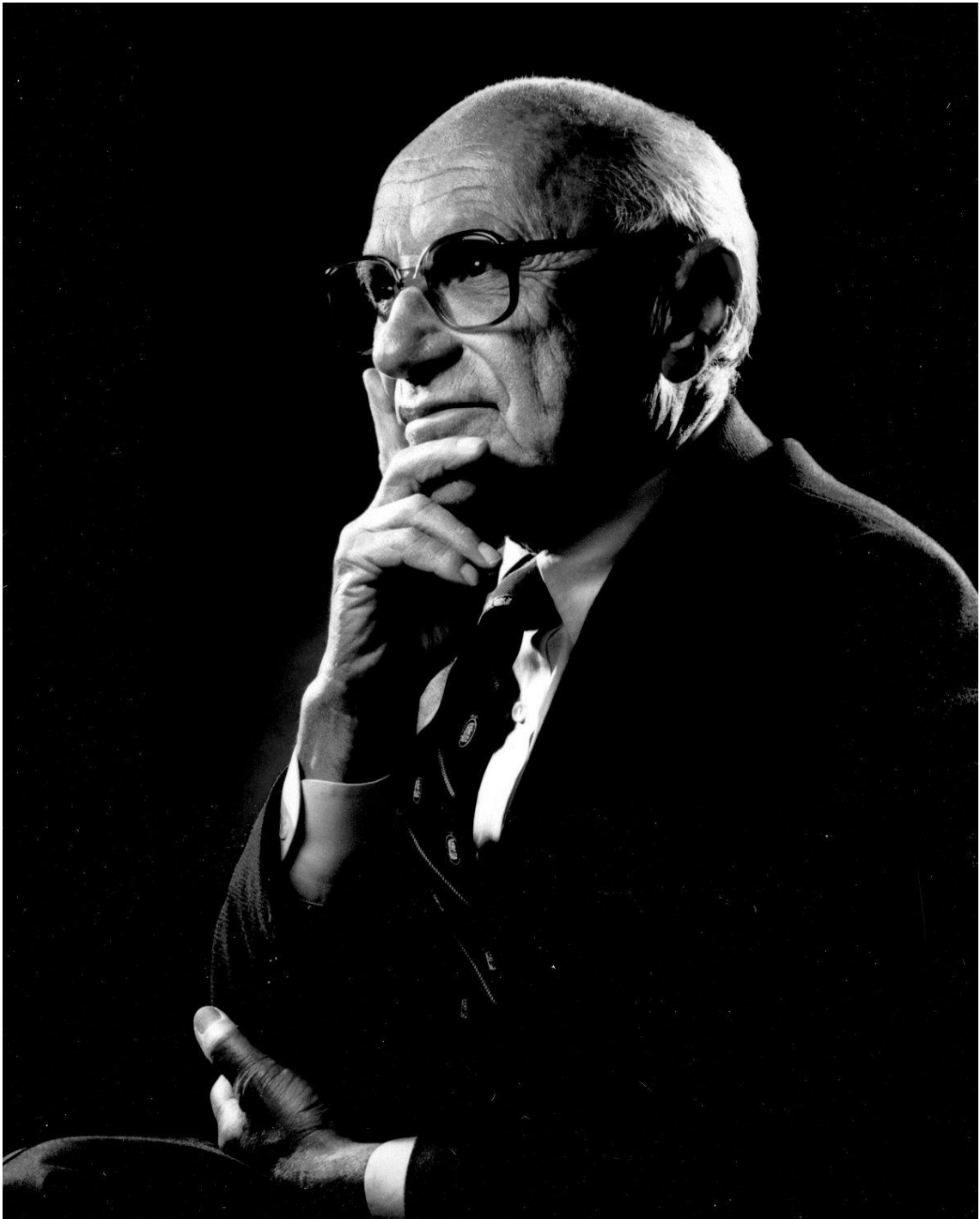


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A Tribute to Milton Friedman

More than 5 years ago the Club de la Libertad Foundation decided to incorporate into its events schedule an activity that from then on would be called "tributes".

Those occasional meetings, that aimed at remembering the legacy of some liberal thinkers, quickly became a monthly series until adopting the current format in which, every week, it is celebrated the birth's anniversary of a well-known personality who left his mark on universal thought.

As months went by, the idea was enhanced, and the pandemic's outbreak gave way to another phase both prolific and enriching. The transition from in-person events to virtual events allowed us to invite world-class speakers.

Nowadays, every Saturday three speakers spend around 20 minutes each on a very specific aspect of the honoree, recalling the ideas of a philosopher, politician, economist or artist who had a major influence on the evolution of the concept of freedom.

A host introduces the activity, gives information about the event, start off with a brief biography that tries to establish the general context, and then shares a short video that helps to get in tune with what will later be the central axis, the moment in which the speakers surprise the audience always eager to learn something new.

Last July 31st, as we have done countless times, we carried out another episode in this series of tributes. It was the great Milton Friedman's turn. Given that we wanted to do something special, we tried something different.

That's how the idea of "Friedman's day" was born, a day full of several activities dedicated to him, starting at 10 am with a reading cycle that would analyze a section of his book "Free to Choose". On that occasion, Carlos Hernandez — Director of the Club de la Libertad (Freedom Club) — introduced the topic and with the moderation of Santiago Maffuche, Coordinator of this series, exchanged interesting ideas with the audience.

A little later, at 4 p.m. a debate entitled "Austrians and Monetarists" was held, which attempted to revive some of the usual discussions on these schools.

This very special day would end with this dreamed-of double tribute, in Spanish and English. At 6 p.m. Alberto Medina Méndez — President of Club de la Libertad — presented the Spanish version, which featured speakers of the class of Edgardo Zablotsky, President of UCEMA; Roque Fernandez, a prestigious Argentinian economist; and Santos Mercado Reyes, a prominent Mexican university professor. The event was held before a large audience that enjoyed such speakers.

Later on, the English version was moderated by two young volunteers from the Club de la Libertad, Francisco Pasian — Research Secretary — and Virginia Bruzzo — Coordinator of the Study Center — who introduced two international speakers who graced the event,

Bernard Munk and Douglas Irwing. A special mention must be given to Julio Elias, who contributed to hold a tribute in English with worldwide renown speakers.

Rarely has the Club de la Libertad been so pleased with a tribute as the one that took place on that occasion. Not only because of the importance of the honoree, but also because of the quality of the delightful contents that will remain in the memory of all those who participated and hopefully of those who still have the chance to watch the video on the Club de la Libertad's YouTube channel.

Alberto Medina Méndez
President of Club de la Libertad Foundation



Panelists at the December 3, 1967, Round Table (from the left): Milton Friedman, Robert Eisner, Kenneth J. Northcott, and Robert A. Mundell. The Round Table radio series was discontinued in 1955; however it was redone and aired as a television program from 1967 to 1974.

University of Chicago Photographic Archive, [apf digital item number, e.g., apf12345], Hanna Holborn Gray Special Collections Research Center, University of Chicago Library.

