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The End of Friedmanomics

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The famed economist's theories were embraced by Beltway power brokers in both parties. Finally, a Democratic president is turning the page on a legacy of ruin.

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When he arrived in South Africa on March 20, 1976, Milton Friedman was a bona fide celebrity. He had been invited by the University of Cape Town to deliver a series of lectures on economic policy, but his itinerary was jammed with interviews, fetes, and gaudy extravagances fit for a senator or Hollywood royalty. Newspaper reporters harangued him, the crowded pre-cable TV spectrum reserved room for his insights, and he spent so much of the ensuing three weeks being whirlwinded by the local elite that he barely carved out time to enjoy the wildlife.

A 42-page travelogue recorded by Friedman recounts the experience. Milton and his wife, Rose, slept late after their arrival, savoring an afternoon walk along the glittering Sea Point Promenade in the shadow of Lion's Head mountain before dinner with the chairmen of a burgeoning fashion chain and a prominent investment house. Two newspaper interviews the next day were followed by an evening at the Dutch country estate of tobacco magnate Anton Rupert. Cocktails at the U.S. Embassy, lunch with the chairman of Mobil Oil South Africa, and a black-tie dinner with the head of the De Beers diamond monopoly would ensue.

After two decades on the intellectual front lines of American politics, Friedman was a bestselling author and no stranger to fine living. But he was astonished by both "the extraordinary affluence of the White community" and the "extraordinary inequality of wealth" in South Africa. Friedman was not a man to scold opulence, and yet he found the tension permeating apartheid South Africa palpable in both taxicabs and hotel ballrooms. The "hardboiled attitudes" of Mobil chairman Bill Beck and his friends were difficult for him to endure. The "complete segregation" of the population was "striking."

All of which makes a contemporary reading of Friedman's Cape Town lectures a harrowing experience. His first speech was an unremitting diatribe against political democracy—an explicit rejection of, in Friedman's words, "one person, one vote," delivered to a nation in which more than half of the population was disenfranchised by race. Voting, Friedman declared, was inescapably corrupt, a distorted "market" in which "special interests" inevitably dictated the course of public life. Most voters were "ill-informed." Voting was a "highly weighted" process that created the illusion of social cooperation that whitewashed a reality of "coercion and force." True democracy, Friedman insisted, was to be found not through the franchise, but the free market, where consumers could express their preferences with their unencumbered wallets. South Africa, he warned, should avoid the example of the United States, which since 1929 had allowed political democracy to steadily encroach on the domain of the "economic market," resulting in "a drastic restriction in economic, personal, and political freedom."

The idea that America experienced an erosion of political liberty amid the destruction of Jim Crow is simply impossible to take seriously. Between 1929 and 1976, in addition to the advances in civil rights, explicitly racist immigration quotas were eliminated, prohibition was repealed, and legal barriers to birth control were abolished, as poverty rates plunged across demographic groups and American income inequality reached the lowest levels on record. And yet, as he toured South Africa, Friedman did not retreat from his conviction that the state had dealt a perilous blow to American freedom. In a conversation with the courageous anti-apartheid politician Helen Suzman, Friedman expressed his belief that "a laissez-faire economic policy" was "the only way in which you could get a multiracial community going" in South Africa. And the free market had to be insulated from democratic pressure. The burgeoning activist movement to "urge all foreign enterprises to boycott investment in South Africa," Friedman believed, would ultimately serve to "hurt the Blacks, not to help them."

Friedman did not subscribe to biological theories of racial inferiority. His time in South Africa does not instruct us on his moral character or any unique failures of political judgment. It offers instead a window into the deepest currents of his intellectual contributions. The program Friedman prescribed for apartheid South Africa in 1976 was essentially the same agenda he called for in America over his entire career as a public intellectual—unrestrained commerce as a cure-all for inequality and unrest.

That this prescription found political purchase with the American right in the 1960s is not a surprise. Friedman's opposition to state power during an era of liberal reform offered conservatives an intellectual justification to defend the old order. What remains remarkable is the extent to which the Democratic Party—Friedman's lifelong political adversary—came to embrace core tenets of Friedmanism. When Friedman passed away in 2006, Larry Summers, who had advised Bill Clinton and would soon do the same for Barack Obama, acknowledged the success of Friedman's attack on the very legitimacy of public power within his own party. "Any honest Democrat will admit that we are now all Friedmanites," he declared in *The New York Times*.

