I was baffled at the time, and have been ever since, at what all the fuss was about. So far as I could see, very little was at stake….I am impressed – or perhaps, depressed might be better – by the amount of subtle scholarship and hard research the articles embody. (Friedman 2003a, p. x)

1 Introduction

In his monumental and seemingly endless work, *Summa Theologica*, Thomas Aquinas notes that argument according to authority is of the weakest sort. Yet economists, even those tending to an extreme mathematical persuasion, feel obliged to buttress their arguments by forcibly dragging onto the stage of their presentations other significant economists both old and new. In some sense this obeisance to authority serves no discernible purpose. An argument needs to stand on its own merits and receives no serious bolstering by finding support in some previous volume of work. What then is the purpose behind this obligatory name-dropping? In part it is traditional. Those who continue to worship, as demanded by the conventions of professional courtesy, need only go through the form rather than be filled with the spirit of such practice. It is these days more of a signal to convey the fact that the writer should be accorded some respect since he or she intimately knows, and may possibly even have read, the relevant professional literature. However, this simple act of obeisance in this era of time constraints has seen its requirements drastically abridged. The current rule of thumb is that anything extending back beyond five, or perhaps ten, years bears no real significance to ongoing research, at least to anything outside of the backwaters of the profession. Following this train of thought, we then would be forced to entertain the possibility that at its core, History of Thought, in this age of the specialist, is best left to those whose competence is suspect. Any respectable economist who fritters away valuable space by dropping the name of a long-dead economist into the middle of a serious paper can have no other discernable objective than self-display. Most referees would be forced to dismiss such habits as unnecessary vanity, of the same type that led nineteenth-century English gentlemen to employ Latin tags.

Adopting this standpoint constrains the intellectual contribution of these two lengthy volumes (of more than 900 pages) to territory once inhabited by the long-running sitcom *Seinfeld*. Both of these time-consuming efforts realistically can be dismissed as endless dissertations about nothing at all. In other words, it is quite possible, entertaining and even at times fascinating to discuss and debate trivia. But
to do so ranks as a pastime rather than as a serious endeavour. This seems to be the dismissive import of Milton Friedman’s retrospective evaluation of a debate he touched off in 1956 and which ran over into the new century. The debate ranged over some of the most respected journals in the profession and swept in a number of well-known economists. (The list of suspects includes not only Friedman, Patinkin and Johnson but also Laidler, Parkin, Tobin and others.)

But I am afraid that Friedman may be taking a deliberately ingenuous stance when posing as baffled by all the subsequent fuss:

So far as I could see, very little was at stake. What seemed to me important was the validity and usefulness of the theory that I sketched in my essay. Suppose I was wrong in asserting that that theory conveyed ‘the flavor of the oral tradition that nurtured the remaining essays in this volume’. That would simply mean that I was confused about the origin of the ideas I was presenting but it would not affect by an iota the validity or usefulness of those ideas. (Friedman 2003a, p. x)

Friedman appears to be intentionally ignoring the real issue lurking throughout these many pages. It was, after all, not some obscure history of thought dispute that ignited Patinkin’s fury and shaped Johnson’s 1970 Ely Lecture. Much of what Friedman claims in retrospect is undoubtedly true. The validity, or lack of validity, of Friedman’s monetary theory does not depend in any way on what the oral tradition in Chicago during the 1930s might have been. This ‘issue is entirely about the origin of ideas, not about the validity of content’ (Friedman 2003a, p. x). It is in fact possible to confine this long-running debate to the scrutiny of those specialists interested in this rather limited arena. But, in that case, the unintended consequences of this tedious controversy would be limited to an expansion of our knowledge of the history of monetary theory. This is in fact the cautious path pursued by the volumes’ editor, Robert Leeson.

Leeson’s insight unfortunately grasps only the tail of the elephant by dismissing all these written words as no more than a squabble over the origin of ideas. By focussing on this tail alone, the significance of the elephant is ignored. We need to go directly to the heart of the matter. The question lurking not far from the historical surface remains Friedman’s purpose or objective in including those controversial paragraphs at the beginning of his acclaimed 1956 work on monetary theory (The Quantity Theory of Money – A Restatement). Since these are the phrases that launched a thousand articles, let me quote Milton Friedman at length:

The present volume is partly a symptom of this re-emergence and partly a continuance of an aberrant tradition. Chicago was one of the few academic centers at which the quantity theory continued to be a central and vigorous part of the oral tradition throughout the 1930s and 1940s, where students continued to study monetary theory and to write theses on monetary problems. The quantity theory that retained this role differed sharply from the atrophied and rigid caricature that is so frequently described by the proponents of the new income-expenditure approach – and with some justice, to judge by much of the literature on policy that was spawned by quantity theorists. At Chicago, Henry Simons and Lloyd Mints directly, Frank Knight and Jacob Viner at one remove, taught and developed a more subtle and relevant version, one in which the quantity theory was connected and integrated with general price theory and became a flexible and sensitive tool for interpreting
movement in aggregate economic activity and for developing relevant policy prescriptions.

To the best of my knowledge, no systematic statement of this theory as developed at Chicago exists, though much can be read between the lines of Simons’s and Mints’s writings. And this is as it should be, for the Chicago tradition was not a rigid system, an unchangeable orthodoxy, but a way of looking at things. It was a theoretical approach that insisted that money does matter – that any interpretation of short-term movements in economic activity is likely to be seriously at fault if it neglects monetary changes and repercussions and if it leaves unexplained why people are willing to hold the particular nominal quantity of money in existence.

The purpose of this introduction is not to enshrine – or, should I say, inter – a definitive version of the Chicago tradition. To suppose that one could do so would be inconsistent with that tradition itself. The purpose is rather to set down a particular ‘model’ of a quantity theory in an attempt to convey the flavor of the oral tradition which nurtured the remaining essays in this volume. In consonance with this purpose, I shall not attempt to be exhaustive or to give a full justification for every assertion. (Friedman 2003b, pp. 33-4)

Milton Friedman was too good a strategic rhetorician and outright polemicist to preface his argument with such a deliberate grounding if merely following some stylistic convention of the time was his paramount consideration. The reference had to be deliberate, constructed with a very specific objective in mind. What this objective seems to have been is made clearer retrospectively by two of Friedman’s additional pieces on monetary theory, also reproduced in this edition. It is likely that these articles served to bring a long-simmering debate to a boil.

Patinkin clearly recognised Friedman’s tactics early on. Friedman was attempting to marginalise Keynes’s economic contribution by presenting his own demand-for-money model as completely bypassing Keynes’s monetary contribution (his liquidity preference approach):

As an aside, I might add that my only other objection to your [1956] essay is its refusal to recognise the strongly Keynesian flavour of the analysis it presents….an exposition with the contents and spirit of yours could not have been written (and was not written) before Keynes. I find it particularly difficult to accept your implication that your essay represents the kind of thing that was taught at Chicago by Knight, Viner, Simons and Mints. My own recollections are different. (1959 letter, Patinkin to Friedman, quoted in Leeson 2003a, p. 8)

In contrast, Friedman’s stated position implied that if he seemed to owe anything to Keynes that was simply because Keynes’s own monetary theory was derivative of the quantity theory approach, advancing that theory in a relatively minor rather than revolutionary major way. The essential difference between Friedman’s teacher, Simons, and Keynes was not, therefore, a theoretical difference but one of policy, based on differing ideological beliefs:

As we shall see later, though some of his [Keynes’s] policy recommendations parallel Simons’, in other respects they differ drastically. But they differ not because of a difference in monetary theory or a different interpretation of 1929-1933 but because of a
To label someone as highly derivative is rhetorically to dismiss him or her as being inconsequential. In this way Keynes becomes a minor quantity theorist, allowing Friedman to characterise his major contribution to monetary theory as being based on a long-standing, and thus much older, tradition derived from the work of quantity theorists. By dressing up traditional theory in new terminology, Keynes is accused of providing the economics profession with an excuse for ignoring the importance of money while adding little of importance to the received standard theory.

What was at stake, when viewed from a rhetorical standpoint, was Milton Friedman’s counter-revolution, which sought to supplant the reigning Keynesian approach with his own brand of monetarism. As always with Friedman, the contest was not restricted to the theoretical realm. Policy issues were clearly at stake. As early as 1946 the lines were starkly drawn:

Howard Ellis saw the dispute as a confrontation between a political wing favoring a very large amount of government activity, and another wing which, mistrustful of the concentrated power which the bureaucracy would possess under these circumstances, would reduce it to a minimum. (Leeson 2003a, p. 17)

Behind this was a clash of ideologies. For conservatives ‘Keynesianism’ was a code word for economic planning, inevitably shifting countries toward totalitarianism. Right-wing intellectuals judged that individual liberty and freedom was at stake, as well as the right of the individual to choose and bear full responsibility for those choices. Planning institutionalised power, while competitive markets rendered power meaningless. Not coincidentally, Friedman dedicated a major polemical piece, Capitalism and Freedom (1962), ‘to his two children “and their contemporaries who must carry the torch of liberty on its next lap”’ (Leeson 2003a, p. 9).

While it is feasible that at one level the crux of the matter was simply an argument over the origin of ideas, that such incendiary remarks should just happen to appear in this manifesto of the monetarist counter-revolution seems unlikely. Not only did Friedman propose to offer a better account of monetary demand but he also intended to pull the theoretical rug from beneath Keynesian analysis by denigrating its originality.

Curiously, Keynes himself had used similar rhetorical devices when launching his own revolution against mainstream theory. For these progenitors of the economic reformation and counter-reformation of the twentieth century, history of thought and economic history were rhetorical devices to be used to achieve strategic positions. The two were both expert popularisers and polemicists. Policy objectives rather than objective analysis remained the guiding stars for Keynes as well as for his latter-day nemesis, Friedman. Strict accuracy was only for the overly fastidious, those professional and tedious scholastics, rather than for the truly committed.

2 The Economist as Polemicist – Using an Unpredictable Past

War is nothing but a continuation of politics with the admixture of other means. (von Clausewitz 1832, book 8, chapter 6, section B)
Deirdre McCloskey created something of a cottage industry by pointing out the obvious. (Though, like all academics, economists have sometimes proven themselves immune to accepting the undeniable.) Even economists are in the persuasion business and use rhetorical strategies to try to win over members of their professional circle as well as those outside the pale of erudition. Simply put, economists write in order to persuade. Unfortunately, in the case of economic theories, unlike the fable of the better mouse-trap, academics tend not to beat a path to the originator’s office door. It can easily be argued that part of the postwar success of Chicago economists, in their role as counter-revolutionaries, was their great skill in marketing:

> Part of it is the persuasion. There’s no question. I mean George Stigler, I remember when I was a young person, wired and said ‘Selling is very important in your research. So write better. Work on writing because that is important. You’ve got to sell what you are doing’. I think he’s exactly right. You’ve got to sell what you are doing. It may be that in the long run good ideas do surface but they surface faster, if written in a persuasive fashion. (Gary Becker, conversation with Craig Freedman, October 1997).

