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Interview of Milton Friedman

Conducted by Robert L. Hetzel

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Milton Friedman: **…**Let me put it in a different content for a moment. I'm sure you know about Schumpeter's famous claim that the third decade, that is the productive decade, every, his argument, that every scientist, whatever discipline, almost, the really important decade in his work is the third decade, between the ages of 20 and 30. And I've-I think it's an enormous amount of value to that, except that I've tended to modify it and to say that what's important is the first decade in which he's acted in a profession in which he makes his name.

For example, Vilfredo Pareto was an engineer in his third decade, but his main contributions to economics and sociology date from his first 10 years as an economist and sociologist. And if you take other exceptions of people like Ricardo, who was a stock broker in his third decade, but, who in the first 10 years when he started to work and when he did all his work. And I think in general that first 10 years period, Alfred Marshall is a perfect example. He really never did a damn thing intellectually beyond the age of about 33 or 4. But in the sense of the basic theoretical structures, it was all completed by then.

Robert L. Hetzel: I'm going to put it somewhat differently in your case. I would say yes, as concerns the temperament, your intellectual temperament that is the way you took your passion for clear, analytical taxonomic thought, and the way that you combined that with your interest in statistics, your empirical bent. That is-that temperament came together—

Milton Friedman: Now, I think you're right about that.

Robert L. Hetzel: —at that time.

Milton Friedman: I'm not quarreling with your conclusions, but your initial statement. I do think, whether it's '52, '53, '54, that the major aspects of my thought were pretty well set by then, and that since then, in the last 40 years, it's been a development of application to different problems. But, I'm not so sure, and the question is why? And I'm sure that the answer is a very straightforward one.

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The University of Chicago was a very intellectually stimulating environment, particularly at that time. The presence there of Knight, Aaron Director—Aaron, I'm sure, played a large influence, Lloyd Mints, you know, Henry Simon's died, as you know, just about the time I came in. The best batch of graduate students at Chicago, uh, any university ever had because of the return from the war because of the GI Bill. We had a really remarkable group of graduate students. And it was a very intellectually active and stimulating environment.

Now, let's remember that the, from this point of view, that the wartime years from '40, from '39, really from '40, in my case, to '45, were kind of a digression from a straight path of development. Three of those years I spent at the Treasury Department, and that was in the field of economics, and I did learn a great deal—I'm sure I benefitted.

But one of the things I noted along your line when I came across in doing the memoir, when I came across a memo that I had written at the Treasury Department on inflation, it was a straight—I may have said this to you before—it was a straight Keynesian memo.

Robert L. Hetzel: Yes, I have some of those quotes here. In fact, I think in your article for the Committee on Economic Development fiscal and monetary policy you say, "That the reason the government has to set wages and prices in certain professions is to prevent a cumulative-a destructive cumulative deflation." And you said that late in the '40s.

[00:05:17]

Milton Friedman: I didn't think that I-did I say that?

Robert L. Hetzel: Yeah.

Milton Friedman: That the reason the government had to fix prices? I can't believe that. You're not—and you're thinking, maybe Economic Development.

Robert L. Hetzel: Let's see, you said, "Moreover, the adoption of such a proposal," and this is where money supply would vary with the deficit, but the deficit would be balanced over the cycle—"would provide some assurance against cumulative deflation and thereby tend to make flexibility of prices a good deal easier to achieve since government support for monopolistic practices of special occupational and industrial groups derives in large measure from the obvious waste of general deflation and the need for protection against it."

Milton Friedman: Well, I guess that's right. It would make it easier to achieve. See, the difference is, I don't think that sentence says that it's desirable to have those prices. See, there are two different questions: explaining why you price fixing and whether it's desirable to have fixed prices. And I thought you were originally attributing the main view that it was desirable and that it would, in fact, serve the purpose of sending a serious deflation. But that isn't what that says. That says that the reason why you have support for it is because…

Robert L. Hetzel: [Inaudible 00:07:01] Okay. Okay.