No longer. In the early months of his presidency, Joe Biden has pursued policy ambitions unseen from American leaders since the 1960s. If implemented, the agenda he described in an April 28 address to Congress would transform the country—slashing poverty, assuaging inequality, reviving the infrastructure that supports daily economic life, and relieving the financial strains that childcare and medical care put on families everywhere. It will cost a lot of money, and so far at least, Biden isn't letting the price tag intimidate him. "I want to change the paradigm," he repeated three times at a press conference in March.

But the real turn is not about deficits or spending levels. It is the relationship between economic policy and democracy itself. For Friedman, liberty lived in the marketplace, rendering government a necessary evil under the best of circumstances. Today's Democrats, by contrast, have reclaimed state power as an essential component of self-government. When he laid out his agenda in April, Biden declared "it's time to remember that 'We the People' are the government—you and I. Not some force in a distant capital. Not some powerful force that we have no control over. It's us."

The new consensus on Friedman's work among economists has essentially reversed Summers's verdict from 2006. "Almost nothing remains of his intellectual legacy," according to Columbia University economist Jeffrey Sachs. "It has proven to be a disastrous misdirection for the world's economies."

In 2021, 15 years after his body gave out, Milton Friedman is finally dead.

Act I: His Rise to Fame

Friedman was born in 1912 to Hungarian Jewish immigrants who ran a dry goods store in Rahway, New Jersey. Recognized as brilliant from an early age, he graduated from high school at 16 and earned a degree from Rutgers before his twentieth birthday. Though he would pursue graduate studies in economics on an on-again, off-again basis for the next 14 years, Friedman spent most of the Great Depression and World War II in the employ of Franklin Delano Roosevelt's federal government, moving between influential positions at the National Resources Planning Board and the Treasury Department, where he helped establish the modern income tax withholding system to help finance the war effort.

On paper, Friedman was a gifted New Dealer with sterling credentials. He had opposed the right-wing America First isolationism and supported the U.S. entry into the war, and he then devoted himself to the statistical efficiency of the war program. But intellectually he had fallen under the sway of conservative University of Chicago economists Frank Knight and Henry Simons, who had helped him earn a master's degree in the early 1930s. When he at last won his Ph.D. from Columbia in 1946, Friedman shipped out to Chicago to join a fringe right-wing intellectual movement calling itself "neoliberalism." Despite their chosen moniker, the neoliberals loathed the politics of the New Deal, seeking instead to revive the most conservative strands of Enlightenment-era economic thought, so-called classical liberalism, for the twenty-first century.

Friedman made quite a splash. His dissertation, based on research he co-conducted with future Nobel laureate Simon Kuznets, suggested that professional licensing regulations raised the cost of important expert services—including medical services. But it was a 1946 pamphlet on housing policy co-written with fellow Chicagoan George Stigler that transformed Friedman from an obscure ex-bureaucrat into an academic sensation. Titled "Roofs or Ceilings? The Current Housing Problem," Friedman and Stigler's paper argued that California's rent regulations ultimately ended up raising the price of housing, hurting the very low-income people politicians sought to help. The argument was simple: By artificially depressing the price of housing, regulators deprived potential homebuilders of an incentive—higher profits—to build more homes, which would in time bring down housing costs.

The blunt unsophistication of the pamphlet was an intellectual call to arms. Friedman and Stigler weren't really writing about housing at all—they were writing about economics itself, calling for a return to the simple nineteenth-century analyses that Friedman would later credit for producing the "free market" and "the greatest expansion of human freedom the world had ever seen." The reaction was furious. Writing in *The Washington Post*, economist Robert Bangs decried the "drivel" in Friedman's "insidious little pamphlet," and denounced him for publishing it through a "propaganda front for reactionary interests" (which was true—"Roofs or Ceilings?" was released by the Foundation for Economic Education, one of a handful of specialty right-wing organizations that sprang up in the postwar world aiming to unwind the New Deal).

Friedman had thus cultivated a very particular brand. Academically he was a succès de scandale—not many economists in 1946 were being written up in *The Washington Post*. Politically, though, the pamphlet was a dead letter. Whatever people thought about Friedman himself, arguing that government regulation simply couldn't work had been losing at the ballot box for 14 years. The country did not recall the Hoover years with fondness; Harry Truman's biggest electoral problem was the fact that he wasn't FDR. Friedman had made a name for himself, but in doing so he had yoked himself to a far fringe of American politics that exercised almost no influence over public discourse—yet.