The Legacy of Milton Friedman

Julio J. Elías², August 2020.

I believe that one important legacy of Milton Friedman were his students. That is why I want to dedicate this tribute to the dear Valeriano García, who died a month and a half ago in María Juana, province of Santa Fe.

Valeriano Garcia was a great Chicago economist and a great defender of the ideas of Liberty. He was a student of Milton Friedman in the 60s and possessed all the qualities of Chicago's best economists.

In her 2017 Ely Lecture, Esther Duflo developed the idea of the Economist as a plumber, who stands out because of not only observing the general idea of a problem, but also of being very clear about the details. In that sense, Valeriano Garcia was a great plumber.

Founder of the Fundación del Tucumán; pioneer in economics education at the University of Tucumán; co-author with Alvaro Saieh of the influential book Money, Prices and Monetary Policy; Director of the World Bank; he travelled around the world giving advice on economic issues to governments of more than 20 countries, always armed with the principles he learned from Milton Friedman: a) the importance of incentives, b) the use of Economic Theory to think about the data. This tribute is for him.

To think about what is the most important legacy of Milton Friedman is undoubtedly a complex question about a man that made numerous contributions and that had an enormous influence on the economic sciences and society at large.

A couple of years ago, at the Saieh Hall of Economics of the University of Chicago it was held a beautiful exhibit about Gary Becker and Milton Friedman. This exhibition highlighted many aspects of Friedman's work and showcased the most important distinctions he received throughout his career: the Nobel Prize, which he was awarded with in 1976, precisely on the bicentennial of The Wealth of Nations, the Clark Medal, awarded in 1951, the Presidential Medal of Freedom, and the National Medal of Science, both received in 1988. That is to say that we are indeed talking about a man who made important and varied contributions.

Friedman was an economist fundamental for the development of the economic sciences in the twentieth century. The English magazine The Economist describes him as the most influential economist of the second half of the twentieth century, possibly of the entire century.

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I think many scholars would say that Milton Friedman's greatest contribution was the Monetarism, or perhaps the Theory of the consumption function. In fact, Milton Friedman was awarded with the Nobel Prize "for his contribution to consumption analysis and to monetary history and theory, including his observations of the complexity of stabilization policy."

At the celebration of Friedman's 90th birthday in 2002, which I had the honor of attending (thanks to my dear professor Gary Becker), Ben Bernanke noted that: "Among economic scholars, Friedman has no peer. His seminal contributions to economics are legion, including his development of the permanent-income theory of consumer spending, his paradigm-shifting research in monetary economics, and his stimulating and original essays on economic history and methodology."



Conference dinner in the occasion of "A Conference to Honor Milton Friedman, the Paul Snowden Russell Distinguished Service Professor Emeritus, On the Occasion of his 90th Birthday," University of Chicago, 2002. Top (from left to right): James Heckman (Nobel Prize in Economics 2000), Victor Lima, Julio Elias and Gary Becker (Nobel Prize in Economics 1992). Bottom: Milton Friedman (Nobel Prize in Economics 1976), Guity Becker, and Rose Friedman.

John Cochrane goes a little further and claims that: "The consumption function and the monetary foundations of inflation, are as important to 20th century economics as the discovery of DNA was to biology, quantum mechanics to physics or plate tectonics to geology." Gary Becker expresses: "Friedman was a magnificent statistician and a very careful empirical worker. The book on Incomes from Independent Professional Practice...it surely ranks among the best empirical studies in economics, with a remarkable combination of theory, statistical techniques and careful analysis of the data."

Reframing the question, a bit, and following Friedman's thinking, I began to reflect on what was the importance of Milton Friedman to me, as an economist and as an individual.

In a panel on inequality organized by the Hoover Institution in 2015, Kevin Murphy, one of today's most brilliant economists, noted that "The Growth of inequality can be understood in terms of the most basic economic forces: Supply and Demand. I was a student of Gary Becker, so I don't know anything else."

In this last idea lies the contribution and legacy of Friedman that I want to highlight and that is embodied in his book *Capitalism and Freedom* of 1962. In this work, Friedman shows the enormous power of economic analysis for thinking about public policy and the enormous social value of individual freedom and how people pursuing their own self-interest contribute to the well-being of the whole society. Moreover, he noted how the idea that individual freedom, the ability of people to pursue their own success, contributes to the well-being of all, showing the efficacy of the free market as a means of organizing resources, and great skepticism in government intervention.

His strong skepticism in government intervention is reflected in these sentences: "If you put the federal government in charge of the Sahara Desert, in 5 years there'd be a shortage of sand" and "Many people want the government to protect the consumer. A much more urgent problem is to protect the consumer from the government."

Milton Friedman was a Master in applying the basic principles of economics to analyze and guide the design of public policy. On the premise that policies should not be evaluated by their intentions but by their results, the elaboration of their policy proposals is based on the idea that competition improves the well-being of consumers and that people know their own interests better than government officials or any other person or agency.

With this set of principles, Friedman showed, for example, that conscription was basically a tax on conscripts who could choose another, better-paying career in the private sector, and proposed a voluntary military service.

Since the 1950s, Friedman has argued in favor of free choice of schools and voucher systems as a way to introduce competition and improve education. In this regard, Friedman argued that "Education spending will be most effective if it relies on parental choice and private initiative – the building blocks of success throughout our society."

In all cases, Friedman first analyzes how markets behave in response to a particular public policy, including how participants respond to changes in their incentives and the crowding-out effects of government interventions.

All of these applications of economics were discussed in his famous Price Theory course at Chicago. Robert Lucas says that Friedman began each class with a topical question. This course had a great influence on the approach to economics of great economists, such as Gary Becker, Robert Lucas, Eugene Fama.

Gary Becker, one of his most prolific students, took up Friedman's ideas and very early on challenged himself to assess the robustness and scope of the economic approach by applying it to a wide variety of social problems that, most of them, laid outside the traditional boundaries of economics, such as marriage, fertility, crime, racial discrimination, time use, social interactions, and drug addiction.

A final aspect of Friedman's legacy that I wish to highlight is that of his enormous work in spreading (good) economics and his firm belief in the power of debate, both in academia and public policy. The following is an example of one of his famous debates: A general, testifying before the Commission to evaluate the possibility of implementing a voluntary military service, denounced Friedman's idea by saying that he did not wish to lead an army of mercenaries. Milton Friedman interrupted him and said, "General, would you rather command an army of slaves?"

Milton Friedman's great legacy is to have shown the power of economic analysis, both in academia and in the field of public policy. His legacy is alive, and it certainly lies at the heart of the MA program in Economics that I direct at Universidad del CEMA, where we are convinced that the economic approach is a powerful tool to understand the world around us. Economic analysis provides a series of tools that allow analyzing problems from both a positive and normative perspective. The premise is that understanding a set of basic economic principles is very useful for analyzing a wide variety of economic and social problems. I think this is one of Milton Friedman's most important legacies.

