

'A COUPLE OF PRIMA DONNAS': MANAGING FRIEDMAN-MUNDELL

Financial Post editor-in-chief Terence Corcoran, who conceived and organized the Mundell-Friedman debate, explains how it came to be, how it ran, and how it ended—ended twice, in fact.

Terence Corcoran, rédacteur-en-chef du *Financial Post*, instigateur et animateur du débat Mundell-Friedman, explique comment l'idée en a germé et décrit le déroulement ainsi que le dénouement du débat—les dénouements en fait, puisqu'il y en a eu deux.

Friedrich Hayek, who won his Nobel prize in economics in 1974, once said: "I strongly feel that the chief task of the economic theorist or political philosopher should be to operate on public opinion to make politically possible what today may be politically impossible."

Hayek died in 1992, but he would have loved Canada, a country that contains more than an optimum share of the world stock of politically impossibles. Publicly funded health care may be the country's greatest policy untouchable. Not far behind is our national currency, the flexible Canadian dollar. But taboos are falling fast. On the currency front, the possibility that Canada might consider abandoning its famous flexible exchange rate in favour of some kind of fixed relationship with the US dollar would have been unthinkable as recently as five years ago. Today the idea is openly discussed in business and academic circles and within the media.

No two economists have done more to live up to Hayek's call for politically active theorists than Milton Friedman and Robert Mundell. Both are staunch advocates of free markets and free trade, low taxes and less government. But one core issue has divided them for decades: exchange rates. The shorthand version of their disagreement is that Professor Friedman favours the flexible exchange rate regime adopted by Canada; Professor Mundell insists on the merits of fixed rates and currency unification. How can two economists who share so many views hold such different ideas on currencies?

Last fall, the *National Post* engaged these two Nobel giants of 20th-century economics in a debate over their long-standing disagreement. Slightly condensed versions of the debate were published over a five-day period last December. I am delighted that the full unexpurgated version of the debate—an important and fascinating document in itself—is being published in a unified form in this issue of *Policy Options*.

My objective with these brief introductory comments is to give you a little bit of the behind-the-scenes machinations, both before and during the debate. At one point, the debate almost collapsed. It is clear, as well, that the debate ends before it ends. In fact, there are two endings, neither of which is a particularly happy one, in the sense that some major unfinished business remains.

The idea for a direct debate between the two economists—Prof. Friedman is 88 and Prof. Mundell 68—grew out of an event at a meeting of the Mont Pelerin Society in Vancouver a couple of years ago. The purpose of the meeting was to celebrate Prof. Friedman's eighty-something birthday. One of the sessions was a debate, titled something like "Fixed or flexible exchange rates," between Prof. Friedman and Robert L. Bartley, editor of *The Wall Street Journal*. Somewhat to the disappointment of most of the audience, I think, no sparks flew in what turned into a witty but gentlemanly standoff.

Shortly after that session, Prof. Mundell won his Nobel, which instantly turned him into that rare beast, an international celebrity economist. As one of the godfathers of the euro, a monetary creation that instantly wiped out a score of central banks and national currencies, Prof. Mundell also came to personify the antithesis of official Canadian currency policy.

When Nobel fame and speaking tours inevitably brought Prof. Mundell to his native Canada, I sought him out for interviews. Even the most ardent nationalists, who experience the Canadian dollar as a religious icon to be clutched to their breasts, would have to admit that the national currency had become a national embarrassment, if not a serious problem. Several Canadian economists, particularly Thomas Courchene (Senior Fellow at the IRPP) and Richard Harris, had begun articulating a case for abandoning the flexible Canadian dollar. Prof. Mundell is not the easiest mind to fol-

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low, especially when he is in full flight, but it fast became clear that he is a deeper intellectual well on the subject of currencies than anybody around—and a clear match for Milton Friedman.