There were some very wealthy people on that fringe, however. In 1947, a Kansas City home furnishing heir named Harold Luhnow paid for Friedman to travel to Switzerland for a meeting of leading neoliberals that would become known as the Mont Pèlerin Society. Friedman was young and relatively unaccomplished for the group, which included titans of the European intellectual right like Ludwig von Mises and Lionel Robbins, but the organization proved to be a forum that would help foster his professional ambitions and those of his new allies. Though it began as an obscure elite salon, the Mont Pèlerin Society would grow into one of the most influential intellectual bodies in the world, with the University of Chicago serving as its principal American outpost. Luhnow underwrote a position at the University of Chicago Law School for Friedman's brother-in-law Aaron Director, who soon went to work attacking New Deal antitrust rules as counterproductive. Luhnow also financed a job at Chicago for Friedrich Hayek, whose 1944 political tract *The Road to Serfdom* had transformed him into a hero for American businessmen by arguing that Roosevelt's New Deal had turned the United States away from Western individualism and risked sending the country headlong into Soviet-style domestic butchery.

Friedman spent most of the 1950s trying to shore up his reputation as an academic, which had taken a hit for his associations with the hard right. In 1953, he published one of his most influential works of theory, "The Methodology of Positive Economics"—a sweeping statement on the power of economics to break down barriers between people and resolve political disagreements. It was a declaration of principles from a man who recognized he lived on the political outskirts. Liberals might disagree with his ideas, Friedman suggested, but their complaints were really superficial—ultimately, he argued, he was engaged in the same intellectual project and motivated by the same values as his opponents: building a fair and prosperous society.

It was a brilliant essay that captured the imaginations of people far to Friedman's political left in the profession. It also wasn't true. The chief political disputes of the 1950s and 1960s, as today, really were about moral values, not technical predictions. And by 1954, that conflict erupted spectacularly with the Supreme Court's *Brown v. Board of Education* decision that prohibited segregation in public schools.

Act II: The Entry Into Politics—and Race

Friedman responded to *Brown* in 1955 with "The Role of Government in Education," an essay that called for the ostensibly race-neutral program of privatizing the school system by providing families with education vouchers that could be spent where parents wished. As in his essay on housing nine years before, Friedman appealed to the simple nineteenth-century logic of market competition and equilibrium to make his case. Public schools were a "monopoly" that put private schools at an unfair "disadvantage." By transitioning from public schools to vouchers, families would enjoy a diversity of education options, and market competition over the quality of education would in time enhance the lot of students everywhere.

It was every bit as neat and tidy as Friedman's case against rent regulations. But as Leo Casey has detailed for *Dissent* magazine, Friedman gave away the political game in a lengthy footnote. Though he insisted, "I deplore segregation and racial prejudice," Friedman nevertheless believed in the right of the private market to develop "exclusively white schools, exclusively colored schools, and mixed schools." If multiracial education was really so good, it would get better results, and segregated schools would wither away.

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Though Friedman claimed to be striking a middle ground between "forced nonsegregation" and "forced segregation," he was in practice taking the side of the segregationists. His voucher proposal wasn't original—it had already been implemented by segregationists in Prince Edward County, Virginia, who were using it to get around *Brown* and allow white families to maintain a separate, publicly financed all-white educational system. Friedman lamely acknowledged in an infamous footnote, "This fact came to my attention after this paper was essentially in its present form."

Much of Friedman's political relevance within the Republican Party derived from his willingness to defend conservative policies on race during the 1950s and 1960s. "Missing from most analyses of Friedman's economic thought is the inseparable role of race," said Darrick Hamilton, the director of the New School's Institute on Race and Political Economy. "The racialization of poverty and ideas about those who are deserving and undeserving allows us to have a system without empathy where those in despair are treated as surplus populations."

"The Role of Government in Education" marks the earliest appearance of what remains Friedman's most damaging belief—the idea that bigotry and violence could be forced out of public life by the magic of the market. Friedman would insist on this basic proposition again and again throughout his career. In 1972, he would go so far as to suggest that the free market could have put a stop to the war in Vietnam if people had really wanted it to end. Enough chemists would have refused to make napalm that the cost of producing the explosive would have become prohibitively high. This was the appropriate way to stop a war—not the crude "voting mechanism" of "the political system."

