Book review

Two Lucky People: Memoirs; Milton and Rose D. Friedman; Chicago, IL: University of Chicago Press, 1998, 660 pages

Two Lucky People: Memoirs is the fascinating story of two lives spent expanding the frontiers of economic knowledge, traveling the world and advising heads of state, interacting with economists and intellectuals the world over and, most importantly, working tirelessly to increase individual freedom through lectures, books, television shows, and as advisors to the Nixon and Reagan administrations. It is also the more personal story of the Friedman’s lives, their marriage and family. The book is made lively not only by the subject matter, but also by the humor both the Friedmans display and by the clarity of exposition. And along the way we discover the answer to many things we have wondered about Dr. Friedman and the world in general.

Although the book is written in alternating sections by either Milton or Rose, the story is, not surprisingly, mainly Dr. Friedman’s. Rose is matter of fact about this; in part, she says, giving up her career early on for marriage and family was a reflection of the times. However, Milton, she says, has always made her feel that his achievements were hers as well, and it is clear from this book that their lives have been a joint effort.

One thing which had seemed puzzling was why, when Dr. Friedman seemed clearly a product of the University of Chicago, his degree is from Columbia University. The answer is that he completed the course work for a Ph.D. at both schools and completed his thesis at Columbia merely because it was by then geographically more convenient. Another question the book answers is how Dr. Friedman came to write so clearly about any subject, but especially about complicated economic issues. Friedman explains that he is indebted to Wesley Claire Mitchell for this. Mitchell saw a draft Friedman had written on early results of a study of professional incomes for the National Bureau of Economic Research, where he was employed with Mitchell from 1937 until 1940. Mitchell told him that if one “cannot state a proposition clearly and unambiguously then one does not understand it” (p. 75). Dr. Friedman took the lesson seriously, and says it has helped him to clarify his own reasoning and to find errors and omissions.

It hardly needs stating that Dr. Friedman has had a tremendous impact on the economics profession, and here one finds the story behind much of his important work: the long development and impact of The Methodology of Positive Economics (1953); the roots (work on the Marshall Plan) and influence of The Case for Flexible Exchange Rates; the history of his long leadership in the field of monetary economics. Here, one also finds the story of his presidency of the American Economics Association.
and of how he started the *Journal of Economic Literature*. The most interesting story, however, is how *A Theory of the Consumption Function* (1957), which Friedman regards as his best purely scientific contribution, came to be.

The work started as a response to Keynes's idea that the average propensity to consume falls with income, so that the wealthy save a greater percentage of their income than do the relatively poor. This led to a belief (propounded by Professor Alvin Hansen of Harvard in the 1930s) that as the United States gained wealth, savings rates had risen while opportunities for investment had already been exhausted. Thus, he suggested a policy of increased government spending financed by deficits. At first, Dr. Friedman explains, analysis of available data seemed consistent with Keynes' theory; current consumption and income were highly correlated, the marginal propensity to consume, MPC, was less than one, and the MPC was less than the average propensity to consume so that saving rose with income. However, contradictory data were soon discovered. For instance, Kuznets showed that the percentage of income saved in the aggregate had not risen in the 50 years since 1899 (p. 224).

Friedman's Permanent Income Hypothesis explained the contradictory data. For instance, studies that showed the average propensity to consume fall with income grouped individuals by income and then estimated average and marginal propensities to consume for each group. Many in the bottom group had incomes temporarily lower than normal (or what they expected to have in the future) and thus had high consumption relative to income. Those in the highest income group were the most likely to be experiencing abnormally high incomes and therefore had the highest savings rates. The next step, and according to Dr. Friedman, the much harder one, was to translate these ideas into a model that yielded specific testable hypotheses. *A Theory of the Consumption Function* was the result.

The Friedmans explain a number of puzzling things about the world. For instance, many have wondered why Britain left Hong Kong an almost totally free market economy even while the United Kingdom moved to a much more socialist economy after World War II. Dr. Friedman explains this is because an ardent follower of Adam Smith, Sir John Cowperthwaite, was assigned after the war to serve as financial secretary of Hong Kong, a position with large influence over economic matters. Dr. Friedman also has come up with a hypothesis to explain why in some countries check-writing is common, and in others it is rare. He notes that in countries where passing bad checks is a criminal offense, checks are accepted by many firms and people, while in countries where it is a civil offense, they are not.

Over the years, Dr. Friedman's ideas, both in academic areas (especially in the field of monetary economics) and in the realm of public policy, have come to be so much accepted that it is hard to recognize what a controversial figure he once was. His reputation as a maverick led to many unpleasant circumstances, not least of which were the protests that followed him when he won the Nobel prize. Not surprisingly, it also led to a less than friendly reception in many quarters. For example, when *Capitalism and Freedom* was first published it was not reviewed by any major national publication, although it was reviewed by professional journals. And, Dr. Friedman adds, "this for a book directed at the general public, written by a professor at a major
U.S. university, and destined to sell more than 400,000 copies in the next eighteen years. It is inconceivable that such a publication by an economist of comparable professional standing but favorable to the welfare state or socialism or communism would have received a similar silent treatment” (p. 340).

However, as the world has slowly moved closer to their positions, the Friedmans find much cause to be hopeful about the future. Indeed, despite the fact that they have been on the losing side of many policy battles thus far (the school voucher movement and constitutional amendments limiting government spending, to name but two), they say that

[j]udged by ideas we have been on the winning side. The public in the United States has increasingly recognized that the government is not the universal cure for all ills, that governmental measures taken with good intentions and for good purposes often, if not typically, go astray and do harm instead of good. The growth of government has come to a halt, and seems on the verge of declining as a fraction of the economy. We are in the mainstream of thought, not, as we were fifty years ago, members of a derided minority. . . . So we close this book full of optimism for the future, in the belief that those ideas will prevail and that our children and grandchildren will live in a country that continues to advance rapidly in material and biological well-being and gives its citizens ever wider freedom to follow their own values and tastes, so long as they do not interfere with the ability of others to do the same (pp. 588–589).

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