*"There's no such thing
as a free alumni
magazine."*

—MILTON FRIEDMAN, AM '33



Of course that's not quite what the Nobel laureate in economics actually said. But if you think of the *University of Chicago Magazine* as a kind of metaphorical sandwich—two slices of institutional and alumni news, filled with features about teaching, research, ideas, and U of C people—then you have a taste of Chicago, delivered straight to your door six times each year.

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University of Chicago Magazine, Vol. 86, No. 2, December 1993.

Milton Friedman and the Impact of Risk on Income Distribution

Roque B. Fernández³, July 2021.

In the book *Two Lucky People*, Friedman tells the story of his early years. His parents emigrated from a small town of mainly Jewish population in Hungary to the United States. His father did it in 1894, while his mother, in 1895. Her father settled as a self-employed small businessman and her mother was initially employed as a dressmaker. His sisters were born first, and he was the last to be born in 1912. Within months of Milton's birth his parents moved from Brooklyn to Rahway, a town 20 miles outside of New York.

In Rahway, the Friedmans started a small clothing manufacturing business, which did not work out, and then set up a drygoods store. Referring to this venture, in *Two Lucky People* (p. 21), Milton recounts the following:

The store apparently generated enough income to support our modest living standard. Like many immigrants, we lived above the store... Among my most vivid memories are heated discussions between my parents at night about where the money was to come from to pay incoming bills. Postponement was frequently the name of the game, often in two or more stages: first, by paying the bill with postdated checks; then, when the due date arrived, by frenzied scrambling to get a friend or friendly merchant to cash or endorse a still later postdated check. (p. 21)

From 1924 to 1928 Milton attended Rahway High School, then between 1928 and 1932 he received a scholarship to Rutgers University, the scholarship covering only tuition. To support himself, Milton worked as a part-time clerk at Roselle's Store, earning four dollars for a twelve-hour day on Saturdays, and also supplemented his income by waiting tables at a restaurant across the street from his dormitory. The restaurant operated primarily in the middle of the day, and for his work he received a free meal at 1pm. He would then rush off to attend his first class, which started at 13:30.

At both Rahway High School and Rutgers University, Milton felt a particular attraction to mathematics and statistics. Milton acknowledges two notable intellectual influences: Arthur Burns and Homer Jones. Regarding the latter, in *Two Lucky People*, he says the following:

Homer was stuck with teaching, among other courses, insurance and statistics...Only later did I realize how fortunate I was. Insurance would hardly seem a subject of far-ranging significance, yet Homer made it one. His quizzical mind, his theoretical bent, yet withal his Iowa-farmer interest in down-to-earth practical matters, combined to lead us far beyond the dry matter-of-fact textbook into the more fundamental issues of Risk, Uncertainty, and Profit, as Frank Knight titled his magnum opus... Homer first introduced me to what even then was known as the Chicago view. Like his mentor, Frank Knight, a product of the rural Midwest, he put major stress on individual freedom, was cynical

³ Emeritus Professor Universidad del CEMA, Argentina. Director of the Fund for the Promotion of Research. He is Ph.D. in Economics from the University of Chicago and Doctor in Economic Sciences from the National University of Córdoba. Full Member at the National Academy of Economic Sciences. Between 1991 and 1996 he served as President of the Central Bank of the Argentine Republic. In July 1996 he assumed as Minister of Economy and Public Works and Services until December 1999.

and skeptical about attempts to interfere with the exercise of individual freedom in the name of social planning or collective values, yet he was by no means a nihilist (p. 31-32).

Upon completing his studies at Rutgers, Milton had already dismissed the possibility of a career as an actuary and decided to apply to various universities and received scholarships to cover tuition at Brown University for a degree in Applied Mathematics and at Chicago to study Economics. It was 1932 and the economy was in a deep recession, which undoubtedly directed Milton to study Economics. Nevertheless, Milton took enough courses in Mathematics and Statistics in Chicago to earn a master's degree in mathematics.

After his training and professional work in Washington, in 1942 Milton was invited by Allen Wallis to join the Statistical Research Group (SRG) at Columbia University. The aim of the project was to contribute to the ongoing war effort. It required direct contact with officers of the armed forces and involved scientists from different disciplines such as physicists, engineers and mathematicians. Milton in *Two Lucky People* p.125, expresses:

... my two and a half years at the Statistical Research Group were among the most varied, interesting, and indeed exciting, professional experiences I have ever had. The experience unquestionably had a major influence on my subsequent work (p. 125).

With respect to Milton's interaction with the various SRG scientists, Milton distinguishes L. Jimmie Savage as a close collaborator.

The opening paragraphs of this note suggest that if Milton were to be classified according to the methodologies of income distribution studies, he would be found in a lower middle-class family in his origins and at the time of his retirement from academic and professional activity he would be found in an upper middle class family. Without being self-referential, Milton deals with these issues in chapters 4 and 15 of his book *Price Theory*, pages 262-263:

The functional distribution of income has been treated as primarily a reflection of choices made by individuals through the market: the value of factors is derived from the value of the final products that they cooperate in producing; and the value of final products in turn is determined by choices of consumers among the alternatives technically available. The personal distribution of income, on the other hand, when it has been analyzed at all, has been treated as largely independent of choices made by individuals through the market, except as these affect the price per unit of the factors of production. Differences among individuals or families in the amount of income received are generally regarded as reflecting either circumstances largely outside the control of the individuals concerned, such as unavoidable chance occurrences and differences in natural endowment and inherited wealth, or collective action, such as taxation and subsidies.

Individual choice can affect the income distribution in two rather different ways. The first - differences in money income may compensate for non-pecuniary advantages or disadvantages attached to the receipt of those incomes - has often been noticed, though its importance is typically underestimated...

The second way that individual choice can affect the distribution of income has been less frequently noticed. The alternatives open to an individual differ, among other respects, in the probability distribution of income they promise (p. 262-263).

In approaching the treatment of this topic, one notes Milton's deep actuarial approach to the subject, while at the same time acknowledging Savage's collaboration. While the topic is adequately covered in his book *Price Theory*, the 1948 paper "The Utility Analysis of Choices Involving Risk" by Milton Friedman and L. Jimmy Savage has become a classic of economic theory and it is often referred to as the Friedman-Savage Utility Function. It is impossible in a single account to summarize the extensive coverage of the topic, here we will simply outline the utilitarian analysis of decisions involving risk to address its impact on the distribution of income. In relation to this topic, in *Price Theory* p. 263, we can read:

The alternatives open to an individual differ, among other respects, in the probability distribution of income they promise. Hence his choice among them depends in part on his taste for risk. Let the same set of alternatives be available to members of two societies, one consisting of people who have a great aversion to risk. The other, of people who "like" risk. This difference in tastes will dictate different choices from the same alternatives. These will be reflected most clearly, though by no means exclusively, in a different allocation of resources to activities devoted to manufacturing the kind of risk attractive to individuals. For example, insurance will be a major industry in the first society, lotteries in the second; income and inheritance taxes will be highly progressive in the first society, less progressive or regressive in the second.

