

HOOVER INSTITUTION

ON WAR, REVOLUTION AND PEACE

Stanford, California 94305



November 5, 1982

Mr. Stojan Nenadović
Borisa Kidriča 19
22000 Sremska Mitrovica,
Yugoslavia

Dear Mr. Nenadović:

You ask me, "What do you think about this theory?"

To speak quite candidly, I believe it is an erroneous and fallacious theory along the lines that have been followed by many earlier writers. In essence as I probed beneath your thesis, you are repeating the errors of Major Douglas and of his many followers in believing that somehow or other there is a distinction to be made between the sum of costs and the sum of values and that the emission of money paid to nonproductive individuals is a way to solve the problem. It is not. It would simply produce more inflation and less incentive to produce goods and services. The fundamental defect in all such reasoning is the failure to recognize that what is called a profit or an excess of receipts over expenditures is also a cost.

Unfortunately I cannot devote the time that would be required for a full analysis of your argument, and I know from past correspondence with persons like yourself that you will not be persuaded by these comments. However, you asked for a candid response and I am giving you one.

Sincerely yours,

A handwritten signature in cursive script, which appears to read "Milton Friedman".

Milton Friedman
Senior Research Fellow

P.S. I enclose one of my favorite quotations from John Neville Keynes, the father of John Maynard Keynes.

F:v
Enclosure

" . . . people think themselves competent to reason about economic problems, however complex, without any such preparatory scientific training as would be universally considered essential in other departments of enquiry. This temptation to discuss economic questions without adequate scientific preparation is all the greater, because economic conditions exert so powerful an influence upon men's material interests. 'Few men,' says General Walker, 'are presumptuous enough to dispute with the chemist or mechanic upon points connected with the studies and labours of his life; but almost any man who can read and write feels himself at liberty to form and maintain opinions of his own upon trade and money.' The economic literature of every succeeding year embraces works conceived in the true scientific spirit, and works exhibiting the most vulgar ignorance of economic history, and the most flagrant contempt for the conditions of economic investigation. It is much as if astrology were being pursued side by side with astronomy, or alchemy with chemistry."

From *The Scope and Method of Political Economy*
(London: Macmillan and Company, 1891), by
John Neville Keynes (father of Lord Maynard Keynes)