

## Chicago Remembers Milton Friedman

### Personal Reflections & Professional Intersections

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#### Introduction

In 2012 we mark the 100<sup>th</sup> anniversary of Milton Friedman's birth on July 31, 1912. Among his many laurels, Friedman won the John Bates Clark award in 1951, served as president of the American Economic Association in 1967, and was awarded a Nobel Prize in 1976, the 200<sup>th</sup> anniversary of Adam Smith's *Wealth of Nations*. This year is also the 50<sup>th</sup> anniversary of the publication of *Capitalism and Freedom*, the volume for which Friedman is perhaps best known by the general public. He died November 16, 2006, at the age of 94.

Milton Friedman received his A.B. degree from Rutgers in 1932, was awarded an A.M. by Chicago in 1933, and granted his Ph.D. by Columbia in 1946. Between 1932 and 1946, he was a research assistant at Chicago, worked at the National Bureau of Economic Research, Columbia University, University of Wisconsin-Madison, the U.S. Treasury, and University of Minnesota.

The 1946-47 academic year marked Friedman's appearance on the University of Chicago campus as an associate professor of economics, or an "officer of instruction" as faculty members were listed at that time. Apart from periodic leaves and visiting professorships, Friedman would remain at Chicago for more than 30 years, and Milton, his wife Rose, and their children Janet and David, called Hyde Park home.

Today Friedman is best remembered for his professional contributions on money and monetary policy and as the intellectual leader of "monetarism," but at Chicago initially – and for a long spell – he only taught Economics 300A and 300B, the two-quarter price theory sequence for entering graduate students in the Department. A few years later he also added one other

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departmental offering— Statistical Inference I – but it was for his price-theory sequence (and his *Price Theory, a Provisional Text*) that he was best known by cohorts of doctoral students and colleagues.

Steven Stigler, the Ernest DeWitt Burton Distinguished Service Professor in the Department of Statistics and son of the late George Stigler, noted to me that Friedman was a first-rate statistician and could have been a star in that field had he not gone into economics. During World War II, Friedman’s research interest was in sequential analysis, and his contributions remained classified for some time. The “Friedman Test” for assessing differences between samples remains an important contribution in the field. In private correspondence with George Stigler, just before Friedman returned to Chicago in the mid-1940s, he wrote that he had “developed some interest in the [quality control and acceptance inspection] problem and would not be adverse to giving a quarter course or so in it...[though] it is obviously not something I would have any interest in for any long period.”)

Economics 439, the famed graduate Workshop on Money and Banking, first appeared in the course catalog in 1954-55, with Friedman and Gary Becker listed as the directors. He later co-chaired that workshop, first with Phillip Cagan and then with David Meiselman.

Friedman did not teach undergraduate courses at Chicago, though undergraduates were then (and still) allowed to register for graduate courses, and his offerings were indeed attractive to the brightest students in the College as well as others who just wanted to catch a glimpse of the man as his fame grew.

Friedman was promoted to full professor in 1949–50. He became the Paul Snowden Russell Distinguished Service Professor of Economics in 1963–64, a title he held until he retired from Chicago in 1977 and moved to California. In that same year he switched from teaching the graduate price-theory sequence to two relatively new offerings listed in the Department under the heading of Monetary Theory and Banking: Economics 331, Money; and Economics 332, The Theory of Income, Employment, and the Price Level.

From 1948 to 1979, he also supervised 45 dissertations at Chicago and served as a committee member on many other theses.

## The Project, Assessments and Tributes

Much of the above biographical information is known or could be known with a little sleuthing in our archives and a few mouse clicks. During 2012 a significant amount of coverage from various quarters will certainly be devoted to honoring, figuratively speaking, a towering economics figure. (I suppose his detractors could also point to 2012 as being the 100<sup>th</sup>-year anniversary to the Titanic.) But what follows below are complementary accounts gleaned from one-on-one conversations during December 2011 with my Chicago colleagues—Milton’s former students and his colleagues who still remain on the faculty here in Economics, the Graduate School of Business (now Chicago Booth) or the Law School. These personal reflections were obviously not possible for those who preceded him in death, including T.W. Schultz, H. Gregg Lewis, Sherwin Rosen, Albert Rees, George Stigler, Harry Johnson, D. Gale Johnson, and Aaron Director; and I made the decision not to include those who intersected with Friedman here but who are no longer at Chicago—Robert Mundell, Al Harberger, George Shultz, and others.

(Disclosure: I was a student of Friedman’s at Chicago in the 1970s, and we stayed in touch over the years. I regard it as an honor to have gotten to know and learn from him.)

