

Markets, Politics, and Democracy at Chicago

J. Daniel Hammond

Wake Forest University

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In September and October 1975 *New York Times* columnist Anthony Lewis reported on the University of Chicago pedigree of the Pinochet government's economic program. The so-called Chicago Boys, a group of Chilean alumni of the University of Chicago, had written a set of policy recommendations for Jorge Alessandri when he was a candidate in Chile's 1970 presidential election. The election was won by Salvador Allende. In October 1973, a month after the military coup led by General Augusto Pinochet, the Chicago Boys published their policy recommendations as "El Ladrillo" (The Brick). Several members of the group were subsequently appointed to positions in the government. Anthony Lewis portrayed Friedman, who had visited Chile in the spring of 1975 with Arnold Harberger, as the "guiding light" of the Pinochet economic policy, "policy that could not be imposed on a free society" (October 2, 1975). He attributed to Friedman the idea that a growing disparity of incomes between the rich and poor is part of the mechanism by which anti-inflation policy works. Lewis asked "if the pure Chicago economic theory can be carried out in Chile only at the price of repression should its authors feel some responsibility. There are troubling questions here about the social role of academics" (October 2, 1975).

Almost immediately protests began on the University of Chicago campus under the auspices of the "Committee against Friedman/Harberger Collaboration with the

Chilean Junta.” Protesters demanded that Friedman be driven out of the university. The protests and harassment lasted for the next five years, reaching a peak after the announcement that Friedman would receive the 1976 Nobel Prize. Friedman had fewer defenders among academics than one might expect given the collegiate totem of academic freedom. Some balanced their defense of Friedman’s rights against the gravity of the charges of giving policy advice to a repressive regime. Other academics joined the protesters. Nobel laureates George Wald and Linus Pauling wrote to the *New York Times* (October 24, 1976) accusing Friedman of being an accessory to human rights crimes. In a second letter published alongside theirs two other Nobel laureates, David Baltimore and S. E. Luria, characterized the Nobel Prize committee’s selection of Friedman as “an insult to the people of Chile, burdened by the reactionary economic measures sponsored by Professor Friedman.”¹

Friedman did not expect to stir up a hornet’s nest when he accepted the invitation to Chile, not having drawn criticism for visiting Brazil, Yugoslavia, the Soviet Union, and India on prior trips. Trips in the future to China, before and after Tiannamon Square, and conversations with Zhao Ziyang and Jiang Zemin would likewise pass without protest. As he wrote in a letter of reply to an anonymous University of Chicago colleague who criticized him in the *Chicago Maroon*:

I do not regard visiting any of them as an endorsement. I do not regard learning from their experience as immoral. I do not regard giving advice on economic policy as immoral if the conditions seem to me to be such that economic performance would contribute both to the well-being of the ordinary people and to the chance of movement toward a politically free

¹ The letters are reproduced in appendix A of Friedman and Friedman, *Two Lucky People* (1998).

society (July 16, 1975, reprinted in Friedman and Friedman, 1998, Appendix A).

But in the view of many members of the academic and journalistic communities his trip to Chile was completely different from other visits and consultations.

The Chile incident was one in a series of flare-ups that ran throughout Friedman's University of Chicago career. Chile was the most public incident and the most damaging personally. Friedman's ideas about economic policy were viewed as extreme, beyond the pale for many intellectuals. In October 1998 Friedman, who was eighty-six at the time, was slapped in the face with a pie by a twenty-seven year old man as he talked with a group of people at an education conference. The assailant was only four years old when Anthony Lewis denounced Friedman. Friedman was controversial throughout his University of Chicago career. A former student, Eugene Lerner, wrote from MIT, where he was a visitor in 1961, "If a man's importance is in proportion to the time spent denouncing him, you are some fellow. I think I've heard more of you here than I have of Samuelson. Everyone here is waiting for someone to bell the cat" (September 11, 1961).

How do we explain the passion that Friedman evoked? I will make some conjectures by comparing Friedman with two other economists, John Kenneth Galbraith and Paul Samuelson. Why these two economists? Because they and Friedman were of the same age cohort. Friedman (born in 1912) is bracketed by Galbraith (1908) and Samuelson (1915). All three were honored economists, serving as president of the American Economic Association. All three wrote for audiences outside the scholarly community, and developed popular followings. But the three followed different tracks in their scholarly work. There were also differences in their engagement with American

political life. My conjecture is that their different approaches to economic scholarship, viewed against the political culture of American intellectuals in the postwar period provide some of the keys to understanding differences in the reaction of economists and others in the academic world and the wider intellectual community outside academia to Friedman, Galbraith, and Samuelson.

We begin with Friedman. He and other members of the postwar “Chicago School” (e.g., George Stigler) believed that economics was an empirical science. As a science, they believed that economics could provide a knowledge basis for improvements in community life. As an empirical science they believed that economists could acquire tested knowledge of the social world. They also believed that scientific economic knowledge was politically neutral. That is, economic knowledge was as neutral politically as any other scientific knowledge. Milton Friedman and others of the post-war Chicago School also held the Hayekian principle that useful information is widely dispersed. Markets harness this local information for the common good. Local information includes information about what is best for any individual. That information resides first and foremost within the individual. In the context of postwar American intellectual life Chicago economics was radically democratic. From a slightly different perspective one could say that Friedman embraced Adam Smith’s axiom that the differences between the philosopher and street porter were to be found in institutions and their environments rather than in their selves.

