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## FRIEDMAN'S PRESIDENTIAL ADDRESS: ITS GERMAN TRANSLATIONS

**JOHANNES A. SCHWARZER\***  
UNIVERSITY OF HOHENHEIM  
STUTT GART, GERMANY  
[johannes.schwarzer@uni-hohenheim.de](mailto:johannes.schwarzer@uni-hohenheim.de)

### ABSTRACT

*This research paper discusses early German translations of Friedman's 1967 presidential address in which he introduced the concept of a 'natural rate of unemployment'. Emphasis will be put on two translations by Pusch (Friedman 1976[1970]) and Neumann (Friedman 1974a). It will be highlighted how Neumann corrected Pusch's translation, but still neglected to address major issues of the translation regarding specific terms. Thus, both translations unfortunately give the reader a questionable impression of Friedman's argument. Another translation in focus of attention will be the one of Pönisch (Friedman 1974b) which is interesting in its own way as only a small excerpt of Friedman's presidential address was translated. Hence, the reader misses half of Friedman's theoretical critique: Whereas Friedman's critique of a long-run trade-off interpretation of the Phillips curve is presented, Friedman's statement against fine-tuning in general is not translated so that the reader misses a central aspect of Friedman's presidential address.*

The following discussion will shed light on three early German translations of one of the top 20 articles ever published in the *American Economic Review* (see Arrow et al. 2011: 3f.): Milton Friedman's 1967 presidential address to the American Economic Association (Friedman 1968) which was titled 'The Role of Monetary Policy'. Tobin (1995: 40) considered this to be 'very likely the most influential article ever published in an economics journal. Its influence reached way beyond the profession – for example, to European and Japanese governments and central banks and to *The Economist* and other opinion leaders.'

Friedman's contribution became so influential due to two interdependent reasons:

On an empirical level, Friedman's presidential address predicted accelerating inflation if economic policies aim at a too low unemployment rate – a forecast which turned out to be quite accurate with respect to the rising rates of inflation in the 1970s in many western economies (see also Friedman in Snowdon and Vane 1999: 130).

On a theoretical level, it removed the long-run trade-off interpretation of the Phillips curve. The original curve based on the two seminal contributions of A. W. Phillips (1958) and Richard G. Lipsey (1960). On the other hand, the trade-off interpretation of the Phillips curve probably had its roots in the contribution of Paul A. Samuelson and Robert M. Solow (1960). In their article, the idea of a 'menu of choice' between inflation and unemployment seems to be elaborated. This 'menu of choice' from then on served as a toolkit for economic policy. The influence of this interpretation on economic policy in Germany is best shown by the famous statement of the later German Chancellor Helmut Schmidt in 1972, who announced that he would prefer five per cent of inflation over five per cent of unemployment. A closer look at these three translations into German thus

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\* I thank Manfred J. M. Neumann and Herbert Pönisch for very helpful comments and suggestions. Of course, sole responsibility for the views expressed and for any remaining errors in this paper is mine alone.



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seems to be promising. As will be shown, the translations, most likely unintentionally, carry even stronger political messages than the original contribution.

The following three translations will be discussed: First of all Friedman (1976)[1970] was translated by Reinhard H. Pusch, who was at the time of the translation still a PhD student (academic title: Dipl.-Volkswirt; see footnote on page 135). Pusch later on published his PhD thesis (written at the University of Bonn) in 1973. The thesis, however, had next to nothing to do with the issues raised in Friedman's presidential address. This might explain why there were some serious mistakes in this translation. Hence, Manfred J. M. Neumann revised the translation which was published as Friedman (1974a). Neumann, from 1969 to 1972, was head of the research project 'Monetary Theory and Monetary Policy' at the University of Constance under the supervision of Karl Brunner (who was a leading monetarist together with Allan Meltzer and, of course, Milton Friedman). In 1973 Neumann became professor at the Free University of Berlin and is currently professor emeritus at the University of Bonn (see his CV on <http://www.iw.uni-bonn.de/people/neumann/index.html>). Hence, it might be assumed that Neumann was far better suited to translate Friedman's presidential address which only at first sight seems to be an easily accessible text.

A third translation by Herbert Pönisch, moreover, is very interesting not necessarily because of the specific choice of words, but due to the highly selective choice of pages which were translated and published as Friedman (1974b). Pönisch, in an email exchange with the author in March 2013, noted that he had been invited to translate this part of Friedman's presidential address by the editor Ewald Nowotny (today President of the National Bank of Austria) due to his school education in England. Pönisch, however, who still studied for his master's degree (Magister) at that time at the Johannes Kepler Universität Linz, also was not specialised in this field of macroeconomics as he focused on the subject area of social planning (Planwirtschaft). It is thus interesting to note that two out of three translators were not fully specialised in the particular theoretical field Friedman's presidential address is dealing with.

