



A SPECIAL MEETING

THE MONT PELERIN SOCIETY

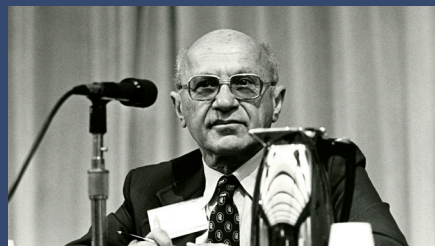
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**FROM THE PAST TO THE FUTURE:
IDEAS AND ACTIONS FOR A FREE SOCIETY**

CHAPTER FIVE

**MILTON FRIEDMAN:
THE EARLY YEARS
JENNIFER BURNS**



Milton Friedman: The Early Years¹

In April 1947 Milton Friedman embarked upon a “junket to Switzerland ... to save liberalism,” as his colleague George Stigler jokingly put it.² The two men were among a small group of intellectuals invited to attend the inaugural meeting of the Mont Pelerin Society. Now considered one of the founding institutions of global conservatism in the 20th century, the Mont Pelerin Society was the brainchild of Austrian economist F.A. Hayek. Once a widely respected scholar, Hayek's stock had fallen as economists turned to Keynesian and mathematical approaches in the aftermath of the Great Depression. Hayek was now famous not for his economic analysis, but for his 1944 *crie de coeur* against state planning, *The Road to Serfdom*, penned in London as German bombs rained from the sky.

But now Hayek wanted to move from writing books to starting institutions that could shape the political climate. Hayek recognized that liberalism – the creed of limited government and open markets in which he deeply believed – had lost political purchase. In an era of social democracy, not to mention communism and fascism, the 19th century ideals of republican government seemed bound for extinction. Were it to survive, liberalism needed to be re-thought, top to bottom. Hayek was not alone in this reckoning. The first efforts to conceptualize liberalism for the modern era had arisen in Paris in the 1930s, following the publication of American journalist Walter Lippmann's *The Good Society*. This was the moment that first got Hayek thinking about an “international organization of liberal economists.”³ The concept had a dry run of sorts in the *Colloque Lippmann*, a 1938 gathering of mostly European economists. War intervened in any follow up, and postwar, Lippmann had lost his taste for conservative politics and ideas.

¹ Adapted from *The Last Conservative: The Life of Milton Friedman* (forthcoming, Farrar, Straus, Giroux).

² George Stigler to Milton Friedman, December 20, 1946, in *Making Chicago Price Theory*, 49.

³ Angus Burgin, *The Great Persuasion: Reinventing Free Markets Since the Great Depression* (Cambridge: Harvard University Press, 2012), 6.

Instead Hayek and *The Road to Serfdom* became the touchstones of another gathering, built upon the nucleus of the first. This time, it was clear more Americans would need to be included. Hayek reached out to those he knew personally – including Friedman’s brother-in-law Aaron Director and George Stigler. The same discussions that led to Director’s arrival at Chicago also resulted in the Volker Fund pledging financial support to Hayek’s nascent society. A Swiss businessman also agreed to underwrite a portion of the costs. Thus Hayek was able to offer his American participants an all-expenses paid ten day trip to Europe to discuss political and economic ideas. Although he had two young children at home and had hardly settled into his new job, it was not the kind of invitation Friedman would decline. He had, in fact, never left the country. The Mont Pelerin Society would be his first step into a wider world.

The trip was a significant undertaking; Friedman would be away from his family, and the University of Chicago, for six weeks. Rose took Janet and David to Nevada to stay with her sister, while Friedman traveled in the company of George Stigler. The two men first sailed across the Atlantic on the ocean liner Queen Elizabeth, disembarking in a London that Friedman recollected as “in a sad way two years after the war.”⁴ He was particularly struck by the rigidly controlled economy and limited food supplies, which contrasted unfavorably with the more dynamic black market in France.