An economist tries to sell his or her theory as being congruent with the pre-existing preferences of the majority of the profession. This resembles the same way in which commercial marketing involves convincing the potential customer that a product generates the flows of services which satisfy the consumer’s underlying desires. In this sense, it is not enough to come up with the superior mouse-trap. It is at least as important to convince customers of the superiority of that mouse-trap by demonstrating that this (but not that) will deliver satisfaction. In simple terms, an economist is always constrained by the fact that he or she needs to give the profession what it wants to hear. This does not equate to an obvious pandering to prejudices. But the rules of the market hold here as they do in any other exchange. If you are going to pitch an idea successfully, you have to be aware of the flows of services delivered to your target audience as well as the associated user costs in gaining those service flows. This says nothing about the actual accuracy or truthfulness of any theory. Marketing is simply meeting market demand better than some competing theory:

> Moreover, bad ideas may be put persuasively. And they may gain the necessary threshold. However, taking that same analogy in competition among ideas, there is a presumption, although not a certainty, that in the longer run, the good ideas are going to compete out the bad ideas. But that may take a long time and may not even always operate. There’s nothing necessary about that. Nothing guaranteed about that. (Gary Becker, conversation with Craig Freedman, October 1997)

Though Pigou might have disparaged the rough-elbow approach taken by Keynes in pursuing these methods, in fact economists have never been gentle in pushing their ideas and policies. However, Pigou may have had a point in decrying (and unintentionally foreseeing) the rise of marketing in what are notionally academic debates. It is far from clear that moving from the positive-sum game of the Senior Common Room to the zero-sum game that describes the adversarial approach, most commonly displayed in the courtroom proceedings, represents progress:

> Controversy for its own sake is a prodigious waste of time….Are we, in our secret hearts, wholly satisfied with the manner, or manners, in which
some of our controversies are carried on? A year or more ago, after the publication of an important book, there appeared an elaborate and careful critique of a number of particular passages in it. The author’s answer was, not to rebut the criticisms, but to attack with violence another book, which the critic had himself written several years before! Bodyline bowling! The method of the duello! That kind of thing is surely a mistake. It is a mistake, not merely in general and in the abstract, but also for solid reasons of State. Economists in this country lack influence which – in their own opinion – they ought to have, largely because the public believe that on all topics they are hopelessly divided. Controversies conducted in the manner of Kilkenny cats do not help to dissipate this opinion. (A.C. Pigou, quoted in Leeson 2003d, p. 302)

A John Maynard Keynes – Economist as Provocateur

As a historian of thought in areas in which he was emotionally involved as a protagonist and prophet, Keynes seemed to me to be seriously lacking in the unexciting but essential qualities for the intellectual historian of objectivity and of judiciousness. Even when he was engaged in selecting those upon whom to bestow laurels for having in some degree anticipated his discoveries, his selection seemed to me then, and still seems to me now that I have acquired more knowledge of the older literature, often to have been random when not eccentric. (Viner 2003, p. 418)

For Keynes, economics was above all an applied discipline, an approach he would have imbibed from his teacher, Alfred Marshall. Theory was interesting not so much in and of itself but for the policy guidelines such models provided. In his innermost heart he was above all the pamphleteer who urged economists to ‘eschew the Treatise, pluck the day, fling pamphlets to the wind’ (Keynes 1972, p. 199). He initially came to public notice with his first popular work, The Economic Consequences of the Peace. This was a work that prefigured aspects of his future writing. It was a book strong on rhetoric and convincing in its arguments, but sporadically forgetful in its economic history.7

As Patinkin remarks, Keynes’s first major work in monetary theory, A Tract on Monetary Reform, was ‘not really a book, but a short and somewhat unsystematic revision and elaboration of the series of articles on post-war economic policy that Keynes first published in 1922 in the “Reconstruction Supplements” of the Manchester Guardian Commercial’ (Patinkin 2003b, pp. 351-2). These essays, like others initially written for the press and later collected (as in the aptly named Essays in Persuasion), all allowed Keynes to ‘give full expression to his brilliant publicist style’ (Patinkin 2003b, p. 365).

No matter what style he ultimately chose, what was almost always uppermost in Keynes’s writing was the need to convince his readers. The Treatise on Money (1930) is perhaps the least successful of his economic works because ‘it represents a Keynes out of character: a Keynes attempting to act the role of a Professor, and a Germanic one at that’ (Patinkin 2003b, p. 365). The work commits the cardinal sin of being unable to sway the majority of its readership.

Perhaps this leads him in The General Theory (1936) back to using a rhetorical strategy with which he was always, ultimately, more comfortable. Unlike his newspaper articles he addressed this work (as he did with The Treatise (1930)) chiefly to his fellow economists. Where then lies the difference? There would be no
more Germanic professors on stage this time. Instead, the volume would resemble a
testimony to sustained battles with his inner intellectual demons while journeying
toward a more rational and general understanding of economic issues. What
Keynes claims to have done in The General Theory is to write down the fruit of his
‘struggle of escape from habitual modes of thought and expression’ (1936, p. viii).
He indicates clearly in the preface what this rhetorical strategy would be:

The ideas which are here expressed so laboriously are ideas which are
extremely simple and should be obvious. The difficulty lies, not in the
new ideas, but in escaping from the old ones, which ramify, for those
brought up as most of us have been, into every corner of our minds.
(Keynes 1936, p. viii)

Keynes realises that he will have to induce economists to make a similar
journey. His fellow economists must be made to feel that sticking with the status
quo offers only a dead end. He must manage to tie in their own self-interest (their
hopes for advancement and professional recognition) with a belief that in this time
of economic crisis they are being provided with a road map out of a theoretical
morass. Keynes offered not so much policy prescriptions (others, including those
economists at Chicago, offered similar programmes), as a sound theoretical basis
for doing so. He offered an approach that was applicable, not on an ad hoc basis,
but as part of a convincing explanation of how the economy worked. To do this,
Keynes used whatever material happened to come to hand. As a recognised word
wizard, it mattered not whether this involved the strategic use of data, conveniently
outreaching himself on historical precedents,8 or the opportunity to create a variety
of straw-man opponents, all of whom provided easy targets for Keynes’s brand of
exquisite ridicule:

In the General Theory we once again find the true Keynes. Here (as in
so many of Keynes’s writings) is the stirring voice of a prophet who has
seen a new truth, and who is convinced that it – and only it – can save a
world deep in the throes of crisis. It is a sharp, polemical voice directed
at converting economists all over the world to the new dispensation –
and combating the false prophets among them who perversely continue
with the erroneous teachings of the earlier gods whom Keynes had
already abandoned. (Patinkin 2003b, p. 365)

Keynes, who often had a sense of what his audience wanted to hear, used
his rhetorical skills, honed over many decades, to provide an illusion of hope for
the economics profession, especially the younger generation. Such rhetoric appeals
epecially to the young, who have less at stake in maintaining the existing wisdom
of their elders and more to gain in providing a viable alternative:

Keynes’s analysis was adopted in the main because it seemed to make
more sense to most economists. Or, as I put it earlier, it provided a
better base for thinking about the problems of the working of the
economic system as a whole. And to those economists who were less
concerned about the niceties of the analysis, Keynes’s policy
recommendations undoubtedly provided a sufficient reason for many of
them to adopt his theory and to reject that of Hayek. (Coase 1994,
pp. 21-2)

B Milton Friedman – The Silence of the Lambs

I congratulate you on restraining yourself from including a picture of
Keynes, and even more on not even having a mention of him in your
index. (Milton Friedman to George Stigler, 16 December, 1986, on the publication of Stigler’s fourth edition of *The Theory of Price*)

As already noted, Milton Friedman steadfastly refused to grant any significant degree of originality to Keynes and especially to his most influential work, *The General Theory*. Like Keynes, he was willing to take whatever materials came to hand, stretching and moulding them into effective weapons to undercut Keynes’s credibility. In this he was very much like the economist he sought to annihilate. In Friedman’s estimation, Keynes had provided a false trail that had been pursued in a mindless manner by the majority of the economics profession. Friedman took it as an obligation to redirect the train of economic thought back down the correct track. But more than theory or even policy was at stake. As mentioned, Friedman’s counter-revolution is framed during a growing Cold War period. For Friedman, one can say without blushing, that the battle was over maintaining freedom, choice and individual responsibility.

In many ways (a comparison that might be all too unflattering to both) Friedman was Keynes’s rhetorical *doppelganger*. They were supremely gifted polemicists who could argue a position and drive an opponent relentlessly into the ground. In a manner of speaking Milton Friedman, in doing battle with the ghost of John Maynard Keynes, was in fact shadow-boxing with himself. Patinkin’s quote (above) essentially describes Keynes as a gifted polemicist. However, with only minor alterations, even a somewhat meticulous reader would assume that Patinkin is characterising Friedman:

In the *Quantity Theory* we once again find the true Friedman. Here (as in so many of Friedman’s writings) is the stirring voice of a prophet who has seen a new truth, and who is convinced that it – and only it – can save a world deep in the throes of crisis. It is a sharp, polemical voice directed at converting economists all over the world to the new dispensation- and combating the false prophets among them who perversely continue with the erroneous teachings of the earlier gods whom Friedman had already abandoned.

One of Friedman’s strengths as a would-be prophet was a rare talent (one also possessed by his compatriot, George Stigler) of asking the right question. This may be a more important and much rarer talent than an ability to actually grind out potential answers. Like any other economist, only some of Friedman’s results have survived the test of time. However, what his finely tuned economic intuition recognised in those postwar years was the woeful underdevelopment of monetary theory (particularly in the case of demand-for-money functions). Keynes himself had at least implicitly recognised this deficiency in his post-*General Theory* debates (conducted in the *Economic Journal*) with the Stockholm School (as represented by Bertil Ohlin). Ill health, the war, and ultimately a relatively early death conspired to prevent a follow-up book to *The General Theory*. But this did by no means imply that he went silent on the matter of monetary theory. The explication of a ‘finance motive’ was one attempt to expand and deepen his liquidity preference model. However, with the death of Keynes in 1946, a dearth of research in monetary matters followed. Friedman in his usual elbows-first way pushed the monetary question to the surface of economic debate, adopting a manner that could brook no silence. In doing so, he was able to determine the terms of debate and essentially capture the high ground from the napping Keynesians at Harvard and elsewhere.

To capture the high ground meant framing the debate in a manner that would be sure to elicit a savage response from the profession. The target then could
not be the correctness of Keynes’s work, but rather its value. To deny Keynes his place in the economic sun ultimately required misinterpreting him. But there existed a clear compulsion to do so. It is far more dismissive to argue that he had nothing new or important to say, than to attempt to prove that he was wrong or in error. To do the latter is to dignify an opponent’s work with a sense of importance. There is no evidence, despite some ill-tempered charges, that Milton Friedman conducted his attack on Keynes with anything like malice aforethought. But, like many others with the instinct of a polemicist, he was skilled at finding within a work exactly what he needed to see. Unfortunately, the structure of *The General Theory* makes it far too easy to misunderstand and even to distort Keynes’s purpose.