This piece is also not meant to assess Friedman’s contributions on monetary policy, public education or politics; nor his influences on Washington D.C. or the general public. That has been done, and will continue to be done, by other scholars. Nor is to speculate, were he still living, how he would have responded to and assigned fault in the financial crises of the last five years, including the roles of Wall Street and Main Street, QE2 and other discretionary Fed actions, stimulus spending and deficits, and also to his fellow economists. This is more a labor of love and a look back at Friedman the (Chicago) person by those who were close to him during this extraordinary period in the University’s history.

There were four distinct peaks with regard to intersections with Friedman at Chicago. The first occurred in the early 1950s with the arrivals of George Tolley, Gary Becker, and Lester Telser as new graduate students. The second was a two-year span in 1960–62 when four now very well-known economists enrolled in Economics 300A and 300B—first Robert Lucas, followed by Sam Peltzman, Eugene Fama and Sherwin Rosen the next year. (Of these seven, Fama is the only one who never left Chicago; he was offered a faculty position in the business school upon graduation. The other six went elsewhere and then returned to the fold at some point.) The third wave came in

the late '50s and early '60s when two future Nobel laureates were recruited to join the faculty, Ronald Coase and Robert Fogel, neither of whom had been a student at Chicago, or of Friedman's.

James Heckman, the Henry Schultz Distinguished Service Professor in Economics and Nobel laureate (2000), represents the fourth and final data point. He joined the Department in 1973; he, like Coase and Fogel, had not been a Chicago product, but was a colleague of Friedman's for four years. These three decades witnessed an extraordinary influx of talent and economic activity in economics at Chicago, with Milton Friedman being a—or *the*—focal point.

### In The Beginning

Of my many colleagues still active at Chicago, Professor Emeritus in Economics **George Tolley** was the first to have been a student of Friedman's (and was also a teacher of Gary Becker's). However, their closest interaction happened when both were on the Chicago faculty together: "I was an assistant professor and the lone person teaching Keynesian economics and representing Keynesian subject matter on the money prelim [qualifying examination]. [Milton] graded without bias. In spite of his strong feelings and his attacks on Keynesianism, Milton insisted that students have thorough knowledge of Keynesian economics, indicating his impartiality when it came to being familiar with, and technically competent in, the realm of ideas."

"He was interested in the truth. He was persistent, but not mean. He would even engage cab drivers—and continue to talk—until he had convinced them of his views or heard a better argument against them."

—Garv S. Becker

Tolley continued: "He took an interest in me as a younger colleague and always gave me encouragement. Later I made intellectual contributions on the distinction between inside and outside money, whose distinction had not yet become clear. In a book, Milton featured my ideas prominently and graciously gave me full credit, indicating that these were my ideas, not his."

**Gary S. Becker**—the 1992 Nobel laureate in economics; University Professor in Economics, Sociology, Booth School of Business, and Law, and chair of the Becker Friedman Institute for Research in Economics—was the second one to have been a student of Friedman's. "Although I met Milton when he came to lecture at Princeton when I was an undergraduate, my first real interaction with him was as a graduate student at Chicago in his two-quarter price theory course. It was a fantastic experience, one that had a profound effect on me. He used economics as a

powerful tool to understand the real world,” Becker said. Friedman was instrumental in getting Becker to return to Chicago, and the two of them remained colleagues and friends for a decade. “He was the intellectual leader of the department, and he and George [Stigler] ran the department. After George and Aaron [Director, noted professor in the law school, founder of the law and economics program here, and Friedman’s brother-in-law], I think I was Milton’s best friend.”

**Lester Telser’s** introduction to Friedman was in the Cowles Commission office at Chicago when Friedman stopped by one day to look at some charts Telser had constructed of 100 years of cotton price data. Not long after, Tesler, now Professor Emeritus in Economics, enrolled in Friedman’s price-theory sequence. Tesler was never a Friedman disciple, though Friedman was his thesis supervisor, and the two shared an interest in monetary theory and the banking system.

Telser took a position at Iowa State University before completing his degree. He would take the train to Chicago regularly on weekends, and Friedman would meet him on Saturday mornings to discuss his research and progress on the dissertation. “Try getting a faculty member to meet you on a Saturday morning nowadays,” Tesler remarked. (The Ames-Chicago train traffic, at least in one direction, was significant over the years: In addition to Telser, earlier T.W. Schultz, D. Gale Johnson, and George Stigler had all been faculty members at Iowa State before being lured to the University of Chicago.) Tesler was not the only student to benefit from Friedman’s attention; Robert Fogel also praised Friedman for how supportive he was of his students.