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Milton Friedman: It's the same thing like the minimum wage in there, for example. The reason you have support for the minimum wage is the belief that it will help lower income people. But that doesn't mean it's a valid belief. And I think if you'll read that sentence over again, you see, it doesn't say, it doesn't endorse the idea that fixing those prices will, in fact, stem a deflation.

Robert L. Hetzel: Okay. That's kind of a digression. Let me come back to the other main point in terms of your intellectual temperament. The first time that you state the, clearly that what I think of as the methodology of the Chicago School, is in the Marshallian Demand Curve, and you've got a great line—

Milton Friedman: That was the first place I think it's published. But unpublished memoranda—I had written an early version. See, that was published what, '48, '50?

Robert L. Hetzel: '49.

Milton Friedman: '49. As early as '47, early '47 or '46, I had written a first draft and went on to [Unintelligible 00:08:22] article of methodology. And, so, the views expressed—it may be that's the first place where it got published was in the Marshallian Demand Curve, but the actual development of them occurred in 1926 or '27.

Robert L. Hetzel: When did you go to Chicago?

Milton Friedman: '46.

Robert L. Hetzel: I see, so it was upon—

Milton Friedman: I went in September, '46. And some time during… The reason I know this, the reason I'm certain, is because I looked in to it for a special reason. In 1947, I attended the first meeting of Mont Pelerin Society, and one of the people who was there was Karl Popper.

Robert L. Hetzel: Yeah, he recently died. Yeah.

[00:09:10]

Milton Friedman: Yeah. And I was very much-I spent a great deal of time talking to Karl Popper because I found him perhaps the most interesting person there, from my point of view. And my philosophy, my methodological philosophy, is Voltarian. It's his fundamental insight that he expressed in the title of one of his books, which goes something like refutation—the emphasis is on refutation, whether you can refute? And his dividing line between science and non-science is whether you generate empirically refutable, in principle, empirically refutable proposition. And I was interested in going back and trying to see whether I had derived my approach from him. And that's why I dug out a file the earlier drafts of that methodology article and discovered that they preceded my younger Mont Pelerin.

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Robert L. Hetzel: So, you just...

Milton Friedman: And Mont Pelerin was April, '47

Robert L. Hetzel: You, just, then it was helpful to you to elucidate those ideas, to talk them over—

Milton Friedman: Oh yeah, sure.

Robert L. Hetzel: —with him, but you had put together—

Milton Friedman: Oh no, no. I'm not trying—

Robert L. Hetzel: Okay, no. I'm just trying to get—

Milton Friedman: Absolutely. But the fundamental approach pre-dated that.

Robert L. Hetzel: Right, the idea that a purely mathematical model can't be refuted. If you want to take a model to the data that you can refute, you have to bring something to it, something inductive, some generalization of how the world works.

Milton Friedman: And, well, not that so much, it's not that so much, but if you do state a predictive statement, its validity depends on whether it's refuted, not on whether—it's the assumptions versus reputations idea. See, what was key to the methodology article was that at that time, in 1945, 6, 7, there was a big argument and discussion going on in the economic literature about how you check and test and theory about the reality or unreality of a subject. All of this derived from I think it was Hall and Hedge, who went around and did a survey of businessmen and asked them in order to see whether economic theory was valid, asked them, "Do you calculate marginal costs? Do you equate cost with...? How do you determine your prices," and so on. And they wrote articles and I think a book on the basis of this, and there was a good deal of discussion you'll find in the economic literature of that time. I no longer remember them, Machlup was involved—oh, half a dozen well-known economists.

Robert L. Hetzel: I mean today we don't think-we think economists, we think synonymously somebody who thinks of price determination in terms of marginal conditions. But in those days they were institutionalists—

Milton Friedman: Oh, sure.

Robert L. Hetzel: —so the meaning of economist didn't have the same... I mean today, in a sense, everybody accepts the—

Milton Friedman: Oh yeah.

Robert L. Hetzel: —marginal analysis of price determination, but it was—

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Milton Friedman: Oh there were many institutionalist, and there was a great deal of objection, particularly to mathematical economics.

