

PROF. MILTON FRIEDMAN ON MONETARY POLICY*

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PROF. MILTON FRIEDMAN, the present day intellectual leader of 'the Chicago School' is one of the most controversial figures in the world of economics. Even his formidable critics admit that "He is famous as a sharp and pertinacious thinker and as a formidable debater, a subtle theorist and a resourceful statistician".¹ Then there is no wonder that "around any academic lunch table, on any given day, the talk is more likely to be about Milton Friedman than about any other economist".² His contributions in the fields of Methodology, Monetary Theory, Consumer Behaviour, Domestic and International Monetary Policies and several others made him justly famous and controversial. Among his several contributions, we shall be taking up for our review, his contribution to domestic monetary policy.

To put the discussion on track, we may briefly refer to Prof. Simon's classic statement of 'Rule Versus Authorities in Monetary Policy'.³ He started with the premise that "A democratic free enterprise system implies and requires for its effective functioning and survival a stable framework of definite rules laid down in legislation".⁴ He was quick to admit that one of the weakest links in the liberal economic programme was monetary policy. This weakness was due to the fact that usually monetary policy was formulated in terms of ends, for whose attainment, a discretionary authority was to be set up. So, to be in consonance with the liberal philosophy, monetary policy should be stated in terms of means — not merely in terms of ends. Thus there is a "need to design and establish with greatest intelligence a monetary system good enough so that hereafter we may hold to it unrationally — on faith — as a

* The basic core of this paper lies in my doctoral thesis, "Monetary Equilibrium and Economic Development" (forthcoming Popular Prakasan Publication).

¹ Quoted from R. M. Solow : "Friedman on America's Money". *The Banker* 1964, p. 710.

² *Ibid.*, p. 710.

³ See the above named article in *Readings in Monetary Theory*, Ed. by F. A. Lutz and L. W. Mints, American Economic Association.

⁴ *Ibid.*, p. 366.