

Today I will tell you about MILTON FRIEDMAN, an American economist who became JOHN MAYNARD KEYNES' biggest critic. He was born in 1912, 29 years after John Maynard Keynes. And when Keynes died in 1946, Friedman was just starting out in his career as an academic - he got a job teaching Economics at the University of Chicago. He would stay in Chicago for 30 years and would become the most famous and influential economist in the world.



It seemed back in 1946 that Keynes had solved the two big economic problems that worried governments - UNEMPLOYMENT (where huge numbers of people would be out of work) and INFLATION (where prices would go up very rapidly). GERMANY's inability to deal with inflation in the 1920s and then unemployment in the 1930s had led to the rise of the NAZI PARTY under ADOLF HITLER, and that had resulted in WORLD WAR II. So it was extremely important to find out how to deal with these problems, to stop a big country like Germany being taken over in the future by an extreme government like the Nazis. And Keynes seemed to have solved both problems. Unemployment was caused, he argued, by not enough demand for goods and services - too few people wanted to buy goods and services and so there was not enough demand for people to produce those goods and services. Inflation was caused, he argued, by too much demand for goods and services - too many people wanted to buy goods and services, and so the price of goods and services would go up. So if a country was suffering from too much unemployment, the country's government could avoid that problem by borrowing money and spending it, thus creating more demand for goods and services. And if the problem was that a country was suffering from inflation, a government could deal with that problem by spending less money than it took in through taxes, thus reducing the amount of demand that is driving up prices.

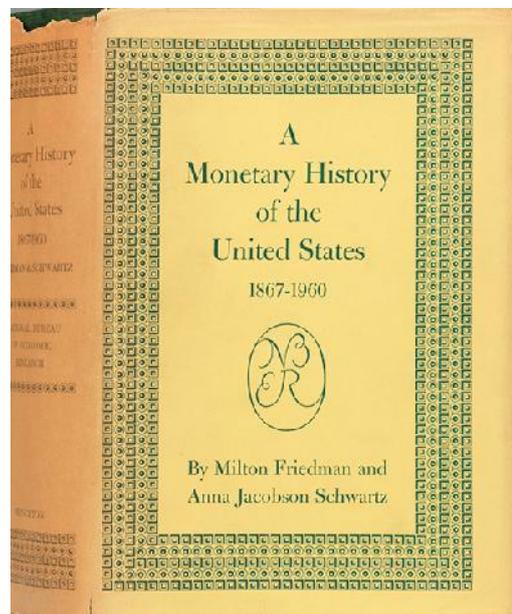
And for many years after 1946, it seemed like Keynes was right - governments could achieve a 'Goldilocks' economy which had just the right amount of demand in it to avoid too much unemployment and too much inflation by adjusting how much it spent relative to how it taxed - if times were hard, it would spend more than it taxed and borrow the difference; if times were really good, it would spend less than it taxed and apply the difference to paying off its debts. But then the 1970s



something happened that should not have happened if Keynes was right - in a large number of Western countries, and especially in the United States and Britain, unemployment and inflation started going UP AT THE SAME TIME. This was not supposed to happen - if

unemployment was the result of too little demand, and inflation was the result of too much demand, how could unemployment and inflation increase at exactly the same time? How could an economy have too little demand and too much demand at the same time? How could an economy suffering from STAGFLATION - stagnation and inflation at one and the same time? But one man had predicted that this could happen - and that man was Milton Friedman.

Friedman argued that Keynes was wrong. When it came to unemployment, governments could not create a single job by spending more money. Jobs are created by companies and inventors, who produce products that other people want to buy. But while governments cannot create a single job by spending more money, governments can DESTROY jobs and create unemployment. And there are two ways a government can destroy jobs. The first is by getting in the way of people employing other people by making it really expensive to employ people. Governments make it expensive to employ people by making a lot of rules (or laws) that you have to obey in order to employ someone and by fining people who break those rules. The second is by allowing the amount of MONEY that whizzes around the economy when people buy and sell goods and services to collapse so that there isn't enough money available for people to buy the goods and services that they want to buy. This amount of money is known as the MONEY SUPPLY, and Milton Friedman's biggest achievement was to remind people that the money supply is really important to how an economy does. So in his major book (written with a colleague) A MONETARY HISTORY OF THE UNITED STATES 1867-1960, which was published in 1963, Friedman argued that the GREAT DEPRESSION of the 1930s, when millions of Americans were thrown out of work, was caused not by there not being enough demand for goods and services, but because the American government had stupidly allowed the money supply to shrink after the WALL STREET CRASH in 1929. And because there was less money available, there was less money to spend on goods and services, and so less call to employ people to produce those goods and services. Friedman argued that had the government kept the supply of money flowing properly after the Wall Street Crash, the Great Depression would simply not have happened.