Friedman's original essays on currencies are almost half a century old. He would have been in his mid-thirties when he wrote the first version of his influential paper, "The Case for Flexible Exchange Rates." That essay is as relevant today as it was the 1950s. "The Case for Flexible Exchange Rates" is a storehouse of tantalizing statements and conclusions—about the gold standard, international free trade, the International Monetary Fund, fixed and flexible exchange rates. But is it as convincing as it must have seemed then, or as airtight in its logic as one might want?

The original idea was to bring the two economists together in one room for a debate, or, since I had been told Prof. Friedman didn't care to travel much from his home in California, hook them up for a satellite connection. This would take some doing, including a deep-pocketed sponsor. But the first thing I did was to raise the idea with Prof. Mundell. Would you be willing, I asked during one of our meetings or interviews, to participate in a debate with Prof. Friedman if, somehow, it could be arranged. He immediately said yes, on the condition that "it had to be done right." I said I thought I might be able to line up a sponsor to help pick up costs.

The only sponsorship plan I had, however, was to contact Patrick Luciani at the Donner Canadian Foundation. He was instantly receptive, but it was during a conversation with Patrick that it occurred to both of us that organizing a face-to-face debate, even via satellite, would be expensive, time-consuming and ultimately far less satisfying than a suddenly obvious alternative. Why not stage an e-mail debate?

Prof. Mundell, who travels the world with his laptop and spends hours in hotel rooms corresponding and booking his own travel arrangements, jumped at the idea. He immediately began giving me instructions on how it could be organized. So far, however, I had not contacted Prof. Friedman. With the help of Michael Walker at the Fraser Institute, who made an initial contact, I forwarded by e-mail a relatively detailed proposal for a currency debate using "e-mail technology that would allow you and Prof. Mundell to engage in an exchange at a more leisurely, considered pace. No travel, no jazzy equipment, more time for thought." Text of the debate would be published in the *Financial Post*

section of the *National Post*. Prof. Friedman's initial e-mail response: "Re your major proposal. It is extremely interesting but I want to think it over a bit before I commit myself one way or the other. I will get back to you in a few days."

The plan called for me to act as e-mail moderator. The debate would be launched with a series of start-up questions, to be followed by direct interchange between the two of them, with occasional prodding questions from me to set a direction. The actual debate took place between Nov. 14 and mid-December, despite warnings from Prof. Mundell. "The period from Nov. 15-Dec. 15 is hectic for me: Rome-Tokyo-Vancouver-Phoenix-Costa Rica-New York-Madrid-Moscow-Tokyo (again) Beijing-Hong Kong. But it's okay as long as I can access my e-mail. There shouldn't be any problem because I've done it before. So let's go ahead, bearing in mind that there might be a couple of days or so when transmission will be delayed. Are you going to limit the length of the answers?" The word limit was set at 700 for general responses, and 400 for shorter replies on specific points.

I have not known Prof. Mundell for long, but long enough to know he is a hard man to keep down once his mind starts working and his enthusiasm grows. From the very start, his laptop buzzing in hotel rooms around the world, he produced remarkable flows of dazzling material. But they went well beyond the 700-word limits. At the same time, there were longer-than-expected communication lags, many due to my inability to keep up with the material while writing my own columns for the *Financial Post*. Many times I had no idea where to take the discussion. Attempts to enlist a couple of Canadian economists as guidance counsellors proved unhelpful.

A major sticking point developed over the role of gold in the world monetary system. After a particularly long gap, and some technical glitches that created confusion over who was responding to what, I attempted to restart the debate. In an e-mail bearing the ominous title: Currencies, Phase Two, I attempted to regain momentum with a couple of follow-up questions. One dealt with Ireland, the other with gold. "Could you respond to one another's opening comments on gold—beginning, I guess, with Prof. Mundell, then followed by Prof. Friedman. Word limits: About 400 words per response." I also thanked them for their patience, "assuming it is still in existence."