After a brief stay in Paris, they traveled by train to the small lakeside town of Vevey, Switzerland, where a funicular railway pulled them up to the mountaintop hamlet of Mont Pelerin. The conference was held in the *belle époque* Hotel du Parc, graced with a stunning chandelier in the lobby and views down to Lake Geneva from the front terrace. Here they joined

⁴ Milton Friedman and Rose D. Friedman, *Two Lucky People: Memoirs* (Chicago: University of Chicago Press, 1998), 158-160.

an eclectic group, including Director, Knight, Hayek, Lionel Robbins, philosophers of science Karl Popper and Michael Polanyi, and the praetorians of the Volker Fund.

Henry Simons didn't live to join the Mont Pelerin Society, but at that first meeting, it seemed as if he was nonetheless in attendance. Amid bridge, sight-seeing, and back to back sessions about the problems of the world, Friedman articulated a progressive view of classical liberalism that owed much to his deceased friend. In a discussion of the group's agenda, Friedman argued that "Liberalism is in a curious position, and on the downgrade. It is at times used as a defense of the status quo, instead of being dynamic and progressive. We want to make sure that our manifesto is concerned in the progress of man's welfare." Ventriloquizing Simons, Friedman continued: "We have to agree on the necessity for a positive approach."⁵ Similarly, Frank Knight used Simons' exact words when he called fractional reserve banking "diabolically designed" and argued for 100% money, Simons' pet reform of the monetary system.⁶ Director began the meeting with a carefully crafted address that emphasized the "humanitarian tradition of liberalism," yet noted serious conflicts "between what liberals consider the social interests and the results of free enterprise." The problem the society needed to address was that "the liberal had no solution to offer derived from their fundamental philosophy."⁷ All this was very much in line with Hayek's goal to reformulate a more modern, forward-looking defense of capitalism.

⁵ "Discussion on Agenda, Etc., April 4, 4:30." Minutes of Discussion at Mont Pelerin Conference, April 1st-10th 1947. Box 5, Folder 13, Mont Pelerin Papers, Hoover Institution Archives. Recorded by Dorothy Hahn, the minutes are not a full shorthand, with some sessions going unrecorded. Rather than verbatim, the gist of remarks are captured. The notes were understood to be private and not for publication. Page numbers indicated when minutes were paginated.

⁶ "Contra-Cyclical Measures, Full Employment, and Monetary Reform, April 7, 4:30," 6, 7. Minutes of the Mont Pelerin Society. Box 5, Folder 12, Mont Pelerin Papers, Hoover Institution Archives.

⁷ "Free Enterprise or Competitive Order," April 1, 4.30, III, 3, 5. Minutes of the Mont Pelerin Society, Box 5, Folder 12, Hoover Institution Archives. Although included in meeting minutes, from their length and structure these remarks seem to be a written paper or address delivered by Director.

Not all meeting attendees agreed such a reformulation was necessary. Austrian economist Ludwig von Mises was a vocal dissenter, at one point declaring “you’re all socialists!” and storming out of the room.⁸ Mises was among a minority contingent who remained uncomfortable with any revision of liberalism that justified an expanded role for the state. He vigorously disputed the other attendees’ emphasis on monopoly, asking “why do people attack the monopoly, and not the patent law, the tariff, etc?” Following the same logic, American journalist Henry Hazlitt averred, “The biggest problem of monopoly is of government created monopoly.”⁹ FEE representative Orval Watts took a similar hard line, arguing that “problem of [business] cycles has largely been caused by government,” and criticizing unemployment relief, a policy supported by most other members.¹⁰

In this context, Friedman was undisputedly on the left side of the society. He also remained a keen internationalist. When Watts claimed there was “growing dissatisfaction in America with American intervention in Europe,” Friedman shot back quickly “I don’t think Watts’s opinions are representative of the USA.”¹¹ The jab showcased the palpable divide between the prewar conservatism of Watts – isolationist, moralist, rigid – and the more flexible, pragmatic, and progressive liberalism Friedman represented.

