Among those attending that first Mont Pelerin meeting [in 1947] was a young economist from the University of Chicago who was making his first trip to Europe—Milton Friedman. Mont Pelerin certainly helped Friedman become part of an international network—and at the same time contributed to the dissemination of Friedman's increasingly influential work. Indeed, the fundamental shift in the global attitude toward markets might never have happened, at least in the form it did, had it not been for several decades' worth of highly unfashionable academic "scribbling" by Friedman and his colleagues at the University of Chicago. The Chicago School, as it became known, provided a substantial part of the foundation for the intellectual reformulation, both in the United States and around the world.

Like many great university departments in the United States, Chicago's economics faculty came together in the 1930s and 1940s as an amalgam of distinguished American academics, rising young stars, and eminent Europeans, some of them refugees from fascism. It was a diverse group. The leader was Frank Knight, a free-market economist. But there was also Paul Douglas, a firebrand New Deal liberal, who eventually departed for a career in politics and ended up a U.S. senator. Another member was a Polish refugee, Oskar Lange, who, ironically enough, while at Chicago did much to develop a model for market socialism. Lange was expected to become a major figure in the department but instead left Chicago at the end of World War II to join the new Communist-dominated government in Poland and became its ambassador to the new United Nations.

By the end of the 1950s, people were already talking about a distinctive Chicago School, which, in opposition to the new Keynesianism, emphasized laissez-faire—free markets—and argued against government intervention. What made Chicago special? The economics faculty was committed to famously rigorous and well-defined standards of teaching in the Ph.D. program. People flunked. The department focused on workshops, which brought faculty and students together on a regular basis to thrash out and argue over issues. Members of the department cohered around a particular worldview and set of ideas, which they explored and advanced single-mindedly and which was basic to the training of new Ph.D.s. George Shultz, later secretary of the Treasury and secretary of state, noticed the difference as soon as he joined the Chicago faculty after 15 years at MIT. "It was more a university than anywhere else," he said. "People from all over the university interacted together as colleagues."

"Chicago always had a strong tradition of a belief in the power of markets," said Gary Becker, who went to Chicago as a graduate student in 1951 and won the Nobel Prize in 1992. "Chicago's contribution was to show the power of markets and people's choices, not only in public policy but also in economic science. The department also had very strong leadership. There was a lot of self-confidence that we had the right answers and the rest of the profession was wrong. We saw economic analysis as a powerful way to understand behavior, providing a lot of insight not only into the economy itself, but also how society organized. I think that at most places economics was taught as a game; it was not clear that teachers elsewhere thought economics was a powerful tool. Chicago did."

The Chicago economists believed, in practice, in a very small number of theorems about the way decision makers allocated resources and the ways these allocations led to prices. They trusted in markets and the effectiveness of competition. Left to their own devices, markets produced the best outcomes. Prices were the best allocators of resources. Any intervention to change what markets, left alone, would achieve was likely to be counterproductive. For the Chicago economists, the conclusions for government policy were clear: Wherever possible, private activity should take over from public activity. The less government did, the better. Intervention in the money supply distorted the markets; better instead to have a steady, predictable growth in the money supply. This was the very opposite of the Keynesian idea that government could smooth out economic fluctuations. This aspect of the Chicago approach, and its later variants, became known as monetarism.

Through most of the 1950s, the Chicago School remained obscure and unfashionable, at least as far as the public was concerned. It seemed to contradict the conventional wisdom in almost every respect. But by the end of the decade, all that was changing, partly driven by Milton Friedman, who was not only a powerfully capable economist but also charismatic, optimistic, and unfazed, whether by the spotlight or by the enormous amount of criticism that would be heaped upon him.

While in high school Friedman had fallen in love with mathematics, inspired by a teacher who was so passionate about geometry that he concluded the proof of the Pythagorean theorem by quoting John Keats's "Ode on a Grecian Urn"—"Beauty is truth, truth beauty." Attending Rutgers on a state scholarship, Friedman was eager to find a profession in which he could use mathematics, and he aspired to become an insurance actuary. That ambition was terminated when he failed some of his actuarial courses. But by then he was already interested in economics, again inspired by outstanding teachers, including Arthur Burns, who went on to become chairman of the Federal Reserve Board. Economics was an almost-inevitable career choice for Friedman: "I graduated from college in 1932, when the United States was at the bottom of the deepest depression in its history before or since," he later wrote. "Becoming an economist seemed more relevant to the burning issues of the day than becoming an applied mathematician or an actuary." He enrolled as a graduate student in economics at the University of Chicago and did his doctoral work there, interspersed with research at Columbia.

It was upon becoming a professor at Chicago in 1946 that Friedman truly began to go his own way. He emerged from among the Chicago faculty as an iconoclastic and controversial thinker and leader of what was, by the late 1950s, an all-out assault on virtually every aspect of Keynesian economics. He was a formidable debater. Colleagues joked that people preferred to debate him when he wasn't there. As a teacher, he was demanding and relentless. "Everything you could say, he could say better," recalled one student. His students also developed enormous loyalty to him. There was a great sense of camaraderie. They were part of a small band, fighting for the truth.

According to the Chicago approach, intervention almost always did more harm than good. In a famous early article, "Roofs or Ceilings? The Current Housing Problem," Friedman and his co-author, George Stigler, rigorously demonstrated that however good its intentions, rent control had the perverse effect of reducing available housing by removing the incentives for landlords and builders to bring new housing to the market. Overall, Friedman would argue, taxation and government spending were appropriate only for the most limited set of "public goods," such as national defense. Everything else was best left alone.