The ever-garrulous Mark Twain is reputed to have remarked ‘Everyone talks about the weather but no one does anything about it’. After trudging my way through endless pages in this two-volume, edited collection, a number of which purport to discuss and make assertions about *The General Theory* (including Keynes’s presentation of monetary theory), it seems fair to conclude that everyone talks about *The General Theory*, but no one appears to have read it. Economists seem to single out a few convenient paragraphs, or even lines, as though Keynes had simply amassed a collection of unrelated topics and jammed the result into a single volume. It has become something of a universal truth that most economists find it extremely difficult to approach a work having first jettisoned all of their more regrettable preconceptions. Consequently, many let those same preconceptions overrule their comprehension of the work. Once again, to paraphrase Mark Twain, ‘Reports of *The General Theory* have been greatly exaggerated’.

The first casualty of such an approach is inevitably any balanced or objective assessment of the perceived opposition. Caricature and ridicule become prime rhetorical weapons in unseating the status quo provided by mainstream theory. In other words, it simply isn’t enough to provide a solid and even superior alternative to existing theory. That reigning theory itself had to be denigrated. By doing this, entrepreneurial economists could manage to strategically shift the terms of debate towards more conducive territory. The entrenched mainstream had to be reduced to a form of repetitive idiocy. This could be done by transforming intellectual and economic history into a series of fractured fairy tales for well-behaved infants. The aim was to provoke the opposition into debating along pre-arranged terms. The worst response for any intellectual warrior of this type has always been silence. Deliberately generating outrage allowed the would-be revolutionary (or counter-revolutionary) to seize control of the debate. If confronted by overwhelming armies of fact or logic, a tactical retreat of one kind or another was always possible. But by that time the damage would have been done. The focus of debate would have noticeably shifted:

I think Milton quietly changed, he just quietly dropped that [100% reserve ratio in banking]. He doesn’t particularly announce changes in positions, but instead, lets them just decay away. (Paul Samuelson, conversation with Craig Freedman, November 1997)

The bare bones of Keynes’s monetary theory, as presented in *The General Theory*, are fairly straightforward. For Keynes, interest rates equilibrate the supply and demand for money. But they do so through basic stock adjustments between those wishing to hold money assets and those preferring non-money assets (or bonds in the shorthand adopted by Keynes). Money matters, but only indirectly by
affecting the nominal rate of interest.15 This in turn, when placed in combination with the marginal efficiency of capital, determines investment. Thus money could change the real economy by helping to alter a component of aggregate demand. However, interest rates tend to be sticky downwards because attached to the loan process itself are ineradicable transaction costs, the expectations of both lenders and borrowers can over- (or under-) estimate prevailing risk, and the expectations of speculators largely depend on the past behaviour of these same rates. This leads them to adopt what Keynes calls a conventional view of current and future rates when making monetary decisions:

It might be more accurate, perhaps, to say that the rate of interest is a highly conventional, rather than a highly psychological, phenomenon. For its value is largely governed by the prevailing view as to what its value is expected to be. Any level of interest which is accepted with sufficient conviction as likely to be durable will be durable; subject, of course, in a changing society to fluctuations for all kinds of reasons round the expected normal. (Keynes 1936, p. 203; original stress)

The profession’s obsession with the idea of a liquidity trap, where the demand for money becomes perfectly elastic, is only of theoretical (and thus minor) importance for the practically-minded Keynes. Observation led him to believe that interest rates had not (and would not) be pushed so low as ever to test the seriousness of such a hypothetical problem. The effectiveness of monetary policy is almost inevitably limited in a depression, since it will prove impossible to push the nominal interest rate sufficiently low to induce an adequate increase in investment:

But the most stable, and the least easily shifted, element in our contemporary economy has hitherto, and may prove to be in future, the minimum rate of interest acceptable to the generality of wealth-owners. (Keynes 1936, p. 309)

Agree with Keynes or not, it is an unwarranted leap to identify Keynes’s monetary analysis with that of the quantity theory:

….the term ‘income-velocity of money’ carries with it the misleading suggestion of a presumption in favour of the demand for money as a whole being proportional, or having some determinate relation, to income, whereas this presumption should apply, as we shall see, only to a portion of the public’s cash holdings; with the result that it overlooks the part played by the rate of interest. (Keynes 1936, p. 194; original stress)

Yet Friedman insists that Keynes is a quantity theorist. As he states, ‘if Keynes were alive today he would no doubt be at the forefront of the counter-revolution. You must never judge a master by his disciples’ (Friedman, quoted in Leeson 2003e, p. 263). Ultimately, to understand Friedman’s audacious claim, we need to analyse his interpretation of The General Theory.

Friedman’s grasp of The General Theory is best understood in his one attempt to confront his critics or, to be more specific, to annihilate Patinkin. In typical adversarial style, Friedman is not content to indicate where their differences lie, or where Patinkin has misunderstood the existing evidence, but to utterly destroy Patinkin’s arguments so that Friedman may then ceremoniously piss on their smouldering ashes. One of the ways of doing so is to dismiss Patinkin’s understanding of Keynes’s The General Theory. But equally important, Friedman aims to reinforce his previous claim that Keynes contributed nothing new when laying out his liquidity preference framework. Friedman concedes to Keynes only
one innovation in *The General Theory* that distinguishes it from the much earlier *Tract on Monetary Reform*, a work Keynes clearly acknowledged as being in the tradition of the Quantity Theory:

There is one respect – and I believe only one – in which the discussion of the demand curve for money in the *General Theory* is distinctively Keynesian and that is the importance attached to ‘absolute liquidity preference’ or a high-interest elasticity of the demand for money. This element is distinctively Keynesian in the double sense that it is, so far as I know, introduced for the first time in the *General Theory*. (Friedman 2003e, p. 157)

As previously discussed, the idea of a potential liquidity trap, despite the endless discussion by Keynesian and non-Keynesian economists alike, is far from the key focus of Keynes’s analysis of the role and effectiveness of monetary policy. The major discussion of the problem is on p. 202 of *The General Theory*, where, at low rates, the probability of a capital loss from rising rates is greater than the loss of a small yield from remaining liquid:

….a long-term rate of interest of (say) 2 per cent, leaves more to fear than to hope, and offers, at the same time, a running yield which is only sufficient to offset a very small measure of fear. (Keynes 1936, p. 202)

Friedman realises that if he can convince economists that Keynes had nothing to offer but the liquidity trap, he can trivialise Keynes’s contribution, dismiss Patinkin’s criticism and also undercut Patinkin’s own work, which was an attempt to transform Keynes’s work into a more rigorous analytic model. Whether Friedman could feasibly accomplish this should depend on what actually is written in *The General Theory*. It is essentially an empirical question. Friedman does seem to treat it this way, but in fact simply reads into Keynes’s work the meaning he needs to find there. Friedman states:

Patinkin objects to my treating ‘the case of “absolute liquidity preference”’ – as part of ‘Keynes’s basic challenge to the reigning theory’. He cites as counterevidence Keynes’s own statement….that ‘whilst this limiting case might become practically important in the future’ he knew ‘of no example of it hitherto’….More important, Patinkin does not quote the sentence immediately following Keynes’s disclaimer, to wit, ‘indeed, owing to the unwillingness of most monetary authorities to deal boldly in debts of long term, there has not been much of an opportunity for a test’. (Friedman 2003e, pp. 157-8)

This statement from p. 207 of *The General Theory*, also quoted in Friedman’s appendix of Absolute Liquidity Preference statements (2003e, pp. 161-2), is beset with two problems. First, while accusing Patinkin of not quoting the next line, Friedman is also guilty of not quoting the line that then follows: ‘Moreover, if such a situation were to arise, it would mean that the public authority itself could borrow through the banking system on an unlimited scale at a nominal rate of interest’ (Keynes 1936, p. 207). Friedman also conveniently overlooks the fact that, throughout the book, Keynes is more interested in what he has observed happening than he is in theoretical possibilities. The other reasons he provides for concluding that interest rates are sticky downwards are all empirically observed and are sufficient to account for current and future situations.

Friedman then attempts to bury Patinkin’s observation concerning Absolute Liquidity Preference by baldly stating:
Neither does Patinkin note that, so far as I can discover, this is the only disclaimer in the *General Theory*: while there are repeated statements in the opposite direction, such as, to pick only one, ‘The most stable, and least easily shifted element in our contemporary economy has been hitherto, and may prove to be in the future, the minimum rate of interest acceptable to the generality of wealth-owners’. (Friedman 2003e, p. 158)

Again, Friedman succumbs here to the temptation of stopping a quotation at a strategically advantageous point, rather than where Keynes’s full meaning becomes clear. If we carry on with Friedman’s quotation we find that Keynes is not obsessed by absolute liquidity preference in the sense that Friedman means:

If a tolerable level of employment requires a rate of interest much below the average rates which ruled in the nineteenth century, it is most doubtful whether it can be achieved merely by manipulating the quantity of money. From the percentage gain, which the schedule of marginal efficiency of capital allows the borrower to expect to earn, there has to be deducted (1) the cost of bringing borrowers and lenders together, (2) income and sur-taxes and (3) the allowance which the lender requires to cover his risk and uncertainty, before we arrive at the net yield available to tempt the wealth-owner to sacrifice his liquidity. If, in conditions of tolerable average employment, this net yield turns out to be infinitesimal, time-honoured methods may prove unavailing. (Keynes 1936, p. 309)

Friedman, however, perhaps because it is in his own interest, manages to convince himself that he sees what is in fact not apparent in Keynes’s work. He somehow dismisses mentally everything else relevant to interest rates and monetary policy except one single aspect. Though there is no evidence that Friedman does this consciously or even cynically, his analysis remains without sufficient textual support:

One consequence of my rereading large parts of the *General Theory* in the course of writing this reply has been to reinforce my view that absolute liquidity preference plays a key role. Time and again when Keynes must face up to precisely what it is that prevents a full-employment equilibrium, his final line of defense is absolute liquidity preference. To document this point, I have assembled the relevant quotations in Appendix 1. …I do not see how anyone can read through these quotations and come to any other conclusion than that his ‘special twist’ was highly elastic liquidity preference and that this ‘was a key element in Keynes’s proposition’ about the possibility that there might not be a full-employment equilibrium even with flexible prices. Patinkin sees the fly on the barn door but not the door! (Friedman 2003e, pp. 158-9)

Friedman unfortunately seems prone to confuse the fly with the barn door. Since Keynes’s contribution must be trivialised to strategically advance his own counter-revolution, Friedman turns Keynes into a quantity theorist (much to Keynes’s own surprise were he still alive). To further this aim, Friedman lists what he characterises as thirteen relevant quotes. Unfortunately, some of them have nothing to do with the idea of absolute liquidity preference while others are taken out of context. It is sufficient to state two clear examples: ‘Circumstances can develop in which even a large increase in the quantity of money may exert a comparatively small influence on the rate of interest’ (Keynes 1936, p. 172). If
Friedman had bothered to trudge further along the paragraph, he would have
discovered that the quote clearly reflects the role played by expectations and
uncertainty rather than absolute liquidity preference. Such circumstances are not
restricted to very low interest rate levels. The actual quote continues:

For a large increase in the quantity of money may cause so much
uncertainty about the future that liquidity-preferences due to the
security-motive may be strengthened; whilst opinion about the future of
the rate of interest may be so unanimous that a small change in present
rates may cause a mass movement into cash. It is interesting that the
stability of the system and its sensitiveness to changes in the quantity of
money should be so dependent on the existence of a variety of opinion
about what is uncertain. (Keynes 1936, p. 172; original stress)

This may be what Friedman wants to denote as absolute liquidity preference,
but Keynes reserves this terminology for a special case dependent on very low
interest rates. Nor is Friedman correct in insisting that the following quote also
demonstrates Keynes’s fixation with absolute liquidity preference. It is Friedman who
finds liquidity traps embedded within each and every paragraph dealing with
monetary issues. These discoveries remain largely fictitious: ‘….the position of
equilibrium, under conditions of laissez faire, will be one in which employment is
low enough and standard of life sufficiently miserable to bring savings to zero’
(Keynes 1936, pp. 217-18). Even the idly curious might wonder what the connection
is between such a mystifying statement and any idea (no matter how strained) of
absolute liquidity preference. The concise answer is that the connection is largely, if
not entirely, absent. The quote is found in a chapter entitled ‘Observations on the
Nature of Capital’. It deals with a hypothetical situation in which capital has
accumulated to the level where the marginal efficiency of capital is zero. The
problem is to continue to generate additional investment even under such a situation,
especially given the fact that nominal interest rates are sticky downwards. Keynes
might have focussed on absolute liquidity preference here, but clearly chose not to.
This indicates the relevant weight Keynes attached to this concept:

We have seen that capital has to be kept scarce enough in the long-
period to have a marginal efficiency which is at least equal to the rate of
interest for a period equal to the life of the capital, as determined by
psychological and institutional conditions. What would this involve for
a society which finds itself so well equipped with capital that its
marginal efficiency is zero and would be negative with any additional
investment; yet possessing a monetary system, such that money will
‘keep’ and involves negligible costs of storage and safe custody, with
the result that in practice interest cannot be negative; and, in conditions
of full employment, disposed to save? (Keynes 1936, p. 162)

Friedman, like Keynes, displayed a similar rhetorical strategy. Both can be
viewed as accomplished polemicists focussed on policy matters. Both clearly are
ideologically driven. Intellectual history, economic history and even data are so much
grist for their strategic mills. They don’t knowingly bend facts, but see them in such a
way that what comes to hand seems fortuitously to conform to prior requirements.
Thus, as will be determined in the next section, Patinkin could marshal his arguments
and facts in a more objective fashion than Friedman. Johnson could deftly expose
Friedman’s motivations. Yet Friedman could end up trumping both his former
colleagues. Marketing, knowing how to anticipate the demands of the profession, is at
least as important as the content of the theories presented.
3 KnocKing on Heaven’s Door – Loyalties, Betrayals and Obfuscation

I turned on the radio. G. Gordon Liddy was answering a caller’s question about morality and loyalty. G. Gordon said he had gone to jail in the Watergate case because he refused to lie under oath....You give your loyalty to someone and you don’t betray it even if the person you’ve given it to abandons you. (Kaminsky 1999, p. 230)

There is more than a stale whiff of Alain Resnais’s classic film, La Guerre est Finie, lingering around the pages of these bulky two volumes. That movie, as older cinéastes may recall, depicts the almost forgotten struggle of a group of anti-Franco partisans sometime in the 1960s. What compels them to continue is not so much their stated objective as the ongoing process, the sense of belonging. Achieving their aims is subordinate to the bonds formed between members and the unquestioning mutual acceptance that defines fighting either in a revolutionary or counter-revolutionary struggle.

It would be reaching too far to claim that Milton Friedman and his loyal band of allies were less than interested in overturning the despotism of the Keynesian revolution. Like any dedicated counter-revolutionary, Friedman’s strong ideological grounding ensured that policy objectives were always uppermost in his mind. It is fair to say that loyalty to those in the group was almost indistinguishable from loyalty to the ideology that defined the group. There is certainly a strong sense of Henry V about his project, in the strategies adopted and the tactics devised to win battles. Chicago, under the very active generalship of Friedman and Stigler, expected and rewarded loyalty. (Those loyal to them happened to turn out work that won their strong approval and vice versa.) Suspected apostates of the order of Don Patinkin and Harry Johnson could expect little mercy if seen to pose something of a palpable threat.

In essence these two volumes deliver what is almost a morality play focussed on divided loyalties. The admixture of polemical opponents, ideological foes, along with the human sentiment of frustration and envy succeeded in driving this inexorable and entrenched debate for some 35 years. A mere tiff over a minor point concerning the origin of ideas could never sustain an argument that dominated so many pages in the journals of their time. From any objective standpoint, the surface crux of the argument was an interesting, but hardly earth-shattering issue for historians of thought.

Why should such a relatively minor issue have ignited an increasingly rancorous debate? In essence there are interlinked regions within this debate that are broadly covered by this large collection of articles. Most narrowly there are the pure intellectual history issues which, at least some of the disputants maintain, comprise the entirety of the issues at hand. From this simplified standpoint, the only question of interest concerns Friedman’s accuracy. This is an entirely factual issue, though the ever-present need of interpreting those rather slippery facts means that the available evidence can sometime fail to speak for itself. However, if what was involved was purely a factual history of thought question, it would have hardly received such extensive (and intensive) attention.

The more compelling issue (and that which reflects on larger economic areas) remains, as previously stated, ferreting out Friedman’s overarching reason for such a statement at all. The last, and more general, problem underlying this long-running debate deals with Monetarist versus Keynesian positions and the
policy questions associated with them. Today, that particular controversy largely has receded safely into the mists of History of Thought. Yet, in many ways, the same issues are very much alive between the descendents of these associated theoretical and policy-oriented stances. Clearly the first and last questions are to a large extent shaped and driven by the middle issue.

On the face of it then, the Patinkin/Friedman quarrel was essentially an absurd feud. No one should have rightfully cared except those intrigued by doctrinal positions. But in the perverse manner in which these contests occasionally can unfold, Friedman’s claim provided his opponents with an opening through which to launch a counter-attack. Ironically, Friedman’s rhetorical attempt to discredit Keynes would be used as a leverage point to undermine Friedman’s own credibility. Patinkin and Johnson glimpsed the possibility of taking away Friedman’s ability to define the terms of debate. In the grand tradition of von Clausewitz, Friedman always attempted to capture ruthlessly the high ground in any extended campaign. In fact, it was Friedman’s consistent ability to determine the terrain for debate and its associated rules that seemed, in part, to ensure the predictability of his growing and continuing great success:

[Friedman] has frequently trapped and sandbagged critics of reputation and integrity by the technique of under-disclosure of analysis and evidence and apparent overstatements of the strength of his results. (Johnson, quoted in Leeson 2003b, p. 261)

As stated, this fiercely fought controversy had its roots entangled in unresolved issues dealing with conflicting loyalties. The underlying loyalties that helped fuel the conflict can be traced back to Friedman’s and Stigler’s Chicago days as graduate students during the early1930s. Like others of that era, they were both very much dazzled by Frank Knight:

Knight had a very strong influence on George Stigler and all the graduate students….At that stage he was, as many people were at the University of Chicago, quite besotted with Frank Knight….Frank Knight’s influence on the student body was profound and not, I say in retrospect, a hundred per cent positively constructive….In fact, Knight’s major influence at that time resulted in the view that Knight had done everything and there was nothing left to do. (Paul Samuelson, conversation with Craig Freedman, November 1997)

Knight, however, was not impressed by Keynes. The feeling may have been mutual. In The General Theory, Keynes makes little or no reference to Knight’s theory of risk and uncertainty despite the key role that uncertainty plays in Keynes’s model of the economy. The one reference is a footnote (Keynes 1964, p.176, n2) that mentions Knight’s observation regarding the nature of capital. Whether from personal antipathy, wounded self-pride or irreconcilable theoretical differences, Knight’s reaction to Keynes’s work in The General Theory was starkly virulent.19 He correctly recognised Keynes as a polemicist, which was not, in his vocabulary, a term of endearment:

In his review of the General Theory, Knight….complained that Keynes’ references to ‘classical economists’ were ‘the sort of caricatures which are typically set up as straw men for purposes of attack in controversial writing’. He sought to defend his own Chicago teaching from Keynes’ influence: ‘In the great majority of cases the doctrines so labelled [as classical] seem to me to be quite at variance with, and often contradictory to anything I was ever taught as academic doctrine in any
modern sense….and they are certainly alien to anything I have ever taught as such, and I have been rated, and have supposed myself an adherent of the general type of position referred to by the term. On the other hand, many of Mr Keynes’s own doctrines are, as he would proudly admit, among the notorious fallacies to combat which has been considered a main function of the teaching of economics’. Knight noted that ‘where once it was necessary in writing to pose as merely restating and interpreting doctrine handed down from the Fathers, the surest way to public interest and acclaim now lies through pulling down and overturning everything established or accepted’. (Leeson 2003e, p. 17)

Knight always made his animosity to Keynes’s economic contribution apparent. This flared into full-hearted contempt when in 1940 Jacob Viner proposed awarding Keynes an honorary doctorate during Chicago’s fiftieth anniversary celebrations. To say the least, Knight found the idea offensive:

Knight grumbled that Keynes’s work, and the enthusiasm with which it had been greeted by academics and policymakers, had created ‘one of my most important….sources of difficulty in recent years’. After crediting Keynes with ‘a very unusual intelligence, in the sense of ingenuity and dialectical skill’, he went on to complain: ‘I have come to consider such capacities, directed to false and subversive ends, as one of the most serious dangers in the whole project of education….I regard Mr. Keynes’s [views] with respect to money and monetary theory in particular….as, figuratively speaking, passing the keys of the citadel out of the window to the Philistines hammering at the gates’. (Bernstein 1999, p. 222)

Given the respect (and awe) in which Friedman and Stigler both regarded Knight (especially in those early years), it is hard to believe that either one would have been highly receptive to Keynes’s views, especially those focussed on monetary theory. This vestigial loyalty could only reinforce the desire, as witnessed in the counter-revolution, to dethrone those views.