The belief that economics is an empirical science extends deep into Friedman’s intellectual formation. His first interests as an undergraduate at Rutgers, interests that were deepened by his graduate work at Chicago and Columbia, included mathematics

and statistics. With Arthur Burns as his guide Friedman developed an attachment to Alfred Marshall's *Principles of Economics* that lasted his entire career. He claimed Marshall as his methodological forbearer in recognizing in economics "an engine for the discovery of concrete truth." According to Marshall, the economist

must stand fast by the more laborious plan of interrogating the facts in order to learn the manner of action of causes singly and in combination, applying this knowledge to build up the organon of economic theory, and then making use of the aid of the organon in dealing with the economic side of social problems (Marshall, 1885)

Two of Friedman's early professional associations serve well to indicate the self-image he developed as an economist. In 1937 he joined the staff of the National Bureau of Economic Research, having studied at Columbia under Wesley C. Mitchell, one of the Bureau's founders and its Director of Research, and at Rutgers under Burns, who succeeded Mitchell as Director of Research. The National Bureau's purpose was to serve the:

growing demand for exact and impartial determinations of facts bearing on economic, social, and industrial problems.

It seeks not only to find facts and make them known, but to determine them in such a manner and under such supervision as to make its findings carry conviction to Liberal and Conservative alike (Mitchell, 1927, frontpiece)

In 1943 Friedman joined the Statistical Research Group. While the National Bureau was strictly non-political, the express purpose of the Statistical Research Group was victory

over the Axis nations. So Friedman's work at the Statistical Research Group had a direct public purpose that in a global sense was political. However, in the circumstances of World War II their purpose was not political among Americans. Few Americans doubted that it was appropriate to marshal material resources and brains to defeat the enemy.

His experience in both organizations reaffirmed for Friedman that science is empirical and that scientific research is grounded in the world of practical problems. At the National Bureau in the 1930s he worked on estimates of income and wealth and their size distributions. This project was an outgrowth of development of national income accounts. Friedman came to the National Bureau from the National Resources Committee, where he worked on the Survey of Consumer Purchases. At the National Bureau, the National Resources Committee, and the Statistical Research Group, Friedman's tasks were development of procedures for collection and testing of data, and actual collection and analysis of data. Throughout his scientific career Friedman never strayed far from collection, production, or analysis of data. In the post-war period with the rise of mathematical economics, data production was not the most glamorous of activities among Friedman's fellow economists. Sometimes lost in the attention given to his and Anna J. Schwartz's *Monetary History and Monetary Trends* is their 600+ page data production, *Monetary Statistics*.

Like others of his generation Friedman chose economics as a scholarly subject not only because it was intellectually satisfying, but also because it offered the prospect of making improvements in material life. He has written:

The reason I chose as I did was not only, perhaps not even primarily, the intellectual appeal of economics. ... I graduated from college in 1932,

when the United States was at the bottom of the deepest depression in its history before or since. The dominant problem of the time was economics. How to get out of the depression? How to reduce unemployment? What explained the paradox of great need on the one hand and unused resources on the other? Under the circumstances, becoming an economist seemed more relevant to the burning issues of the day than becoming an applied mathematician or an actuary (1986, pp. 82-3).

The connectedness of economic theory to practical problems was one of the features that set it apart from other intellectual disciplines. And it is on this point that in the late 1940s Friedman believed that methodological Walrasians, were taking economics off track. His preference for the Marshallian approach to economics was that it preserved the ties between economic theory and practical problems. In a 1988 interview Friedman responded to a question about Jacob Viner's graduate price theory course, in which he was a student in 1932:

It had no explicit methodological content whatsoever. But there was a very strong implicit methodological content, since you came away very clearly with the feeling that you were talking about real problems. Part of the distinction is viewing economics as a branch of mathematics --- as a game -- as an intellectual game and exercise -- as Debreu, Arrow and so on -- and it's a fine thing to do. There's nothing wrong with that. After all, mathematics is a perfectly respectable intellectual activity, and so is mathematization of economics or anything else. The other part of it is viewing it (using Marshall's phrase) as an engine of analysis. And there

was no doubt that Viner viewed it as an engine of analysis, and no doubt when you were in his course that you came away with the feeling that economics really had something to say about real problems and real things.

In that sense it had methodological content (Hammond, 1992, pp. 104-05).

In the same interview he distinguished between economics at Chicago and in Cambridge, MA:

There's no doubt that Chicago was distinctive, and has been ever since.

The real distinction was not making price theory the focal point of the graduate curriculum. That isn't the real distinction at all. The fundamental distinction is treating economics as a serious subject versus treating it as a branch of mathematics, and treating it as a scientific subject as opposed to an aesthetic subject if I might put it that way. ... The fundamental

difference between Chicago at that time and let's say Harvard, was that at Chicago economics was a serious subject to be used in discussing real problems, and you could get some knowledge and some answers from it.

For Harvard, economics was an intellectual discipline on a par with mathematics, which was fascinating to explore, but you musn't draw any conclusions from it. It wasn't going to enable you to solve any problems, and I think that's always been a fundamental difference between Chicago and other places. MIT more recently has been a better exemplar than Harvard. And of course there are no such things as one hundred per cent pure cases either at Chicago, or elsewhere (Hammond, 1992, p. 110).

In Alfred Marshall's Cambridge college room hung a portrait of a working man. Marshall is reported to have said that "I set it up above the chimney-piece of my room in college and thence forward called it my patron-saint, and devoted myself to trying to fit men like that for heaven." (Groenewegen, p. 130). For Friedman the purpose of economics was not so much to fit working men for heaven as to allow them to find a bit of heaven here on earth, and on their own terms. If you put Friedman's belief that economics is a practical science together with his belief in dignity and competence of common people you have a big piece of his ideology.²

It is likely that Friedman's (classically or neo-) liberal commitments were cemented at the April 1947 founding meeting of the Mont Pelerin Society. The opening discussion, at which Friedman was a speaker, was "'Free' Enterprise or Competitive Order." He also spoke in sessions on "The Future of Germany," "Contra-Cyclical Measures: Full Employment and Monetary Reform," and he made opening remarks for the session on "Taxation, Poverty, and Income Distribution." Themes from these sessions began to appear in Friedman's publications soon after Mont Pelerin.