So Friedman argued that Keynes was wrong about unemployment. And he also argued that Keynes was wrong about inflation. The root cause of inflation was not excessive demand for goods and services, which drove the price of those goods and services up, but TOO MUCH MONEY. If the money supply was allowed to increase too much, then the value of money would decrease and the value of everything else, in money terms, would increase. This was why Germany suffered such huge inflation in the 1920s (something I talked about on August 11). It printed loads of money to pay off the reparations that it owed Britain and France for starting WORLD WAR I and as a result the German money supply increased hugely, driving down the value of money, so that a sack of potatoes which would normally have been worth 2 German marks would be worth 2,000,000 German marks. So Friedman argued that if you want to deal with inflation, you have to keep an eye on the money supply - and stop it increasing too much. If the money supply is allowed to expand by more than is needed to cover how much money people need to buy the goods and services they want to buy, you will

get inflation. So you only want the money supply to increase by a small amount each year. This approach to dealing with inflation became known as MONETARISM.

Friedman said that you would get inflation and unemployment increasing at the same time, if the government allowed the money supply to increase by too much while at the same time making it expensive for people to be employed by other people and companies. The solution to these problems was not to worry about the amount of DEMAND in the economy. That was completely the wrong target. Instead, Friedman argued, you should worry about the SUPPLY SIDE of the economy. To deal with inflation, deal with the supply of money and stop it increasing so much. To deal with unemployment, deal with the supply of labour, and the reasons why it was too expensive for companies and other people to employ people. And in the 1970s, governments all over the world were really happy to hear that there was a solution to the problem of stagflation - of inflation and unemployment going up at the same time - and followed Friedman's advice. And nowhere followed Friedman's advice more than the BRITISH government, under MARGARET THATCHER, who became Prime Minister in 1979, when almost a million people were unemployed, and inflation was at 12% a year (at the moment it is less than 2%). Thatcher raised interest rates and taxes in order to reduce the money supply - provoking 364 economists to write to The Times saying that this was an absolutely insane thing to do at a time of high unemployment. And unemployment did rise - to about three million people. But I'll tell you the rest of the story of what happened with Margaret Thatcher some other time.

Friedman died in 2006, two years before the economic crisis in 2008 which was caused by a load of really big banks making a load of terrible business deals. It looked like the banks were going to go bust, and everyone who had savings in the banks were going to lose their money. Governments around the world helped to support the banks to ensure that they did not go bust. But the losses suffered by the banks were so huge, billions of pounds and dollars disappeared overnight. It looked like we were on the verge of another Great Depression. But governments had learned from Friedman that the way to avoid this was to increase the money supply - and that's what they did, basically printing huge amounts of money to keep their economies going. And there was no Great Depression. But a lot of people did lose their jobs, and at least in America, under PRESIDENT OBAMA, the American government tried to deal with that problem by going back to Keynes, and spending vastly more money than the

## Monetarism attacked by top economists

By David Blake  
Economics Editor

Three hundred and sixty-four of Britain's leading academic economists have today published an outspoken attack on the Government's handling of the economy.

The group, which includes most of the men who have held the coveted post of Chief Economic Adviser to governments since the war, declares that present policies are eroding the industrial base, deepening the depression and threatening social and political stability.

The attack comes in the form of a statement which was circulated in Britain's universities just after the Budget. Copies have been sent to the Prime Minister and to the Chancellor of the Exchequer. Although uncompromising in tone, it has succeeded in attracting massive support from the community of academic economists.

Among the signatories are the president, nine vice-presidents and the director-general of the Royal Economic Society.

The statement says: "We, who are all present or retired members of the economic staffs

of British universities, are convinced that:

There is no basis in economic theory or supporting evidence for the Government's belief that by deflating demand they will bring inflation permanently under control and thereby induce an automatic recovery in output and employment;

Present policies will deepen the depression, erode the industrial base of our economy and threaten its social and political stability;

There are alternative policies; and

The time has come to reject monetarist policies and consider urgently which alternative offers the best hope of sustained economic recovery."

Five men who have held the post of Chief Economic Adviser to the Government since the war have signed the statement. They are Professor James Meade, Lord Roberthall, Sir Alec Cairncross, Sir Bryan Hopkin and Sir Fred Atkinson.

Sir Donald MacDougall, at present at the Confederation of British Industry, and Sir Kenneth Berrill, who was until

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American government obtained from taxes. People still debate whether doing that actually created any jobs at all, and when PRESIDENT TRUMP became President, he tried to create jobs by following Milton Friedman's advice and making it cheaper to employ people. So the debate still goes on between the followers of Milton Friedman and John Maynard Keynes as to how best to deal with the problem of unemployment. But that there is even a debate is something that people would have thought was amazing in 1946, when everyone thought that Keynes was the closest thing to God when it came to economics - and it shows just how much of an impact Milton Friedman had, that people now question whether Keynes was right.