The note back from Prof. Friedman suggested otherwise: "It will shortly not be," he said. He said the project was proving to be "far more ambitious than I thought I was signing on for. You already have two large doses of material from Bob and me. Enough is enough. Both your present questions sound to me like pure make work. There is really nothing to add re: gold to what we both said in reply to initial questions. Yours, Milton."

This was devastating, since from my perspective the debate was just getting underway. It had certainly not reached any convenient end point. After a series of further communications, I managed to convince Prof. Friedman to continue "for another few days." To restart the debate, I decided to focus on the Irish currency situation, and leave gold until later, a move that would ultimately leave a major issue—the role of gold in a world monetary system—an unresolved point of contention.

What once looked like a two-week project, at the most, was now beginning to drag on. The final exchange took place the week of Dec. 11. In fact, the series began in the *Financial Post* before the final words had been written, shortly before Mundell reported: "Dear Milton and Terry: I received the last question, and also now Milton's answer. I am in Tokyo (again) now and will get my response out sometime soon after my speech tomorrow. Best regards, Bob." His final submission, 2,218 words filed from Nanking, China, was an argument in favour of a world currency.

Mostly as a courtesy, I offered Prof. Friedman the last word. It was strongly phrased. "Bob views the prospect of a single world money with enthusiasm. I view it as a monstrosity—on a par with my reaction to world government." On that provocative note, the published version of the series ended on Dec. 16.

But it hadn't. A few days later, Prof. Mundell—back at his home in Italy—send a note. It started off well. The published "Nobel Money Duel," he wrote, "made a classic duel because both Milton and I will always be right. Magnificently right, as Keynes once wrote to Hayek! But I don't mean this just as a play on words. There will always be a part of the world where fixed exchange rates is the norm, and part where flexible is the norm, as there has always been in the past. There will forever be fixed exchange rates between California and New York, and there will forever be flexible exchange rates between countries with unstable monetary policies."

But then came this: "From my point of view, I have two complaints with the exchange. One is that you told me to leave aside the discussion

about gold until later, so I never got beyond my opening statement and did not discuss the issue at all to the extent I wanted. More important, you said that Milton should have the last word, and I agreed. But in his last word he attributed a view to me that greatly distorts my position, and I will have to correct it for the record, including any booklet that comes out of the exchange (and I fully agree with Milton that it should)."

As part of this message, Prof. Mundell added 1,300 words to correct the record. Which is why, on Dec. 21, four days before Christmas, 2000, the *Financial Post* ran a second end to the "Nobel Money Duel." About a third of the piece is a spirited defense of a role for gold in the 21st-century international monetary system. "I am convinced," Prof. Mundell wrote, that gold "has a role to serve in the new century." Prof. Friedman declined an offer to respond. "I have no desire to extend the debate further." But he added the following comment: "Bob is making much of little. In my comment, I used the word 'single' once [referring to a 'single world money']. I would have no objection to deleting the word in the one place it is used. I would not have to change any other word in the statement. The euro, which I took to be Bob's model for the world currency, is not a parallel currency. The members of the euro have thrown away the exit key. I cannot understand how Bob can reconcile his strictures on a single world money with his support of the euro. I suppose he believes that political unity for the euro countries is likely in the near future."

Thus ended the *National Post's* "Nobel Money Duel," much to my disappointment. I could have kept going for weeks, even months. Dozens of loose ends, questions, follow-up questions, and puzzles remained. Even so, I cannot thank the two duellists enough nor adequately express my admiration. And, sitting on my hard-drive is the record of an exchange between two of the greatest economists of the last century, including this note from Prof. Friedman. "The first two days' printed output have now reached me, and I have seen the whole output on the web. The printed and web versions are extraordinarily impressive. Rudi Dornbusch's piece is a real addition to the interchange between Bob Mundell and myself. You have done a splendid job of organizing the successive comments to provide continuity. You deserve a lot of credit for that and for your patience with a couple of prima donnas."

In the newspaper business, it doesn't get any better than that.

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