Friedman's first published argument for classical liberal principals was "Neo-Liberalism and Its Prospects," published in the Norwegian journal *Farmand* in 1951. Drawing from A. V. Dicey's *Law and Public Opinion* he argued that although the trend toward collectivist policies had not slowed, collectivist ideas were beginning to wane. Thus it was important to make the case for a new liberalism, one that he called the

² For instance, Friedman wrote in *Capitalism and Freedom*, "the heart of the liberal philosophy is a belief in the dignity of the individual, in his freedom to make the most of his capacities and opportunities according to his own lights (1962). There is evidence that this was not simply rhetoric for Friedman in his *Newsweek* correspondence files (Milton Friedman Papers, Hoover Institution). People who wrote to him in response to his columns received thoughtful replies that reveal his presumption that readers of his columns who took the trouble to write to him deserved thoughtful consideration of their concerns.

“competitive order.” Friedman said that it was not his wish to turn back the clock to nineteenth century laissez faire liberalism, which “failed to see that there were some functions the price system could not perform and that unless these other functions were somehow provided for, the price system could not discharge the tasks from which it is admirably fitted” (1951, p. 91). Among these functions was to ensure that no one had undue economic power over others. Friedman’s vision of the proper role of the state was Hayekian in emphasizing rule of law:

These are broad powers and important responsibilities that the neo-liberal would give to the state. But the essential point is that they are all powers that are limited in scope and capable of being exercised by general rules applying to all. They are designed to permit government by law rather than by administrative order. They leave scope for the exercise of individual initiative by millions of independent economic units (1951, p. 93).

The opening chapter of *Capitalism and Freedom* on “The Relationship Between Economic Freedom and Political Freedom” was written for a symposium held at Princeton in September 1956 and published under the title “Capitalism and Freedom” (in Morley, 1958). Here we find Friedman’s two-fold argument for economic freedom, that it is itself important and that it is essential as a guarantor of political freedom.

The first publication where Friedman used neo-liberal principles to inform policy analysis was “A Monetary and Fiscal Framework for Economic Stability” (1948). He did not make an argument for the principles, but assumed them.

The basic long-run objectives, shared, I am sure, by most economists, are political freedom, economic efficiency, and substantial equality of economic power. ... I believe – and at this stage agreement will be far less widespread – that all three objectives can best be realized by relying, as far as possible, on a market mechanism within a “competitive order” to organize the utilization of economic resources (1948 in 1953, p. 134).

The paper spelled out proposals for a competitive order -- government provision of a monetary framework operated under rule of law and use of fiscal measures to reduce inequality.

Another of Friedman’s early applications of economics and neo-liberal principles to public policy was his paper on education policy in *Economics and the Public Interest* (Solo, 1955), which with revisions became chapter 6 in *Capitalism and Freedom* (1962). Friedman had a draft of this paper in 1953-4, for he thanks three associates from his Fulbright year at Cambridge University for comments.³ He took as his starting point the primacy of the individual:

In what follows, I shall assume a society that takes freedom of the individual, or more realistically the family, as its ultimate objective, and seeks to further this objective by relying primarily on voluntary exchange among individuals for the organization of economic activity. In such a free private enterprise exchange economy, government’s primary role is to preserve the rules of the game by enforcing contracts, preventing coercion, and keeping markets free (1955, 123-3).

³ P. T. Bauer, A. R. Prest, and H. G. Johnson.

He allows for two instances of paternalistic abridgment of individual rights, for children and the insane, who are unable to care for themselves. The problem of children was generally taken care of by paternalism within the family, obviating the need for state paternalism. His analysis led to the familiar proposal to separate financing of education from its administration and use of vouchers in the circumstances in which public financing is deemed appropriate.

In the next section of this essay I consider Paul Samuelson and John Kenneth

Comment [WFU1]: Expand this

Galbraith, for comparison with Friedman. After a sketch of their views of economics as a science and their politics I will return to the question of why there was such passion in critical reactions to Friedman and his ideas.

In the same volume of autobiographical essays by Nobel laureates in which Friedman wrote of his attraction to economics because of its connection to burning issues of the day, Samuelson wrote of what attracted him to economics. He made no mention of use of economics in solving practical problems. Like Friedman, Samuelson came of age during the depression and developed proficiency in mathematics. But for Samuelson mathematics was more of an attraction than economic conditions. Economics was a source of puzzles, exercise for the mind. He wrote in his essay on “My Evolution as an Economist”:

Yes, the year 1932 was a great time to be born as an economist.⁴ The sleeping beauty of political economy was waiting for the enlivening kiss of new methods, new paradigms, new hired hands, and new problems. ... The year 1932 was the trough of the great depression, and from its rotten

⁴ Samuelson began college in 1932.

soil was belatedly begot the new subject that today we call
macroeconomics (1986, p. 60).

I am not suggesting that Paul Samuelson did not care about the misery of the depression, but the significance of the depression to him for the economics profession and his career was that it provided material and employment opportunities for economists. His thrill of discovery is captured in the following story told by Samuelson in the third person:

It is not true that PAS began life as a physicist or mathematician. Well into his undergraduate course he discerned that mathematics was to revolutionize modern economics. Proceeding to learn mathematics, PAS still remembers how a Lagrange multiplier first swam into his ken and how, with a wild surmise, it gave him independent discovery of the Edgeworth-Stackelberg asymmetric solution for duopoly – an insight that has kept him immune to the false charms of Nash-Cournot purported solutions (1986, p. 66).

