

THE UNIVERSITY OF CHICAGO

DEPARTMENT OF ECONOMICS

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September 29, 1976

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

Dear Mr. Lehrman:

This is a belated response to your letter of August 2, 1976 and your article on "The Creation of International Monetary Order."

Let me turn first to a point of that. I am sorry to say that you have been wholly misled about what monetarism is and what monetarists say and do. Your discussion on pages 79 and 80 is a travesty of what is in fact the position of let me not say all monetarists but of myself. First, you confuse completely in this discussion the scientific and the normative aspects of our writing. We do not elevate the state over the market except in the sense of saying that in fact in the modern world monetary authorities do determine the quantity of money. This is a factual statement, not a statement of what is desirable or undesirable. The purpose of science is to analyze the world as it is. We want to analyze the world as it is, of course, in order to suggest improvements, but it is extraordinarily important to separate the two phases.

Similarly, I do not know myself of any person who would call himself a monetarist who advocates a monetary policy designed to maintain low interest rates. You make this assertion on page 80; can you name me a single person who has done so? It is noteworthy that there are absolutely no footnotes attached to your discussion of the monetarist view. Similarly, do you deny that monetary policy is an instrument by which the sovereign nation-state can shape the domestic market? What does it mean to assign that as a specific policy view of monetarists? Similarly, I do not know any monetarist, and certainly not myself, who has been in favor of fine-tuning. Indeed I think there is no other group of economists who has done so much to demonstrate the deficiencies of fine-tuning as we have done. Unfortunately, this misconception which you have of monetarism applies to much of the rest of your article. You have throughout failed to keep sharply distinct the problems of a scientific understanding of the situation as it exists from the problems of what may or may not be desirable or may or may not have been desirable at some other time.

I believe the same situation characterizes your letter. The analogy to a yardstick is a highly misleading and unsatisfactory analogy. The exchange rate is not equivalent to the unit of length. I believe you would find a better analogy to be to a thermometer, and you might ask yourself whether it would really improve medical care to make sure that all thermometers at all times read 98.6. But more generally I believe one should be very leery of

Butler would it serve physicians well to change 98.6 normal deeply upon various the sovereign indicator of the body, tel.

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Fine-tuning  
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fiscal policy is  
fine-tuning  
but on  
monetary policy

so what?

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a world  
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there is  
is the  
exchange rate  
relationship

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*I agree*  
analogies. I find empirically that people tend to resort to analogies when the arguments they are presenting are not very strong.

The fundamental difference between us is, in my opinion, encompassed in my article, "Real and Pseudo Gold Standards," reprinted as the final chapter in my book Dollars and Deficits.

*why? (9)*  
I have absolutely no disagreement with you that a world in which there was a unified currency would be preferable to a world of floating exchange rates. But we do not and cannot have such a world; we have not had such a world since at least 1914, and there is only a limited sense in which such a world existed before 1914. The conditions that enabled such a world to exist before 1914 do not exist now. They cannot be re-created by re-creating the forms which existed before 1914.

*I agree - see my essay*  
*no*  
My fundamental belief is that a unified money can only be co-extensive, at least under modern conditions when governments play as strong a role as they do, with a single political authority and a single monetary authority. That is why I do not now and never have advocated floating exchange rates among the different states of the United States. We do have a single United States political system; we do have a single monetary authority in the Reserve Bank. As you may or may not know, I have long been opposed to having a Federal Reserve System and I would be in favor of abolishing it completely but that is another story. The only feasible way in which you could have a single unified currency for the world at large would be by having a single world government and world monetary authority. Are you sure you would be in favor of that? I well recall Bertrand de Jouvenel once telling me that his belief in a world government disappeared the day during World War II that he crossed the Swiss border just in advance of pursuing Gestapo agents.

*I agree see my essay*  
Your argument seems to me to be unrealistic not in the trivial sense and in my view unimportant sense that it prescribes policies which are politically unpalatable, but in the much more fundamental sense that it prescribes policies that, in the present actual state of the world, are undesirable.

I trust you will pardon me for commenting with such brutal frankness, but nothing else will promote effective intellectual discourse. Best personal regards and wishes.

Sincerely yours,

Milton Friedman

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