Milton Friedman: the world's worst economist

by David Goldman, Economics Editor

In 1980, Milton Friedman's Mont Pelerin Society—the semi-clandestine monetarist coven he directs in company with Friedrich von Hayek and Max Thurn—met at Stanford University, on the fringes of power, and denounced the oppressive role of the nation-state in the tones of a radical protest movement. But the Mont Pelerin Society's Sept. 7 annual conference in Berlin, two years later, heard addresses by serving officials of the British and American governments, as well as international organizations, including the General Agreement for Trade and Tariffs, and the International Energy Agency. This transformation marks the Mont Pelerin Society's rise from a group of acknowledged cranks in 1947 to the direction of the British and American economies. The result is not merely a depression rapidly becoming worse than that of the 1930s, but, specifically, a depression emanating from the centers of Milton Friedman's influence.

The University of Chicago-based Friedman, whose predictive and prescriptive record is the worst of any economist in the post-war period,* has become the only man shown capable of making Chilean dictator Augosto Pinochet vomit. While Chile's central bank asked bankers for a moratorium on that country's outstanding debt principal Sept. 15, the Pinochet military government set about cleaning the "Chicago boys" out of the Chilean government, ending nine years of a continuous monetarist experiment—the longest period during which any nation tolerated Friedman's policies. With more debt per capita than Brazil or Mexico, and a ruined industrial base, Chile's entire financial and economic system is in a condition more pathetic than that left by the four-year administration of another monetarist, Argentine Finance Minister Martínez de Hoz. The shambles of the Argentine and Chilean economies have, at length and at immense cost, eradicated Milton Friedman's reputation in the Ibero-American continent.

The Thatcher experiment in Great Britain, meanwhile, has left Britain's economy crawling along at the output level of ten years ago, with 12.5 percent unemployment, the worst by official measure in the entire industrial world. Thatcher advisor Alan Walters, asked whether her monetarist advisors were upset that Britain's industrial output per capita had fallen below South Korea's, told this writer, "Quite the contrary. Some of us think it's a good thing to move it all out to

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Friedman, among his other crimes, helped remove the dollar's gold backing.

Northern Ireland or somewhere, and concentrate on services." Britain's living standard, now lower than East Germany's, is due to fall sharply in what the London *Economist* Sept. 18 called the "Thatcher holocaust."

U.S.A.: test case for Friedmanism

But the worst news for the world economy is that the United States, rather than Britain, or even Israel, where Friedman's influence is considerable, is becoming the world's test case for Friedmanism in its pure form. Friedman conducts seances roughly once every two weeks for President Reagan, who has shown himself sufficiently beguiled by "the magic of the marketplace" to believe the hogwash issued by Treasury Secretary Donald Regan and Council of Economic Advisers Chairman Martin Feldstein, although the latter have given broad hints to the press that they do not believe a recovery is in the offing. In the past year, industrial production has fallen 10 percent, and the state of the banking system implies a much more rapid rate of fall during the coming months (see article, p. 4).

The monetarists, of course, point to an inflation rate that fell, by the Commerce Department Consumer Price Index measure, to 3.3 percent per annum in August, as an evidence of success. In fact, the Federal Reserve program of choking off banking reserve growth without consideration for interest rates produced precisely the opposite effect predicted. The first impact, after the policy took effect in October 1979, was to push the inflation rate up from 12 percent to 20 percent, as corporations responded to the higher interest costs by raising prices; then, with the March-July 1980 economic collapse, they responded by shutting down production, and the inflation rate fell. However, the inflation rate did not stabilize; the world economy went into the worst global deflation since 1931-33, with commodity prices falling more than 30 percent since January 1981, according to the International Monetary Fund's measure. That nearly matches the 50 percent fall in the aftermath of the 1931 events, and it is not over yet.

From the standpoint of credit, inflation reached never-before-seen levels, with U.S. corporate borrowings rising more than $100 billion in the year to June 30. But the ability of producers, particularly raw-materials producers but also industrial manufacturers, to service this exploding debt service collapsed along with commodity prices, producing a widening "scissors" between earnings and debt repayments requirements that now threatens, for the entire world, a repetition of the dissolution of the Chilean banking system.

But, as British Chancellor of the Exchequer Sir Geoffrey Howe emphasized in a press conference Sept. 3 during the Toronto International Monetary Fund Annual Meeting, the monetarists do not so much measure their success by economic data, but, cultlike, by their success in spreading their odd persuasion to others. That might be compared to a person who responded to an inquiry regarding the effects of herpes by bragging that he had spread it to the surrounding neighborhood. Nonetheless, Howe's point carried some weight. In the face of all real-world considerations, monetarism's influence has reached an all-time high. It took the Chilean junta nine years to disabuse themselves of it. How long will it take us?

*See *The Ugly Truth About Milton Friedman,* by Lyndon H. LaRouche, Jr., and David P. Goldman. Benjamin Franklin House; New York, 1980.