

On the Fifth Anniversary of Hayek's Death

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It is a regrettable fact that economics, much more than any other social discipline, is liable to the periodical reintroduction of popular fashions and irrepressible superstitions. It is 1997, and lest we forget one of the most seminal minds of our times, we should recall at least briefly the essence of Friedrich A. von Hayek. With his death five years ago we lost a last representative of a gifted generation of classically educated European scholars whose wealth of knowledge seemed inexhaustible.

Hayek was born in Vienna on May 8, 1899 and grew up in a typical Austrian aristocratic family that could lay claim to an academic tradition of well over three generations. At the age of eighteen he voluntarily joined the Austro-Hungarian Army and served as an artillery officer until the end of World War I. Immediately after his return from the Italian front Hayek enrolled in the University of Vienna and three years later obtained his law degree (Dr. jur.). While Hayek studied for his second doctoral degree in Political Science (Dr. rer. pol.), which he earned in 1923, he began to work under Ludwig von Mises' directorship in an Austrian office for the settlement of war debts. As the most eminent scholar of the third generation of the Austrian School of Economics, Mises (1881-1973) soon became Hayek's mentor and in 1927 they founded the 'Austrian Institute for Business Cycle Research' which soon gained reputation under Hayek's leadership. His first book *Monetary Theory and the Trade Cycle* (1929) at once set a standard in modern business cycle theory. One of the most striking characteristics of the 'Austrian' business cycle theory is Hayek's insight that any shortage of capital immediately causes a crisis. While classical economic theory never elucidated what causes such a shortage, Hayek made it clear that any overinvestment leads to 'scarcity of capital', unavoidably compelling a decline in investment and hence leading to the loss of a part of the real capital, produced because of the excessive investment rate.

The culturally vibrant climate of interwar Vienna

provided the stimulating background for many scholarly circles and schools, such as the 'Vienna Circle of Philosophy', the 'Vienna School of Psychoanalysis', or the 'Mises Private Seminar'. This famous 'Seminar' which between 1921 and 1934 von Mises conducted off campus in his Chamber of Commerce office was the nucleus of the fourth generation of the Austrian School, the most important representative of which was Hayek. It is remarkable that far more than half of its participants later became world famous in their respective academic fields. Yet, with the Nazi terror on the rise and almost no prospects of ever gaining access to an adequate academic position, all but a very few of these uniquely talented scholars left Austria for good. Schumpeter and Hayek were the first, many others were to follow soon.



*F.A. Hayek in the early 1980s.
Photo: Institute of Humane Studies*

Impressed by Hayek's new business cycle theory, Lord Robbins invited him to lecture at the London School of Economics in the winter of 1931. When he was offered the position as 'Tooke Professor of Economic Science' shortly thereafter he accepted almost without hesitation. At this time, when J.M. Keynes' new theories began to dominate academic and political life, it was unavoidable for Hayek not to be immediately drawn into a fundamental debate with Keynes. Due to their inflationary character Hayek opposed the theories vigorously and became the leading intellectual force against Keynes. But in view of a recession with huge unemployment rates it became obvious that Hayek's approach of 'waiting out the crisis' was doomed to be overshadowed by the 'Keynesian Revolution' from which easy 'solutions' and politically attractive government intervention could be derived.

While being deeply involved in these heated debates, Hayek at the same time opened another intellectual front and published three famous essays which shattered the

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theoretical foundations of socialism. The painful collapse of socialism as a viable political system in recent years is the empirical proof of Hayek's insights. These essays are collected in his *Individualism and Economic Order* (1948).

Hayek's interest in technical economics culminated in his *The Pure Theory of Capital* (1942) which must be rated as one of the most penetrating books ever published in this complex field. But his intensive work on the insoluble economic and moral problems of socialism, the terror of fascism, and the outbreak of World War II made him write *The Road to Serfdom* (1944). This best-seller of the immediate post war years, translated into some 18 languages, was a revelation for those who wanted freedom. Hayek clearly shows here the ideological links between socialism and fascism and demonstrates that no variety of socialism, no matter what its name or however modified by adjectives, carries with it any adequate provisions for the preservation of economic and political freedom. Thus the popular view of the convergence of economic systems is rooted in pure economic error and a 'pretence of knowledge'.

His essays the 'Counter-Revolution of Science' (1941) and 'Scientism and the Study of Society' (1942/43) contain probably the most effective refutation of the popular superstition that the methodology of the natural sciences can be utilised to explain social phenomena and human action. These articles are collected in his *The Counter-Revolution of Science* (1952) and are together with his classic 'The Use of Knowledge in Society' (1945) an important key to the understanding of his work. In this pathbreaking article on the division of knowledge, Hayek shows how the unorganised knowledge of the particular circumstances of time and place will bring about a spontaneous social order. The independent interaction of millions of individuals, each possessing only pieces of information of which beneficial use might be made, creates circumstances that cannot be conveyed to any central authority. The price system, by contrast, is a system of signals that communicates information that enables us to adapt to circumstances of which we know nothing.