Such arguments are difficult to take seriously today, but they worked with a substantial slice of the political spectrum in the 1950s and 1960s, particularly liberals. Where most hard-nosed conservatives were content to espouse white supremacy or pro-war attitudes, Friedman instead appealed to the liberal faith in the basic decency of humanity. Surely government intervention would not be necessary if people were the generally kind and caring sort that liberals imagined them to be. His appeal to liberal sensibilities was more than accidental. Throughout his life, Friedman preferred to be identified as either a "neoliberal" or a "classical liberal," invoking the prestige of the great eighteenth- and nineteenth-century economists—while conveniently gliding past their often profound differences with his political project. (John Stuart Mill, for instance, identified as a "socialist," while Adam Smith supported a variety of incursions against laissez-faire in the name of the public interest.) While many of his friends embraced the label of "conservative," Friedman resisted. "Good God, don't call me that," he told an interviewer in 1978. "The conservatives are the New Dealers like [John Kenneth] Galbraith who want to keep things the way they are. They want to conserve the programs of the New Deal."

But whatever the semantics, the political alliance was unmistakable. Friedman began contributing to William F. Buckley's *National Review* and turned down an offer to join Dwight D. Eisenhower's Council of Economic Advisers, concluding that the moderate Eisenhower would demand too many intellectual concessions of him: "I think society needs a few kooks, a few extremists." (Friedman's quote is recorded by historian Angus Burgin in his wonderful 2012 book, *The Great Persuasion*.) But being a professional kook was a lonely crusade. In 1962, Friedman's neoliberal colleague Friedrich Hayek left the University of Chicago and decamped to the political wilderness of the University of Freiburg in West Germany. Friedman's longtime benefactor Harold Luhnow had gone insane, financing Holocaust-deniers and claiming the supernatural ability to connect his mind with Soviet Premier Nikita Khrushchev before shuttering his philanthropy outright.

But before he did so, Luhnow had paid Friedman to develop a series of lectures that the two men hoped could be collected into a Cold War–era update on Hayek's aging publishing smash, *The Road to Serfdom*. The product of that effort, 1962's *Capitalism and Freedom*, became the bestselling work of Friedman's career and a rallying cry for young American free marketeers. *Capitalism and Freedom* argued that the market was the true realm of democratic expression. People voiced their preferences for the way society ought to be ordered with their pocketbooks, and industry responded by providing what was profitable. The political system, by contrast, inherently functioned as a restriction on individual liberty by limiting the kinds of preferences people could demand from the market. Democracies could choose between "laissez-faire" freedom or state socialism, but they could not have both—and in Friedman's telling, the style of government the United States had been pursuing since the New Deal was on the wrong side of that line.

In 1964, Friedman tried to put these ideas into practice by advising the presidential campaign of far-right Arizona Senator Barry Goldwater. As the Republican nominee toured the country insisting that he agreed personally with the goals of the Civil Rights Act and the *Brown* decision, Goldwater voiced an objection in principle to the use of federal power to "impose that judgment … on the people of Mississippi or South Carolina." Segregation was "their business, not mine." Advising Goldwater, Friedman called this attack on the legal foundation of the civil rights movement an "excellent" expression of the principle of "equal treatment of all, regardless of race."

Friedman wrote: "The man who objects to buying from or working alongside a Negro, for example, thereby limits his range of choice. He will generally have to pay a higher price for what he buys or receive a lower return for his work. Or, put the other way, those of us who regard color of skin or religion as irrelevant can buy some things more cheaply as a result." The relentless logic of the market would drive such inefficiency from public life.

Of course, the voters who backed Goldwater in 1964 didn't believe a word of that. They supported Goldwater because they believed he would maintain the Jim Crow order, not because they expected economic freedom to unleash a wave of radical egalitarian social change across the South. This was clear to conservative political commentators during the campaign. As Robert Novak wrote (with his partner Rowland Evans) for *The Washington Post* in June 1963, "These Republicans want to unmistakably establish the Party of Lincoln as the white man's party."