Let us, however, first take a look at the original translation by Pusch (Friedman 1976[1970]) and its improved version of Neumann (Friedman 1974a). A first striking difference is that Pusch often tries to find an adequate replacement for borrowed words. Unfortunately, not always with success: The replacement often carries a different meaning or value judgement. For example, Pusch translated 'naive attitude' (Friedman 1968: 1) by 'Irrglaube' (135) which means 'erroneous belief'. Neumann, on the other hand, corrected this inaccurate translation by the far more appropriate and very close expression 'naive Ansicht' (314). This pattern can be found many other times: Friedman's (1968) 'rigorous' is translated as 'exakte' (136) and was revised to 'rigorose' (314). 'Finanzwirtschaft' is Pusch's (141) expression of choice to translate Friedman's (6) 'financial community'. Neumann, however, preferred 'Finanzwelt' (319) as the translation – a choice which seems to be more appropriate as Pusch's 'Finanzwirtschaft' implies a narrow focus on banks and insurance companies whereas 'Finanzwelt' is a rather broad term which may also cover, for example, the opinions of financial experts in and outside of academia. Neumann also preferred to not translate some English terms such as Friedman's (1968: 5) 'bond' which Pusch translated as 'Obligationen'. Neumann furthermore corrected other very crucial mistakes which change the whole meaning of Friedman's statements: For example, Pusch translated Friedman's (1968: 6; emphasis in original) '*initial* impact' of a higher quantity of money as '[d]er *erste* Anstoß zur Erhöhung der Geldmenge' (142; emphasis in original). Hence, in Pusch's version, the higher quantity of money is rendered to be the impulse ('Anstoß') to reach a certain goal (lower interest rates) rather than the correct reading that lower interest rates are the consequence (i.e. impact) of a higher quantity of money. This was corrected by Neumann (319; emphasis in original) who translated this expression with '[d]ie *erste* Wirkung einer Erhöhung der Geldmenge'.

However, Neumann did not correct all of Pusch's erroneous translations: For example, Friedman's (1968: 5) statement that monetary policy cannot 'peg' interest rates was translated by both authors as 'stabilisieren' (141 and 318 respectively). 'Stabilisieren', however, might imply that interest rates are unstable in the sense of a high



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volatility and need to be stabilised. On the other hand, Friedman points at the problem of the belief that it is possible to keep the nominal and also the real rate of interest at a low level to foster economic prosperity. To 'peg' thus rather refers to a fixation, which does not necessarily require a prior stabilisation, of interest rates.

A much more important inaccuracy, however, is the translation of the term 'rate of unemployment' (Friedman 1968: 5). Both Pusch and Neumann translate this term continuously as 'Unterbeschäftigungsrate' (141 and 318 respectively). This translation implies that any rate of unemployment is equal to some kind of *underemployment*. The term thus ignores that it is indeed possible – or even quite common from a theoretical perspective – that some rate of unemployment corresponds to full employment in the sense that this unemployment is voluntary (e.g. frictional unemployment in Friedman's sense). Hence, there is no *underemployment* as such. Thus, translating unemployment with the German word for *underemployment* – in particular with respect to the Phillips curve trade-off interpretation – affirms the idea that a 'menu of choice' between inflation and unemployment should be used to reach lower levels of unemployment in the sense of removing *underemployment*. In Friedman's view, however, all unemployment is voluntary. Some authors even take the point of view that Friedman is talking about a level of and changes of employment (see De Vroey 2001: 133ff.) and not unemployment as there is no room for unemployment in Friedman's model economy. In sum, the term 'Unterbeschäftigungsrate' implies a different economic setup and therefore a very different meaning of unemployment.

Furthermore, why should economic policy aim at an 'Unterbeschäftigung von 3%' (143 and 320 respectively), that is, an *underemployment* rate of 3%? The whole message of Friedman's presidential address thus becomes inconsistent and the translators changed the whole meaning of Friedman's statements. In Friedman's example (1968: 7) economic policy targets an unemployment rate of 3%. This rate, however, does not correspond to *under-* but to *overemployment* compared to the 'natural rate of unemployment' (8) which serves as a reference point as it is the equilibrium unemployment rate given by the structure of the labour market. At the natural rate, there is equilibrium on the labour market in the sense that real wages are rising in line with labour productivity. The term 'natural rate of unemployment' for Friedman thus implies full employment (see particularly Friedman 2003[1975]: 45). The translation, however, connotes quite the contrary as both translators (144 and 321 respectively) chose the term "natürliche[s] Unterbeschäftigungsniveau" which rather means natural level of *underemployment* than unemployment. That this term hardly makes any sense in this context becomes very clear when an unemployment rate lower than the natural rate is being discussed. Both translators correctly translate 'excess demand for labor' (Friedman 1968: 10) with 'Überschussnachfrage nach Arbeit' (147 and 323 respectively). However, at the same time, they still label this actual rate of unemployment as the market rate of *underemployment* ('»Markt«-Unterbeschäftigung') so that, at least by using these words, the reader has the impression that there is *underemployment* and excess demand for labour at the same time.