Robert L. Hetzel: Oh, you were at Wisconsin, right, so you must have gotten some of that tradition from John Commons and—

Milton Friedman: Well, he was gone by the time I got there. Oh yeah, it was very large. And if you look back in the *American Economic Review* for example of the 19, oh around 45, 46, 47, there was a lot of stuff in there about this argument. I have, I think, a footnote reference to it in the methodology article. And one of the ele-ess-the essence of this was well to see whether a theory is valid you go around, it has assumptions, and you go around and you test the assumption.

Marginal analysis assumes that people are rational. Well you go ask them if they're rational. It assumes that businessmen make calculations in marginal costs and equate price to marginal cost. Do they? Let's go and ask. And my appro-my argument was that the assumptions are not what-it's utterly irrelevant what they say. What matters is whether they behave as if they're doing those things, and the only way you can test that is by seeing whether the predictions you make are refuted by the empirical evidence. And that's also the proposition that's at the center of Popper's philosophical-methodological approach.

Robert L. Hetzel: Would you call Paul Douglas the first member in the Chicago School? His Cobb-Douglas production function explained the distribution of income through marginal conditions, yet it was embodied in an empirically testable... Implications were the share of income of...

Milton Friedman: You know Tablis [sp]?

Robert L. Hetzel: I've never met him. I just know of his work.

[00:14:42]

Milton Friedman: You know of him. But he's written in recent years quite a number of articles that are gradually going to squeeze down; one of them, I think, will be published by the *JP* shortly, in which he emphasizes, he brought the name back to me, I really hadn't been thinking of him, that Douglas was, indeed, very much an early member of the Chicago School in many ways in monetary theory, as well.

Robert L. Hetzel: Oh, yes, he was a very strong quantity theorist.

Milton Friedman: Right. Right.

Robert L. Hetzel: And he challenged Wright Patman in 1952 on the quantity theory on exactly. And there's a wonderful—

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Milton Friedman: But now you're taking him after he came to the Senate. But this is back in the '30s, early '30s.

Robert L. Hetzel: Right. Right.

Milton Friedman: Or '20s, in the late '20s and 30's, when he was writing about business cycles. Aaron Director came to Chicago to work with Douglas, and Douglas and—they wrote a book together, Douglas and Director, on unemployment in which it's a straight monetary-quantity theory analysis of the source of recessions and depressions and of unemployment. And he was a very strong proponent of using monetary pol...

See, Tablis stresses a point I hadn't quite realized that what was distinctive about the Chicago School in the 1930s in monetary analysis was it stressed-it emphasized the use of fiscal policy as a monetary mechanism, not as a Keynesian-demand mechanism, but as a monetary mechanism in the sense that they believed that the way to get out of the Depression was to get more money in circulation, but that open market operations might not be successful because there was so little demand on the part of business for loans. And, so, they argued that the way to increase the quantity of money was to have government engage in deficit spending. And Douglas was among those who took that view.

Robert L. Hetzel: So that's relate—

Milton Friedman: Viner took it as well.

Robert L. Hetzel: —I mean, in a way, there's a connection there with the piece we just talked about that you wrote where you tie the deficit to money creation.

Milton Friedman: That's right.

Robert L. Hetzel: It was some rule for balancing.

Milton Friedman: Well, they also wanted to balance over time. There's no question, those aspects are ultimate. Tab [sp] was a—as I say, the piece that's coming out in the *JP*, I'm not sure when, by Tablis, but, I'm sure he would be more than delighted to provide you with his piece on that, if you're interested. I think he's done a very good job.

Robert L. Hetzel: In 1933, nine Chicago professors sent a memo to Henry Wallace arguing that the government should restore the level of wholesale prices, and that the Fed should issue whatever money was needed to meet withdrawals from the bank-from banks, and it was signed by Frank Knight, Lloyd Mints, Henry Schultz, Henry Simons, Keith Cox.

Milton Friedman: They had sent a number of those earlier. Aaron—

Robert L. Hetzel: Aaron Director, Paul Douglas and Albert Hart. When you were at Chicago were there policy discussions; did the professors include students in policy discussions? Would you have been aware of that memo at the time or not?

