

On the Milton Friedman Institute

Not long after Milton Friedman's death in November of 2006, a number of faculty members on campus began discussions with President Zimmer about the possibility of an institute for economic research, to be named in Friedman's honor. It seemed a fitting way to honor a towering figure in the intellectual history of the University and focus financial support for the continuation of the distinguished tradition in economic research on campus. When this idea was well received, President Zimmer formed a committee drawn from the faculties of the Economics Department, the Graduate School of Business, and the Law School to draft an operational proposal for a Friedman Institute. This proposal was submitted in January 22 of this year, presented to the Committee of Council on February 19, and to the Council of the Faculty Senate on February 26 for discussion and approved by the Provost and President. The Institute was formally launched this past July.

Since the announcement of the Institute, many concerns and questions have been raised about its purpose, funding, governance and the like. A group of faculty sent a letter to President Zimmer expressing concerns about the establishment of the Institute, or at least naming it after Milton Friedman. At the same time stories began appearing in newspapers and magazines around the world. The letter and many of the resulting news stories had erroneous information about the intent of the proposal and its funding, about Chicago economics, and about Milton Friedman. Except for queries in the Council of the Faculty Senate, no serious attempts were made to communicate with anyone involved in formulating the proposal prior to the submission of the petition. In August I initiated a meeting with four concerned colleagues, and at Bruce Lincoln's suggestion he and I talked at length in September well after the initial announcement and the subsequent petition signing. In light of this, I appreciate now the opportunity to discuss with the faculty the status and ambition of the Milton Friedman Institute.

1. What are the goals of the Institute?

The Milton Friedman Institute will serve two important functions. First, it will preserve and indeed significantly enhance Chicago's economics programs by supporting the research of some of its best faculty and help us to compete in recruiting top scholars of various vintages. Second, the Friedman Institute will encourage interaction across some of the best and most exciting areas of research related to economics. It is not intended, however, to be the sole representative of scholarly research in the social sciences and humanities. I doubt such an ambition could be successfully embodied within a single institute.

This new institute is important because it is unrealistic to hope that economics at Chicago can be excellent in all subfields. It has not been true in the past and we cannot expect it to be true in the future. To preserve the vibrant research character of economics at Chicago, it is crucial that we have access and exposure to the best research and scholars around the world. Our aim is to design this Institute to be one that external scholars will find attractive to visit and where they will find value in sharing their research with local scholars. It gives us a way to continue to learn about the best new research in a variety of areas and to encourage cross fertilization among important subfields of economics. It will help us break down intellectual barriers by giving experts the support required to run workshops during extended visits, to recruit complementary younger visitors to the Friedman Institute, and to play leading roles in other ways. Thematic workshops over extended periods of time will allow us and our colleagues to explore potential research synergies through repeated dialog and exposure to promising lines of research. By rotating themes we will continually explore the most important new research contributions in economics.

In summary, our aim is to make the Institute a leading intellectual center in economics and to create an exciting, dynamic environment for a wide range of scholars and students. We believe this to be a crucial component to maintaining the excellence of economics at the University of Chicago.

Because of our late start, our activities for this coming year are modest, but I expect them to become increasingly ambitious in the future as we seek to appoint a director and to establish a larger funding base. Even this coming year we will be attracting top scholars from around the world in short term visits to support our exploration of topics such as: the role of financing in economic development, observable and policy implications of models of unemployment, alternative regulatory and legal structures to enable the improved functioning of financial markets, and the economic aspects of marriage and divorce.

2. Why honor Milton Friedman?

Milton Friedman joined the Economics faculty in 1946 and remained closely associated with the University throughout his life. He received every honor an economist can be awarded, beginning with his receipt of the Clark Medal given every second year by the American Economic Association as the best American economist under 40. He became a member of the National Academy of Science when the Economics section was first formed, he was President of the American Economics Association in 1967, he was awarded a Nobel Prize in 1976 and he received the National Medal of Science in 1988. There was no point in his career when he was not regarded as one of a handful of scientific leaders in his field. To portray him as anything else misses completely his intellectual stature among economists, including economists like Paul Samuelson who differed with him on various issues. Describing Friedman's contributions as merely "technical" completely misses their ambition and influence on the discipline of economics. It is most appropriate that Friedman be honored by the University.