With Knight as such a common pivotal figure, the break between Friedman and Patinkin should have never started, let alone evolved to such an intense level. Superficially the two had much in common. Patinkin came to Chicago less than a decade after Friedman first entered. They shared and respected a number of the same teachers, including Knight (whom Patinkin also greatly admired) and Mints, who taught both of them monetary theory. However, in key respects their approaches differed fundamentally. In the field of monetary theory their projects clashed fundamentally. While Friedman sought to hack away at the very supports of the Keynesian revolution, Patinkin attempted to develop a more rigorous structure for what he defined as the Keynesian model. Patinkin viewed himself as completing the revolution that Keynes began. Friedman’s counter-revolution, in essence, wanted to fit a demand-for-money model into a generalised framework that described the demand for any other generic flow of services. Once done, this accomplishment would supposedly anchor monetary theory once more in the snug harbour of neoclassical thought. To accomplish this objective, Keynes’s monetary theory would need to be transformed into a mere incremental addition to this mainstream tradition. It is in part Patinkin’s perception of this aim that helped to fuel their quarrel. Patinkin, not without justification, saw Friedman as operating within the tradition of Keynes, benefiting from the pioneering departures Keynes took from traditional theory, but lacking the integrity to acknowledge his debt:
Thus the picture which Friedman attempts to create is clear: namely, the conceptual framework he uses for monetary analysis is that of the quantity theory; its basic difference from the Keynesian theory lies in the fact that the latter assumed the demand function for money to become highly (infinitely) interest elastic. As against this picture, I would like to present the following one: the conceptual framework which Friedman uses to analyze the demand for money is that of the Keynesian theory of liquidity preference – with Friedman’s addendum that empirically this demand does not become highly (infinitely elastic), and is indeed relatively inelastic. And, as important as are the policy implications of this addendum, we should not let it wag the theory. (Patinkin 2003c, pp. 125-6)

While both were very much concerned with policy applications (Patinkin during his many years in Israel made such interests clear), the ideological imperative of Friedman’s work may have started to grate. ‘In a posthumously published essay, Patinkin….stated that in his judgement, Friedman returned to Chicago in 1946 “to continue the school’s fundamental ideological advocacy of free-market economic liberalism”’ (Leeson 2003a, p. 2).21 That the ideological fervour had increased given the efforts of Friedman after 1946 seems clear; at least this was the impression of a particularly appropriate eye-witness:

It was not until after I left Chicago in 1946 that I began to hear rumors about a ‘Chicago School’ which was engaged in organized battle for laissez faire and ‘quantity theory of money’ against ‘imperfect competition’ theorizing and ‘Keynesianism’. I remained sceptical about this until I attended a conference sponsored by University of Chicago professors in 1951. The invited participants were a varied lot of academics, bureaucrats, businessmen, etc, but the program for discussion, the selection of chairmen, and everything about the participants were so patently rigidly structured, so loaded, that I got more amusement from the conference than from any other I ever attended. Even the source of the financing of the Conference, as I found out later, was ideologically loaded. (Jacob Viner, quoted in Patinkin 2003e, p. 112)

Patinkin and Friedman also clearly differed on their use of available evidence. Despite Friedman’s frequent use of data and his considerable empirical work, evidence, whether statistical in nature or historical, was a factor to be managed in order to advance given objectives, rather than a decisive element in resolving disputed claims.22 In this he displayed a distinct loyalty to approaches taken by the first Chicago school where, for Knight and his protégé Simons, it was a priori reasoning, not data, that was ultimately conclusive. It was almost as though their response to contrary evidence would be to question and possibly dismiss data that disagreed with what they knew to be true:

For critical students, however, Dr. Currie’s inductive verifications will be largely gratuitous….In general, the author’s fundamental insights are so sound that failure of statistical confirmation would only indicate error or inadequacy in the statistics. (Simons 2003, p. 370)23

Friedman seemed willing at times to overlook or even ignore evidence that was inconsistent with his a priori objectives: ‘….the categories of “honest” and “dishonest” are quite irrelevant. What is instead relevant is the far more subtle phenomenon involved in human failing (to which we are all subject) of sometimes
suppressing that which it would be more convenient for us not to note or remember – with reference to questions to which we are strongly involved’ (Patinkin, quoted in Leeson 2003b, p. 258). In this way Friedman could deftly ignore the work of someone like Lauchlin Currie, both because it undercut some of the initial claims he had made regarding the history of monetary theory, and, perhaps more importantly, because he considered Currie himself as disloyal to the US, a communist sympathiser like Harry Dexter White:

In 1966, as Karl Brunner was preparing the reprint [of Currie’s *Supply and Control of Money in the United States*], Friedman informed him that ‘Currie is a fugitive from justice somewhere in South America’….Friedman did not initially acknowledge Currie’s contribution. (Leeson 2003g, p. 289)

Even worse for Patinkin, Friedman seemed to be quite happy to ‘let [policy] wag….theory’ (Patinkin 2003c, p. 126). In his discussions of the Chicago oral tradition, Friedman impressively muddled policy issues with theoretical matters. It is quite true that the policy recommendations put forth by Keynes differed little from those supported by many Chicago economists in the 1930s. Though both, however, might have suggested running budget deficits, the mechanisms through which such a policy might be effective in reviving the economy necessarily differed. In a similar manner, while for someone like Simons this is a short-run policy due to exceptional circumstances, Keynes saw the need for government intervention in economic cycles as inevitable, given the nature of the investment function. In contrast to Friedman’s deliberate muddle, Patinkin’s intention is not to delve into matters concerning policy, but to focus purely on theoretical concerns:

….what interests me now is monetary theory, not monetary policy. These represent two different spheres of discourse. And whatever the relationship between the two, it is clearly not a one-to-one correspondence: different policy recommendations can emanate from the same conceptual theoretical framework; and different frameworks can lead to the same policy recommendation. (Patinkin 2003a, p. 319)

It is Friedman’s willingness to blur these distinguishable areas that created an opportunity for the Patinkin/Friedman debate. Given Friedman’s clear policy objectives and ideological stance, it is difficult to believe that Friedman was entirely unaware that he was trying to achieve a policy objective via a theoretical debate. In the same way, Don Patinkin (and, soon after, Harry Johnson) used Friedman’s rhetorical strategy as an opening to attack Friedman’s credibility. They tried to neutralise Friedman’s ability to determine the terms of debate. What seems clear is that despite Patinkin’s and Johnson’s evident frustration with Friedman, which led to some of their more extreme comments, Friedman himself did not stoop to dishonesty. However, he remained at heart something of a guerrilla commando, a tough fighter leading a counter-revolution against what he viewed as a dangerous heresy where battles were conducted according to the sharp-elbowed rules of war. He did not let niceties of conduct deflect him from his all-important objectives. Nor did he neglect building up the loyal support of his fellow counter-revolutionaries. Nonetheless, shorn of policy issues and distractions (a veritable fog of war), Patinkin did have a strong case to make on purely theoretical grounds. This is one of the rewards to be garnered from a detailed reading of the evidence provided in these two volumes:
In any event, the examples of Simons, Pigou, and others have led me to suspect that the real Keynesian Revolution took place not in the sphere of economic policy where changes were already occurring in the early 1930s, but in that of economic theory. I suspect that the real change wrought by Keynes’s *General Theory* was in the conceptual framework from which we viewed the problems of employment, interest and money. (Patinkin 2003a, p. 321)

What seems correct is that Milton Friedman in returning to Chicago (1946) brought with him the seeds of a crusade, snugly secured in his ideological knapsack. He entrenched himself there despite being granted relatively low pay at an associate professor’s rank. He endured the indignity of only being offered the position after the department’s first choice (George Stigler) was overruled by the then University President. Moreover, Friedman faced a department where the traditional liberalism espoused by Knight and Simons was under attack. Friedman’s efforts did see the Cowles Commission (producing highly theoretical and econometric work which lacked appeal for Friedman, as did their research work conducted in the Keynesian tradition) move from Chicago to its current base at Yale University. In contrast, Patinkin from an early age worked closely with the Cowles people. Ultimately, though Patinkin deferred to Friedman in his younger years, their ultimate loyalties differed. As is also natural in two very ambitious economists, at different times in their careers each tended to feel jealous of the recognition accorded to the other:

As a twenty-four year old, Patinkin was moving in some high-powered circles at Cowles and Chicago: Klein, Hurwicz, Jacob Marschak, Tjalling Koopmans, Trygve Haavelmo and Ragnar Frisch attended the staff seminar on his essay on ‘Unemployment in Keynesian Economics’ (February 1947). In his early thirties, Patinkin was a valued adviser to David Ben-Gurion….At this age, he was more influential than Friedman was at a comparable age. In the same year as Friedman’s (1956) revival of the quantity theory….Patinkin….attempted to consolidate that consensus [the post-war economic consensus] by integrating monetary and value theory…. (Leeson 2003f, p. 234)

As noted earlier, the debate should have run its course soon after it started. Friedman uncharacteristically acknowledged Patinkin’s key points. First Friedman granted Keynes a more significant contribution to monetary theory in his entry on the Quantity Theory in the *International Encyclopedia of the Social Sciences* (2003d): ‘Friedman complained that he had revised the entry as Patinkin suggested and had included a reference to Knut Wicksell and made a greater acknowledgment of Keynes’s influence’ (Leeson 2003c, p. 257). Friedman, in a letter to Patinkin in 1968, seemed to have completely yielded on the issue of the Chicago oral tradition. In this case, the possible harm incurred by a strategic retreat could be minimised. Friedman had tried a rhetorical ploy. After some critical delay, his bluff had been called. But as Friedman well knew, such ploys could be jettisoned without touching the core of his theoretical work:

I find your description of the oral tradition entirely acceptable and much better and more acceptable than mine. In extenuation, I can only say that the 1956 essay did not set out to be an essay in the history of thought but an introduction to a collection of studies. (Friedman, quoted in Leeson 2003c, p. 257)
What remained, after sweeping away most of this superficial and distracting dust, were the core differences that formed an unbridgeable gulf between the two major combatants. Patinkin and Friedman had developed theoretical projects characterised by their conflicting and opposing natures. This is most clearly demonstrated when comparing their very different evaluations of Keynes. This clash however, belonged firmly to the then on-going Monetarist/Keynesian debate. Issues surrounding monetary theory in the 1930s were a sideshow, rather than an intrinsic or clarifying component. There was really nothing more to discuss about some mythical oral tradition based in Chicago. The modest tempest should have staged a quiet retreat back into the teapot whence it arose. But both sides remained inflexible. Neither one wanted to yield any potentially strategic territory:

I continue to regard what I wrote as a reformulation of the quantity theory of money, just as I continue to regard Keynes’ Monetary Reform, and large parts of his Treatise, and some parts of his Gen. Theory, as the writings of a quantity theorist. I have increasingly become persuaded that the really Keynesian element…in the Gen. Theory is the treatment of prices as institutional datum. (Friedman, quoted in Leeson 2003c, p. 257)

Perhaps ultimately, time would have buried this particular extended tiff. Unfortunately, an idiosyncratic squabble was provided with a second life through the mischievous intervention of James Tobin. Quite opportunistically, he saw this debate as a tempting chance to score points against the growing power of monetarism. Friedman’s star had risen alarmingly following his 1968 AEA presidential speech and the fortuitous rise of stagflation in the US economy. As president that year of the American Economic Association, Tobin would have the prerogative to determine the programme for that year’s meeting. While his own 1970 presidential speech would take the high road by responding indirectly to Friedman through his theoretical take on inflation, he would delegate the trench warfare to Harry Johnson, who, like his colleague Milton Friedman, had a ‘no-quarter-given-or-asked-for’ approach to economics.