From the twenty-first century, it is hard to believe Friedman was merely naïve and not breathtakingly cynical about these political judgments, particularly given the extreme rhetoric he used to attack anti-discrimination efforts. In *Capitalism and Freedom*, he even compared the Fair Employment Practices Commission that FDR established to prohibit discrimination in the defense industry to "the Hitler Nuremberg laws," arguing that prohibiting discrimination and promoting discrimination both "involve a kind of state action that ought not to be permitted." And yet he appears to have genuinely believed what he said about markets eliminating racism. Friedman's travelogue from South Africa was a private recording he created to help him remember his trip. It contains the same basic political ideas Friedman presented in the Goldwater campaign, alongside clear discomfort with the racist attitudes of the South African business elite. Friedman knew that he was entering a political coalition with violent racists by joining the Goldwater effort, but, as he had stated in *Capitalism and Freedom*, he believed politics to be an inherently dirty business. There had been a paranoid catastrophism to much of the right since *The Road to Serfdom*. The belief that America was on the verge of full-blown communism could make ugly compromises appear necessary.

It is worth noting, however, that not everyone made the same compromises. Hayek, for instance, supported the Civil Rights Act. Backing Goldwater was an all-in career gamble that isolated Friedman from nearly every mainstream Republican leader, from Nelson Rockefeller to George Romney. But it paid off in one key respect: Goldwater's landslide loss accelerated the purge of moderates from the party. The future of the party would belong to men like Milton Friedman. Though Republicans emerged from the 1964 election in a state of historic political weakness, Friedman had leaped to the top of the heap. In just a few years, his gamble would bear fruit.

Act III: Taking on Keynes

This open association with the radical right would have destroyed Friedman's professional reputation had he not continued to publish top-tier economic research. In 1963, he at last delivered on the empirical promises he made to the field in 1953, publishing the work that made him the most famous economic thinker of his era, *A Monetary History of the United States, 1867–1960*. Co-written with Anna Jacobson Schwartz, the book offered a sweeping, meticulous account of changes in the quantity of money across the American economy over the course of nearly a century, with detailed explanations for the various forms of currency creation and destruction that occurred along the way. Friedman had never published anything nearly so ambitious, and would never do so again.

Constructing a 93-year account of fluctuations in the money supply is a curious endeavor to assume for its own sake. But of course Friedman had an intellectual motivation, which he detailed in a famous 1967 speech before the American Economic Association: He hoped to dethrone the ghost of John Maynard Keynes.

Ever since the publication of *The General Theory of Employment, Interest and Money* in 1936, Keynes and his theory of effective demand had dominated policymaking around the world. In Keynesian theory, the price of credit and the quantity of money were sideshows to the real drivers of economic activity: the purchasing power of the consumer and the investment decisions of the state. In the Keynesian framework, if the economy was in recession, it was because somebody, somewhere wasn't spending enough. If people were being laid off, that meant somebody, somewhere couldn't afford to buy whatever it was that person might have produced. The political corollary was straightforward: If people were out of work, the government should spend money—preferably at a deficit—to create employment. If you wanted to fix unemployment, you paid people to work.

The Keynesian aura of authority, Friedman recognized, resulted from the consensus opinion that Keynes had cured the Depression with his appeal to deficits and public works spending. And so Friedman's book took direct aim at the Keynesian account of the Great

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Depression, hoping to show that the entire Keynesian project of the subsequent quarter-century was based on a mistake. He called his alternative macroeconomic framework "monetarism." The problem in the 1920s and 1930s, Friedman argued, was not a collapse in consumer demand—it was a collapse in the quantity of money. The Federal Reserve had botched the job—where it should have maintained a healthy amount of money in the economy, it had instead allowed the money supply to fall by failing to rescue the banking system when it fell apart in the early years of the Depression. There was truth to this. The Fed really did botch the Great Depression. Letting the banks fail in multiple waves between 1929 and 1932 was a disastrous policy choice that subsequent central bankers have strenuously avoided.

Friedman elevated this account to a comprehensive theory of money and the economy. Everything important in the economy—inflation, deflation, unemployment—was a product of changes in the money supply, or expectations about changes in the money supply. And if you allowed a little inflation to take hold by letting too much money into the economy, a catastrophic spiral could set in, as consumers and businesses bid up prices inexorably without regard to how much money was really in circulation.

Friedman's book did make many scholars revisit the Depression years. But it did not make an immediate dent in the Keynesian consensus. The history of inflation in the postwar period just didn't fit his narrative. Outbreaks of inflation had occurred, but they had been brief and quickly contained—not some irrepressible spiral of chaos.

Act IV: The Age of Friedman Dawns…

All of that would change in the 1970s. The name given to the economic dilemma of that era reflects the assumptions of the Keynesian economists who interpreted it. "Stagflation"—persistent high inflation and high unemployment at the same time, producing stagnant demand—became a concept because, under the existing doctrine, it should have been impossible.

