

“Interview: The Evolution of the Chicago School of Economics”
by Milton Friedman
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You returned to Chicago for the Centennial celebration last fall and for George Stigler’s memorial service last month. What kind of ties do you still have with the University?

My only remaining ties are personal—good friends on the faculty and staff. Like many people, I am a professor emeritus, but I have no role at the University.

What was the Hyde Park like during your tenure? Was there an informal gathering place where campus intellectuals gathered?

Hyde Park was literally under siege during this period before and during the massive urban redevelopment program. There was a tavern on 55th street where many economics students and faculty used to gather, but it was long gone by the time I arrived. Most informal contact was in people’s homes and apartments.

After finishing your master’s degree at Chicago, you held several positions with the government during the New Deal. Did these experiences help shape your views on government?

Before World War II, post-graduate education was very different. There was little university financial support, and it was rare for students to continue straight through the program. After finishing coursework, most people wrote their dissertations while working elsewhere. After finishing at the U of C in 1935, I took a WPA-style job as a technical statistician. We were compiling data and designing comprehensive reports that would help analyze the economy. This was strictly a technical position. I had no exposure to New Deal policy making until years later.

My introduction to the policy side came during World War II. From 1941 and 1943, I worked for the Treasury Department developing the system of withholding taxes that the government still uses today. As it turned out, this profoundly affected the entire nature of government. The system that helped fund the war, also fueled the expansion of government activities over the last several decades. Without withholding, there is simply no way to raise enough revenue to maintain the government’s current level of activity.

At the time, everyone was very shortsighted. We were only concerned with winning the war, not on any long-term repercussions. My wife still has not forgiven me for my role in it.

How did the Chicago School of economics come about?

There has been a distinct Chicago School of Economics since 1892 when the University opened its doors. The University has always had a superior department with a unique approach, although the emphasis has changed over time.

It is also important to note that the University has always encouraged a wide variety of viewpoints, and did not command rigid adherence to a single orthodoxy. The first chairman of

the Department, James Laughlin, was very much on the right, a hard money advocate. Nonetheless, he recruited Thorstein Veblen, a leftist best known for his *Theory of the Leisure Class*.

There are two main schools of economics. Some schools like Harvard and MIT view economics as an exercise in theory, almost as a branch of mathematics. Chicago has always considered economics as a practical matter.

There are two distinct components of the Chicago School. The first is scientific. Economics is not an abstract subject, not merely a branch of mathematics. The empirical worth of a theory, and not its mathematical elegance was the main factor. It is an “engine for analysis” for affecting and improving the real world. Chicago has always had a strong emphasis on empirical work.

The second involves policy. This aspect has changed over the years as different people brought their own work and agendas to Chicago. There has always been a clear emphasis on free markets, however. Chicago economists have always strongly opposed government intervention.

What we currently think of as the Chicago School took shape in the 1930s based on the work of Jacob Viner, Frank Knight, Henry Simmons, and Aaron Director. They were all people who were very much engaged by the Great Depression. There were two schools of thought. One felt that it was a necessary purgative to cure the ills built up in the economy during the boom years of the 1920s. The other, the Chicago School, felt that the Depression was unnecessary, that it was the result of mistakes of governing. They felt there were ways to offset the Depression, to reverse the course. One of the tools to do this was monetary policy.

The “Chicago Boys” are given credit for many of the reforms in Chile and Latin America. How did that program come about?

The connection between the University of Chicago and Latin America goes back a number of years. It started with an agreement between the U of C and Catholic University of Chile where a number of our people went down there to teach and a number of their students came up here. This arrangement began in the mid-1960s, largely as a project of [economics professor] Arnold Harberger. This predated Allende and the subsequent coup by several years.

The University has always had a large number of foreign students in the economics department, typically one-third or more of the students. These international students were not always of the highest caliber. Many were here because of family connections and access to scholarships. The difference with the Chilean program was that our people handpicked the students to send to Chicago. As a result, we trained an extremely able group of young scholars who went back to try to reform their country.

After the coup, Pinochet proceeded to destroy the economy much the way Allende had been doing. After about a year, the government turned to these young economists for guidance. I think the results have been extremely successful.

In the early 1970s, you were the target of student protests on campus because of your connections to the Pinochet government. At one point, Student Government even voted to

establish a panel to investigate your work before backing down. Were these protests a precursor to the political correctness movement we see on many campuses today?

Not at all. The protests were not limited to this campus. They were national and international. I had to have 24-hour police protection when I received the Nobel Prize in Stockholm in 1977. Over 5,000 protestors were demonstrating outside.

I firmly believe that these demonstrations were orchestrated by the international communist apparatus. Chile represented their first opportunity to have a country embrace communism by quasi-legal means instead of force. I say quasi-legal because Allende won only a minority of the vote. He achieved power by making a deal with another opposition party and promising to obey the constitution. That promise was quickly discarded. The army moved in, thus denying the communists that victory.

Although Arnold Harberger was much more involved in the project, I was a more visible public figure, so I became the target of their ire. In 1989, I wrote a letter to the *Stanford Daily*, asking why there were no protests when I went to China to deliver essentially the same talk I gave in Chile, advocating free markets. For that matter, why were there no protests when I made such speeches in Yugoslavia or even in the Soviet Union?

The reason is clear. Those protests were instigated and organized by outside forces.

The political correctness protests have more in common with the Vietnam era student movements. Since I was a longtime opponent of the draft—I favored an all-volunteer army—I was never a target of those protests.

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