The result will be different income distributions in the two societies; the inequality of income will tend to be less in the first society than in the second. It follows that the inequality of income in a society may be regarded in much the same way as the kinds of goods that are produced, as at least in part -and perhaps in major part- a reflection of deliberate choice in accordance with the tastes and preferences of the members of the society rather than as simply an "act of God" (p. 163).

The issue of income distribution has also been a recurring theme in Friedman's other popular books such as *Free to Choose* and *Capitalism and Freedom*. Julio H. Cole in "Milton Friedman on Income Inequality" addresses the issue from other more philosophical nuances facing the topic of freedom versus equality. In this article, even incorporating risky decisions, Friedman considers that market freedom favours the allocation of resources. He also suggests that in the absence of externalities, an economic policy intervening in the free market may lead to an inefficient allocation of resources and jeopardize the freedom of individuals.

Cole also identifies the position of some critics who see a contradiction in Friedman in proposing government intervention to alleviate poverty through the implementation of a negative income tax. Cole interprets Friedman from a compassionate position on poverty, as Friedman was never told what the plight of the poor is, because he understood and experienced it firsthand. However, in *Capitalism and Freedom* Friedman justifies public assistance programs to alleviate poverty in an analogous way to the problems of public goods and the existence of free riders. Citizens feel affected by the existence of extreme poverty and may agree to contribute to its alleviation. Private

charity may be insufficient and has the problem of the free rider who benefits from the contributions made by "others", which tends to justify state action. However, Friedman acknowledges the difficulty in arriving at an optimum in deciding how much to contribute and in what form to assist poverty.

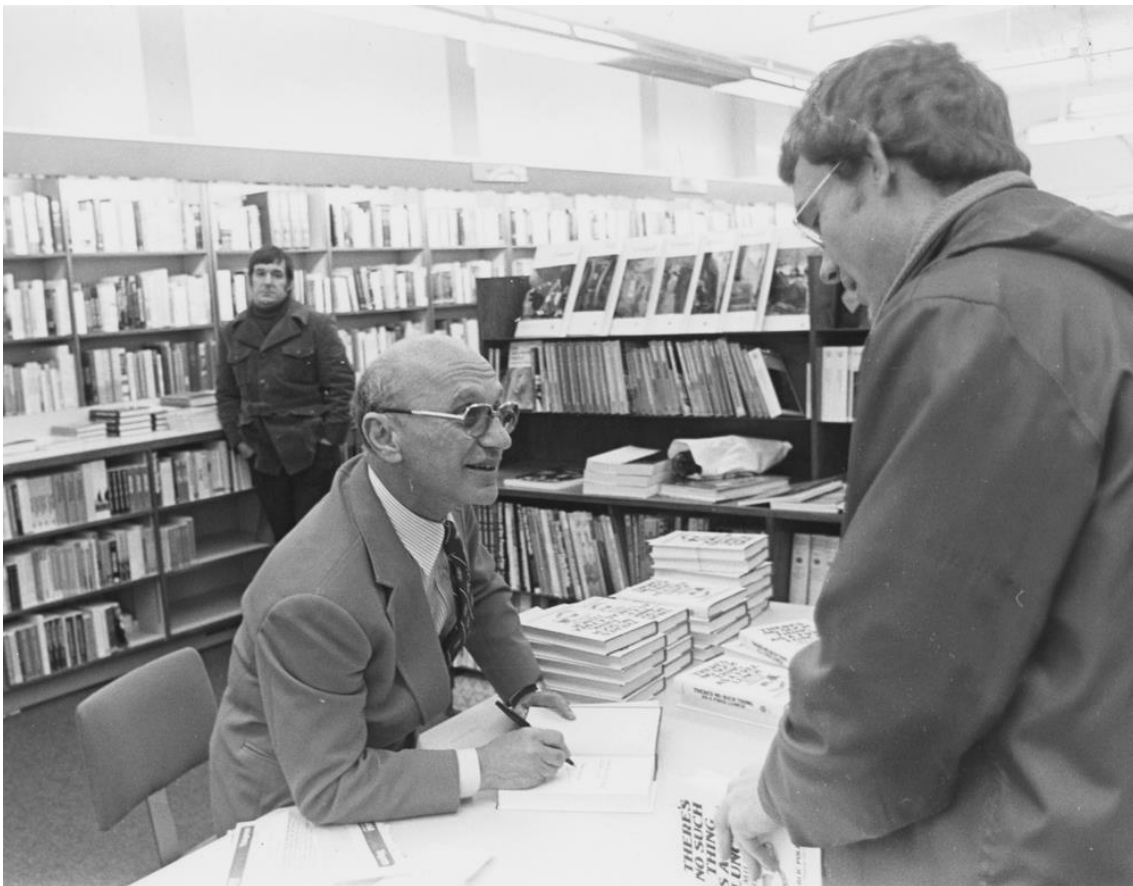
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Milton Friedman signs copies of his 1975 book "There's No Such Thing as a Free Lunch." University of Chicago Photographic Archive, [apf7-00284], Hanna Holborn Gray Special Collections Research Center, University of Chicago Library.

Milton Friedman and the Capitalist Revolution

Santos Mercado Reyes⁴, July 2021.

Do you want to destroy your country? Read and spread Karl Marx; do you want to achieve a prosperous nation, full of life, for all your people? Read and spread the ideas of Milton Friedman.

Leftists, communists and socialists hate Milton Friedman. They call him the "father of neo-liberalism" in order to denigrate, smear and defame his name, but they have never been able to refute his ideas or give better proposals.

Leftists and neo-liberals stand against each other. The former advocate state control, the latter, the freedom of the individual.

By the way, if you have a degree in Economics and you have never read *Free to Choose*, it means that you have only seen one side of the coin and, unfortunately, the worst side, that of Marx and Keynes. Then, you are not an economist.

Milton Friedman opens people's minds to dream and design systems and policies. Where Milton Friedman walks, the opposite of Attila happens: where Attila walked, grass no longer grows, but where Friedman walks, not only grass grows, but also flowers, fauna and forests emerge.

Let us take a look at some examples of Milton Friedman's theory and philosophy.

(i) He showed that the market was not at fault of the crisis of 1929, but the irresponsible governments. Remember that, since 1912, the government monopolised monetary issuance through the Federal Reserve Fund. The government came up with the idea that they could print money to boost the growth of the economy, and it succeeded, until people began to realise that those dollars were no longer backed by gold. There were long queues to redeem the metal equivalent, and savers also wanted their gold or their banknotes.

Banks were forced to close, one after the other. There was no more credit for business, production fell, stocks plummeted, it was the Black Friday of 1929. Nevertheless it was all due to the government irresponsibly using the money printing machine.