Telser’s friendship with Friedman as faculty colleagues was strengthened by the proximity of their homes, which frequently meant morning or afternoon conversations on the way to or from work. He maintained a long correspondences over the years after Friedman moved to the West Coast, principally about the relative importance of the money supply versus credit as causal factors in financial crises, including 1987, about which they disagreed. Telser also reflected that he thought that Friedman’s professional life had been difficult for him until he landed in Chicago. Fogel seconded that.

## The Early ‘60s

**Eugene “Gene” Fama**, the Robert R. McCormick Distinguished Service Professor of Finance at the University of Chicago Booth School of Business, began his graduate training in Friedman’s price theory course, then later became his colleague. As Gene’s friends and current

colleagues noted, of the many students Friedman taught, Fama was not cowered by him and was willing to challenge him in the classroom, something Friedman may or may not have appreciated at the time. But Fama chalked it up, as well as the fashion in which Friedman ran his money and banking workshop, as a sign or context of the times: “Chicago was under attack, so in part that created a mentality to put up the barricades.” (*Plus ca change?*)

Fama viewed Friedman as “a great economist and good social thinker with amazing debating skills. And he wrote and spoke incredibly well.” Along these lines, Becker also recalled the year (1964–65) Friedman spent at Columbia when Gary was there. Goldwater was running for president. Milton couldn’t wait to tackle the eastern liberal establishment crowd who were so opposed to Goldwater. “I tried to warn him, but he said that he wasn’t worried— no one had ever heard a forceful intellectual defense of the positions he was espousing and it would be easy to convince them.” And Becker added: “He was interested in the truth. He was persistent, but not mean. He would even engage cab drivers□ and continue to talk□ until he had convinced them of his views or heard a better argument against them.”

Robert Lucas quoted our late colleague Gale Johnson as characterizing Milton as “incapable of losing an argument.” And he went on to remark that Friedman was “totally engaged with the person with whom he was speaking, and he maintained respect for those whom he disagreed with— and he refused to demonize them.” Telser, too, considered Friedman a superb debater, and thought that Abba Lerner was the only person who could hold his own with Milton.

Telser and Fama both recalled how Friedman ran the money and banking workshop: the student’s paper was distributed to all workshop participants to read in advance. But come the day, Friedman would control the workshop by asking if anyone had any questions about the title of the paper, then asked if there were any questions about the first paragraph. Then the second, and so on, paragraph by paragraph right through the paper. He didn’t see this as a time or place for broad themes or reflections. Along the same line, Lucas reflected back on that period, “It was a time of liberalism among intellectuals. They’re more conservative now. But Milton had to make his points to skeptics, and that included students.”

Peltzman echoed this same theme, noting that in the troubled times on campuses in the late ‘60s and early ’70, “Milton was an optimist. He felt that good will and educating people would get them to do the right thing.” Becker noted that this was the one major area of disagreement between

Friedman and Stigler. “George was far more pessimistic, arguing that you can preach all you want to but people won’t change, in part owing to the power of special-interest groups. Milton thought that if you gave people good information they’d make the right decision. I think George won that argument.”

Becker also recalled one experience when he was directing that workshop with Friedman: “I remember going with him to some second-hand store to buy 10 Marchant calculators for the workshop students. He insisted on buying them used to save money.” And according to Telser, “Milton was interested in computers right from the start. He didn’t like mathematical economics, nor general equilibrium modeling, but he had a high opinion of Von Neumann, and his *Theory of Games and Economic Behavior* (with Morgenstern) is the one book that Milton wished he had written.”

**Sam Peltzman**, the Ralph and Dorothy Keller Distinguished Service Professor of Economics Emeritus at Chicago Booth, first encountered Friedman in the fall of 1960 as a first-year graduate student. “His classes were huge, and the period ushered in the great intellectual place Chicago was to become—with Harry Johnson, Al Harberger, Bob Mundell, and others.” Friedman had “an enormous impact on me, but subtle.” Peltzman remembers Friedman teaching entirely from index cards and newspapers, generally the *Wall Street Journal*. “He would come to class and read an article, a paragraph, or maybe just the title,” and then they would examine it. “The course had a take-home final exam; you’d finish it and then make an appointment to come to meet with him one-on-one to discuss your answers.”

**Robert E. Lucas Jr.**, the John Dewey Distinguished Service Professor in Economics, the 1995 Nobel laureate in economics, and an undergraduate history major at Chicago, also recalled that first price-theory class well. “Friedman’s class was not devoted to training us in the technical nuts and bolts of economics. He assumed that we already had been through this...and focused instead on the *use* of economic theory in thinking about substantive economic questions of all kinds. A typical class was built around a specific question posed by some antitrust action or proposed legislation or a newspaper editorial.”

