



Ideas Matter: Are We All Keynesians Now?

Jul 31

By CSBS Senior Economist and Director of Research Thomas F. Siems and Senior Director of Legislative Policy Nathan Ross

In 1965, TIME Magazine printed a story entitled “We Are All Keynesians Now” and attributed this quote to Milton Friedman. Today, Friedman—the 1976 Nobel-prize-winning economist who died in 2006—is considered one of the intellectual giants behind monetarism and neoclassical macroeconomic theory, having firmly rejected Keynesianism and its advocacy for active government policy intervention.

But in just four months, with around \$3 trillion of federal government stimulus and an additional \$3 trillion added to the Federal Reserve System’s balance sheet, are we all Keynesians now? Moreover, a recent Gallup poll suggested that socialism is as popular as capitalism among young adults. What level of federal, centralized intervention are we comfortable with in our markets? How do we ensure adequate checks on federal overreach? And what might Professor Friedman say in response?

Friday, July 31 marks the 108th anniversary of the day Milton Friedman was born. The occasion gives us an opportunity to reflect on some of his great ideas, and to celebrate his contributions in furthering the values and principles that make free economies around the world exemplars of progress and wealth creation.

One of Friedman’s most influential books, “Capitalism and Freedom,” first published in 1962, examines competitive capitalism—a free, private enterprise exchange economy—and the role that government should play in a society dedicated to freedom and open markets. Friedman asks, “How can we keep the government we create from becoming a Frankenstein that will destroy the very freedom we establish it to protect?” And, “How can we benefit from the promise of government while avoiding the threat to freedom?”

Friedman argued persuasively that “the great threat to freedom is the concentration of power.” At the same time, he recognized that “government is necessary to preserve our freedom, it is an instrument through which we can exercise our freedom.”

Recognizing this tension, Friedman advanced the idea that the scope of government must be limited. In his view, “its major function must be to protect our freedom both from the enemies outside our gates and from our fellow-citizens: to preserve law and order, to enforce private contracts, to foster competitive markets. Beyond this major function, government may enable us at times to accomplish jointly what we would find it more difficult or expensive to accomplish severally. However, any such use of government is fraught with danger.”

Federalism has proven to be the quiet, yet irreplaceable, foundation for Friedman’s economic vision, keeping the harms of unchecked government power (whether at the national or local level) at bay, while simultaneously promoting its essential benefits. Indeed, American federalism is in many ways the public analogue to Friedman’s private, competitive marketplace. Federal and state government interests compete and collaborate with each other regarding public policy, thereby creating and preserving the opportunities for private markets and market participants to freely exchange, innovate, and ensure robust due process.

Take, for example, the United States financial system and its financial markets. They are the most sophisticated and diverse in the world, owing much of their success to our uniquely federal “dual banking system.” State and federal regulatory agencies share oversight?collaborating and competing with each other?and foster the type of free, competitive private marketplace for which Friedman so convincingly argued. A cursory glance at our financial system proves the point. The number and variety of U.S. financial intermediaries providing credit and capital to businesses and households is unmatched in the world, ranging from small community-focused lenders to large globally active financial organizations. Similarly, to access and raise capital, the depth and liquidity of our financial markets make them the primary choice for companies from all over the world.

We must continue to cultivate our nation’s cooperative and competitive federalism. Friedman warned, time and time again, that the scope of the government’s involvement in the affairs of men must be limited: “The preservation of freedom is the protective reason for limiting and decentralizing governmental power. But there is also a constructive reason. The great advances of civilization, whether in architecture or painting, in science or literature, in industry or agriculture, have never come from centralized government.” The competition between the various state governments and the federal government serves as an inherent check on over-centralization, and it is as critical as open, fair competition between private actors.

When considering the implications of replacing federalism with an alternative form of government, or the invisible hand of the marketplace with a different economic philosophy, let’s not forget the closing words in “Free to Choose,” presented as a 10-part PBS television mini-series and published as a best-selling book in 1980 with Milton’s wife Rose as coauthor: “We are as a people still free to choose which way we should go—whether to continue along the road we have been following to ever bigger government, or to call a halt and change direction.”

Professor Friedman was a champion for freedom and opportunity, for individual liberty and free markets: “By relying primarily on voluntary cooperation and private enterprise, in both economic and other activities, we can insure that the private sector is a check on the powers of the governmental sector and an effective protection of freedom of speech, of religion, and of thought.”

We must continue Friedman’s legacy and keep making the case for freedom. As he once said, “Freedom is not the natural state of mankind. It is a rare and wonderful achievement. It will take an understanding of what freedom is, of where the dangers to freedom come from. It will take the courage to act on that understanding if we are not only to preserve the freedoms that we have, but to realize the full potential of a truly free society.”



202.296.2840

newsroom@csbs.org

1129 20th Street, N.W., 9th Floor, Washington, DC 20036