Keynes himself never said anything about stagflation. But in the early 1960s, his most influential American interpreter, Paul Samuelson, had identified a remarkable statistical trend in U.S. inflation and unemployment data. There seemed to be a very clear trade-off between the two. More inflation meant lower unemployment. Higher unemployment indicated lower inflation. Policymakers, it seemed, could pick and choose how much of either evil they wanted. It worked for most of the 1960s. But during the 1970s the correlation fell apart. Unemployment and inflation rose together, and the era of "stagflation" was on. It wasn't just an embarrassment for Samuelson and his Keynesian academic allies. It presented a genuine policy crisis.

Just why unemployment and inflation soared together in the 1970s remains in dispute to this day. Multiple oil crises were obviously part of the problem. When OPEC cut off the supply of fuel, the price of fuel increased, along with the price of everything that needed fuel to be shipped—in other words, everything. But the Johnson and Nixon administrations also spent an enormous amount of money on just about everything—from welfare to war to long-term investments in research, development, and infrastructure. Some of these investments were simply sunk costs—higher napalm output did not increase the productivity of any society. But there were almost certainly some time lags involved in the grander infrastructure upgrades. Faster trains, more efficient electrical grids, and early research into the internet elevated the long-run productive power of the economy. But in the short-term, they produced a lot of paychecks while the economy waited for its big boost.

Whatever the cocktail, stagflation arrived. And it gave Friedman the opportunity he had been waiting for. He was ready. In 1966, he had accepted a position with *Newsweek* that would allow him to maintain the public profile he craved without the weird right-wing associations that besmirched his academic reputation. His columns expressed essentially the same worldview he had espoused in *National Review* in the 1950s, but now it reached a far wider and politically diverse middle-class audience. By the Carter years, Friedman's ideas had been reaching households for a decade. Free-market evangelism was no longer the domain of kooks—it was on the coffee tables in the homes of die-hard Democrats. When Friedman was awarded the Nobel Prize in economics in 1976, it bestowed a new aura of prestige on the simple story Friedman offered to explain the economic frustrations of the era: All of this Keynesian meddling had pushed the economy beyond its natural constraints, creating unnecessary economic pain. The very interventions that had been intended to help the most vulnerable had, in the long run, hurt them. Roofs, ceilings, vouchers, and votes.

Friedman was inspiring enormous changes not only to the politics of inflation, but also on another key front where long-held presumptions were suddenly under attack: the idea of corporate responsibility. In 1970, he had published what may be his single most influential piece of writing, this time for *The New York Times Magazine*, and it formed the core of what the magazine called the "Friedman doctrine." Titled "The Social Responsibility of Business Is to Increase Its Profits," the essay was a simple, powerful distillation of his beliefs about the power of the free market—and the horrors that lay outside it.

"Businessmen believe that they are defending free enterprise when they declaim that business is not concerned 'merely' with profit but also with promoting desirable 'social' ends; that business has a 'social conscience' and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers," Friedman wrote. "In fact they are—or would be if they or anyone else took them seriously— preaching pure and unadulterated socialism."

Markets, Friedman claimed, established arenas for individual choice, allowing consumers to express themselves with their wallets. To pursue profit was to seek a legitimate reward from satisfied customers. Any activity that interfered with profits—however noble in appearance—thus undermined the ability of a business to do what the consuming public wanted it to do. Worse, Friedman claimed, by “spending someone else’s money for a general social interest,” socially conscious businessmen were in effect levying taxes on their shareholders and then deciding how to spend that tax revenue.

Friedman’s paean to greed continued themes that he had been presenting for years. When Friedman warned that socially conscious businessmen were the “unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades,” he was trafficking in familiar Cold War paranoia. There were, as ever in Friedman’s writing, only two choices facing society—freedom or socialism. The New Dealers and their Keynesian accomplices had cast their lot with socialism, and it was essential that corporate executives not fall into the trap.

The Friedman doctrine is an embarrassment borne of overconfidence. If profit maximization is really the *sole* responsibility of each business, then why are there so many different kinds of business? Why settle for the meager profits of, say, automobile manufacturing when the blockbuster returns of high-leveraged financial speculation are available? And if profit is proof of true social value, then on what grounds could a society ever outlaw anything a profitable business does? And yet by the late 1970s, the intellectual alternatives to Friedmanism weren’t looking so hot. Friedman’s simple stories about how the economy worked—inflation and profit, freedom and competition—filled an intellectual void in a world where Keynesian economists struggled to explain stagflation.

