The New York Times

August 11, 2013

Milton Friedman, Unperson

By PAUL KRUGMAN

Recently Senator Rand Paul, potential presidential candidate and self-proclaimed expert on monetary issues, sat down for an interview with Bloomberg Businessweek. It didn't go too well. For example, Mr. Paul talked about America running "a trillion-dollar deficit every year"; actually, the deficit is projected to be only $642 billion in 2013, and it's falling fast.

But the most interesting moment may have been when Mr. Paul was asked whom he would choose, ideally, to head the Federal Reserve and he suggested Milton Friedman — "he's not an Austrian, but he would be better than what we have." The interviewer then gently informed him that Friedman — who would have been 101 years old if he were still alive — is, in fact, dead. O.K., said Mr. Paul, "Let's just go with dead, because then you probably really wouldn't have much of a functioning Federal Reserve."

Which suggests an interesting question: What ever happened to Friedman's role as a free-market icon? The answer to that question says a lot about what has happened to modern conservatism.

For Friedman, who used to be the ultimate avatar of conservative economics, has essentially disappeared from right-wing discourse. Oh, he gets name-checked now and then — but only for his political polemics, never for his monetary theories. Instead, Rand Paul turns to the "Austrian" view of thinkers like Friedrich Hayek — a view Friedman once described as an "atrophied and rigid caricature" — while Paul Ryan, the G.O.P.'s de facto intellectual leader, gets his monetary economics from Ayn Rand, or more precisely from fictional characters in "Atlas Shrugged."

How did that happen? Friedman, it turns out, was too nuanced and realist a figure for the modern right, which doesn't do nuance and rejects reality, which has a well-known liberal bias.

One way to think about Friedman is that he was the man who tried to save free-market ideology from itself, by offering an answer to the obvious question: "If free markets are so great, how come we have depressions?"

Until he came along, the answer of most conservative economists was basically that depressions served a necessary function and should simply be endured. Hayek, for example, argued that "we may perhaps prevent a crisis by checking expansion in time," but "we can do nothing to get out of it before its natural end, once it has come." Such dismal answers drove many economists into the arms of John Maynard Keynes.

Friedman, however, gave a different answer. He was willing to give a little ground, and admit that government action was indeed necessary to prevent depressions. But the required government action, he insisted, was of a very narrow kind: all you needed was an appropriately active Federal

Reserve. In particular, he argued that the Fed could have prevented the Great Depression — with no need for new government programs — if only it had acted to save failing banks and pumped enough reserves into the banking system to prevent a sharp decline in the money supply.

This was, as I said, a move toward realism (although it looks wrong in the light of recent experience). But realism has no place in today's Republican Party: both Mr. Paul and Mr. Ryan have furiously attacked Ben Bernanke for responding to the 2008 financial crisis by doing exactly what Friedman said the Fed should have done in the 1930s — advice he repeated to the Bank of Japan in 2000. "There is nothing more insidious that a country can do to its citizens," Mr. Ryan lectured Mr. Bernanke, "than debase its currency."

Oh, and while we're on the subject of debasing currencies: one of Friedman's most enduring pieces of straight economic analysis was his 1953 argument in favor of flexible exchange rates, in which he argued that countries finding themselves with excessively high wages and prices relative to their trading partners — like the nations of southern Europe today — would be better served by devaluing their currencies than by enduring years of high unemployment "until the deflation has run its sorry course." Again, there's no room for that kind of pragmatism in a party in which many members hanker for a return to the gold standard.

Now, I don't want to put Friedman on a pedestal. In fact, I'd argue that the experience of the past 15 years, first in Japan and now across the Western world, shows that Keynes was right and Friedman was wrong about the ability of unaided monetary policy to fight depressions. The truth is that we need a more activist government than Friedman was willing to countenance.

The point, however, is that modern conservatism has moved so far to the right that it no longer has room for even small concessions to reality. Friedman tried to save free-market conservatism from itself — but the ideologues who now dominate the G.O.P. are beyond saving.