Matt Yglesias

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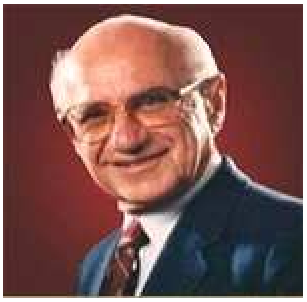
Milton Friedman on Bailouts



I will admit to not being an expert on the thought of Milton Friedman, but I've been surprised by the overwhelming hostility exhibited by the institutional organs of American libertarianism—places like Cato and Reason magazine—to the bailout policies of Hank Paulson, Ben Bernanke, and Tim Geithner. Why surprised? Well, because my understanding of Freidman's big contention about the Great Depression has always been that he was saying that instead of all this big government and New Deal and so forth, we should have just organized . . . massive bank bailouts. That given adequate bank bailouts, things never would have gotten so bad under Hoover, and FDR never would have come in the way he did, and post-war Keynesianism never would have gotten off the ground.

As Tyler Cowen says:

> Without the bailouts we would have had many more failed banks, very strong deflationary pressures, a stronger seize-up in credit markets than what we had, and a climate of sheer political and economic panic, leading to greater pressures for bad state interventions than what we now see. **Milton Friedman understood all this quite well, which is why argued bailouts would have been a good idea in the 1929-1931 period**.
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> (By the way, some libertarians like to pretend that Milton Friedman blames the Fed for "contracting" the money supply by one-third in that period but in reality Friedman blames the Fed for having let the money supply fall by one-third and not having run a bank bailout.)

Of course libertarians are under no compulsion to agree with Friedman about everything, but given that he's generally acknowledged to be one of their side's intellectual giants this seems worth wrestling with to a much larger degree than I've seen. The ideological problem is clear enough—any form of heavy-handed state intervention into the economy serves to undermine the mythos of free market capitalism and thus legitimize social justice concerns and redistributive claims.

Nevertheless, the fact of the matter is that economic thinkers who the right is normally inclined to revere agree on the point that state intervention in the midst of financial panics is correct policy.

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