What’s more, Friedman in the 1970s took care to highlight the areas in which he agreed with the cultural left. His repeatedly stated opposition to the draft was no small matter in the era of the Vietnam War, and his support for the legalization of recreational drugs created a bridge between hippies and neoliberals that remains intact today. Nouveau-hippies and conventional libertarians both love jam bands. It is astonishing to see so many different ideological adherents to music that is, let us not mince words, terrible.

Fundamentally however, Friedman won by losing. America in the late 1970s was a frustrated and angry place, and however weird some of Friedman’s ideas might have been, nobody in their right mind would have held him responsible for the condition of the country. He hadn’t been in power. Goldwater lost. The Civil Rights Act passed. Even Richard Nixon had declared himself a “Keynesian,” prompting Friedman to denounce the man he’d advised as a “socialist.”

All of that finally changed in August 1979, when a new Federal Reserve chairman named Paul Volcker began putting Friedman’s monetary ideas into practice.

Act V: …and Conquers

Monetarism gave Friedman a unique policy flexibility that many of his neoliberal allies lacked. Friedrich Hayek, for instance, had maintained in the 1930s that recessions were an inevitable price to be paid for prior periods of economic excess. But Friedman recognized that telling the public “you just have to let the bottom drop out of the world” wasn’t a politically viable option, and his emphasis on the money supply gave him a policy lever to pull when the going got rough.

Manipulating the money supply had, however, never been attempted. Instead of doing that, the Fed regulated the price of credit, buying and selling securities to move interest rates up or down. But interest rates, Friedman insisted, were ultimately controlled by financial markets, not the government. The failure to cure inflation over the previous decade was a result of this persistent tactical error. When Volcker took office, inflation had eclipsed double digits for the second time in five years.

“My condolences to you on your ‘promotion,’” Friedman wrote sardonically to Volcker. “As you know, I do not believe that the System can rise to that challenge without major changes in its method of operation.” Volcker’s success or failure, Friedman argued in *Newsweek*, would rest on whether or not he would “renounce” the Fed’s “love affair with controlling interest rates” and switch to targeting the money supply.

Volcker did it almost immediately. That fall, he gave a press conference stating that he would curb growth in the money supply no matter what the implications might be for interest rates. The results were horrific. When Volcker ascended to the chairmanship of the Federal Reserve, the unemployment rate had been slowly but steadily declining for more than four years, from a peak of 9.0 percent in May 1975 to a more respectable 6.0 percent. Under Volcker’s new monetary management, interest rates skyrocketed, slamming the economy into recession and driving unemployment to 10.8 percent in 1982, a level it would not match again for more than 37 years.

With even Friedman himself on the run from Volcker, the punishing recession of the early 1980s should have afforded Keynesian economists and the Democratic Party with opportunities to reassert the value and utility of political democracy. The program Friedman had pursued for decades was proving to be a disaster.

But by 1981, Friedman’s 35 years of laissez-faire evangelism had established a new rhetorical reality. The ascension of Ronald Reagan had moved Barry Goldwater’s fringe ideas about small government to the seat of American power. In 1980, PBS aired a show written and narrated by Friedman called *Free to Choose*, about the virtues of free markets and the inevitable failures of government intervention. This was an extraordinary level of visibility for an economist, something that had only been achieved previously by John Kenneth Galbraith, a member of the Kennedy-Camelot royalty. Friedman’s ideas not only dominated the bully pulpit, they had taken over the liberal redoubt of public television.

And his political opposition had collapsed. It was a Democrat, Jimmy Carter, who had nominated Volcker to the Fed to pursue Friedman’s monetarism. Ted Kennedy’s failed primary challenge to Carter was the last gasp of the old-line New Deal, Great Society–oriented Democratic Party (and even Kennedy backed deregulation of the airlines and trucking industry). When Jesse Jackson attempted to revive the old vision in 1984, the rank and file were no longer interested, and Jackson was able to secure only 18 percent of the popular vote. Without political patrons in Washington, the once-dominant

Keynesian economists were reduced to oddball status in academia, writing for obscure left-wing journals or overhauling their intellectual framework to embrace core tenets of Friedmanism while attempting to make room for the occasional embarrassing budget deficit.

