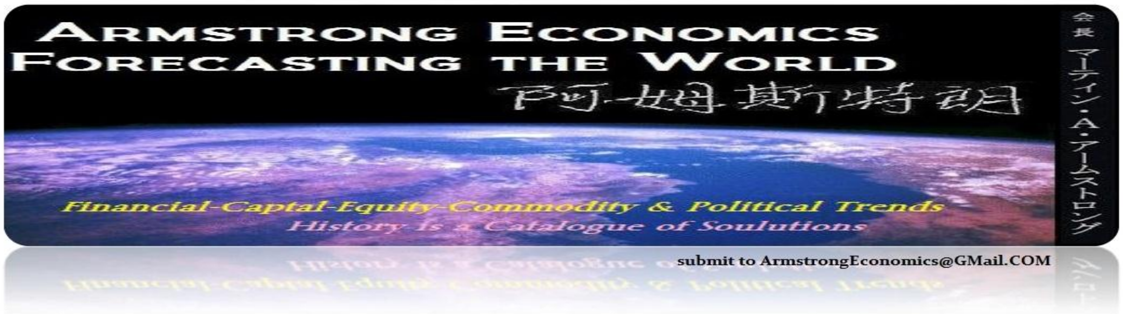
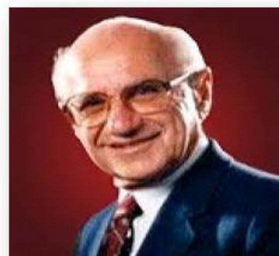


Answering Your Questions

"A major source of objection to a free economy is precisely that group thinks they ought to want. Underlying most arguments against the free market is a lack of belief in freedom itself."


Milton Friedman (1912–2006)

THE EXCEPTION TO ACADEMIA

I certainly never considered myself an academic and by no means was that my aspiration in life. Like David Ricardo and other economists before 1903 when "***economics***" first became a course taught separate from philosophy at Cambridge, I stumbled into the subject from actually being engaged in the markets as a trader as was Ricardo. I was giving a lecture on global markets in Chicago when after I was done speaking, a tall man stepped up and said Milton Friedman would like to meet you. Behind him was a small man with a big smile. He stuck out his hand and I was in shock.

Milton Friedman is the man who encouraged me to do what I have been doing. This is a man, while being an academic in a social science (***not physics, math, and chemistry***), came out of that Ivory Tower to prod and poke the real world and to kick it in the ass now and then. Milton came to see me because I was doing what he had envisioned would one day happen. **Free markets** on a global scale, he believed, would provide a check and balance against government. He proposed a floating exchange rate system in 1953 and eventually those forces within the economy succeeded in forcing the collapse of Bretton Woods and the fixed exchange rate system in 1971. Milton was NO ordinary academic. He observed and explored the real world and did not sit in an Ivory Tower pontificating. You **CANNOT** comprehend a subject only looking down upon it in the abstract. I began to understand the global economy **ONLY** because I was running around the world trying to solve problems and that required me to review what was taking place through the eyes of the client. Telling them in **THEORY** you should be alright just didn't cut it.

While I can show that Milton's early theories on money were mistaken due to the assumption that **VELOCITY** was constant, that is truly irrelevant though often still the subject of attack upon his ideas. I believe Milton understood that error post-1980. That was perhaps the academic in Milton trying to comply with expectations of the field. But Milton was far more than that. This was a man who came out and kicked the tires that would have been like a scientist becoming attached to a lab rat. This is a man who could speak common sense and touch the real world that social academics refer to only by static and abstract concepts. http://www.youtube.com/watch?v=RWsx1X8PV_A

Anyone who has looked at the various YouTube clips of Milton will see instantly why I admired this man above all others in the field. Milton saw what I had seen in my study this Clash of the Titans – **Public v Private** interests. Milton was a great champion of **freedom** and **liberty** and saw government as incapable of managing the economy because of its self-interest as we see right now. Milton still fell into the trap of a domestic myopic perspective, but this is part of the period in which he studied. There are basic structural positions often just accepted and not questioned because they are so fundamental. Kondratieff in his data was made sense basing everything on the rise and fall of commodities at a time when agriculture was still about 70% of the economy and the largest employer. One does not question the status quo for to do so requires the understanding that this very fundamental is not constant and may shift as well. In the case of Milton's era, currency was fixed and as such one did not see international capital flows as easily. Consequently, your perspective will be domestic rather than global. This becomes self-evident in Milton's classic review of the cause of the Great Depression being the collapse in money supply. http://www.youtube.com/watch?v=dgyQsIGLt_w

My difference with Milton is not that his facts are wrong. To the contrary, he was correct that money supply collapsed. The reason was not limited to domestic concerns and was tied to also the **Sovereign Debt defaults of 1931**. The Fed failed to increase the money supply because it assumed that a balance budget would produce ***economic confidence***. This is the **SAME** recommendation today being used in Greece by the IMF. This **DOMESTIC** wrong turn, which Milton is absolutely correct in his assessment, was supplemented by the destruction of capital formation by the ***Sovereign Defaults***. Normally, such defaults affect the balance sheets of just banks and high net worth individuals. In the 1920s, the conservative public who stayed away from stocks, bought bonds instead. The investment banks sold that debt to the public in small denominations so when the ***Sovereign Default*** hit in 1931, it destroyed the capital formation of the depositors wiping out banks and small business creating a **CONTAGION**. We can see this influence of foreign bonds as the total number of bonds listed on the NYSE jumped in 1928. Then the ***Sovereign Defaults*** of 1931 began and continued into 1933. The ***Sovereign Debt Default*** has **NEVER** been mentioned in most accounts because it might cause people not to trust government. It was **NOT** the exclusive blow; it was the second lethal blow that transformed a correction into a depression. ***Milton; we miss you!***