And what does Milton Friedman say about this matter?

a) You should never let the government manage or manipulate the money printing machine, because they use it to steal from the public. Every time a new banknote is printed, it generates an over-demand, and that pushes prices up. The worker —with his

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fixed salary— will no longer be able to buy the same as yesterday, someone stole his purchasing power: it was the government.

b) For a currency to be healthy, i.e. not to lose its purchasing power, money should not be printed, except to replace old banknotes.

c) The central bank, i.e. the one with the monopoly of printing banknotes, should be in private hands.

d) The Central Bank is not for solving problems of poverty, growth or investment. Its only function is to keep the quantity of money fixed, so that the monetary unit does not lose value. It can increase the quantity of banknotes, but not the quantity of money. This means that a hundred-peso note can be divided into one hundred one-peso notes. But the hundred-peso note must be burnt. Thus, the quantity of banknotes increases without limit, but not the quantity of money.

(ii) The government should not own any enterprise, because it will always fail and cause great harm to society. That is because they put their friend, compadre or lover in charge. In other words, people who are not risking their own wealth. If the company fails, that manager loses nothing, because he is a bureaucrat or a passing government official.

Nobody looks after a company better than the owner who is risking his wealth. That is why he proposed the privatisation of all state enterprises.

(iii) Taxes should be minimal. They are justified because there are people who steal, beat and murder others. Someone has to dispense justice and that involves costs. But it would be ideal if no company paid taxes. Because their very existence is already beneficial to people. Only personal income should contribute to government spending, and then those taxes would be minimal.

Just imagine a country where you set up a business and the State does not charge you for the profits of your business. If the business produced a million pesos, and the owner kept a hundred thousand pesos, they would pay for that personal income, but the rest is for investment, growth, etc.

(iv) Milton Friedman never believed in democracy. It is no good electing a new president every 4 or 6 years and waiting to see what crazy things he comes up with to impose on us. Instead, Friedman talks about limiting the power of government.

Governments should not interfere in the economy, they should not be the owners of natural resources: gas, oil, uranium, water, etc. Nor should it say how they should be exploited by private initiative. The government should be like the referee in a football match, they are very important, but they should not kick the ball. Their function is to keep order so that no one kills someone, no one steals and no one commits fraud.

(v) The government should not own schools and universities. Educational activities belong to society, to the private sector. But all governments have taken over education

by subsidising public schools, but they also control public schools. It is the worst of the world in education.

To start a change, he proposes the introduction of vouchers. That is, changing the funding streams so that instead of giving the money to the schools, it is given to the students so that they, by their own hand, pay tuition at the school they think will serve them well.

The most important part of this proposal is that schools learn to live on what the customer pays and not on what the government gives them. But this proposal is transitional, only to initiate a major reform of the educational system in such a way that schools are forced to compete against each other and to worry about giving better instruction to the customer, that is, the student.

In addition to that, he also proposes the schools be sold to the teachers themselves, so that they stop being simple bureaucrats who only care about their fortnightly paychecks. In this way they would be sharing the risk and interest in making the school better and better. And this would allow them to change the philosophy of training students only to be employees. Our countries need enterprising professionals, people who take risks, businessmen capable of creating new sources of employment.

And a final point on this issue is to create funding systems for those students who wish to educate themselves, at home or abroad. This system or bank would lend them the necessary resources to pay their tuition fees, rent housing, buy books, etc. And they would start paying when they become productive. It is "study today and pay later". This solves a moral problem of not consuming at the expense of others. And there would not be a single young person who would plead lack of resources to get an education.

(vi) Milton Friedman proposes zero barriers to internal and foreign trade. He would tell us that there should be no Value Added Tax (VAT), no import tariffs or export taxes.

He was opposed to free trade agreements and preferred unilateral openness: anyone who wants to sell or produce in our country can come. We will not withhold profit from them, we will not charge them for taking their profits.

(vii) Finally, Milton Friedman, like any liberal, neo-liberal, anarcho-capitalist or Austrian School of Economics warns that countries where damage to private property is tolerated, it will be a country that goes to ruin. Private property is the basis of civilization, progress and prosperity for all.

(viii) Friedman is an advocate of methodological individualism. It means that he puts man at the centre of the universe. The individual should not be subjected to collectivities, whatever they may be.

Milton Friedman co-founded the Mont Pelerin Society , an organisation dedicated to promoting freedom for individuals, free markets and a limited government.

When the world was sliding towards socialism, communism, Nazism and fascism, the Mont Pelerin Society with Friedman and other thinkers such as Hayek and Mises, served as an inspiration for economies such as Hong Kong, Chile, China, Russia, Singapore and others. Therefore, in the past and nowadays, I can say: where Milton Friedman stands, a capitalist revolution takes place.

And why is it not taught in schools? Because schools and universities are controlled by Marxists and Keynesians, that is, by the left, by socialists who believe that by concentrating power in the government or in a leader, better goals are achieved. Yet they are totally wrong. The urgent task of liberals and honest people is to get Milton Friedman into schools and universities, public and private.



Photograph of Milton Friedman, George Stigler, and Aaron Director at the founding meeting of the Mont Pelerin Society, 1947.

(Box 115, Milton Friedman Papers, Hoover Institution Archives)

The Legacy of Milton Friedman

Bernard Munk⁵, July 2021.

In preparing these notes, I have the good fortune to be spending a leisurely vacation in Greece (now in Thessaloniki, but I wrote this in Athens), the home of the first “democratic society” of which we have some considerable records. Ironically, the world is recovering from a hideous, international “plague” (Covid 19) which has limited our freedoms in so many ways, while enabling Governments to intervene in our ability to freely associate, to innovate, to travel, to teach, to express our ideas, to engage in free commerce as well as many other activities, all in the name of “protecting” us! Secondly, we might note that Athens was doubly set back at the beginning of the Peloponnesian war by a “Plague,” (not yet quite clearly identified) which crippled her response to the Spartan attacks and ultimately claimed the life of its most noted political leader, Pericles. I point that out because in my subsequent remarks about Professor Milton Friedman, the question of political leadership is not fully treated as it must be if we are to fully understand the pathways he outlined for us over his long career.

I had the good fortune of being a student at Chicago during Professor Friedman’s prime years in the early 1960’s when many of his ideas were often ridiculed both by other professional economists and by Government officials who had rather Statist views on the role of Government, descending from the then prevalence of Keynesian ideas left over from the last great experiments in Government (The Great Depression and the end of WWII.)

The first edition of Milton Friedman’s luminary work, *Capitalism and Freedom*, came out in 1962 in the midst of my graduate years at Chicago...and we know that it was not well received at the time. In fact, most of us who were totally overwhelmed by Friedman’s scope of interests in economics and politics, and his well noted analytical capabilities, found much of *Capitalism and Freedom* as “old news” already featured in some ways by his lectures in *Price Theory* —which we all took— and his efforts to change the focus of monetary policy (via his monumental book with Anna Schwartz, *The Monetary History of the United States* was published in 1963).