Friedman didn't achieve this intellectual conquest alone. He had an entire academic and political movement behind him, replete with deep-pocketed funders. But he was the most prominent voice of that movement around the world, having advised not only American presidents but a military dictator in Chile, the communist government in China, and leaders of three political parties in apartheid South Africa. Friedman never warmed to the Democratic Party, but when Bill Clinton declared "the era of big government is over," pursuing a policy of balanced budgets, free trade, and financial deregulation, he was, with a few exceptions, attempting to out-Friedman the Republicans. There was a fight within the Clinton administration over this turn, and many of Clinton's oldest political allies felt betrayed—but the Friedman wing, represented by Robert Rubin and his protégé Larry Summers, emerged victorious.

Despite this comprehensive intellectual victory, Friedman could claim few policy achievements when he died in 2006. Volcker eventually abandoned his efforts to directly target the money supply, and no Fed chair has tried doing so since. Even under Ronald Reagan, the overall size of the government did not really decrease—government spending as a percentage of GDP was about where it had been in the 1960s and 1970s; its targets had simply shifted from social welfare to defense contracting.

But the intellectual assumptions of the entire political class had become Friedmanesque. This is what Larry Summers meant by his claim from the eve of the financial crisis that "we are now all Friedmanites"—everyone took the social benefits of laissez-faire for granted; political conflict was largely waged over which edges to sand off.

The financial crisis of 2008 should have demolished this thinking. Markets, the crash made clear, often simply don't serve the public interest. But the Democratic leaders who ascended to power in the Obama administration had been educated at the height of Friedman's intellectual hegemony. There simply weren't many New Deal–style thinkers in the top echelons of the Democratic Party anymore. Obama was as intellectually serious as American presidents get, but his coterie of intellectuals had been working under Friedmanesque assumptions for so long that they could not adapt to the reality that events had discredited those assumptions. Obama ultimately devoted more political energy to reducing the long-term federal budget deficit than to combating economic inequality. A unique historical moment to reclaim political democracy became, instead, the era of bending the cost curve.

If Obama's presidency revealed the durability of Friedman's legacy within the Democratic Party, Donald Trump's presidency revealed its fragility among Republicans. On an almost weekly basis, Trump subjected sacred tenets of Friedman's worldview—from free trade to monetary policy to fiscal stimulus—to overt rhetorical abuse. And the party faithful loved it. But some of Trump's most consequential policies—a massive tax cut for the rich and a big bank deregulation bill—were perfectly aligned with 1980s-era Friedmanism. For today's GOP, Friedman's ideas seem to be valuable only insofar as they can be used to persecute undesirable elements in a political milieu constructed almost entirely of identitarian grievance—Keynes for me, Friedman for thee.

Epilogue: What's Next?

Predicting the future course of Republican ideas is like estimating the blast radius of a bag of unlit fireworks. But whatever the GOP chooses to do with Friedman's ghost, the future of his legacy—or lack thereof—lies with the Democratic Party. Friedman may have devoted his life to the American right, but the political magic of his persona was always on the left. His insistence that market mechanisms could be used to promote essentially progressive social values was the key to popularizing a worldview that ultimately amounted to little more than the celebration of political rule by the rich. In 2021, it is extremely difficult to imagine a Republican leader persuading Democrats that the QAnon brigade is really on board with Black Lives Matter, if you could just see it from the perspective of consumer choice.

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Friedman's major theoretical contribution to economics—the belief that prices rose or fell depending on the money supply—simply fell apart during the crash of 2008. "Whether people openly admit it or not, his monetary views are no longer included in serious analysis and forecasting," said Skanda Amarnath, research director at Employ America, a think tank focused on economic policy. "The Fed's balance sheet swelled enormously during and after the financial crisis, and it did not matter a lick for inflation. There was a huge role for fiscal policy that Friedman just ignored."

And few serious economists today accept Friedman's hard divide between economic fact and political reality. "Friedman developed a fantasy land of theory that ignored the way economic power can be used to capture elements of the political system to generate additional economic gains for those at the top," said the New School's Hamilton.

This vicious cycle has been degrading American democracy for decades. Joe Biden is the first president to desecrate not only the tenets of Friedman's economic ideas, but the anti-democratic implications of his entire philosophy. He is also the first Democratic president since the 1960s who has formulated and publicly endorsed a coherent defense of American government as an expression of democratic energy. It is a powerful vision that enjoys the support of a large majority of American citizens. He has nothing to fear but Friedman himself.