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Milton Friedman: Well, yes, I would have been aware. But the reason I would have been aware is not necessarily an answer to your question. See, Aaron Director is Rose's, my wife's, brother.

Robert L. Hetzel: Right.

Milton Friedman: And she and I were going together already at that time when I was approved there.

Robert L. Hetzel: Oh, I see.

Milton Friedman: So I was in touch with Aaron, and through Aaron was Frank Knight. And, so, I knew, of course, at the time, about all of these policy discussions.

Robert L. Hetzel: Do you have any sense why Jacob Viner didn't sign the memo; did he distance himself from that?

Milton Friedman: No. Jacob Viner was very much of the same school. No. No. I don't know why he didn't happen to sign that.

Robert L. Hetzel: He may have been in Washington.

Milton Friedman: He signed some of the earlier ones. Yeah, he may have been in Washington, but... And, he gave-first of all, he gave a series of talks in 1933. One of them was at the University of Minnesota on inflation, deflation, or reflation, something like that. And in a number of talks, Viner, and again, Tablis discusses this at length, and in a number of talks, Viner is very explicit that you need to what he called reflate; you need to increase the quantity of money in order to get the economy moving.

Robert L. Hetzel: At the time, Holbrook Working and Carl Snyder were publishing graphs showing the quantity of money per unit of output and price flow.

Milton Friedman: Who was that other than Carl Snyder, you said?

Robert L. Hetzel: Holbrook Working. Were you familiar with those at all when you did your work in the early '50s; is that something that you remember or not?

[00:20:07]

Milton Friedman: I don't remember ever knowing anything about Holbrook Working, but I'm sure we were familiar with the work of Carl Smith-of Carl Snyder, yes, because he was at the New York Federal Reserve Bank.

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Robert L. Hetzel: Right.

Milton Friedman: And we-he was one of the few people in the system who during the 1930s, early '30s, was arguing for an increase in the quantity of money. He very much influenced... Well, he was very much influenced by Benjamin Strong, before Strong died. And then he, in turn, was-had a strong influence on George Harrison.

Robert L. Hetzel: It wasn't vice-versa. There are a lot of Strong letters at the New York Fed, and I need to go there and read those sometime, but the influence didn't go the other way around from Fisher and Snyder to Strong, as opposed to...?

Milton Friedman: Oh that's hard to say. I don't think it went... No. I don't doubt... See, I really can't answer that right now. I'd have to-you'd have to go back and look at the—

Robert L. Hetzel: Of course, they may have just have been at the same temperament and corresponded. But Strong did come out—

Milton Friedman: Strong—

Robert L. Hetzel: —against the Real Bills Doctrine, I think, in 1921.

Milton Friedman: Yeah. Strong was a very, you know, from very early on he was very good.

Robert L. Hetzel: Yeah.

Milton Friedman: And whether as to how much he was influenced by Fischer—see, I don't know. I wonder, you know, there is a biography of Strong that was written by...

Robert L. Hetzel: Right. But there's nothing in... I mean...

Milton Friedman: He wasn't... I haven't looked at it for years.

Robert L. Hetzel: Chandler was a Keynesian when he wrote it, so he may have missed things that were relevant, yeah.

Milton Friedman: I never... I don't recall. That's a very interesting question because Fischer, of course, was always very, very active; he was always, you know... One of his great activities was agitating for alcoholic prohibition, and he saw personally every candidate for the presidency from about 1916 or 14 or 12 on, in order to promote the prohibition platform. But, now, on this issue, as you know, Strong started out as president of the Bank of—of a New York bank—it's still existing.

Robert L. Hetzel: I know. Bank of New...

Milton Friedman: No. It's a—Banker's Trust.

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Robert L. Hetzel: Yeah, that's right.

Milton Friedman: He was president of Banker's Trust. I don't know. I never have looked in to... I read Chandler's biography and that's about all.