In many ways, Johnson’s dissection of Friedman’s motives serves as a warm-up for his later deconstruction of Keynes accomplished in partnership with his wife Elisabeth. Johnson simply uses standard economic tools to establish Friedman’s objectives and the methods he used to accomplish them. In doing so, Johnson was highly successful, although his portrait would not endear itself to either the subject of such a merciless analysis or those closely associated with him or with his counter-revolution. This is a clear case of self-interest creating strong bonds of loyalty:

My concern, specifically, is with the reasons for the speed of propagation of the monetarist counter-revolution; but I cannot approach this subject without reference to the reasons for the speed of propagation of the Keynesian revolution, since the two are interrelated. Indeed, I find it useful in posing and treating the problem to adopt the ‘as if’ approach of positive economics, as expounded by the chief protagonist of the monetarist counter-revolution, Milton Friedman, and to ask: suppose I wished to start a counter-revolution against the Keynesian revolution in monetary theory, how would I go about it – and specifically what could I learn about the technique from the revolution itself? (Johnson 2003, p. 171)
Clearly Johnson is hoisting Friedman by his own peculiar petard of positivism. But Johnson is particularly insightful in establishing the hows and the whys of creating both successful revolutions and counter-revolutions in academic endeavours. Johnson makes the compelling point that monetarism, if it was to provide a successful staging ground for a counter-revolution, couldn’t be content in presenting itself as some mere generalisation of Keynesian liquidity preference. Wiser tactics must insist on a complete divorce from its rival by claiming descent from an older tradition. This approach, while convenient, was not unfortunately free from difficulty:

A counter-revolution, however, has to cope somehow with a problem that a revolution by definition can ignore….the problem of establishing some sort of continuity with the orthodoxy of the past. Specifically, the monetarist counter-revolutionaries were burdened with the task of somehow escaping from the valid criticisms of the traditional quantity theory, which the Keynesian revolution had elevated into articles of dogma and self-justification. (Johnson 2003, p. 178)

Specifically, monetarists tried to ease their way through this difficulty by making two counter-contentions. The question of the degree to which an economy responds to monetary changes through output or price level displacements could be set aside as simply an empirical issue. The issue of whether velocity in a demand-for-money model was stable could be transformed into the more reasonable and tractable question of whether there is a stable functional dependence of velocity on a limited number of variables (Johnson 2003, p.178):

The problem in the case of both counter-contentions was to establish a plausible linkage with pre-Keynesian orthodoxy. The solution to this problem was found along two lines. The first was the invention of a University of Chicago oral tradition that was alleged to have preserved understanding of the fundamental truth among a small band of the initiated through the dark years of the Keynesian despotism. The second was a careful combing of the obiter dicta of the great neo-classical quantity theorists for any bits of evidence that showed recognition (or could be interpreted to show recognition) of the fact that the decision to hold money involves a choice between holding money and holding wealth in other forms, and is conditioned by the rates of return available on other assets. (Johnson 2003, p. 170)

Far more wounding is Johnson’s cynical absolution of any academic crime or misbehaviour by Friedman. Almost patronisingly, Johnson caustically defers to Friedman’s polemical ends. The cruelty lies in the accuracy of such a comment:

Nevertheless, one should not be too fastidious in condemnation of the techniques of scholarly chicanery used to promote a revolution or a counter-revolution in economic theory. The Keynesian revolution derived a large part of its intellectual appeal from the deliberate caricaturing and denigration of honest and humble scholars, whose only real crime was that they happened to exist and stand in the way of the success of the revolution. The counter-revolution had to endow these scholars, or at least their intellectual successors, with a wisdom vastly superior to what their opponents had credited them with. Obiter dicta and an oral tradition are at least semi-legitimate scholarly means to this polemical end. (Johnson 2003, p. 179)
It is fair to say that the disillusionment of both Patinkin and Johnson with Milton Friedman displayed the natural disappointment of two very ambitious and highly intelligent economists. The intensity of their criticism rose with Friedman’s overwhelming success and the corresponding relative neglect of Patinkin and Johnson. Perhaps they felt wrongly usurped by him, in the same way that Schumpeter had fumed in the shadow of Keynes decades before. Certainly they would have felt their own work to be equal if not superior to that of Friedman. Yet Friedman received the disproportionate share of attention. However, what may have driven this pair or subsequent opponents, though interesting, is largely irrelevant. Bitterness is not automatically correlated to distortion and inaccuracy. In the case of Patinkin and Johnson, no matter what sense of resentment, bitterness or envy they might continue to harbour, each one tended to fabricate stronger arguments and provide better evidence than the opposing loyalists.

Perhaps the subsequent vehemence of the response was due to the accuracy of Johnson’s attack. Patinkin had inflicted a grievous wound on Friedman’s rhetorical strategy, but Johnson was worse. He showed how the wizard behind the curtain was manipulating the various levers to produce a desired result. He, moreover, was rash enough to openly and clearly identify Friedman’s polemical objectives. This served as a virtual call to arms for the Friedmanites. The following small example of how skirmishes were conducted demonstrates the overriding value accorded to loyalty within the troops when trying to sweep the field of opposing views.

George Stigler had little interest in macroeconomic matters yet complete confidence in the views of Milton Friedman. If anything, Stigler was a loyalist not only his to friends, but to institutions and ideas as well. It should not then come as a surprise that when presented with the opportunity to damage the perceived opposition, Stigler would display no qualms in seizing it. That opportunity came in the form of a note submitted by Frank Steindl (2003) to the *Journal of Political Economy*. The note purported to discuss the oral tradition of Chicago in the 1930s. ‘Patinkin believed that Stigler was attempting to ensure that Friedman got the last laugh with respect to the Chicago monetary tradition’ (Leeson 2003g, p. 294). Patinkin had every reason to believe this to be the case. The note was accepted without going through the normal refereeing process. A short reply by Patinkin was rejected by Stigler in his role as editor. Patinkin was duly outraged while, in contrast, Friedman, as might be expected, was quite appreciative of the Steindl piece (Leeson 2003g, p. 294). Patinkin’s anger was in this case quite justified. Steindl gets the argument wrong. ‘For that disagreement was not (as Steindl presents it) about whether or not there was such an oral tradition, but what the nature of that tradition was’ (Patinkin 2003f, p. 381). Two years previously, Stigler had the presumption of using his autobiography (1988, pp. 152-4) to misrepresent Patinkin’s views in a similar manner:

He [Patinkin] informed Laidler…that Friedman’s attempt to defend himself against the criticisms contained in the original *JMCB* essay ‘by expounding at length on the Chicago advocacy in the 1930s of an activist monetary and [sic] policy’ was irrelevant because the point was ‘never in question’. Patinkin continued: ‘Unfortunately – for we would expect that a leading historian of thought would base his views on a careful reading of texts – Stigler in his autobiography attempts to defend Friedman with the same irrelevant argument’. (Patinkin, quoted in Leeson 2003g, pp. 296-7)
Unfortunately, partisanship led to a continuation of this debate for another three decades. It is then safe to say that at some stage the initial incentives faded and the debate did dwindle into a squabble over who said what and when it was said. Thus it sputtered to an inglorious close, propelled by some sort of inertial drift. None of the remaining participants had the good grace to leave the field of battle first.

Loyalty, whether to colleagues, institutions or objectives, is not good in and of itself. Misplaced loyalty clouds judgement and makes loyalists reluctant to listen to anything that runs counter to their pre-existing positions. In academic endeavours this refusal to seriously entertain diametrically opposed arguments (‘markets are not efficient’) can prove fatal. Exchanges become exercises in defending a pre-existing position rather than a search for true understanding. Economics descends into the nether world of adversarial proceedings where winning isn’t the most important thing, it’s the only thing.25

4 The Editor Edited

Your manuscript is both good and original: but the part that is good is not original, and the part that is original is not good. (Samuel Johnson, quoted in Bernard 1990, p. 75)

Towards the end of an article, any reviewer that has put in the hard time required to conscientiously plod through all the material on offer has won the right to state at least a few quibbles with the way in which the book has been put together and the choices the editor has made. To the casual reader, such whining might appear unnecessarily small-minded. But matters that in isolation might seem to be of small import manage to gain importance when accumulated over the seemingly endless expanse of more than 900 pages.

Clearly this is meant to be a reference book. Except for a small group of luckless reviewers, no one else would be likely to plough through so many pages. Because of the essential nature of these edited volumes, there remains the whiff of the kitchen sink about a number of its editorial decisions. Too much is included without sufficient evidence that a full weighting of the marginal contribution of each additional article was ever attempted. George Tavlas, for instance, rapidly wears out his welcome by repetitious variations of a single argument without showing any willingness to consider and fully evaluate opposing analysis and evidence. It is as though sheer repetition alone is sufficient to wear down and defeat alternative views. Though this approach may have gained Tavlas a number of publications, the wisdom of reproducing so many is not apparent.

There is also a glaring omission, which is perhaps even more noticeable given the abundance of other material. Like a ghost, Keynes lurks behind much of the issues and debates documented in the many articles. A relevant chapter or two from The General Theory would not have gone amiss. Readers can always go to the original to check whether an author is doing Keynes justice. But, except for the compulsive or inherently sceptical reviewer, many readers will never get around to doing this. It would be much more convenient if some of this material was at hand. Admittedly, choices would have to be made. The conscientious reader would be better off scrupulously reviewing all the three books in what Patinkin denotes as Keynes’s trilogy on monetary theory (The Tract on Monetary Reform, The Treatise and The General Theory). Realising however that such readers are unlikely to exist, some assistance from the editor would not go amiss.
The actual order of the articles is often curious. For instance, an article by Patinkin in response to Friedman’s attempt to slay his critics comes before the Friedman paper. Again, this is often a matter of judgement, but my curiosity is raised on more than one occasion in regard to this issue. There are also some bits of carelessness. The references are not provided at the back of a few articles. This most likely occurs because they were part of an edited volume with such references done centrally. Still, it is annoying to have a citation of a work within an article without the full reference available.

The quality of reproduction also varies unnecessarily. A type of camera-ready process must have been used, since some included articles are blurry or in faint type. Also, putting in the work to have all material in a large enough font would have been a mercy for older eyes. And it is safe to conclude that many of the potential readers of these volumes are in that unenviable age group.