That Samuelson would pose and then counter a presumption that he began life as a physicist or mathematician tells us of his self-identity. It was not as an empirical worker, like Friedman, but as a pure theorist.

The day I proved that no one could be more than 60,000 standard deviations dumber than the mean, that Samuelson inequality made my day. The fact that subsequent writers have both generalized beyond it and discovered antecedents of it in earlier writings has not altered my pleasure in it. For that is the way of science, and sufficient to the day is the increment to the house of science that day brings (1986, p. 73).

The reward of doing economics well, in Samuelson's view, was fame. "Scientists are as avaricious and competitive as Smithian businessmen. The coin they seek is not apples, nuts, and yachts; nor is it coin itself, or power as that term is ordinarily used. Scholars seek fame (1986, p. 72).

Like Friedman, but unlike his Cambridge, MA neighbor Samuelson, John Kenneth Galbraith did think it was important for economics to be applicable to social problems. After growing up on an Ontario farm Galbraith began his career as an agricultural economist. He completed his Ph.D. at the University of California at Berkeley 1934 and took an instructorship at Harvard, where he assisted the distinguished agricultural economist, John D. Black. Galbraith noted with pride that he and his fellow agricultural economists were practitioners of what Thorstein Veblen called exoteric learning (with little academic prestige but practically useful) in contrast with esoteric learning (with prestige but of little practical value).

Galbraith worked for the Office of Price Administration (OPA) fixing prices during World War II. After the war he published *A Theory of Price Control* (1952), in which he observed that while price control had become accepted as a necessary component of wartime economic policy there was no economic theory of price control. The task he set out in the book was to bridge to gap between prevailing theory, which was generally taken to suggest that price control could not work, and the World War II experience, which suggested that the policy had worked. In his memoir, *A Life in Our Times* (1981), Galbraith wrote of the challenge he faced when he was appointed as "price czar" in the OPA:

The job required one to envision the structure of the wartime economy in the largest terms and then to translate this into extremely specific lines of action. That, better than most economists, I could do. It also required a truly extraordinary capacity to adjust one's views and actions when the initial conception or some details were shown to be inadequate or wrong. Economics is not durable truth; it requires continuous revision and accommodation. Nearly all of its error is from those who cannot change (1981, p. 125).

During a post-doctoral stay at the University of Cambridge in 1937 Galbraith attended lectures by D. H. Robertson, G. F. Shove, and J. H. Clapham (Keynes was recovering from a heart attack) and made weekly treks to LSE for the seminars of F. A. Hayek and Lionel Robbins. He reports becoming "one of the acknowledged oracles" of Keynes's work, and that after returning to Harvard he was firmly committed to Keynesian evangelism (1981, p.77 & 93). Yet he also reports that the reading he did at Cambridge in 1937 convinced him that mastery of technical economic theory was of little value apart from intellectual preening:

A suitably complex exposition of some theoretical point in one of the professional journals ... serves to establish the credentials of a learned and priestly circle and to exclude the unwashed. It will rarely provide guidance on any question of practical policy, and, in fact, this is not expected (1981, p. 77).

Nor did Galbraith have much truck with statistics, an attitude for which he blamed Harvard's William L. Crum:

In my adult life I have occasionally been criticized for inadequacy in statistical or econometric method. Crum is responsible; from him I early formed the impression that no figure and no calculation was really valid and that it was foolish to expose one's self by citing one (1981, p. 45).

In his AEA presidential address, Galbraith made a critical attack on neo-Keynesian economics and neoclassical economics:

Neoclassical and neo-Keynesian economics, though providing unlimited opportunity for demanding refinement, has a decisive flaw. It offers no useful handle for grasping the economic problems that now beset the modern society (1973, p. 2).

For Galbraith the problem with both neoclassical and neo-Keynesian economics was that they removed power and politics from the picture of the economy:

In eliding power – in making economics a non-political subject – neoclassical theory, by the same process, destroys its relation with the real world. The problems of this world, moreover, are increasing both in number and in the depth of their social affliction. In consequence neoclassical and neo-Keynesian economics is relegating its players to the social sidelines where they either call no plays or urge the wrong ones (1973, p. 2).

This brings us to the question of economics and politics. Recall the concern of Wesley Mitchell and the founders of the National Bureau to ensure scientific integrity by making determinations of the facts of economic, social, and industrial life in a politically impartial manner. Galbraith found economists wanting for their failure to come to terms

with the reality of power and politics. “Power being so comprehensively deployed in a very large part of the total economy, there can no longer, except for reasons of game-playing or more deliberate intellectual evasion, be any separation between economics and politics” (1973, p. 6). Galbraith said that his point was not that economics should be absorbed into political science, for just as economists labored under the illusion that consumers control markets, political scientists were under the illusion that citizens control the state. In reality the state and thus economic policy are controlled by powerful self-serving economic interests.

Galbraith practiced what he preached; he embraced politics as a component of economics. In his AEA address he claimed that his call was not for a politically partisan economics, but for neutrality, which required an admission that the state was controlled by economic interests. Galbraith was anything but neutral his own political economy. In his memoirs he recounts that his interest in politics began as a child when he accompanied his father to political meetings. His arrival in the United States for graduate school coincided with the campaign for the 1932 presidential election and he quickly developed a fierce loyalty to Franklin D. Roosevelt. He secured his first job in the U.S., at the Agricultural Adjustment Administration, by affirming that he was a Democrat, even though he was not an American citizen. Galbraith worked as a speechwriter for Roosevelt in the 1940 campaign, the beginning of regular service to Democratic presidents and presidential candidates including Adlai Stevenson, John F. Kennedy, Eugene McCarthy, George McGovern, and Ted Kennedy. Galbraith served as Ambassador to India during the Kennedy administration. He reports that when he returned to the Harvard faculty from his post as a writer at *Fortune* magazine in 1948

there was concern at the university, “not wholly illegitimate, that I might concern myself unduly with political activity ... at the expense of the students, scholarly writing and decent academic reticence” (1981, p. 277).⁵

Writing of the traits that qualified him for the task of setting prices at the OPA, Galbraith claimed that in addition to ability to envision the whole structure of an economy and translate that vision into policy actions, to adjust his views when circumstances change, and having enduring confidence, “one had to believe that one’s critics were ill-motivated, uninformed, unintelligent or instinctively wrong” (1981, p. 125).

