

THE UNIVERSITY OF CHICAGO

DEPARTMENT OF ECONOMICS

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June 30, 1976

Mr. Lewis E. Lehrman
The Lehrman Institute
42 East 71st Street
New York, New York 10021

Dear Mr. Lehrman:

Just a brief postscript to the discussion which you continued with your letter of June 14, 1976. Of course discipline is necessary. The crucial issue in the present case comes down to whether the chain is to be as strong as the weakest links or whether individual links can be strong even though the chain is weak. The crucial advantage of the floating exchange rate system in my opinion is that it permits those countries that do have the discipline to impose self-denying ordinances on themselves to proceed to do so and to benefit from that. It does not require that other countries necessarily do likewise. The chief defect of the fixed exchange rate system in my opinion in this context is that it tends to make the chain as strong as its weakest link. It enables the individual countries to distribute their lack of discipline among other countries and forces on the more disciplined the errors of the less disciplined.

Contemplate the position of Germany over the past decade in this context and I think you will see my point.

Cordially yours,

Milton Friedman

MF:gv

Dictated in Vermont
Transcribed in Chicago and
mailed without signature
to expedite reply