In general, though, Friedman eschewed philosophical discussion, preferring instead to propose and explain specific policies. He touted the idea of “progressive negative taxation,” an updated version of his 1939 proposal for guaranteed minimum income, now linked explicitly to the tax system. In response to questions, Friedman argued this was “a policy which is in

⁸ *Two Lucky People*, 161.

⁹ “Minutes, Mont Pelerin Conference, Tuesday, April 1st, 4.30.” Box 5, Folder 12, Hoover Institution Archives.

¹⁰ “Wages and Wage Policy,” Minutes of the Mont Pelerin Society, April 8, 9:30. Box 5, Folder 12, Hoover Institution Archives.

¹¹ “Present Political Crisis,” Minutes of the Mont Pelerin Society, April 9, 8:30, II. Box 5, Folder 12, Hoover Institution Archives.

accordance with the liberal society. Expediency is merely an additional advantage.” Even alongside this invocation of liberalism, Friedman continued to employ a strangely bloodless tone. Amplifying his thoughts about equality during a discussion of poverty, Friedman asserted “Men are not born equal... There are definitely people who cannot earn, in the marketplace, an income even that we could consider to be a minimum.” But Friedman went on to discuss this vexing social problem in an engineering idiom, noting “Other people have to pay for this help. Therefore we have progressive taxation. No democratic society is going to tolerate people starving to death, if there is food with which to feed them.”¹² Was this a good thing or a bad thing? Friedman presented it as a basic social fact, drained of ethical content. While Hayek had conceived the Mont Pelerin Society as a place to discuss fundamental questions of value, Friedman continued to favor exposition of means.

The first Mont Pelerin Society meeting provided a revealing window into churn on the American right. It laid bare a basic cleavage between those who wished to mount a full-throated, unapologetic defense of capitalism and the calmer, cleaner, self-consciously scientific and forward-looking vision of Friedman. At the meeting’s end, the relationship between these two strands of conservatism was far from clear. Ideologues like Rand were sure that it was a fight to the death. And surely it was significant that the group ultimately settled on the anodyne moniker “The Mont Pelerin Society,” because all other proposed names spurred irresolvable debate. The Mosaic character of the meeting also raised questions. The prophets had come down from the mountaintop, but would anyone read the tablets? How would the impassioned aristocratic tones of Hayek or the antiseptic scientism of Friedman and Stigler play in the emerging mass society

¹² “Taxation, Poverty, and Income Distribution,” Minutes of the Mont Pelerin Society, Tuesday April 8th, 8:30pm, pp 1, 3-4, Box 5, Folder 12, Hoover Institution Archives.

of the postwar West? Ten years would lapse until Friedman attended another Mont Pelerin Society meeting. By then, he would approach these questions from a very different perspective.



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TABLE OF CONTENTS

PAST AS PROLOGUE TO THE FUTURE

An Opening Conversation

Chapter 1. Why Choose Economic Freedom?.....	6
<i>George P. Shultz and John B. Taylor</i>	

Free to Choose: 1980 to 2020 and the Network

Chapter 2. Introduction to Free to Choose 1980 to 2020 and the Network.....	14
<i>Robert Chatfield</i>	
Chapter 3. Milton, Rose, me and Poetry.....	16
<i>Robert Chitester</i>	

Removing Obstacles on the Road to Economic Freedom: 1947 to 1980

Chapter 4. Removing Obstacles on the Road to Economic Freedom.....	24
<i>Eamonn Butler</i>	
Chapter 5. Milton Friedman: The Early Years.....	26
<i>Jennifer Burns</i>	
Chapter 6. Mont Pelerin 1947.....	32
<i>Bruce Caldwell</i>	
Chapter 7. The Road Not Taken of “Nuovo liberalismo”.....	85
<i>Alberto Mingardi</i>	

Spread of Free-Market Ideas in the 1980s

Chapter 8. The Reception of Free to Choose and the Problem of Tacit Presuppositions of Political Economy.....	102
<i>Peter Boettke</i>	
Chapter 9. The Spread of Free-Market Ideas in the 1980s (With a Nod to the Late 1970s).....	131
<i>David Henderson</i>	
Chapter 10. Ideas of Freedom and Their Role in Active Policymaking.....	142
<i>Condoleezza Rice</i>	