He followed this ground rule in comments about Friedman in his memoirs. For example:

The city of Berkeley, in the days before Messrs. Jarvis and Gann and professor Milton Friedman made the spending of money on urban sanitation an infringement of personal liberty, was sparkling clean and covered with geraniums (1981, 44).

...

Agricultural economists in those years were bitterly divided between a progressive faction led by John D. Black and a retarded faction headed by Professor George F. Warren of Cornell. (The terminology reflects Black’s view.) The difference turned partly on the farm problem. Black greatly approved New Deal farm policies while Warren, anticipating the later

Comment [WFU2]: Keep this part?

⁵ The previous year Galbraith had been among the founders of Americans for Democratic Action.

faith of Professor Milton Friedman, thought all could be solved by the right monetary policy (1981, p. 55).

...

So when monetary policy is invoked against inflation, the primary effect is on the small man, not the large corporation. The approval of the policy by the rich and powerful is thus an accurate reflection of their own self-interest. The applause by those so favored that has long been accorded Professor Milton Friedman, its most distinguished advocate, has been greatly deserved (1981, p. 348).

In *The Good Society* Galbraith identified the political alignment of the rich and powerful:

In the United States the Republican Party is avowedly on the side of the fortunate, and to the influence and wealth of the latter the Democratic Party, or many of its members, are also attracted.

In the good society voice and influence cannot be confined to one part of the population. In the United States the only solution is more active political participation by a coalition of the concerned and the poor. And their instrument must be the Democratic party, for this has been its past role and the source of its past success. ...

Those whose primary concern is to protect their income, their capital and their business interest will always vote for the party that most

strongly affirms its service to their pecuniary well-being. This is and has always been the Republicans (1996, pp. 141-2).

Paul Samuelson kept more distance between his professional and political life than Galbraith. Samuelson advised Adlai Stevenson, Averell Harriman, and John F. Kennedy, but served in no official political capacity. Nor did he serve in the Washington bureaucracy. “Moses-like PAS did not pass into the promised land beyond the Potomac, but as an *eminence gris* he had the fun of backing the poker hands of such magnificent Joshuas as Walter Heller, James Tobin, and Kermit Gordon at the Kennedy Council of Economic Advisers” (1986, p. 68). In the 1960s Samuelson’s allegiance was less to Democrats than to the New Economics of the Kennedy CEA. He did not portray economists on the other side as fools or knaves. However, party politics is prominent in Samuelson’s *Newsweek* columns, and a reader of the columns is left with little doubt of Samuelson’s party preference.

Samuelson believed that political rhetoric exaggerated the differences between the parties, but there were nonetheless important differences: “The count in November [1968] matters much. What matters is not simply whether a man has a majority of the votes, but also how large is the opposition. In our democracy we elect a team and not just a man. For this reason, party regularity, rather than being a substitute for careful thought, may instead be its consequence’ (1973, p. 185). In a 1969 column on “The Economics of Class” he wrote:

To a first approximation the Republican Party is the party of the affluent, and the Democratic party is the party of the underdog. ...

To a second approximation, money income cannot alone explain all the facts of political allegiance. Intellectuals, the world over, are the despair of their well-to-do uncles. ...

Why is this so? ...

Intellectuals tend to be liberal for the simple reason that *inequality* – if only you will *focus* on it *and think about it* – is at first blush abhorrent to most men. (1973, p. 186).

This theme was repeated with some regularity in Samuelson's columns during election campaigns, such as in 1976 when he wrote, "At the core, American political parties are oriented along class lines, to represent either those who have or the larger number of those who don't" (1983, p. 28).

Friedman's *Newsweek* readers might have inferred that he was a Republican, but there is less political party attachment in Friedman's articles than in Samuelson's. Friedman focused mostly on policies, sometimes on policymakers, relatively little on politics, but hardly ever on political parties. A recurring theme of his articles was that politics was too often the enemy of good policy, for Democrats and Republicans. For instance, writing on "The Politics of Economics" in 1978 Friedman criticized Presidents Nixon (wage and price controls) and Ford (energy policy) along with then-President Carter (national health insurance) for putting political considerations ahead of sound policy. Two years earlier he opened his piece, "Rising above Principle" by charging that "President Ford's recent straddle on the picketing and energy bills was a dazzling example of the political art of rising above principle" (1983, p. 111). Although he was a supporter of President Reagan, Friedman did not withhold criticism when he thought

politics was driving out good policy. He wrote about the Congressional budget resolution for fiscal 1981 that “I am moved as a citizen and taxpayer to shout at the president and most members of Congress: ‘Have you no shame?’” (1983, p. 119).

A frequent theme of Friedman’s was that the public, i.e., politicized, sector of the economy was too large. Where Galbraith and Samuelson viewed Republicans and Democrats as the party of the rich and the party of the poor respectively, Friedman viewed Republicans and Democrats as more or less the parties of the private sector and public sector. That he did not make this argument explicitly in his columns reflects his belief that all too often the distinction did not hold up in practice. Republicans aspiring to gain or keep office were as likely as Democrats to hand out favors. And “most members of Congress will do almost anything to postpone problems” (1983, p. 334). Friedman’s strong support for the balanced budget amendment in the early 1980s was based on his belief that the ubiquity of special interests (e.g., *Tyranny of the Status Quo*, 1983) reduced to very small the chances of budgetary discipline without an external constraint on Congress.