Robert L. Hetzel: Viner through the—

Milton Friedman: But where he got the ideas is one thing. That he had those ideas very strongly is another. And I would be surprised if it didn't go from Strong to Snyder rather than the other way. Obviously, Snyder may have reinforced him. But I'm pretty sure it went from Snyder—Snyder was very influential George Harrison, once Harrison became president. But Harrison didn't have the same strong personality that Strong did. And, moreover, as you know, some of the other bank presidents who had been very jealous of Strong's preeminence weren't going to let George Harrison take that place.

Robert L. Hetzel: Let me come back to some of these other individuals. Through the early '50s at least, forgetting about the 1960s, Viner remained a very strong quantity theorist. In fact, there's Congressional hearings, I think, in '48 or '49 where he testifies along with Goldenweiser. And Viner argues that the Congress should force the Fed to adopt a price level target. And then reading your case for flexible exchange rates, that was in 1952, and that's full blown Milton Friedman—that's full blown quantity theory. There's not a word in that-there's not a word in there today that you would change. When you wrote that, did you still have contact with Viner; had you read his theory of international trade and—?

Milton Friedman: Oh, yes, oh, of course I have read his theory of international trade. But what was much more important from that point of view was his theory-his book on customs unions.

Robert L. Hetzel: I'm sorry, I haven't read it.

00:24:43

Milton Friedman: No, no. The reason I say that is because the ideas about floating exchange rates, that article on flexible exchange rates, really was derived from my experience in 1950 when I spent three months in Paris as a consultant to the—

Robert L. Hetzel: European Payment [Unintelligible 00:25:03]—

Milton Friedman: The Marshall Plan. No. It was the Marshall Plan Agency whatever it was called, Economic Sub-Cooperate or something, whatever it was called, it was the Marshall Plan Agency in Paris. And my assignment was to analyze the proposed coal and steel community, which was the predecessor to the common market. And it was in that connection...

See, the question was whether the U.S. government should endorse the proposed Schuman Plan [Inaudible 00:25:37] for an iron and steel community. And I argued at the time

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in several memoranda I wrote, that the iron and steel community could be successful only if they had flexible exchange rates between the countries because of the different monetary and price situations within the various countries and the changes that were going to come around.

But it was not a-it had-there was no willingness to accept it at all. The big issue at the moment was the Germany was out of alignment, I've forgotten which way. And I proposed that as a solution to the German problem that they close the exchange rate. I went to Frankfurt to talk with the German people, and that was horror of horrors, and they're never going to consider that.

But at any rate, that flexible exchange rate article was really based, had its origin in the memorandum I wrote in 1950 for the Marshall Plan Group [00:26:54]. So, by 1950, I'm sure my ideas on floating exchange rates were fully developed.

Now floating exchange rates, remember, they weren't original with me. Lloyd Mints—

Robert L. Hetzel: Right.

Milton Friedman: —had always been a proponent of floating exchange rates—

Robert L. Hetzel: Right.

Milton Friedman: —for a long time.

Robert L. Hetzel: And Canada had floated by then, so this was something that had been done, I think.

Milton Friedman: Well when was Canada floated?

Robert L. Hetzel: Well, it's mentioned in your article so it had to have been by 1952.

Milton Friedman: Yeah, it had to been. And, well, you would have floating exchange rates during the inner-war period, as a matter of necessity.

Robert L. Hetzel: Almost a greenback.

Milton Friedman: Huh?

Robert L. Hetzel: The greenback relative to gold.

Milton Friedman: No, no, no. I mean between the first and the Second World War. You mean after '33, after the Great Depression—

Robert L. Hetzel: Yeah.

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Milton Friedman: —when the gold standard broke down, you did have a period of floating exchange rates with all sorts of manipulations in an attempt to control it, exchange control. So that-so far as that's concerned, I don't believe I was departing very far from what Lloyd Mints, for example, would have favored in time. But, as I say, my own attention to it, my own concern-my own interest in it derived from that experience in Paris.

Robert L. Hetzel: Was your main intellectual contact with Jacob Viner the year you had him for price theory in '32 or '33, and after that—

Milton Friedman: No. I had—

Robert L. Hetzel: —he was mostly in Washington, and you didn't see him that much, or?

Milton Friedman: No. I saw him very little in Washington.

