# Teach

**C** Critical Thinking

**Analyzing Primary Sources** Remind students that the federal budget deficit is currently very large. This means that annual government expenditures far exceed tax revenues. **Ask:** What do you think Freidman meant when he said that taxes should be cut "whenever it's possible"? How "possible" would it be now? *(Friedman was not in favor of fiscal irresponsibility; he would want reductions in spending to accompany tax cuts. Today, reducing taxes is less advisable since it would increase an already large deficit.)* **AL**

### Examining the Profile

**Answers:**

1. At a time when most economists favored fiscal policy, Friedman argued that controlling the money supply was the key to achieving economic stability.
2. Answers will vary but should address how free market principles would apply to education.

## Additional Support

ECONOMIST

# Profiles in Economics

*A popular column in* Newsweek *helped Milton Friedman become one of the best-known economists. His views appealed to people: "I am in favor of cutting taxes under any* **C** *circumstances and for any excuse, for any reason, whenever it's possible."*

## Milton Friedman (1912–2006)

- received the Nobel Prize for economics for his theories on economic stabilization policy
- strong proponent of monetary policy

### It's About the Money Supply

As a founder of the Chicago school of economic thought, Milton Friedman has largely defined modern monetary policy. In an era when most economists believed in fiscal policy, or government spending on public projects, Friedman disagreed. He argued that monetary policy, or controlling the supply of money in circulation, was the key to economic health and stability.

Friedman's research fundamentally changed U.S. economic policy on inflation, unemployment, and business cycles. His findings, for example, rejected the idea that high inflation helped to limit unemployment. His influential books and articles in *Newsweek* promoted the steadying role of the Federal Reserve in monitoring the amount of money available to individuals, households, and businesses in order to maintain the value of the dollar.

### Stay Off Our Backs

A fervent believer in individual freedom, Friedman advocated free markets with minimal government involvement. In his book *Capitalism and Freedom,* he argued for a flat tax rate and the elimination of deductions, such as those for mortgage interest. Friedman also voiced opposition to such popular policies as agricultural subsidies, price controls, and the minimum wage.

Friedman also wanted parents to be free to choose their children's schools. Together with his wife Rose Director Friedman, he established the Friedman Foundation to promote the use of school vouchers in the United States. Vouchers, he thought, would improve education by forcing schools, through free market competition, to either excel or shut down. While many of Friedman's ideas were once considered radical, some have become widely accepted.

### Examining the Profile

1. **Contrasting** How did Friedman disagree with other economists about achieving economic stability?
2. **Predicting Consequences** How do you think the quality of education would be affected if free market principles were applied to schools?



## Extending the Content

**Friedman's Influence** After his death in November 2006 at the age of 94, Milton Friedman was remembered as one of the most important economic thinkers of all time. Friedman has been called a modern Adam Smith because of his support for free market competition and his opposition to government intervention in the economy. He was the chief promoter of supply-side economics, the economic policy adopted by President Ronald Reagan and British Prime Minister Margaret Thatcher in the 1980s. While his ideas were praised by many business leaders, they sparked controversy by exposing ordinary citizens to economic forces beyond their control.

# Teach

## W Writing Support

**Narrative Writing** Direct students to review the main economic ideas of John Maynard Keynes. Ask students to then write a story in which Keynes uses a time machine to travel to the United States today. Instruct students to include in their stories Keynes's likely reactions to, and opinions about, the current economic situation in this country. OL

### Examining the Profile

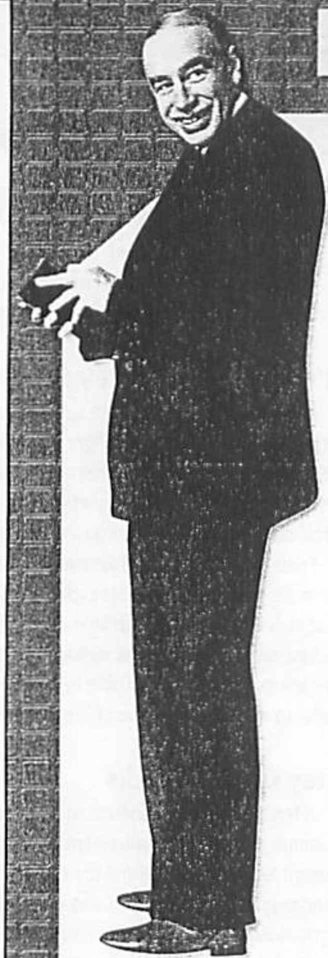
**Answers:**

1. Such a policy broke with longstanding governmental practice, and leaders in the 1930s generally believed that laissez-faire policies would allow the market to correct itself in the long run.
2. A government should spend money, taking on debt if necessary, to help lift a country out of a recession or depression; the government should save money during prosperous times to prevent inflation.

## Additional Support

ECONOMIST

# Profiles in Economics



*John Maynard Keynes is widely regarded as the most influential economist of the twentieth century. His theories led the U.S. government to take an active role in preventing economic instability that could lead to widespread joblessness.*

## John Maynard Keynes (1883–1946)

- his "Keynesian economics" caused governments to implement fiscal policy
- instrumental in the planning of the World Bank

### The Long Run

During the Great Depression of the 1930s, government leaders desperately sought solutions to widespread unemployment and poverty. Yet they remained reluctant to "unbalance" the budget by using federal money to help the nation's people directly. Instead, they believed that laissez-faire policies would allow the market to correct itself in the long run.

### Enter Keynes

A brilliant intellectual, John Maynard Keynes established a reputation for straight talking and insightful critique early in his career. He served as an adviser to the British Treasury and as a British representative at the World War I peace conference at Versailles. He correctly predicted that the high reparations imposed on Germany after World War I would lead to another war.

W As an economist, Keynes was not impressed with perfectly balanced budgets. In fact, he considered balanced budgets—when that meant government inaction—to be disastrous if a nation's consumer and business sectors had no money to spend or invest to create jobs. In his masterpiece, *The General Theory of Employment, Interest, and Money* (1936), Keynes argued that governments should spend money—and even take on debt—to help correct an economic recession or depression. They should then save money during an overly successful period to prevent inflation.

To Keynes, it did not help anyone to wait for the long run because "in the long run we are all dead." His theories were revolutionary, and they provided much needed insight into the workings of a depression-era economy. Soon, the label *Keynesian economics* stood for any government spending or taxing policies designed to stimulate the private sector.

### Examining the Profile

1. **Analyzing Information** Why were government leaders reluctant to help people during the Great Depression?
2. **Summarizing Information** What is the basic premise of Keynesian economics?



## Activity: Collaborative Learning

**Preparing an Exhibit** Divide the class into small groups. Instruct students to use reliable online or print resources to research the implementation of Keynesian economics during the Great Depression. Ask groups to then prepare an exhibit based on their findings. Encourage students to be creative when thinking of ideas for their exhibits. Possible ideas include photos of Keynes from 1930s newspapers; a model of the Hoover Dam or other government-funded projects during the Depression; a copy of *The General Theory of Employment, Interest, and Money*; logos of New Deal agencies; a graph of government spending in the 1930s; and so on. Have groups display their exhibits in the class. Ask students to explain the various components as you review their exhibits. AL