Another irony struck me as I reviewed the Foreword (by Binyamin Appelbaum) to *Capitalism and Freedom* in his statement that capitalism “had fallen into some disfavor,”

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at the time. (1962). *Capitalism and Freedom* came out during the great fascination by many students at the time with the alleged success of Soviet Communism (e.g. Sputnik) and some mystic appreciation of what appeared to be the political success in China of the CCPC under Mao Tze tung. The brutalities and exterminations of millions that had occurred during the earlier years of these regimes were not widely documented until Solzhenitsyn's *The Gulag Archipelago* appeared in the West in the late 1970's.

I mention this chronology precisely because we are witnessing a second episode of Capitalism's "disfavor" in the United States, and also in many other countries. Witness the changes in Latin America in Argentina, Bolivia, Chile, Ecuador, Peru, and Venezuela. And, in the USA, where Capitalism has raised our standard of living to its highest level in history--and reduced poverty by immense amounts wherever it has been given a chance to flourish. If you watch the US Media or read the majority of its newspapers, you wouldn't know that. It would appear that "*Capitalism and Freedom*" has failed and failed badly! When we see the epithet of "Racism" cast about so freely by young people, often from middle class backgrounds, you have to wonder just what kind of education has disabled their knowledge of U.S. history; their awareness of brutal coercion in many non-capitalist societies; and, their understanding of the actual data of economic progress over the last 60 years since Milton Friedman published *Capitalism and Freedom*.

Milton Friedman has often been cited as the outstanding economist of the 20th Century. As far as his technical contributions, there is no dispute that his efforts in the 1940s-50s-60s-70s illuminated much of macroeconomics and still continue to bear fruit. His policy analyses of housing, of the virtues of Charter Schools as a market based educational alternative, of the flexibility offered to macro policies through elimination of exchange controls and his long advocacy of abolishing restrictions to international trade are part of the lexicon of freer markets and freer economies.

Normally, a man who covered such a range of social policy should be satisfied with such a menu of accomplishment, but I think the Milton Friedman that we knew in the 1990's and 2000's was not completely finished with both his analysis of current conditions nor his vivid assertions that free markets were essential to political freedom. Let me amplify those thoughts a bit.

When we look around the world—particularly at the nominally "democratic states,"--- that is those states that are not governed by some form of totalitarian regime, we do observe a growing division between people who believe they are "free" and those who believe they are "controlled" by some amorphous and ill-defined cabal of special interests. We see this in the "Black Lives Matter" movement; in the looting and burning of certain sections of American Cities often by protestors willing to turn their demonstrations into violence. We see it from supporters of our previous President who

attacked the Congress in a physically violent protest in which several died. We see it in protests in Europe and Eastern Europe on both the so-called “left” and on the “right.” It almost appears as if we are watching history repeat itself.

Marx claimed that history repeats, the first time as tragedy, the second time as farce. Should we think of what is going on today in nominally democratic states a farce? Perhaps, the second time is a tragedy as well? Or, is there some inherent connection between the seeming success of capitalism in the nominally democratic states and the discontent of our younger generation who frequently storm against “Capitalism,” the very system that has given them such enlarged economic opportunities and that has stood at the base of their political freedom.

In my view, there is a common theme that resonates in our current age of discontent. It is what I would call the “Doctrine of Fairness.” Apparently, the fact that free markets generate immense outpourings of innovation and that markets reward such innovations so well in an age of globalization, are principle ingredients to the Discontent of many. Invidious comparisons are drawn by many individuals between their own personal economic status and the highly publicized outcomes of the very wealthy. The latter, for a multitude of reasons, have gone far beyond the rewards of simple labor income. Indeed, much of their wealth and the income from that wealth is financial, stemming from their ownership of intellectual and physical capital. The wealthy cannot spend but a fraction of what their human and physical capital produces and their lifestyles are far different from the “average” family. Of course, as we know, in economies whose markets are much less than free, the “rich” do proportionately even better than do the “rich” in much less restricted markets, but that fact is scarcely addressed in public media. One has only to look at the kleptocracies around the world for a demonstration of that kind of inequality.

Furthermore, it appears to the Media and to the “common man” that the political clout by the wealthy with bureaucrats and senior politicians is far greater than those whose income derives solely from Labor. The implication of that observation, whether it is true or not, we can put on the back burner for now, is that “special interests” get served far faster and more thoroughly than the “mass” of the people. That observation takes me back to Ancient Greece, and the troubled history of the first great democracy, Athens.

Any fair reading of Athenian politics in the 5th Century BC shows that while it is true that there were always “leading” families and individuals who had closer access to important political and governing figures, Athenian politics was in fact heavily influenced, even dominated by the mass of Athenians who had significant political rights rather than significant property. One can even argue that it was the “Mass” that forced the bad choices of Leaders and Strategies (Sicily for example) that led to the ultimate defeat of Athens. Athens never recovered from its failed campaign in Sicily against Syracuse.

Applebaum in his notes brings out the fact that in his later years the intimate connection that Friedman had initially drawn between the necessity for Free Markets to undergird Freedom itself became perhaps less clear to him. Yet, the clear distinction between a totalitarian state and the freedom of those who are so ruled by such a state and a freely elected democratic state remains. But within democratic states, there are infinite variations in content and in style over property rights and free markets. Some democratic states are freer than others. Fairness of outcomes differs between countries. In some states, overwhelmed by the numbers who are clearly POOR, restricting the freedom of others and changing the distribution of output in a significant way becomes a more appealing choice than allowing extremely capable and industrious people to rise into the class of great wealth. The political outcome is to restrict by taxation or by Government spending programs the growth of the economy as a whole. Furthermore, and this is an area that Milton Friedman did not much opine about publicly, the outcome in different states is heavily influenced by the quality and the understanding of the leaders chosen by the voters.

Inevitably, the poorest voters —who by numbers are the largest class of voters— are persuaded they can have “Guns and Butter,” to use the old antonyms. As a result, politicians compete to spend Other People’s Money in order to gain or retain political office. They change tax laws and conditions of competition attempting to legislate “Fairness of Outcome.” Many of these measures limit the growth in output and often do not even readjust the outcomes to be more “FAIR.” However, appearances count more than substance. Voters are influenced by Presentation, not by actual data.

Abraham Lincoln said, “You can’t fool all of the people all of the time,” but a closely competitive political society doesn’t need the vote of all of the people. It just has to move the margin a bit. Binary voting outcomes are unlike market outcomes. Markets move output by the amount of dollars spent on the output—proportional representation so to speak. Voting outcomes are binary. One votes for A or B but political trades among the political winners can create a working majority of interest. What may count more in a binary choice system is moving the percentages slightly because then the “winner” can restructure the game. The Winner can become a virtual totalitarian. The bottom line of this kind of analysis is the old wisdom contained in the writers of the The Federalist Papers concerning the danger of a Tyranny of the Majority. It always exists in a democracy. Once a majority controls the Government, it can change the rules for political competition.