Robert L. Hetzel: But—

Milton Friedman: I saw him in Washington during the...

Robert L. Hetzel: But later on, during your career, you didn't have much contact with him.

Milton Friedman: Very light. I remember visiting him once in Princeton or meeting in various places. No, I wrote the obituary notice for him that appeared in *The American Economic Review*, and they were anonymous at that time. I don't know whether they still are. And I had corresponded with him, though I no longer know about what, but I didn't-I wasn't-I had a much more intimate sort of personal relationship with Frank Knight than I did with Jacob Viner.

Robert L. Hetzel: In terms of the people you talked over with your distinction between Marshallian and Walrasian economics, in the foreword to that article, the Marshallian Demand Curve, you mention Arthur Burns, Aaron Director, H. Gregg Lewis, George Stigler and Jacob Viner; did you consider them all by temperament Marshallians, or did you argue with them? What was your contact with Lewis at that time; was he already at Chicago?

Milton Friedman: With who?

Robert L. Hetzel: H. Gregg Lewis.

Milton Friedman: Oh, yeah, Gregg Lewis.

Robert L. Hetzel: He was already—

Milton Friedman: Oh, yeah.

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Robert L. Hetzel: I didn't know that.

[00:30:02]

Milton Friedman: Well, he was there before I was.

Robert L. Hetzel: Okay.

Milton Friedman: As, on the faculty. He was a student—

Robert L. Hetzel: I knew that.

Milton Friedman: —and then became an assistant to Douglas, and then he became a faculty member.

Robert L. Hetzel: But that I just didn't know.

Milton Friedman: So Gregg—oh, yeah, Gregg was one of the people I got to know. I really didn't get to know him until I got there in '46, because we didn't overlap as students; he was later than I was. But, of those, let me see, Gregg Lewis...

Robert L. Hetzel: Well, Burns, Director, Lewis, Stigler and Viner are the ones you mentioned.

Milton Friedman: I would say all of them would be Marshallian.

Robert L. Hetzel: Hm-hmm (affirmative).

Milton Friedman: See, George Stigler, as you know, was a close student and a very, very close personal friend, and we were in continual contact by correspondences, otherwise. But he was not at Chicago.

Robert L. Hetzel: He was at Columbia.

Milton Friedman: He was at Columbia. Well, he was first at Brown and then at Columbia. He and I were together in Minnesota, as you know—you know the story, I got the job only because he was turned down. As George says in his... You've-I'm sure you've read that.

Robert L. Hetzel: Yeah, I've read that. Sure. Sure.

Milton Friedman: But I had a great deal of correspondence with George, and I had probably more direct discussion of these various issues by correspondence with George than I did with any other one of those persons.

Robert L. Hetzel: Hm-hmm (affirmative). It seems like you followed complementary agenda, I mean, a general agenda to show that the government should provide

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a framework and let the price system distribute resources. And you concentrated on the macroeconomic side, that the government should keep from shocking the economy, and he concentrated on the price theory side—

Milton Friedman: That's right.

Robert L. Hetzel: —the side to show that, in fact, the price system does allocate resources in an efficient way. But his genius was to bring empirical law, not just to state it as a proposition, but to actually study government intervention.

Milton Friedman: No, I think, as a matter of fact, that the interaction between George and me was very fruitful for both of us.

Robert L. Hetzel: Yeah.

Milton Friedman: I don't think there's any doubt that we comp-**le**-mented one another.

Robert L. Hetzel: Yeah.

Milton Friedman: You know, George was a marvelous critic, a very, very clear and logical thinker, and, of course, a wonderful writer. I think next to Keynes, he was-he's the most accomplished real good eco-accomplished stylist among the people you would regard as top economists.

Robert L. Hetzel: Hm-hmm (affirmative). Well when I think about what carried on-the tradition that carried on in the Chicago School, the first thing that always comes to my mind is a sense of skepticism, an unwilling to jump-an unwillingness to jump on bandwagons. What I remember, as a student, hearing, you know, I'd hear the name Frank Knight and the first thing that would come to mind is, " What's new is not true, and what's true is not new."

Milton Friedman: (laughing) Yeah.