TABLE OF CONTENTS

Lessons Learned from History for the Future of Freedom

Chapter 11. Assaults on Freedom and Citizenship.....	147
<i>Victor Davis Hanson</i>	
Chapter 12. Fed Chair Agonistes.....	152
<i>Amity Shlaes</i>	
Chapter 13. Keynes v Hayek: The Four Buts.....	160
<i>Robert Skidelsky</i>	

IDEAS FOR A FREE SOCIETY

The Role of Law as Protector of Liberty

Chapter 14. Capitalism, Socialism and Nationalism: Lessons from History.....	168
<i>Niall Ferguson</i>	
Chapter 15. Magna Carta, the rule of law, and the limits on government.....	200
<i>Jesús Fernández-Villaverde</i>	
Chapter 16. The Commerce Clause, the Takings Clause, and Due Process.....	208
<i>Douglas Ginsburg</i>	

How to Deal with the Reemergence of Socialism

Chapter 17. The rise and fall of environmental socialism: Smashing the watermelon.....	221
<i>Jeff Bennett</i>	
Chapter 18. Understanding the left.....	226
<i>John Cochrane</i>	
Chapter 19. Economic systems between socialism and liberalism and the new threats of neo-interventionism.....	233
<i>Lars Peder Nordbakken</i>	

Measures of Economic Freedom

Chapter 20. Economic Freedom Matters & Charts.....	248
<i>Anthony Kim</i>	

TABLE OF CONTENTS

Chapter 21. Economic Freedom: Objective, Transparent Measurement.....279
Fred McMahon

Chapter 22. The World Bank’s Doing Business Indicators.....310
Valeria Perotti

Restraining Expansions of Government

Chapter 23. Common Sense Approach to Addressing America’s Entitlement Challenge.....318
John Cogan

Chapter 24. Key Milestones in Regulation.....339
Susan Dudley

Chapter 25. A Quest for Fiscal Rules.....343
Lars Feld

ACTIONS FOR A FREE SOCIETY

Taking Ideas to Action around the World

Chapter 26. Turning Freedom into Action: Some Reflections on Reforming Higher Education.....371
Ayaan Hirsi Ali

Chapter 27. Culture and the Free Society.....380
Samuel Gregg

Chapter 28. Taking Ideas to Action Around the World.....394
Bridgett Wagner

What Happened in Chile?

Introduction.....402

Chapter 29. Presentation I.....403
Axel Kaiser

Chapter 30. Presentation II.....406
Ernesto Silva

Chapter 31. Presentation III.....409
Arnold Harberger

TABLE OF CONTENTS

Taking Ideas to Action: Making the Case for Freedom

- Chapter 32. Restoring Liberty for American Indians.....411
Terry Anderson
- Chapter 33. The Effect of Economic Freedom on Labor Market Efficiency and Performance.....434
Lee Ohanian
- Chapter 34. Making the Case for Liberty.....466
Russell Roberts

Taking Ideas to Action in the Private Sector

- Chapter 35. Brexit: Taking a Good Idea into Action.....473
Jamie Borwick
- Chapter 36. Taking Ideas to Action in Central Governments—The US Case.....476
Tyler Goodspeed
- Chapter 37. Ideas and Actions for a Free Society.....487
Ruth Richardson

Taking Ideas to Action in the Private Sector

- Chapter 38. Public Policy, Private Actor.....491
Dominique Lazanski
- Chapter 39. Libertarianism is Dysfunctional but Liberty is Great.....508
Joe Lonsdale
- Chapter 40. The False Promise of Medicare for All.....514
Sally Pipes

A Closing Conversation

- Chapter 41. China, Globalization, Capitalism, Silicon Valley, Political Correctness,
and Exceptionalism.....527
Peter Thiel and Peter Robinson