In my judgment Milton Friedman was the greatest spokesman for Freedom in my lifetime. He lived a very long and extremely productive intellectual life that had many spinoffs. He never gave up his defense of Freedom and the importance of Free Markets in enhancing and protecting that Freedom. However, the implementation of Freedom also requires good leadership —leadership that is willing to see through the mist of

“Fairness”. Politicians and bureaucrats focus on Now; good leadership looks for good outcomes in the Future. We have a deep need for another Milton Friedman to show us how that linkage can be achieved and how to choose leaders that will stay on the right path to that future.

Let me conclude with a few takeaways. In short, Liberals have a big load to lift!

Capitalism and Freedom is an elegant and persuasive argument for Freedom as opposed to growing Government Control... but if we look around the world, LIBERALISM IS NOW LOSING

Whether we look at nominally democratic governments or those governments that are explicitly totalitarian, THE STATE IS WINNING

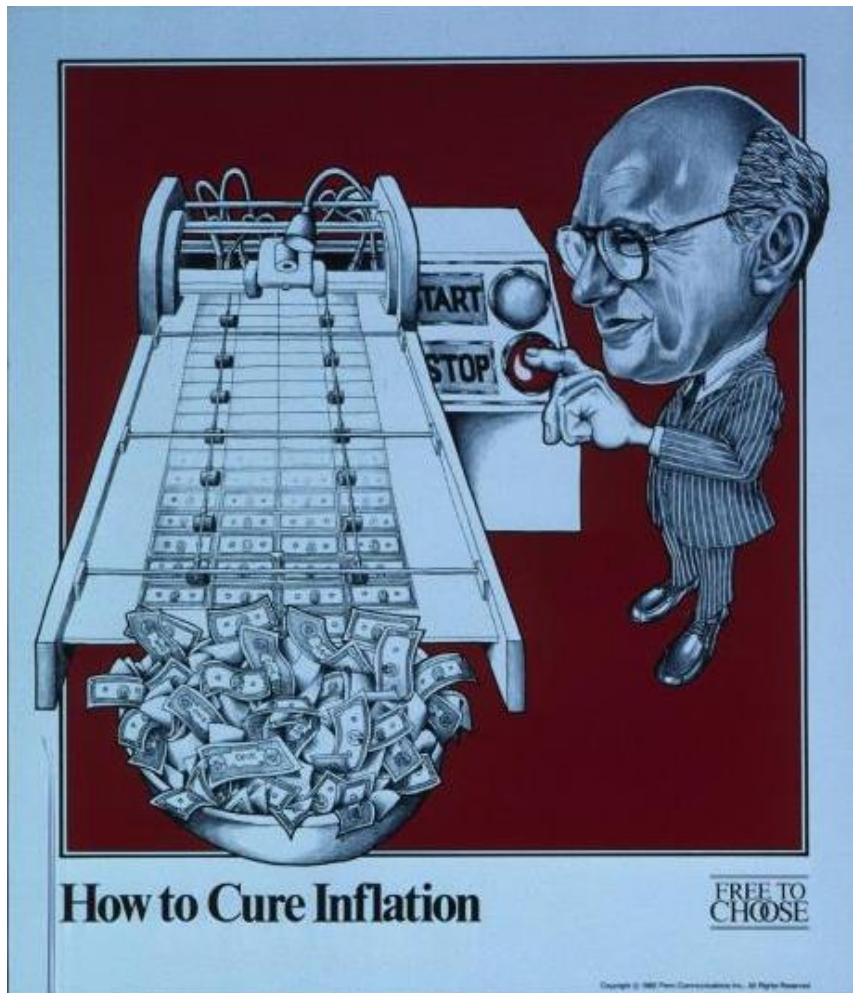
As empirical economists trained by Milton Friedman, we should be asking: why are we losing?

My own conclusion, not necessarily documented by clever and much needed research, is that people seem to accept several major premises:

1. The functions of Government have grown exponentially over time: Explicit control over individual behavior is vastly preferred to the imperceptible functioning of markets.
2. Human behavior seems to be heavily influenced by Risk Aversion. People are more prone to the allure that Government can fix the lottery characteristics of human outcomes—in spite of the vast empirical evidence of Government failure to contrive Equality of outcome! Governments can help Equality of Opportunity --- they may not be able to create Equality of Outcome.
3. A survey of Friedman’s critiques of Government intervention leads to some severe disappointments: public housing, social security, professional licensure, minimum wages, the end of the corporate income tax and assignment of undistributed earnings to shareholders as taxable income, the end of the inheritance tax and establishment of a flat income tax, ending tariffs and quotas, farm subsidies, and clearly, monetary authority rules vs bureaucratic authority.
4. LIBERALISM’S VICTORIES ARE FEW
 - a. volunteer army— not mentioned in Capitalism and Freedom.
 - b. some progress on Charter Schools with small progress on use of public resources for charter schools

c. the negative income tax

WE HAVE OUR WORK CUT OUT FOR US - LET'S GO TO WORK! WE NEED TO START WINNING AGAIN.



How to Cure Inflation, 1982, Poster collection, Hoover Institution Library & Archives, <https://digitalcollections.hoover.org/objects/42067/how-to-cure-inflation>

Milton Friedman's legacy for freedom, towards a new educational paradigm

Edgardo Zablotzky⁶, July 2021.

For many years now, education in our country has been my obsession. No one better than Milton Friedman to explain why. In his own words: "Better education offers a hope of narrowing the gap between the most and least skilled workers, of defending against the prospect of a society divided between the rich and the poor, of a class society in which an educated elite supports a permanent class of unemployed". I would venture to add that better education offers hope for a country different from Argentina today.

While thinking on what to write about in this essay, I remembered a lecture I gave a few years ago, prompted at an event called *The Final Friedman Legacy Day*, at which the *Friedman Foundation for Educational Choice* remembered for the last time the legacy of its founders, Milton and Rose Friedman, and announced the new name that the foundation would henceforth bear, thus respecting the will of the Friedmans, who, while strongly supportive of the foundation's future work, did not wish its name to be attached to activities over which they had no control. Therefore, they specifically requested that the Foundation cease using Friedman's name at some point after his death.

At that event, David Friedman gave a presentation on his parents' legacy of educational freedom, and then the Foundation's president announced its new name: *EdChoice*, and its plan of action to continue fighting for the ideals of Milton and Rose Friedman.

The *Friedman Foundation for Educational Choice* is probably one of Milton Friedman's most important legacies for Freedom. Friedman proposed the idea of educational vouchers in 1955, at the age of 43, and tried to spread it throughout the rest of his life, culminating in the creation of the Foundation in 1996.

The idea, as any good ideas, is simple: the state would continue to subsidize education, but the resources would not be allocated to the supply side, the schools, but to the demand side, the students. For example, in *Capitalism and Freedom* (1962) Friedman defines it clearly: "The system that would have the most justification would be a combination of public and private schools. Parents who chose to send their children to private schools would receive from the state an amount equal to the estimated cost of educating a child in the public school".