Due to his concern about the survival of freedom, 50 years ago in April 1947, Hayek organised an international conference of economists, philosophers and historians to discuss and exchange ideas about the nature of a free society and the means to strengthen its principles and

intellectual support. This important meeting in Switzerland initiated the founding of the 'Mont Pelerin Society' an international association of classical liberal scholars. By the end of 1949 Hayek left the London School of Economics, and began to teach at the University of Chicago in the Fall of 1950.

Among his many works published during his twelve Chicago years only two books can be singled out. Although *The Sensory Order* (1952) is probably his least known and most difficult work it nevertheless contains some of his most original and important ideas. The preliminary thoughts for this discourse in theoretical psychology date back to the early 1920s, when Hayek was still uncertain whether to become a psychologist or an economist.

The second work to be mentioned is Hayek's classic *The Constitution of Liberty* (1960) – truly one of the great books of our time. Here Hayek further developed his idea of spontaneous order, and laid down the ethical, legal and economic principles of freedom. While for many social philosophers the chief aim of politics consists in setting up an ideal social order, Hayek's main task is the finding of rules that enable men with different values and convictions to live together. These rules are established so as to permit each individual to fulfil his aims, and to limit government action. The spontaneous social order develops through the interactions of individuals obeying these general rules. It is distinguished from the constructivistic approach, which interprets all social orders as the product of



F.A. Hayek

Photo: Mont Pelerin Society

conscious design.

In 1962 Hayek returned to the German speaking world and joined the University of Freiburg/Breisgau, a small town in the southern part of Germany. Among the many works which he published in his seven years there, again only two can be mentioned. Hayek dedicated his *Studies in Philosophy, Politics and Economics* (1967) to his friend the influential Austrian born philosopher Sir Karl R. Popper (1902-1994). This book covers Hayek's works dating from the early 1950s to the mid-1960s and contains classics such as 'The Results of Human Action but not of Human Design' and 'The Intellectuals and Socialism'. His *Freiburger Studien* (1969) is a collection of important German essays which contains Hayek's famous 'Competition as a Discovery Procedure' and 'Kinds of Order in Society'.

After becoming professor emeritus at the University

of Freiburg in 1969, he accepted a visiting professorship at the University of Salzburg (Austria) which he kept until 1977. In spite of his poor health and intellectual isolation during these years Hayek was nevertheless able to produce a number of significant works. In 1973 he published the first volume of his trilogy *Law, Legislation, and Liberty*. In this book, subtitled 'Rules and Order', Hayek argues that a spontaneous social order and an organisation are distinct and that their distinctiveness is closely related to the two different kinds of rules that prevail in them. In the second volume, published in 1976, Hayek treated the misleading term 'Social Justice'. He argued that this phrase can have meaning in an organisation where strict distributive rules apply, but cannot be used as a measure for income distribution in the spontaneous order of free societies.

In 1974, very much to his surprise, he was awarded the Nobel Prize in Economics. Probably for political reasons he had to share the Prize with an adversary, Gunnar Myrdal. Myrdal was the intellectual force behind the once highly praised Swedish welfare state. At the peak of Neo-Keynesianism, Hayek in his Nobel lecture on 'The Pretence of Knowledge' (1974) refuted once again the erroneous assumptions of this popular political superstition. This prestige of the Nobel award clearly helped Hayek to finally step out of his isolation and inspired the intellectual revival of the 'Austrian School'.

At age 78 he moved back to Freiburg and continued to work on his trilogy. As a side product he published his

Denationalization of Money in 1977. In this work he argues that inflation can be avoided only if the monopolistic power of issuing money is taken away from government and/or state authorities, and private industry be given the task of promoting competition in currencies. In 1978 Hayek completed the third volume of his trilogy *Law, Legislation, and Liberty* in which he refined his critique of democracy and developed the principles of a political order for free people.

Hayek continued to lecture, write and travel extensively until the late 1980s when he became ill again and never fully recovered. Thus he could not complete his last book *The Fatal Conceit* (1989) in which he hoped to develop further his theory of cultural evolution and expose once more the 'errors of constructivism'. Due to his inability to manage the huge manuscript this book has been heavily edited. Regrettably, it is not the best way to start to discover the seminal insights and ideas of one of the great minds of our time.

Hayek's work arose and developed from a comprehensive approach to various disciplines that condition and influence one another. His publication list contains well over 40 books and some 260 scholarly essays and articles. He was awarded honorary degrees from universities all over the world. As a scholar, a teacher, and a patient fatherly friend, Friedrich August von Hayek came as close to the vanishing ideal of a gentleman as perhaps human frailty will ever permit. He died in Freiburg on March 23, 1992.

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