As editor, Leeson has allowed himself the prerogative to include a number of his own contributions. Some critics might claim that Leeson as editor has been far too indulgent to Leeson the author. This, however, would be a remark characterised more by its maliciousness than by its accuracy. Leeson provides much that is useful in the way of information and also critical insights in these authored pieces. However, it is not the number of pages he has written, but the very last article in the edited collection that poses real problems. It is meant to sum up and resolve many of the issues that arise over the numerous pages of these volumes. Instead, Leeson pulls his punches in this concluding piece (though this is not usually the case in his contributions to these two volumes). His summation sounds suspiciously similar to what Friedman claims in his preface. In other words, Leeson sticks safely to the surface issues:

However, Patinkin performed a great service by undertaking such a one-sided historical examination. Had he been more dispassionate, and not played the role of ‘economist-as-matador’ the dispute may never have taken place and we would presumably know a lot less about the evolution of monetary thought than we do today. Hence the dispute over the oral tradition illustrates the pervasiveness of the principle of unintended consequences. Patinkin, like Friedman, was ‘led by an invisible hand to promote an end that was no part of his intention’. (Leeson 2003e, p. 515)

To conclude that this was simply an issue involving the history of ideas and that the result was greater enlightenment concerning the history of monetary policy is largely to miss the context of this debate. Intentions are always difficult to fathom without a questionable psychic ability. But it is safe to say that more was at stake than simply pinning down who said what at what date or when certain views were held. Furthermore the conclusion is curious because the weight of evidence does seem to lie with the Patinkin camp.26

Clearly, questions about the history of economic doctrine are empirical questions which can be answered only on the basis of evidence cited from the relevant literature….My criticism of Friedman is, accordingly, that on many occasions he has not provided such evidence; that, indeed, on some occasions he has ignored the detailed evidence which has been adduced against the views he expresses; and that on still other occasions he has indulged in casual empiricism in the attempt to support his doctrinal interpretations. (Patinkin 2003c, pp. 123-4)
As Friedman admits in the preface to this lengthy two-volume set, ‘this evidence convinces me that I gave Chicago more credit for uniqueness than was justified’ (Friedman 2003a, p. x). But it seems equally clear that whatever the oral tradition might have been in the 1930s and 1940s, that Chicago brand of monetary theory did not focus on constructing a theory detailing the demand for money. Friedman and his loyalists are simply unconvincing in initially claiming that he (Friedman) was untouched by Keynes’s formulation of liquidity preference. Nor is the argument any more convincing when Friedman backtracks by claiming that he was influenced by the monetary ideas within the The General Theory but that those ideas were largely derivative of the Cambridge tradition of the quantity theory. Friedman then is basically claiming either that his theory owed no debt to Keynes or that any notional debt was irrelevant since Keynes himself had contributed little to the advancement of monetary theory. Despite all of the trees sacrificed for the purpose, Friedman’s claims are largely unconvincing since his aims in bringing to light this issue are purely ideological and rhetorical. He is not driven by any desire to contribute to an understanding of the history of economic thought. Moreover, as previously discussed, Friedman’s overriding interest lay with policy issues rather than strictly theoretical matters. He was, however, quite willing to muddle the delineable differences between theoretical and policy aspects when discussing the Chicago tradition. Patinkin, in contrast, kept the distinction much sharper, concentrating his fire on theoretical concerns and differences.

To return to the main issue, despite being quite personalised at times, the battle waged was over dominance. What was at stake was Friedman’s counter-revolution squarely pitted at the time against the then Keynesian orthodoxy. At least that is the core issue that initially propelled the controversy. Perhaps in later years the debate did seem to settle more comfortably into something that resembled the standard characteristics of a history of economic thought fracas. Yet even here an unusual amount of contentiousness and obduracy adhered to the exchanges, perhaps an inheritance of the roots of this argument. What is finally more curious is Leeson’s lapse in forgetting the earlier Leeson. In a 1997 draft article on ‘The Chicago Counter-Revolution and the Sociology of Economic Knowledge’, Leeson clearly depicts the aims and strategies of Friedman and Stigler: ‘Stigler and Friedman also sought influence and control over economists’ research agenda’ (Leeson 1997, p. 32). It remains inexplicable, then, why this aspect of the debate is muted in Leeson’s final summing-up. This is the time and place for Leeson to post his valedictory of a long and often confusing journey. It is Leeson’s best opportunity to lodge a final idea into the tired mind of the reader. Without the ideological impetus, it is doubtful that Friedman would have had the inclination to make his original remarks, and Patinkin in turn would have lacked the occasion of making his scathing rejoinder. For some reason, in this final chapter Leeson wishes to play down the ideological aspects of both the Keynesian revolution and the Chicago School counter-revolution. Leeson does this despite the fact that both Keynes and Friedman were ideologues and polemicists. They both chose to subjugate economic history, history of ideas and empirical evidence to other (higher) objectives.

In contrast, Stigler, an expert in such commando operations, easily recognised a fellow practitioner of the persuasive art. Thus he quickly spots that Keynes is being deliberately ingenuous when in his Essays in Persuasion (1963) he suggests that economists should aim to provide useful services to society much like the friendly neighbourhood dentist. Perhaps that might be an acceptable aspiration
for run-of-the-mill economists, but it was certainly not how Keynes viewed himself. ‘He [Stigler] concluded that Keynes sought to be, not a dentist, but “a brain surgeon who operated on ideologies”’; and this analogy can be applied to Stigler and Friedman, who ‘sought to influence the process of knowledge construction and destruction’ (Leeson 1997, p. 6).

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Notes

1 The force of this statement is immediately undercut by attributing this claim to another theologian. This seems more of a moment of unintentional irony than an intentional departure from Thomas’s uniformly sombre presentation. (We all still await publication of a volume detailing scholastic humour.) Those interested in the exact reference for this quote are encouraged to fossick through all of the interminable volumes. Otherwise, those lacking a theological bent may save time by trusting to my memory.

2 The two articles were ‘The Monetary Theory and Policy of Henry Simons’ and ‘The Quantity Theory of Money’, both reproduced in the first volume of this work.

3 Friedman insists that, except for the idea of Keynes’s liquidity trap, Keynes is doing nothing that radically departs from the ideas advanced by Fisher:

   Except for somewhat different language, the analysis up to this point [in The General Theory] differs from that of earlier quantity theorists, such as Fisher, only by its subtle analysis of the role of expectations about future interest rates and its greater emphasis on current interest rates and by restricting more narrowly the variables explicitly considered as affecting the amount of money demanded.

   Keynes’s special twist concerned the empirical form of the liquidity-preference function at the low interest rates that he believed would prevail under conditions of underemployment equilibrium. Let the interest rate fall sufficiently low, he argued, and money and bonds would become perfect substitutes for one another, liquidity preference, as he put it, would become absolute. (Friedman 2003d, p. 76)

4 Earlier, Samuelson used the same type of approach to dismiss Marx’s contribution to economic theory. In Samuelson’s analysis Marx becomes a minor Ricardian and autodidact. This deliberate relegation of an economist and his or her theoretical work to the minor leagues is more damning (from a rhetorical standpoint) than any detailed refutation could possibly be: ‘A minor Post-Ricardian, Marx was an autodidact cut off in his lifetime from competent criticism and stimulus’ (Samuelson 1957, p. 911).

5 Except for the professionally naïve, there should be little doubt that Friedman was deliberately trying to minimise Keynes’s contribution. In this, Patinkin was quite accurate: ‘The exaggerated claims for the quantity theory have expressed themselves in the attempt (especially by Milton Friedman) to present Keynes’s monetary theory not as a new theory, but as a variation on the Cambridge cash-balance theory’ (Patinkin 2003a, p. 317).

   It is then a reach to claim that undermining Keynes’s reputation had no relation to the polemical wars breaking out in the immediate postwar period (not coincidentally mirroring the growing polemics of the Cold War):

   According to his disciples, Keynes trusted to human intelligence. He hated enslavement by rules. He wanted governments to have discretion and he
wanted economists to come to their assistance in the exercise of that discretion. In Aaron Director’s [Milton Friedman’s brother-in-law] judgement, Keynes’ work provided the foundations for ‘collectivism’ while Simons’ work provided the foundation for ‘freedom and equality’. (Leeson 2003d, p. 308)

6 In her previous Donald incarnation, McCloskey started the discussion with the very well-known article appearing in the *Journal of Economic Literature* (1983) and later stretched into a book (1985).

7 The English historian A.J.P. Taylor (1962) claims, with some justice, that by painting Germany as the victim of a rapacious coalition of victors, Keynes helped to create a too understanding and too sympathetic mindset amongst the political and intellectual class in England during the inter-war years. He takes clear issue with Keynes’s assertion that reparation demands on Germany were overly onerous.

8 To turn the medieval scholastics into a gaggle of proto-economists focussed on the problems of dealing with insufficient aggregate demand is testament to a faith that Thomas Aquinas himself might have honoured:

> I was brought up to believe that the attitude of the Medieval Church to the rate of interest was inherently absurd, and the subtle discussions aimed at distinguishing the return on money-loans from the return to active investment were merely Jesuitical attempts to find a practical escape from foolish theory. But I now read these discussions as an honest intellectual effort to keep separate what the classical theory has inextricably confused together, namely, the rate of interest and the marginal efficiency of capital. For it now seems clear that the disquisitions of the schoolmen were directed towards the elucidation of a formula which should allow the schedule of the marginal efficiency of capital to be high, whilst using rule and custom and the moral law to keep down the rate of interest (Keynes 1964, pp. 351-2).

9 Remember that Friedman was an active member of the intellectual counter-revolution represented by the Mt Pelerin Society. Combating totalitarian communism was more important than any minor niceties.

10 With the possible exception of his close friend George Stigler, Milton Friedman was basically unbeatable in a one-on-one debate. (Unfortunately Stigler and Friedman were never known to take opposing views on any key economic issue.) He would literally wear down any opponent whatever his actual knowledge on a given subject might be:

> He [Milton Friedman] was always patient, always polite, never got short tempered like I do in an argument, never got nasty. He was a horrible person to argue with, just a nightmare. My idea of a nightmare is to stand on a stage and debate with him in front of the public. I watched him debating at Cambridge with Joan Robinson on flexible exchange rates. Unbelievable! I mean, Joan Robinson was one of the world’s most aggressive, hostile, debaters. He wiped her analytically, he wiped her rhetorically, and he had the entire audience eating out of his hand, after an hour, an hour and a half. An amazing, amazing guy, but a madman, a madman. One of the few people I could strangle with my bare hands. I feel I could actually do it. (Mark Blaug, conversation with Craig Freedman, July 1998)

11 The debate scrupulously covered in these two volumes makes it clear that none of the combatants mentioned Keynes’s own quandaries after publishing *The General Theory*. As far as these debates are concerned, Keynes’s thoughts on monetary theory largely came to an end with *The General Theory*. 
The debate tended to heat up. Harry Johnson was never one to avoid blunt opinions, though never in a one-sided fashion. If he was unsparing of the motives behind Friedman’s counter-revolution, he was equally merciless toward the original Keynesian revolution:

> Nevertheless, one should not be too fastidious in condemnation of the techniques of scholarly chicanery used to promote a revolution or a counter-revolution in economic theory. The Keynesian revolution derived a large part of its intellectual appeal from the deliberate caricaturing and denigration of honest and humble scholars, whose only real crime was that they happened to exist and stand in the way of the success of the revolution. (Johnson 2003, p. 179)

Friedman’s position on Keynes changed very little. In 1971 he would still give Keynes almost no credit, asserting that Keynes in *The General Theory* deviated little from his ideas in the *Tract*. The latter, as Keynes himself acknowledged, was very much in the Cambridge Quantity Theory tradition. Friedman is implicitly asserting that Keynes’s ‘struggle of escape from habitual modes of thought and expression’, (Keynes 1964, p. viii) was either a case of self-delusion or an instance of deliberate fraud: ‘The major points which Milton made is that there is nothing particularly Keynesian about the liquidity preference function, and that the demand for money sections of the *General Theory* are simply a slightly inferior version of Keynes’ views in the *Tract*’ (Stanley Fischer, quoted in Leeson 2003e, p. 513).