Robert L. Hetzel: So it's that sense of skepticism.

Milton Friedman: Well, now, wait a minute. It's Viner who said that.

Robert L. Hetzel: Oh really? I just assumed that that was Frank Knight.

Milton Friedman: Unless I am greatly mistaken—this can be checked, and I don't trust my memory—but I believe Viner gave his presidential address as president of the American Economic Association [00:33:35]. And the meeting of the American Economic—

Robert L. Hetzel: Of the long run and the short run.

Milton Friedman: —in New Orleans, and I think the phrase is in there.

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Robert L. Hetzel: Okay. I can check.

Milton Friedman: I'm not sure, but somehow or other I've always associated that phrase with Viner, although it could have come from Knight, in terms of temperament, it could certainly have come from Knight. But you raise a very interesting question, and that is when did I make the shift from sort of a mixture of Keynesianism and modern theory [00:34:28] Well mostly of the Keynesianism, to back to pure quantity of money approach.

Robert L. Hetzel: It was definitely completed by '52.

Milton Friedman: Right. And the fact that this, the flexible exchange piece, really came in '50, if you're going to date the ideas, they go back to '50, suggest that it must have been earlier than that.

Robert L. Hetzel: Well, key dates must have been 1948 when you began the money workshop and you began work with NBER on the—

[00:35:03]

Milton Friedman: I began working on—

Robert L. Hetzel: —money series.

Milton Friedman: That's right.

Robert L. Hetzel: And, so, it must have been some combination of looking at the income velocity of money over a long period of time and saying, hey, this is stable, because you looked at that series when you were at the Treasury in a piece that Angel wrote predicting inflation. And your judgment, at the time, was that this series is not very stable. So it must have been going back, and it must have been in those two years.

Milton Friedman: I don't believe that that was a... I may have done that, but I don't believe that that was it.

Robert L. Hetzel: When did you work on...? The piece you wrote in the *AER* where you compared inflation and the Civil War and World War I,—

Milton Friedman: Oh yeah.

Robert L. Hetzel: —and you show that the proportionate rise—

Milton Friedman: That's right.

Robert L. Hetzel: —and the price level depend upon the changes in money, not the behavior of the deficit; when did you put those...? That was a controlled experiment—

Milton Friedman: Yes.

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Robert L. Hetzel: —of comparing the deficit and money creation. It was the first one that you...

Milton Friedman: That's right. That was the first one I had [Inaudible 00:36:08].

Robert L. Hetzel: Later on, '66, '68, but this was the first one.

Milton Friedman: And I think that one did have a good deal of an influence on me, much more-that would have been more important than any long-run velocity picture. When was that published?

Robert L. Hetzel: '52, I believe, in the *AER*.

Milton Friedman: Well then I must have done it in '51, '50 or '51. It may well be that the agreement to undertake the monetary study for the National Bureau started me in really re-reading about this. That may well be.

Robert L. Hetzel: Do you remember when you went back and re-read Fischer when you first...?

Milton Friedman: I don't remember at all.

Robert L. Hetzel: Okay.

Milton Friedman: I don't remember that at all. You know, I taught in the first year or two I was at Chicago, I taught—yeah, first several years I was at Chicago—I taught an undergraduate course in money, in addition to teaching price theory on the graduate level. I taught 203 was it? No. What was the money—30, 230?

Robert L. Hetzel: Do you have your notes from that time?

Milton Friedman: I may very well.

Robert L. Hetzel: Well, Gloria says they're kind of a mess, but, you just kind of...

Milton Friedman: I may very well. If I do, they're almost surely in the archives.

Robert L. Hetzel: At the Hoover Institute.

Milton Friedman: Like say, perfectly accessible. And there is an index for the archives.

Robert L. Hetzel: I just need to call one of the archivists.

Milton Friedman: No. No. You just get Gloria—

Robert L. Hetzel: Okay.

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Milton Friedman: —to show you the book of the index of the archives.

Robert L. Hetzel: Okay.

Milton Friedman: Something from that you'll be able to find out for yourself.