The members of the Chicago School rejected the concept of market failure and the tenets of Keynesianism. They were also much more concerned about the extension of government power than about the dangers of monopoly, the latter having been one of the main motivators of regulation in the United States. They regarded the problem of private monopoly as much overstated, partly because of technological change. "Private unregulated monopoly," wrote Friedman, was the lesser of the evils "when compared to government regulation and ownership."

While Friedman attacked the sacred cows of macroeconomics, his colleagues challenged other aspects of the dominant thought. George Stigler conducted a quiet but no less devastating critique of government intervention through regulation. Gary Becker applied economic analysis to an array of social issues, beginning with discrimination. "I believe that people make rational decisions and that they try to look ahead to the consequences of their decisions," explained Becker. "They are affected by incentives. You can take markets, rationality, and incentives and illuminate issues involving race, education, and the family."

Becker's most famous work was a path-breaking analysis of "human capital" Although now more than fashionable as a subject, it was hardly studied at all before Becker took it up. "Human capital," he said, "deals with expenditures on people—for education, training, health—that in a broad sense raise productivity." He agonized, however, about using "Human Capital" as the title. "I was concerned that it would set too many people off. It was unacceptable to many people to link 'human' and 'capital.' Now people are happy to use it." Chicago's 1995 Nobel Prize winner, Robert Lucas, led a new line of research, starting in the 1970s, around the issue of "rational expectations." That work argues that government decisions are not likely to have the anticipated results, owing to the responses of decision makers in the economy. Market knowledge outwits government knowledge.

The Chicago School was derided for being dogmatic, rigid, and reductionist. Friedman was happy to counterattack. He enjoyed the pulpit. He believed his ideas could transform the world—and, arguably, they did. He saw a direct, explicit, and unabashed connection between capitalism and democracy. Free markets produced the best results, and economic freedom rested, in turn, on political liberty. He propounded his ideas not only in a constant flow of journal articles but also in more popular form. His 1962 classic, *Capitalism and Freedom*, was aimed at economists and the general public alike. In 1964, he was economics advisor to the conservative Republican presidential candidate Barry Goldwater. He had become so much a celebrity upon receiving the 1976 Nobel Prize that he found himself, he said, interviewed "on everything from a cure for the common cold to the market value of a letter signed by John F. Kennedy." He conveyed his ideas in a mass-market best-seller, *Free to Choose*, which became a public television series.

In the 1980s, [Friedman] could recall with some satisfaction that in the 1950s the ideas he and his colleagues were propounding were those of "a small, beleaguered minority regarded as eccentrics by our fellow intellectuals." By the 1980s, those very same ideas were "at least respectable in the intellectual community and very likely almost conventional among the broader public." Still a decade later, in the middle 1990s, MIT economist Paul Krugman would write that Friedman's "long campaign against the ideas of Keynesian economics" had made him into "the world's best-known economist." So much for Keynes.

The Chicago School was hardly alone, and by the early 1980s, "Chicago" itself had become more dispersed. Friedman retired from teaching and, along with others, shifted his base to the Hoover Institution at Stanford, which afforded direct connection to Ronald Reagan and his advisors. But by then it became clear that the Chicago School had carried out a devastatingly successful "neoclassical counterattack" in economics and in its applications. Macroeconomics management did not work, while tinkering with the money supply only increased uncertainty and discouraged investment. And the Chicago School also showed that regulation would inevitably drift away from the ideal of promoting an impersonal public good. Instead, it would be captured by special interests. On top of everything else, government had failed to prove itself as a forecaster. Faith in "big government" fell under the attack.

The work of Chicago—and, more indirectly, Hayek's contribution—proved crucial to a general shift in the center of gravity of economic thinking and to a reevaluation of the appropriate balance of government and marketplace. Fiscal management was no longer seen as an effective tool; fine-tuning was beyond the knowledge and skill of the tuners. Higher inflation did not assure lower unemployment, but it did mean more uncertainty. Smaller government was better; it was all too easy for big government to crowd out private activity. In contradiction to the received wisdom of Keynesianism, reducing deficits, rather than increasing them, could stimulate economic activity. Keynes, it turned out, was not a man for all seasons.

Professors at Chicago felt for many years that other major universities—such as Harvard, Yale, MIT, and Berkeley—did not take Chicago seriously and would not hire its students. Schools like UCLA and the University of Rochester were much more sympathetic. The University of Virginia became a center for free-market thinking, around the figure of James Buchanan. Buchanan and the "public choice" theory applied economic assumptions of self-interested behavior to the actions of politicians, bureaucrats, and voters. A groundswell of Nobel Prizes, beginning with Hayek and Friedman in the mid-1970s, chronicled Chicago's ascendancy. Altogether, since 1974, eight professors from Chicago and another 11 associated at some time with Chicago have won Nobel Prizes in economics. "The shift toward Chicago was clear to me after 1975," said Gary Becker. "It was a result of what was going on in the economics profession and what was going on in the world. They came together."

As Friedman himself saw it, the acceptance of Chicago's ideas resulted first from the stagflation and economic impasse of the 1970s—and then from the fall of the Berlin Wall. "People are not influential in arguing for different courses in the economy," he said. "The role of people is to keep ideas alive until a-crisis occurs. It wasn't my talking that caused people to embrace these ideas, just as the rooster doesn't make the sun rise. Collectivism was an impossible way to run an economy. What has brought about the change is reality, fact—and what Marx called the inevitable forces of history."