Lucas called the class course as a life-changing experience. “He changed my viewpoint on almost everything. And it was fun! But I was scared to death of him.” On a personal front, Lucas said that he wasn’t particularly close to Friedman, but he witnessed “how Friedman reasoned from

evidence and would see how far that could take you.” And “he didn’t make jokes at others’ expense, and didn’t want anyone to feel small. His courtesy was remarkable. And he was fearless!”

A fourth member of those 1960-62 cohorts was **Sherwin Rosen**, who died in 2001. At the time of his death he was the Edwin A. and Betty L. Bergman Distinguished Service Professor in Economics at Chicago and president of the American Economic Association. The year before, when

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And he was fearless!”  
—Robert E. Lucas Jr.

he and I were writing an article together on sports labor markets for *The Economic Journal*, he chuckled to me about that period: “Everyone around here was smart, but Milton was just smarter than anyone else.” And Lucas remarked that “Sherwin Rosen once told me that he thought Milton Friedman’s greatest contribution was to think more deeply

about the relationship of economic theory to fact than anyone before him had.”

### The Three Outsiders

In addition to their “home-grown” products—that is, economists who had come to Chicago as graduate students in general, and graduate students of Milton Friedman’s in particular —three other individuals joined the faculty here and intersected with Friedman before his departure. All three would also go on to win Nobel prizes in economics while they were on the faculty at Chicago.

I met with **Ronald H. Coase**, the Clifton R. Musser Professor Emeritus of Economics at the University of Chicago Law School and recipient of the 1991 Nobel Memorial Prize in Economics a week shy of his 101<sup>st</sup> birthday. (Friedman, as noted at the outset, lived to be 94; T.W. Schultz was 95 when he died; Gale Johnson, 86; Aaron Director, 102; George Stigler, 80. My other colleagues featured in this essay are in their 70s or 80s and—not to jinx anyone—are still going strong.)

In our conversation, Coase stressed that “our interests were obviously very different” but that his interaction with Friedman “was always very friendly.” He remembered Milton as being “kind” in their discussions, and was very supportive in helping Chicago recruit him from Buffalo. According to Coase, they held largely sympathetic views about firms and government. Their only serious disagreement was over how one judged a theory: “I held a very different view of the worth



and validity of a theory. Milton argued that we should base our assessment on the theory's predictive power and I argued that it was how it affected our understanding of the workings of a system."

Coase confirmed the story of how Milton and Rose met as students in Jacob Viner's course. Viner sat students in alphabetical order. There was no one in the class between (Rose) Director and (Milton) Friedman. And the rest is history, or at least economics.

**Robert W. Fogel**, the Charles R. Walgreen Distinguished Service Professor of American Institutions, Director of the Center for Population Economics, and 1993 Nobel laureate, came to Chicago from the University of Rochester. His departmental office was next to Friedman and facilitated end-of-day conversations when they left for home at the same time. "He was always very supportive of my work and encouraged me to keep working in economic history."

Fogel regarded Friedman as an empiricist, not a theorist; and "to the extent he build models it was to understand better the real world." And he had an unrelenting belief in markets: "There will never be a compute big enough to outperform the market, Milton would always say."

According to Fogel, Friedman "would acknowledge his mistakes without the slightest hesitation. He was modest himself. He wanted to be right, accurate, and careful." And he continued with other attributes: "Hard to provoke; open-minded; Catholic in his views. And an enormous influence on people."

One observation Fogel made to me was that Friedman thought that luck played a large role in many situations. As an aside Fogel mentioned two such instances: when Friedman worked at NBER with Simon Kuznets (they coauthored a 1945 volume, *Income from Independent Professional Practice*); As Fogel sees it, Kuznets' development of national income accounting paved the way for a larger welfare system. The second was Friedman's work at the Treasury Department and his efforts to create the withholding system for federal tax obligations, which, some would argue, made it easier for government to get tax revenues. Maybe Friedman was acknowledging such serendipitous occurrences in the title of the volume e and Rose wrote together: *Two Lucky People*.

"Milton was a wonderful colleague and a highly principled man. To me, his outstanding personal traits have not received sufficient recognition."

— George Tolley

“When I first arrived, Milton Friedman was the most prominent economist here and he set the standard for open in-depth discussions on almost any topic,” noted **James Heckman**. (Although Sam Peltzman had been a student here and came back to Chicago as a post-doc in the late ‘60s, he returned to Chicago permanently from U.C.L.A. in the fall of 1973, joining Heckman for the final four years of Friedman’s life in Chicago.)