3. Why feature markets and incentives?

Market economies are pervasive. As a consequence, economics as a

discipline studies the role of markets in the allocation of resources and uses markets as an analytical tool. In assessing empirical and policy implications, we develop and use models that typically, but not always, include markets; and we consider the incentives of individuals, groups and institutions as they interact. These models often recognize factors that complicate market exchanges by including transaction costs, adjustment costs, imperfect information, limits to communication and other impediments to contracting. Economists repeatedly discuss and debate the extent to which markets work and they explore how markets and policies interact. The Milton Friedman Institute will feature the discussions of such issues at the highest level of scholarly discourse.

As a contribution to the discussion of policy-making, economists aim to quantify (often imperfectly) the cost and benefits of alternative prospective policies. We continually explore the quality of the evidence that is required to support the findings or conclusions. As scholars we invariably end up characterizing feasible tradeoffs. Very few comparisons of economic policies lead to unambiguous improvements for all people. While the development of economic models purely in the abstract without any interest in their policy implications might also turn out to be useful, it would be unproductive to remove quantitative and policy ambitions from all scholarly economic research. Existing scholarly analyses within economics have much to be modest about, but this makes the case for an Institute all the more exciting and promising.

Dismissing our research ambitions as the naïve and uncritical embracement of free market ideology misses the point, and it reflects simplistic and uninformed criticism of economic research that is currently done on campus. We are proud of our openness and are only too happy to compare it to that of other departments and disciplines on campus. We invite all of you to participate in our workshops and conferences and to provide directed criticism of our work. Indeed such activity is what makes the University of Chicago great.

4. Are we up to task of making this a vibrant Institute?

The University of Chicago has a remarkable record of economic research. Critics sometimes refer to the “Chicago School” as though it were a fringe group. Such rhetoric simply ignores the fact that Economics at Chicago has a long tradition for intellectual strength and recognition for superb scholarship. It may be unseemly to cite numbers in this context, but it will save time. Among our currently active faculty there are 5 Nobel Laureates, 7 members of the National Academy of Sciences, 3 past presidents of the American Economic Association, 4 current or past presidents of the Econometric Society, and 4 Clark medalists. There are many repeats in this list, but in total 9 faculty appear at least once and represent contributions to a wide array of subfields in economics. These honors are not claims we make for ourselves; they reflect the opinions of our peers in the world of economic research. To debate the Friedman Institute without acknowledging this stature denies one of the key intellectual strengths of this University.

5. What about fund-raising and governance?

The University will work closely with a faculty advisory committee in setting the scholarly agenda of the Institute. Members and leaders of this activity will be appointed by the President, Provost and respective Deans. An administrative oversight board is chaired by the University’s provost and comprised of deans from the Graduate School of Business and the Social Sciences Division and the chair of the Department of Economics.

The administrative oversight board has published the following statement in response to stated concerns about institute funding:

“..., the University of Chicago does not, and will not, allow donors to dictate the content and direction of scholarly research.”

In my first meeting with President Zimmer, we both immediately agreed that this Institute cannot be research for hire whereby conclusions are pre-ordained and economists simply provide supporting evidence. We have no interest in such an institute. A formal governance structure, however, cannot in itself guarantee the integrity of this or any other Institute. Part of this future responsibility will be the maintenance of a record, available to all, of the publications and other activities of those whose work the Institute supports. The scholarly integrity of the Institute will necessarily require our own vigilance and continued high standards. Given my twenty-five year participation at the University of Chicago in the critical assessment of economics research, I am confident that we are up to task of preserving the high standards necessary to truly honor Milton Friedman.

In closing, let me quote Milton Friedman on the occasion of the celebration of his 90th birthday.

“During the periods I was at Chicago I had several offers to move elsewhere ... But I couldn’t bring myself to leave Chicago, not because of its beautiful climate, because of the quality and the spirit and the attitude in the Economics department and indeed the University at large. It’s a wonderful place, where people are interested in understanding things and getting at the bottom of things, at the truth, and not primarily in creating a particular record or getting their name in the paper.”

Our ambition is to preserve and enhance the level of scholarship admired by Milton Friedman and expressed in this statement.

Lars Peter Hansen¹

1. Helpful suggestions were made by Gary Becker, Jim Heckman, Bob Lucas, Phil Reny and Grace Tsiang.