It should be noted, however, that Friedman's presidential address seems to be an easily accessible text only at first sight. Many issues and fundamental changes regarding the general setup of Friedman's specific model economy (compared to Phillips' and Lipsey's model) show up only after a deeper investigation. For example, even Tobin as late as in 1995 (33, n.1) remarked that only after a second reading – while working on the 1995 contribution just cited – did he notice some of Friedman's further changes of the Phillips relationship discussed above. Thus, even though the translation had not been very lucky, the translators without doubt had a difficult task to fully grasp the deep changes regarding the understanding of the economy by Friedman's presidential address. Furthermore, Friedman's translation appeared at a time when monetarism was still met with scepticism in Germany. In particular, Friedman's new approach implied that full employment is equal to the natural rate of unemployment. However, to define such an unemployment rate as 'natural' and as an equilibrium outcome of the market system broke with the prevailing Keynesian concept of full employment. Pusch's and Neumann's translation of the term natural rate of unemployment with the term natural rate of *underemployment* hence paid



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tribute to the contemporary concept of full employment, which still remained the reference point in their translations.<sup>1</sup>

Be that as it may, another example of a very unlucky translation is the term 'accelerating' (Friedman 1968: 10), as accelerating changes in prices (accelerating inflation or deflation) are necessary to produce an unemployment rate lower or higher than the natural rate. Whereas the translators correctly used 'Beschleunigung' (147 and 323 respectively) as a first translation they also chose (on the same pages) to translate accelerating deflation with 'kumulativen' deflationary process which is not precisely accurate as cumulative might also be just rising and not necessarily accelerating.

Finally, an example where Neumann corrected a very unlucky translation of Pusch: Friedman's (1968: 11) expression that there is a 'trade-off between inflation and unemployment' was translated by Pusch as 'Diskrepanz zwischen Inflation und Unterbeschäftigung' (148) which does not imply that there is indeed a choice between the two but rather some kind of mismatch. Neumann (323) thus chose to translate the term 'trade-off' not at all – a better but not perfect solution. In contrast to the translation by Pönisch, however, both authors more accurately translate Friedman's (1968: 11) terms 'temporary' and 'permanent' with 'vorübergehend' and 'permanent' (148 and 323 respectively). Pönisch (Friedman 1974b: 211) favoured 'kurzfristigen' and 'dauernden'. Whereas 'kurzfristig' in particular refers to the English expression 'short run' and thus implies a rather short period in calendar time (that is, abstracting from the theoretical distinction between the short run and the long run with respect to realised expectations), 'temporary' or 'vorübergehend' does not specify the time frame and thus also matches Friedman's depiction of the adjustment process much better as such an adjustment might take a 'couple of decades' (Friedman 1986: 11).

On the other hand, Pönisch (210) did not translate the term 'natural rate of unemployment' with 'natürliches Unterbeschäftigungsniveau' but with 'natürliches Maß an Arbeitslosigkeit' which matches the core idea of Friedman much better. Pönisch, in the already mentioned email exchange, pointed out to the author that indeed different translations were discussed. This included also the translation of Pusch. However, in the end, a word to word translation was considered best. Unfortunately, other errors or rather deliberate translations were introduced. For example, whereas Pusch and Neumann accurately translated Friedman's (1968: 10) expression 'determinate policy' by 'definitive Politik' (147 and 343 respectively), Pönisch chose the term 'endgültiges Resultat', which does not imply that monetary policy will or will not be exactly specified but that the result itself will or will not be definitive. Pönisch thus skipped the instrument 'monetary policy' as the cause of a final result.

It is very interesting to note that Pönisch translated only a short excerpt of Friedman's presidential address (pages 8 to 11). A passage which, without doubt, can be considered the most influential one as there the 'natural rate of unemployment' is introduced (and thus was the most important passage dealing with the Phillips curve and therefore with the topic of the edited collection by Nowotny which particularly focused on the Phillips curve discussion). This small excerpt misses, however, the broader statement Friedman brings forth against fine-tuning policies in general (see Laidler 2012: 17f. on this issue). This is important insofar as Friedman's version of a 'natural rate of unemployment' was in this sense very different to that of Phelps (1967). Thus, Pönisch's translation strikingly and exemplarily shows which parts of Friedman's presidential address were considered most important: Whereas the economics profession readily accepted the 'natural rate of unemployment' as a limit for policy-making, the idea of fine-tuning was not equally abandoned (see as an example Modigliani and Papademos 1975). Hence, not only translated parts of a text might be important from a broader perspective – to the contrary: What has been left out might be even more noteworthy.

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<sup>1</sup> I thank Manfred J. M. Neumann for pointing this out. In an email correspondence with the author dated 9 April 2013, he notes that today he would prefer the term 'natürliches Beschäftigungsniveau' (natural level of employment).



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