Too many economists (Friedman being no exception) seem to have skimmed over most of the later chapters of *The General Theory*. Instead they focus only on an almost textbook-type version of the more familiar bits. This belies an inability, or unwillingness, to read a text in any way other than a linear fashion, as dutiful students attending a typical lecture. Keynes does not opt to follow such a mundane structural form favoured by the profession. (Perhaps this is why *The Treatise* found more favour amongst his Chicago readers as well as others of that period.) Keynes takes a literary approach, combining circularity with more linear exposition. The entire book lies within the first three chapters, with the remaining ones circling back to deepen and make more explicit the bones of the framework glimpsed at the beginning. In a sense these are circular blocks of exposition written within ever larger circular blocks. Those readers with a few months to spare might do well to invest in an intensive reading of Proust’s epic work *Remembrances of Times Past* for a precise example of how such a narrative structure works in the field of literature.

Not in any simple monotonic function, since investors could see a drop in nominal interest rates as signalling an expectation of lower aggregate demand. Such expectations would lead to a drop in the marginal efficiency of capital schedule. Depending on the size of the marginal efficiency of capital relative to the nominal interest rate, investment might increase (though the amount would be diminished), remain unchanged or fall.

Think of his ‘band-of-brothers’ speech at Agincourt (St Crispin’s Day) to gain the parallel here. As a colleague who was unwilling to be quoted (‘I have to work with these people’) summarised, ‘If you were not one of their group you were scorned’:

> Now, what you have to understand with somebody like Alan Wallis, and so to a degree those people [like Milton Friedman and George Stigler] who were in his circle, is that Alan Wallis had the sharpest priors – I’m using the language of Bayesian probability - of anybody I ever knew. Almost no new data could change his view for this reason. On the other hand, if he thought of somebody as a dangerous, or an incompetent thinker, but Jimmy Savage assured him that the man was very smart and had good judgement, that carried more weight with Alan Wallis than a two-year study of the
person’s vitae and an audit of his writings. There’s an in-group of the good guys and the much larger out-group. George Stigler, who was very critical of people, was almost worshipful of Milton Friedman. And I remember that one of his dicta was that a Milton Friedman theorem was more credible than any other theorem, because everybody picks on Milton. It’s an unfair world and so forth which means that he gets a more rigorous testing than anyone else. (Paul Samuelson, conversation with Craig Friedman, November 1997).

17 What was labelled the Chicago School operated as a very close-knit community with a common ideology and a sense of a shared and vital project. (What could matter more than shoving the profession back on the right track after having been diverted down a spur line by the Keynesian revolution and attempts to undermine the core paradigm of perfect competition?) Like any other ‘band of brothers’, perceived disloyalty, because it so often ideologically based, is viewed as something akin to betrayal that must necessarily meet with severe punishment:

One Senior Fellow [at the Hoover Institution] expressed his admiration for both Friedman and Stigler but was surprised when they both walked out of a seminar given by a newly recruited junior economist who had expressed support for some aspects of Galbraith’s work. The junior economist was promptly removed from the Hoover Institution. (Leeson 1997, p. 34)

18 We could see this as the archetypal Western, a modern-day version of ‘Pat Garrett and Billy the Kid’. Patinkin naturally plays the conscience-stricken Marshall appalled at the increasing notoriety gained by the stop-at-nothing gunslinger, Milton Friedman. If we then add in Harry Johnson as the typical hard-drinking, cynical journalist from back East, the drama is set, with the players ready to act out their roles.

19 Keynes was presented with the opportunity by the editor of the Canadian Journal to reply to Knight’s strongly worded review: ‘Keynes declined, saying that “with Professor Knight’s two main conclusions, namely, that my book caused him intense irritation, and that he had had great difficulty in understanding it, I am in agreement. So perhaps you will excuse me if I leave the article alone”’ (Patinkin 2003d, p. 384).

20 Knight went on to make his contempt for Keynes’s monetary theory even more explicit:

I regard Mr. Keynes’ neo-mercantilistic position in economics in general, and with respect to money and monetary theory in particular, as essentially taking the side of the man-in-the-street, against the effort of the economic thinker and analyst to get beyond and to dispel the short-sighted views and prejudices of the former….His work and influence seem to me supremely ‘anti-intellectual’, in the only meaning of intellectual life which is worthy of approval or support. (Knight, quoted in Patinkin 2003e, p. 385)

21 In many ways, 1946 marks the counter-revolution of right-wing intellectuals, signalled by Hayek’s call to arms at the first Mt Pelerin meeting. This fight against the planned, totalitarian agenda of the left would need be taken to the campuses which, as far as Friedman was concerned, were overwhelmingly filled with communist sympathisers; ‘Friedman calculated that by 1934 “close to a majority” of faculty and students within the social sciences at the University of Chicago were “either members of the Communist party or very close to it”’ (Leeson 2003g, p. 288).

22 Friedman (2003c, p. 58) makes the clear claim that both Simons and Keynes erred by basing policy recommendations on a misunderstanding of the events that occurred between 1929 and 1933. Had they had available the relevant data that featured in the work that he jointly did with Anna Schwartz (1963) such a mistake would not have been possible:
The keystone of Simons’ interpretation of 1929-1933 was that the trouble originated with business earnings and the shock to business confidence, documented or perhaps initiated by the stock-market crash. The subsequent widespread pressure for liquidation, on his interpretation, left the monetary authorities, narrowly defined, largely powerless. Once the scramble for liquidity was on, there was no way they could prevent a decline in the value of private claims and debts, which in turn rendered banks insolvent, and induced their depositors to try to withdraw deposits. We now know that the critical relations ran precisely the other way. (Friedman 2003c, p. 63)

This is a lovely bedtime story resembling those that Keynes also favoured. However we now know that both Simons and Keynes had access to the same type of monetary data that allowed Friedman to draw contrary conclusions. Lauchlin Currie had published the relevant money supply figures in a book (The Supply and Control of Money in the United States) published in 1934 and reviewed by Simons in the Journal of Political Economy. In that work Currie attacked Federal Reserve policies as being the root cause of the economic depression:

Even more relevant to the question at issue….is the fact that in November 1933 Lauchlin Currie published an article in the Quarterly Journal of Economics in which he provided annual estimates of the money supply for 1921-32 whose year-to-year percentage changes during the Great Depression are also similar to those described by Friedman and Schwartz. And in April 1934 Currie used this series as the basis of an article which he published in the Journal of Political Economy on ‘The Failure of Monetary Policy to Prevent the Depression of 1929-32’. Indeed the major conclusion of this article was that ‘The [Federal Reserve] policy followed throughout 1929, so far from tending to prevent the depression, actually operated, in the view of this paper, to bring it on….’ Later in that year, Currie published a book on The Supply and Control of Money in the United States in which he reproduced the monetary data of his 1933 article. (Patinkin 2003d, p. 381)

For all his empirical work, it is difficult to argue that Friedman used it as anything more than a rhetorical tool. Like his teacher Henry Simons, he did not need data to generate conviction. It is a hallmark of Friedman and his loyalists that they are almost immune to empirical evidence:

It’s hard to imagine an empirical observation that would convince most members of this department and the University of Chicago to change their minds. My personal view is that if someone holds a view it cannot be dislodged by any conceivable empirical data. Evidence from a data system doesn’t convince them. These people have made their decisions already. They’ve become true believers and no amount of empirical evidence will ever convince them by definition. (Jim Kindahl, conversation with Craig Freedman, October 1997)

It is then ironic that, in later years, both Stigler and Friedman came to view Knight as unwilling to accept the empirical evidence that contradicted his a priori truths:

Knight would not look at any data. In fact, Frank could hardly be convinced by any data. Like inequality, Knight always thought inequality was growing in the United States while all the evidence up until 1970 said it was falling. And Stigler and Friedman and others would point this out to Knight, and George told me this, Knight would say ‘yes, yes’ but next time he’d say the same thing. So, I guess, he differed with Knight in this regard but that was not unusual, he began to differ with Knight in a lot of respects. (Gary Becker, conversation with Craig Freedman, October 1997)
Milton Friedman was hired only as an associate professor. A year after he was hired he questioned in a letter to George Stigler whether he should remain at Chicago given that he faced an offer from Johns Hopkins (through the offices of Fritz Machlup) which provided a noticeably higher salary (an increase of more than 20%). Loyalty to Knight, the department and the University of Chicago prevailed.

The quote is attributed to famed US football coach Vince Lombardi, who is also reputed to have said that a tie is like kissing your sister. The clear consequence of taking this position is that if you disagree with a viewpoint, especially if it is contrary to your ideological leanings, then there must be nothing of value worth considering in the opposing idea:

I think you’re getting something that is (a) the atmosphere at Chicago, and (b) intensified by Knight. That an academic is concerned not with being diplomatic, not with trying to avoid hurting people’s feelings, but an academic is concerned with saying what’s right. Telling the truth, or trying to get at it. And if you disagree with somebody you don’t say, ‘Well, now there may be something in what you say, you may be right’. You say, ‘that’s a bunch of nonsense’. (Milton Friedman, conversation with Craig Freedman, August 1997)

Patinkin does display a certain frustration at times. Perhaps this is what Leeson means by playing ‘economist-as-matador’ (Leeson 2003e, p. 515). But it is entirely understandable, given that Patinkin’s opponents don’t really respond to his clearly articulated arguments or seem to wilfully misinterpret them. It is unsurprising that Patinkin starts his response to one of Milton Friedman’s replies with the well-known quote from Lewis Carroll’s Through the Looking Glass. In some ways Humpty Dumpty can be seen as a forerunner to Milton Friedman both in looks and debating techniques:

‘When I use a word’, Humpty Dumpty said, in a rather scornful tone, ‘it means just what I choose it to mean – neither more nor less’. ’The question is’, said Alice, ‘whether you can make words mean so many different things’. ’The question is’, said Humpty Dumpty, ‘which is to be master – that’s all’. (Carroll, quoted in Patinkin 2003c, p. 123)

This is the theoretical link that Friedman claims, yet neither he nor his supporters are able to demonstrate that Chicago in the inter-war period was much concerned with the demand for money or the role interest rates played within such a theory:

Using Friedman’s…widely imitated methodological distinction, Laidler…found the ‘positive’ theoretical content of the Chicago tradition to be essentially indistinguishable from this Harvard-Hawtrey tradition; whereas the ‘distinctive feature of Chicagoan analysis was normative, namely to forge a link between a monetary explanation of the cycle and a liberal political agenda’. Laidler provided support for Patinkin’s conclusion: in inter-war Chicago in the 1930s and 1940s the quantity theory was not ‘first and foremost’ a theory of the demand for money. (Leeson 2003e, p. 6)

References