A monopoly generates significant costs for consumers, I can imagine no better evidence of this than the virtual state monopoly on education. After all, families who cannot afford to choose between public and private institutions face the state as the monopoly provider of the educational services their children receive.

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It is possible to find, over the years, many opinions that coincide with this assessment. For example, Frédéric Bastiat pointed out in 1849 in his essay *What is Money?* that "the most urgent necessity is, not that the State should teach, but that it should allow education. All monopolies are detestable, but the worst of all is the monopoly of education".⁷

One hundred and fifty years later, in an interview conducted in Washington by the Smithsonian Institution, Steve Jobs made a similar diagnosis: "The monopolist need not care about providing a good service. That's certainly what the public education system is today" ⁸. Moreover, Jobs added: "A matter of fact is that if a parent wants his child to go to a private school, he cannot use the cost of educating his child in the public school, but must pay the cost of the public school on top of that. It is clear that for many parents this makes public education the only feasible alternative for the education of their children. A real monopoly!

In that interview Steve Jobs defined himself as a great believer in equality of opportunity, as opposed to equality of outcome: "I don't believe in equal outcome because unfortunately life's not like that. It would be a pretty boring place if it was. But I really believe in equal opportunity. Equal opportunity to me more than anything means a great education"⁹. Therefore, Steve Jobs claims in that interview: "I believe very strongly that if the country gave each parent a voucher for the cost to educate their children at any accredited school several things would happen".

First of all, schools would start competing fiercely to attract students. Second, new schools would open: "You could have twenty-five year old students out of college, very idealistic, full of energy, instead of starting a Silicon Valley company they'd start a school. I believe that they would do far better than any of our public schools would"¹⁰. Finally, he believes that the quality of schools, given the competition, would begin to improve.

Let us again allow Milton Friedman to speak for himself. Let's see how he defined the Foundation's mission: "This foundation is the culmination of what has been one of our primary interests for more than four decades: the improvement in the quality of education for children of all social classes in this nation, whether that education is provided in private or public schools, or at home."

What better way to testify the accuracy of this definition than the article published in the Washington Post in 1995, a year before the creation of the foundation, on the 40th anniversary of its proposal. In it, Friedman stated: "The quality of schooling is far worse today than it was in 1955. There is no respect in which inhabitants of a low-income neighborhood are so disadvantaged as in the kind of schooling they can get for their

⁷ http://bastiat.org/en/what_is_money.html

⁸ <https://americanhistory.si.edu/comphist/sj1.html>

⁹ Ibidem.

¹⁰ Ibidem.

children”¹¹... characterized by “high dropout rates, increasing violence, lower performance and demoralized students and teachers”¹².

There is no way to read this quote without thinking about our country. So let me take one step further and finish this short essay with a story that I find fascinating for its premonitory power.

Imagine a country where citizens have always been proud of the wide availability of education for all and the role played in this by public education.

Imagine that in recent years its educational reality has been unclear. Parents complain about the decline in the quality of education their children receive and many are even more concerned about the dangers to their physical integrity in schools. Teachers complain that the atmosphere in which they are forced to teach is often not conducive to learning; indeed, a growing number of teachers fear for their safety, even inside the classroom. Almost no one argues that schools are giving children the tools they need to thrive in life.

Imagine that country sparing no resources on education but that at the same time the number of students in public schools is decreasing, as is the quality of the education they receive; as evidenced by their performance on standardized tests such as the current PISA or Aprender evaluations. It is clear that the input in education in that country has increased but the output has decreased.

Imagine now, that in some regions the quality of schools varies considerably: it is outstanding in some areas, even more so in privileged neighborhoods of some cities, and incredibly bad in poorer areas. Those citizens whose financial possibilities allow them to choose where to live can do so on the basis of the quality of public schools in the region; of course, they are also free to send their children to private schools by paying twice for their education, in taxes to support the public education system and in the fees of the school of their choice. For their part, those living in the poorest areas can pay for their children's education only at the cost of great hardship. However, a surprising number choose to do so by sending their children to religious schools.

The tragedy of this country is that an education system designed to give all children equal opportunities has in practice exacerbated the stratification of society.

The funny thing is that such a country existed, none other than the USA in the 1970s and it was described in exactly these words by Milton Friedman in his classic book *Libertad de Elegir*, as the motivator for his proposal to give parents the right to choose their children's schooling, regardless of their financial possibilities.

By the way, doesn't that sound like an incredibly accurate description of our reality? Of course it is.

¹¹ <https://www.washingtonpost.com/archive/opinions/1995/02/19/public-schools-make-them-private/5d5c9c9b-675e-451b-b106-6d9ba6dad2d1/>

¹² <https://www.washingtonpost.com/archive/opinions/1995/02/19/public-schools-make-them-private/5d5c9c9b-675e-451b-b106-6d9ba6dad2d1/>

A program of schools vouchers would promote equality of opportunity by allowing all families to choose between public and private schools, regardless of their financial possibilities.

Allowing parents new options does not mean being against the strengthening of public education. It simply means allowing parents to go for other types of education, because they prefer so considering their values, their children's aptitudes, tastes or interests, or for any other reason. It is simply to enable this possibility, even for those families belonging to the poorest social stratum.

No one can be worse off for having a choice. If we ask a parent of school-age children whether they prefer the current system of free public education or a subsidy that allows them to choose the school they wish to send their children to, whether public or private, religious or secular, their answer should be obvious, since no family would be obliged to stop sending their children to a public institution. Any parent who wanted a different education for their children, to which they do not have access today because of financial constraints, could do so; and anyone who prefer that they attend the public school they currently attend to, could do so as well.

It is clear that many defenders of public education consider this proposal to be absolutely inadequate, but it would be interesting to carry out a statistical survey among members of the Congress and citizens in high positions in the Executive regarding the type of school to which their children attend, or have attended to. We will probably discover that countless members of both the Executive, at all levels, and the Legislative Branch, choose to educate their children in private schools while fiercely defending the right of the rest of their compatriots not to be exposed to such a decision.

It seems very Argentinian; but, to be fair, this was already raised by Milton Friedman in the his article in the New York Time Magazine, 1975, when he said: "I blame well-intentioned people who send their children to private schools and lecture the lower classes on the responsibility of sending their children to state schools in defense of public education"¹³.

Why not evaluate an educational system that privileges freedom, of course suited to our reality? Who could be more interested than parents themselves in deciding what is best for their children? A bureaucrat? The history and the present of our country are clear evidence of how dangerous this premise is.

My hope is that in Argentina one day we will understand this, which is why for more than 10 years now I have been writing about the right of parents to choose their children's schooling, probably one of Milton Friedman's most significant legacies for freedom.

¹³ <https://www.nytimes.com/1973/09/23/archives/the-voucher-idea-selling-schooling-like-groceries-vouchers-a-sort.html>