## Milton and Me

Like many of my colleagues above, my own introduction to Friedman was in the classroom—Economics 331 and 332, the meat-and-potatoes macro sequence, rather than in price theory. He gave formal lectures rather than relying on newspaper stories, punctuated by periodically finding a name the class roster and calling on a student. I, at least, lived in fear of “winning” that lottery. For a variety of reasons, later on I took my language exam with him and spent a half hour reading and speaking French with him, the only area in which I felt I had the upper hand.

The closest I came personally to witnessing Milton’s rare putdown of someone in class was when a student, who likely was not actually registered for the “money” course but was a habitual interrupter, raised his hand and asked a question. Milton answered him and then turned back to his material. But the kid immediately raised his hand and said, “Can I ask another question?,” to which Milton responded: “I’m sure that you *can*, but the relevant issue is *may* you?” The foil quickly answered: “Ok, then; May I ask another question?,” to which Milton shot back: “No,” and went on with the lecture.

In the late 1970s when Milton and Rose were filming *Free To Choose* at various locations around the world, one episode was scheduled for the Hampton Roads Arena in southern Virginia, about 20 miles from Williamsburg and the College of William & Mary, where I was teaching. I called Milton to ask if, given that he would be in relatively close proximity, would be willing to come to campus to speak to William and Mary students and faculty. He said that he had only learned recently that the filming would not be at a university and agreed immediately. On the day of the filming, I drove down and picked up him and Rose. Milton gave a formal talk with a question-and-answer period to a group of departmental students and the faculty, then spent the rest of morning meeting with smaller groups informally. This was not the first, nor the last occurrence of Milton’s generosity of spirit I witnessed over the years.

A few months before his death I sent him a copy of Poland's version of *Time* magazine, which contained an interview with him. (One of my Polish students had given me the copy.) He wrote back on a postcard with a drawing of David Ricardo on the front saying that "Aaron and George", meaning his brother-in-law Aaron Director and George Stigler, his two closest Chicago friends, "had given him a pile of these so he'd write." He thanked me for the magazine and noted: "I enjoyed to the fullest reading what I had to say in Polish."

In 2004 I was asked by an administrator in the Dean of Students office — now First Lady Michelle Obama — to be on a panel focusing on sweatshops. Students were agitating about the alleged use of children and unfair labor practices in countries that made logo apparel merchandise. So, in typical University of Chicago mode, we dedicated an evening to discussing the issues pro and con. It was pretty clear that the moderator and three panelists were going to be very anti-sweatshop, so Michelle was looking for someone who would present a contrarian view and asked me to participate. I agreed.

In preparing for the event, I recalled reading once Milton's account of Rose's coming to the United States and working in what he said we would now refer to as a sweatshop, where she earned a little money and learned to speak English, and he never heard her disparage the experience. But I couldn't find the passage, so I called him to ask where it was. He almost reflexively replied, "*Two Lucky People*, Chapter 3." Then he asked why I wanted to know, so I explained the situation, including the fact that there would be four people on one side and me on the other, to which he countered immediately: "Those aren't bad odds." And then counseled quickly, "and don't give an inch."

### **Milton Friedman, 1912–2006**

I was struck in my chats with Chicago economist friends and colleagues that, completely unsolicited, the same words kept coming up in describing Milton Friedman the man:

"Very friendly" (Coase); "Extremely kind and generous" (Peltzman); "How kind" (Fogel); "His courtesy was remarkable" (Lucas). And invariably tidbits and anecdotes were accompanied by smiles and a reverence for a person and a period for which they had great affection. Perhaps Tolley's comments to me said best what everyone else was thinking: "Milton was a wonderful colleague and

a highly principled man. To me, his outstanding personal traits have not received sufficient recognition.”

And as a “bottom-line” way of describing Milton the scholar? Fama’s assessment of Friedman’s most important contribution: “He put libertarianism on the map.” For Peltzman: “He was a polemicist in the best sense of the word.” And to Becker: “He was a missionary for his beliefs.”

Friedman remained ever the optimist. In the fall of 2002, as part of a two-day conference to celebrate his 90<sup>th</sup> birthday, those featured above and many, many more filled the Quadrangle Club on the University of Chicago campus for a formal dinner. One of the speakers, noting that there had also been a conference to recognize Friedman’s contributions on the occasion of his 75<sup>th</sup> birthday, perceived a pattern—first 75, then 90—so he suggested that everyone return here in 15 years to celebrate Milton’s 105<sup>th</sup> birthday. At which point the guest of honor, without missing a beat, interrupted with: “I don’t see why not; you all look healthy enough.” That, of course, cannot happen. But we can at least raise a glass in 2012 to Milton Friedman the economist, husband, father, and friend.

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