Milton Friedman and Monetarism

In the 1963 book “A Monetary History of the United States, 1867-1960,” which he wrote with Anna Jacobson Schwartz, Mr. Friedman compiled statistics to buttress his theory that recessions, as well as the

Great Depression, had been preceded by declines in the money supply. And it was an oversupply, he argued, that caused inflation.

In the late 1960s, Mr. Friedman used his knowledge of empirical evidence and statistics to calculate that Keynesian government programs had the effect of constantly increasing the money supply, a practice that over time was seriously inflationary.

Paul Krugman, a Princeton University economist and New York Times columnist, said Mr. Friedman then managed “one of the decisive intellectual achievements of postwar economics,” predicting the unprecedented combination of rising unemployment and rising inflation that later came to be called stagflation.

In this regard, his Nobel Prize cited his contribution to the now famous concept “the natural rate of unemployment.” Under this thesis, the unemployment rate cannot be driven below a certain level without provoking an acceleration in the inflation rate. Price inflation was linked to wage inflation, and wage inflation depended on the inflationary expectations of employers and workers in their bargaining.

A spiral developed. Wages and prices rose until expectations came into line with reality, usually at the natural rate of unemployment. Once that rate is achieved, any attempt to drive down unemployment through expansionary government policies is inflationary, according to Mr. Friedman’s thesis, which he unveiled in a speech to the American Economic Association in 1968.

For years economists have tried to pinpoint the elusive natural rate, without much success, particularly in recent years.

Mr. Friedman, the iconoclast, was right on the big economic issue of that time — inflation. And his prescription — to have the governors of the Federal Reserve System keep the money supply growing steadily without big fluctuations — figured in the thinking of economic policy makers around the world in the 1980s.

Mr. Friedman also pursued his attack on Keynesianism in a more general way. He warned that a government allowed to regulate the economy could not be trusted to keep its hands off individual liberties.