Robert L. Hetzel: There were monetary hearings at that time, in particular, associated with the Federal Reserve Accord, the Patman hearings; did you have any contact with Douglas at that time?

Milton Friedman: Oh, yes, sure. I testified before Douglas several times. He and I were always in agreement, [Inaudible 00:38:31].

Robert L. Hetzel: So that must have been an influence, because the-it was—

Milton Friedman: Well, by that time, I was pretty well formed; I don't think so.

Robert L. Hetzel: But the Korean War started in June of 1950, and the Accord then was in March of '51, so that summer of 1950—

Milton Friedman: But the hearings were in—

Robert L. Hetzel: —is when the Fed fought it out with the Treasury over pegging the long-term bond rate, so that was before...

Milton Friedman: But, I don't-the hearings... See, I'd have to look up in my bibliography, but I believe the hearings were in '51 or '52, not in '50, at which I testified.

Robert L. Hetzel: Yeah, '52, I think. I've got—'52, '52.

Milton Friedman: And there were two separate hearings.

Robert L. Hetzel: Yes.

Milton Friedman: One of them Patman was the chairman of the Joint Economic Committee.

Robert L. Hetzel: Right.

Milton Friedman: And the other set, well, Douglas was the chairman of the Joint Economic Committee. See, I went-I looked back at this recently in a different connection, in connection with a proposal to have a purchasing power secured,—

Robert L. Hetzel: Yes.

Milton Friedman: —and in the initial hearings on growth stability and something else. They sent out a questionnaire, or asked questions of a large number of people, and they

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reported in one of these hearing [Unintelligible 00:39:57], which also I happen to have at the office if you want to look at it. And they asked the question-among the questions they asked economists, this was—

Robert L. Hetzel: Yeah, [Unintelligible 00:40:05] already has that, yeah.

[00:40:10]

Milton Friedman: And among the questions they asked economists was, "Are you in favor of purchasing power security?"

Robert L. Hetzel: Hm-hmm (affirmative).

Milton Friedman: And I think there were some 20 economists who said, "Yes," 17 who said, "No." Of the 17, three or four were from life insurance companies (laughing), and you can understand why they didn't like the argument. But the interesting thing to me was in going back over it, a little while ago in *The Wall Street Journal*, Kaufman—

Robert L. Hetzel: Yes, I read that.

Milton Friedman: —had an article. Every argument he had in there was a duplicate of one of the arguments that was made in 1952 or whenever it was against that proposal. And on another occasion, I remember testifying before Douglas in which this issue came up, and he wan-somehow or other he wanted to know what I thought of it. And he agreed that it was a desirable thing, and he wondered why the Treasury wouldn't do it. And he asked the Treasury to check in to purchasing power security and provide him with a memorandum on it, and they came out with a memorandum against it. I don't remember where it is. But, you know, what's absurd to me is the way in which this proposal has been greeted, as if it's something brand new, as if it had never been suggested before, when it goes back to the 14th or 15th century.

Robert L. Hetzel: Right.

Milton Friedman: Who was it? That famous Oxford Dean—

Robert L. Hetzel: Right, yeah, in Littlestown.

Milton Friedman: —had to intervene on the question of what a scholarship meant, whether it should be in real terms or nominal terms.

Robert L. Hetzel: Well, sure, the tabular standard and the whole literature.

Milton Friedman: Oh sure.

Robert L. Hetzel: There's not a very good documentary/history of the Accord from the Congressional side; do you know, was Douglas a key mover on the Congressional side? Do you know much about the story from that?

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Milton Friedman: I know very little. No.

Robert L. Hetzel: Because—

Milton Friedman: I really don't.

Robert L. Hetzel: —there's some Fed minutes, and I have interviewed, there's still some New York Fed and some Board people alive, Ralph Leach, for example, and I've interviewed them and recorded, and I've gotten a lot of interesting information. But there's very little on the Congressional side. But you don't have any inside—kind of remember discussions with Douglas?

Milton Friedman: No, I don't.

Robert L. Hetzel: Okay.

Milton Friedman: I don't recall... I'm sorry.

[END OF RECORDING]

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