Friedman reports in *Two Lucky People* (1998) that neither he nor Rose were active in politics until William Baroody, Sr. asked him to help draft a campaign platform for Senator Barry Goldwater in 1963. Friedman became Goldwater’s economic advisor and one of his speechwriters during the presidential campaign. He signed on as adviser to Goldwater before the 1964 Republican convention, which pitted the emergent “conservative” Goldwater Republicans against the “liberal” Rockefeller Republicans. He was attracted to Goldwater not only because of his views on government policy, but also because of “Goldwater’s firm adherence to basic principles, his courage in taking

unpopular positions, [and] his willingness to sacrifice what seemed like political expediency to stand up for what he thought was right” (1998, p. 368). From the 1964 election campaign there emerged the second presidential candidate for whom Friedman retained lasting respect and admiration, Ronald Reagan.

Friedman’s close friends, Arthur Burns and W. Allen Wallis, both served in the Eisenhower administration. Friedman met Vice President Nixon through an introduction from Wallis, and was impressed by Nixon’s intellectual acuity. During the 1968 presidential campaign Nixon recruited Burns as his primary economic adviser, and Burns recruited Friedman to the advisory group. As he describes the responsibility of the economic and other advisory groups, they were “not organized to promote the campaign, but rather to engage in advance planning for the administration after the election” (1998, p. 375). Friedman was an active supporter of two of President Nixon’s policy initiatives, the move from conscription to volunteer armed forces and the family assistance program. The latter was a form of the negative income tax Friedman proposed in *Capitalism and Freedom* (1962). However he came to oppose the family assistance program in the form it ultimately took in Congress. And he was a vocal critic of the Nixon wage and price controls. Friedman sums up his view of Richard Nixon in *Two Lucky People*:

I was a strong supporter of Nixon in 1968, less so in 1972, though I still voted for him. In retrospect, I must confess that I question whether the support was justified. Few presidents have come closer to expressing a philosophy compatible with my own; and few if any have had a higher IQ; yet performance belied the rhetoric and the ability (1998, p. 387).

Friedman worked with Ronald Reagan on spending limitation initiatives for California when Reagan was governor. During Reagan's presidential campaign Friedman helped plan economic policy for after the election, as he had for Nixon. He also served during Reagan's two terms on the Economic Policy Advisory Board, a volunteer group of twelve economists. Friedman's closing comment on Ronald Reagan in *Two Lucky People* is in contrast with his assessment of Nixon. Of Reagan he writes, "No other president in my lifetime comes close to Reagan in adherence to clearly specified principles dedicated to promoting and maintaining a free society" (1988, p. 396).

Samuelson, Galbraith, and Friedman all three evaluated economic policy as scholars, yet from different perspectives. For Friedman and Samuelson identification of themselves as scientists was important. For Friedman science was the accumulation of empirically tested knowledge and for Samuelson it was the accumulation of mathematically tested knowledge. It is not so clear that Galbraith thought it important to be recognized as a scientist; he saw his scholarship as rising above what passed for science among economists. My contention is that the lessons Friedman learned from Wesley Mitchell and Arthur Burns and others about the nature of economic science, the primacy of empirical facts and importance of scholarly detachment represented by the non-partisan creed of the National Bureau, set him apart from Samuelson and Galbraith. Friedman believed that the economist as a scientist can contribute to public policy by producing tested knowledge and letting the chips fall where they may. He believed that many of the disagreements about policy were about matters of fact, and that scientific progress in economics would contribute to greater agreement about policy. To protect the

sphere of economic science Friedman regularly distinguished between his roles as an economic scientist and as a public policy advocate. He wrote in *Two Lucky People*:

Technical economics and public policy are intimately connected. Every public policy issue involves two steps: predicting the consequences of a suggested policy and evaluating those consequences as good or bad. The first step is the domain of science, the second, of values. The distinction is easy to state but it is far from easy to keep the one domain from intruding on the other (1996, p. 213).

For Paul Samuelson, as a mathematical scientist, economic science necessarily played a smaller role in formation of economic policy, for pure theory is not quantitative in the same sense that empirical evidence can be. For example, pure theory cannot tell us how much teen unemployment is caused by the minimum wage, how much deadweight loss there is from a tariff, or how much crowding out there is from with fiscal policy. Economics creates a vision of a world of policy trade-offs, something is gained from a policy, but at a cost. Only an empirically quantitative economics can yield information about the terms of policy trade-offs. The implication is that for Samuelson policy advocacy would have to lean less heavily on economic science as he practiced it as scholar and more heavily on values or other considerations. For instance, in considering the role of confidence in the business cycle Samuelson described his forecasting technique:

I am not now referring to the regressions of the computer but I am speaking now of the regressions of the mind, the intuitive forecasting which I do. The other day a colleague of mine ... said to me, "Paul, how

long do you think it will take before a computer will replace you?” ... I thought for a moment, and as the question seemed to be asked in a mean way, I replied, “Not in a million years” (Burns and Samuelson, 1967, pp. 92-93).

Galbraith was still less bound by the canon of economic science, empirical or mathematical, for he rejected both. Galbraith’s economics is an economics of grand visions of historical processes, in particular of the rise of the organization, which renders economic theory obsolete:

Organization, the subordination of the individual to the common purposes of a highly structured association, is a general phenomenon. For economic purposes, however, it has three relevant manifestations – in the modern corporation, the modern trade union, and the modern state. In all three of these, but especially in the corporation and the state, organization – bureaucracy – has become the decisive source of power and the controlling influence on economic behavior (Galbraith and McCracken, 1983, p. 28-29).

