

Dialogue on Friedman and Hayek

From the standpoint of the periphery

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In all his recent writings, the author has maintained that neoclassical thinking is not only incapable of explaining the structure and operation of capitalism in the periphery, but has a misleading influence on economic policy decisions. In the present article he reverts to these ideas, formulating them as if they came up in the course of a dialogue carried out with followers of the two leading contemporary mentors of the thinking in question; thus he is able to present his points of view with the fluid simplicity in which strictly academic essays are often lacking.

In his opinion, the root cause of the incapacity of neoclassical thinking to interpret peripheral capitalism lies above all in its failure to take into consideration the economic surplus, which is the hub of this system's basic characteristics. It disregards the structural heterogeneity which possibilites the existence of the surplus; it bypasses the structure and dynamics of power which explain how the surplus is appropriated and shared out; it shuts its eyes to the monetary mechanism of production which allows the surplus to be retained by the upper strata; and it underestimates the waste involved in the ways in which the surplus is currently used.

This shortsighted interpretation of the economic process predisposes neoclassical thinking to propose policy measures which do not succeed in promoting the development of the periphery, which increase and consolidate social inequality and which necessitate the establishment of authoritarian régimes, diametrically at variance with the ideas of democratic liberalism. The necessary transformation of peripheral capitalism, which the author propounds, must preserve the values and institutions of democracy and at the same time ensure vigorous economic development and equitable distribution of its fruits.

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I

The ideas of Milton Friedman

1. *Their broad outlines*

The swing of the ideological pendulum has now brought neoclassicism freshly to the fore, and to Milton Friedman belongs the merit of being its supreme disseminator. For some time past I had been reading his various studies, without, however, finding his arguments and propositions at all convincing, until the appearance of his book *Free to Choose*, written in collaboration with Mrs. Friedman. I felt drawn to read it, since it presumably constituted a complete presentation of the eminent economist's ideas. I carefully perused its pages, prepared to revise my original opinions, but I must confess that what I read still failed to convince me; rather did it strengthen my frankly critical position.

I recognize, however, that the book is admirable for its limpid clarity and persuasive force: and also for its frequent recourse to concrete illustration and example. I fully understand its power of penetration. Milton Friedman indeed offers us straightforward and simple solutions to the disquieting problems of the economic world: let the forces of the economy have free play, get rid of the restrictions with which enterprises and workers distort their operation, do away with tariff protection and the other hindrances to the international division of labour, and we shall see prosperity and distributive justice springing up on every side. No brakes on economic activity, but the growth of the State does need curbing: a constitutional limit to it must be established. And ceilings must also be set to the monetary expansion which has led to chronic and disruptive inflation.

How can one fail to be captivated by the doctrine of an economist who, over and above the merit referred to, has seen his academic distinction crowned with the award of the Nobel Prize, which has likewise been received by Dr. von Hayek, of whom we shall also be speaking?

The Chicago professor has innumerable

adherents: I have met with many of them in our countries and, above all, among the younger generations who are leaving the United States universities, especially the one in which Milton Friedman lectures. And I have often had a chance to talk with some of them, although not all—they are too numerous for that. Moreover, there are some among them who, deeply convinced of an incontrovertible truth, do not deign even to enter into discussion with any who profess different ideas. But there are others, and no small number to be sure, who do find discussion acceptable, prompted perhaps by certain insidious doubts that arise out of their other readings.

With these latter, too, I frequently have the opportunity of maintaining a dialogue; rather ought I to say the privilege, for dialogue with those who have something to say or to ask I always find stimulating, so much so that I felt it should be reflected in these pages. To reproduce it meticulously would be tedious, since the same arguments crop up again and again; I have therefore tried to extract their essential points and expound them with a measure of orderliness which is not always practicable in the animated course of several conversations. In doing so I have thought it fitting not to confine myself to a strictly academic critique, but to adopt the same diffusive tone that characterizes the above-mentioned book by Milton Friedman.

In presenting the main outlines of the dialogue, I hope to reach the many who are anxious to clarify their own thinking in face of the serious world crisis through which we are passing.

Before embarking upon the discussions, I thought I ought to check the correctness of my interpretation of the content of Milton Friedman's essential thinking, which in my opinion could be summarized as follows:

— The free play of market forces, unimpeded by any interference whatsoever in a fully competitive system, leads to the optimum allocation of the factors of production and to the remuneration of these factors in accordance with their contribution to the production process;
 — For this to happen, an indispensable requisite is to prevent restrictions on free competition. Restrictions which take the form both of

combinations on the part of enterprises to raise prices and combinations on the part of the labour force to increase wages;

— The State must adopt an absolutely *laissez-faire* policy, although it is recognized that something must be done to alleviate the unhappy lot of those who in the play of competition are left at the bottom of the system. Hence the negative tax (to avoid the term subsidy) proposed by Milton Friedman;

— Lastly, inflation must be curbed by regulating the creation of money and preventing the fiscal deficit from which it stems. Hence too the inescapable necessity of limiting the growth of public expenditure.

I must warn readers that I have confined myself to considering the foregoing points without going into other issues with which scientific criticism usually deals, such as the nature and behaviour of the economic agents and certain assumptions relating to the operation of the market.

Without depreciating Milton Friedman's proselytizing effort, I contend that there is no question of new ideas, but of intelligent diffusion of the neoclassical thinking formulated during the second half of the nineteenth century. As far as I myself am concerned, I confess that I too drew sustenance from that doctrine, and taught it as a young university professor in the 1920s. In those days I even translated a little book in Italian by a brilliant disciple of Vilfredo Pareto, which contained a lucid exposition of the theory of general equilibrium.¹

Well, everything is to be found in those neoclassical texts, including the idea of a subsidy for the poor, and also the proposal to limit the creation of money in circulation which derives from the old and much-debated quantitative theory of money.

In reality, one cannot but be surprised at the dogmatic persistence of certain ideas, such as these in defence of capitalism, as well as others of an opposite tendency which also emerged in the second half of the last century. This intellectual stagnation, at least as regards

¹I refer to Enrico Barone and his book *Principios de economía*.