Economics must no longer be about markets, but about the organization. In an effusive *Newsweek* article marking publication of *The New Industrial State* Samuelson said of Galbraith, “He does not write for his brethren within the guild. He is, par excellence, a non-economist’s economist” (1973, p. 258). I am not sure if this statement was intended to be ironic, but it is.⁶

⁶ Samuelson honored Friedman in his column after the announcement of Friedman’s Nobel Prize, referring to him as “an economist’s economist.” (1983, p. 130).

Samuelson referred to Galbraith as “Sage of the Mixed Economy” (1973, p. 259). Mixed economy is a term that Samuelson used repeatedly. A mixed economy is not pure; it is a mixture of markets and government, of competition and monopoly. The United States does not have a laissez faire, perfectly competitive economy. The implication of using the term mixed economy is that there are important policy questions for which a model that assumes perfect competition and no government is of little use. Samuelson placed himself in the middle ground on matters of economic policy, and was inclined to play the devil’s advocate. The center is exactly where Leonard Silk located Samuelson in *The Economists*:

Within the American economics establishment, I consider Paul Samuelson to be the vital center, with intellectual and moral views which themselves extend over a wide spectrum and are difficult to categorize. Nevertheless, clearly to his right is Milton Friedman, to his left John Kenneth Galbraith and Wassily Leontief (1974, p. xi).

Two debates, with George Stigler on the proper role of government, and with Arthur Burns on the Kennedy-Johnson wage and price guidelines, illustrate Samuelson’s rhetorical use of the middle ground, both for the economy and for himself. Stigler and Samuelson spoke at Swarthmore College in early 1963. Stigler opened with the assertion that Americans’ faith in the ability of government to solve problems was stronger than evidence warranted. His thesis was that those whose business it is to know what government can do in the realm of economic policy, economists, actually know very little about the success and failures of policy, for they had not pursued this knowledge. He used as an example regulation of electric utilities, a matter on which there was little

dissent among economists about the role for regulation, and in which there was a long record of regulatory control. He and Claire Friedland had recently completed a study trying to answer the counterfactual question of how the industry would have performed in the absence of regulation (1962). Their conclusion was that regulation had had little effect on performance. Stigler gave a handful of public choice reasons for failure of government to live up to expectations, and then turned to the question of what government should do. Sketching the bare outlines of an argument, he suggested that the state should: (1) (a) prevent monopolistic mergers and dissolve existing monopolies where competition is efficient, (b) capture monopoly rents where competition is not feasible with an auction of monopoly rights, (c) leave the few remaining monopolies not subject to control alone, (2) ameliorate poverty with monetary grants and enhanced opportunities for the poor to acquire skills, (3) pay compensation for economic distress caused by government and use grants to relieve distress from other sources, (4) punish those who commit fraud.

In his talk to the Swarthmore audience Samuelson turned the question around and asked what roles the private sector should perform. His answer was, “I believe the private economy should be left alone to do those activities which, on balance after netting out all advantages and disadvantages, it can best do” (Stigler and Samuelson, 1963, p. 23). He observed that logically either form of the question should lead to the same conclusion, but that in practice a certain amount of bias is inherent in posing the question one way or the other. Presuming that efficiency lay in the public sector and liberty in the private sector, he drew the conclusion that, “the subject is an open one – open for debate and

open to compromise. At some terms-of-trade, efficiency can be traded off against liberty (Stigler and Samuelson, 1963, p. 24).

Samuelson then discussed the technical requirement for competitive optimality (no consumption externalities, constant returns to scale, perfect competition, and non-distorting lump-sum transfers), and answered an imagined challenge from someone who complained that the real world does not meet these requirements. He next turned his sights on a hypothetical “one hundred per cent libertarian,” who a couple pages later is identified as Milton Friedman. Samuelson commends *Capitalism and Freedom* to his audience so they can see Friedman’s exposition of the notion “that it is better for one who deplors racial discrimination to try to persuade people against it than to do nothing at all – but, failing to persuade, it is better to use no democratic coercion in these matters” (Stigler and Samuelson, 1963, p. 34). Samuelson extends this libertarian rule against coercion to a general precept against coercion. He then demolishes it by drawing the implication that it is good to persuade someone not to gas five million humans, but not good to go beyond persuasion to prevent the atrocity. Samuelson concludes his discussion of the proper role of government:

The whole matter of proper government policy involves issues of ethics, coercion, administration, incidence, and incentives that cannot begin to be resolved by semantic analysis of such terms as “freedom,” “coercion,” or “individualism” (Stigler and Samuelson, 1963, p. 37).

He tells his audience that if they remember only one thing of what he has said it should be this: “There are no rules concerning the proper role of government that can be established by a priori reasoning” (Stigler and Samuelson, 1963, p. 37). He had warned

his audience early in his talk that they might find his conclusion uncomfortably nihilist, but he hoped it would be liberating.

Arthur Burns and Samuelson debated the Kennedy-Johnson wage and price guideposts at George Washington University in 1967. Burns opened with a brief history of economic conditions and policies from the late 1950s to the present. For the most part he was laudatory of both economic performance and of economic policy over the period. But he argued that the continuation of expansionary policy in 1965 after signs of inflation appeared showed that there was much to be learned. He attributed the delay in adjusting policy to deficiencies in forecasting, insufficient data to distinguish aggregate demand deficiencies from structural problems, data deficiencies for prices and government budgets, and other such constraints. Apart from the technical limitations, Burns also blamed the Council of Economic Advisors, members of Congress and the executive branch for placing too much emphasis on the estimated gap between actual and potential output and giving too little attention to the stage of the business cycle. He also criticized them for undervaluing price level stability, and for expecting too much from wage and price guideposts.

Samuelson opened his talk with a disclaimer, saying that there were aspects of the guideposts (and other informal controls) that he admired and aspects that he did not care for. Despite the misgivings, "I shall have to be the devil's advocate in an adversary procedure designed to bring out truth and balance" (Burns and Samuelson, 1967, pp. 43-44). Samuelson did not know the content of Burns's remarks when he prepared his. So he set out to defend the need for guideposts and other informal controls. Acknowledging economic arguments against the guideposts, Samuelson pointed out that despite

economists' misgivings all mixed economies were struggling with the problem of creeping inflation and output gaps, and that:

we may with fine rhetoric or telling syllogism slay the presidential guideposts a dozen times; but still, in the opinion of the vast majority of economic experts, we shall be left with the vexing dilemma that free markets do not give us a stable consumers price index at the same time that the rate of unemployment stays down to a socially desirable minimum (Burns and Samuelson, 1967, p. 45).

Samuelson used Galbraith and Friedman as examples of extreme views of guideposts. He quoted Galbraith to the effect that price controls worked during World War II and the Korean War, therefore they will work in peacetime, and Friedman saying that inflation is always and everywhere a monetary phenomenon and therefore the only way to stop inflation is by controlling money supply growth. He then played off these two positions, "I suppose it will be argued by many that Professors Galbraith and Friedman are not middle-of-the-road men" (Burns and Samuelson, 1967. p.48). His response to Galbraith was that it was absurd to think that you can just hold wages and prices down. His response to Friedman was that if the Phillips curve is "bad," i.e., the non-inflationary rate of unemployment is too high, monetary and fiscal policy cannot remedy that problem. Improving the Phillips curve is a task for guideposts. "The guideposts and related 'incomes policies' are attempts all over the world to give us the same degree of fullness of employment with less price creep than would otherwise have been the case" (Burns and Samuelson, 1967, p. 57). Samuelson suggested that

corporations and unions had considerable leeway in setting prices, so they could be persuaded to set them in the public interest.

Al Decker, the man who slapped Friedman with the pie in 1998 explained to reporters that he had done so because “he is the world’s preeminent neoliberal economist, and that economic philosophy is responsible for the destruction of our environment, the deterioration of our social structure and has brought the world to the brink of an economic collapse” (J. Lite, www.sfgate.com, 1998/10/10). As pointed out earlier, when Anthony Lewis accused Friedman of complicity in human rights crimes in Chile, the pie assailant was only four years old. In 1964, when historian Richard Hofstadter wrote of the Barry Goldwater campaign, “when, in all our history, has anyone with ideas so bizarre, so archaic, so self-confounding, so remote from basic American consensus, ever gone so far?” (1964), Decker was not yet born. Nor was he born just after Adlai Stevenson’s first loss to Dwight Eisenhower, when Arthur Schlesinger, Jr. wrote

Today, as a consequence of the election, the American intellectual finds himself in a situation he has not known for a generation. . . . For twenty years, the government of the United States, while often one which the intellectual has found confused or mistaken, has nevertheless been one which has basically understood, respected and protected intellectual purposes. Now business is in power again, and with it will inevitably come the vulgarization which has been the almost invariable consequence of business supremacy (1953, p. 162).

Concern that business interests were patrons and beneficiaries of the neo-conservative movement persists today among historians of economics. Van Horn and

Mirowski (2005) develop the thesis that the Chicago School was the creation of corporate sponsors through the Volker Fund's support of Friedrich Hayek, Aaron Director, and Milton Friedman:

Patience on the part of Volker was eventually rewarded. Not Hayek, not Director, not Knight, but Milton Friedman finally made good on the Free Market project, albeit a decade late. ...

Crude argumentation of this ilk [*Capitalism and Freedom*] proved wildly popular in the American arena, as evidenced by the fact that the book has never gone out of print. Friedman accomplished what Hayek never did, and what Director was apparently incapable of doing. *The Road to Serfdom* is an intricate and subtle tract compared to its bromides. But the major difference is that *Capitalism and Freedom* wore its own provenance on its sleeve: it was *proud* [emphasis in original] to be the work of an intellectual for hire, because all human discourse was essentially just a sequence of disguised market transactions (2005, pp. 50-52).

What is it that made Friedman a candidate for such opprobrium? My conjecture is that among the salient facts are these:

1) Friedman's academic career at Chicago and the development of post-war Chicago economics coincided with a period when intellectuals were most at home in the Democratic party, looking on the Republican party as representing anti-intellectualism – businessmen, bigots, and boobs. After the 1952 election Republicans became an endangered species on university faculties and among intellectuals.

- 2) Although Friedman had little direct involvement with politics or Republican administrations in the 1950s, Arthur Burns and Allen Wallis both served in the Eisenhower administration. When Friedman became more involved as an advisor to politicians it was to Republicans.
- 3) The academic and intellectual environment of the 1950s and 1960s that was generally hostile to market forces put academic economists in a bind. As George Stigler has argued, training in economics tends to make a person politically conservative (i.e., “in economic matters a person who wishes most economic activity to be conducted by private enterprise, and who believes that abuses of private power will usually be checked, and incitements to efficiency and progress usually provided, by the forces of competition” (1959, p. 524)).
- 4) Therefore incentives were in place for academic economists to trim their economic analysis to a better fit intellectual fashion.
- 5) Galbraith’s resolution of this conflict was not to trim, but to throw the economics out and build a new economics fully consistent with his politics.
- 6) Samuelson had considerable leeway to match policy judgments with political preferences, for his scholarly work in pure theory had only the most general implications for policy.
- 7) Friedman’s economics was more intimately connected with policy issues and his notoriety was in part the product of intellectuals’ fury that he would not trim his policy judgments to fit the prevailing intellectual and political fashions.

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