The Hayek Centenary

The death of F.A. Hayek at the age of 92 marks the end of an era, the Mises-Hayek era. Converted from Fabian socialism by Ludwig von Mises's devastating critique, Socialism, in the early 1920s, Hayek took his place as the greatest of the glittering generation of economists and social scientists who became followers of Mises in the Vienna of the 1920s, and who took part in Mises's famed weekly *privatseminar* held in his office at the Chamber of Commerce.

In particular, Hayek elaborated Mises's brilliant business cycle theory, which demonstrated that boom-bust cycles are caused, not by mysterious defects inherent in industrial capitalism, but by the unfortunate inflationary bank credit expansion propelled by central banks. Mises founded the Austrian Institute for Business Cycle Research in 1927, and named Hayek as its first director.

Hayek proceeded to develop and expand Mises's cycle theory, first in a book of the late 1920s, *Monetary Theory and the Trade Cycle*. He was brought over to the London School of Economics in 1931 by an influential English Misesian, Lionel Robbins. Hayek gave a series of lectures on cycle theory that took the world of English economics by storm, and were published quickly in English as *Prices and Production*.

Remaining at a permanent post at the London School, Hayek soon converted the leading young English economists to the Misesian-Austrian view of capital and business cycles, including such later renowned Keynesians as John R. Hicks, Abba Lerner, Nicholas Kaldor, and Kenneth E. Boulding. Indeed, in two lengthy review-essays in 1931–32 of Keynes's widely trumpeted magnum opus, the two-volume *Treatise on Money*, Hayek was able to demolish that work and to send Keynes back to the drawing board to concoct another economic "revolution."

One of the reasons for the swift diffusion of Misesian views in England in the 1930s was that Mises had predicted the Great Depression, and that his business cycle theory provided an explanation for that harrowing event of the 1930s. Unfortunately, when Keynes came back with his later model, the *General Theory* in 1936, his brand new "revolution" swept the boards, swamping economic opinion, and converting or dragging along almost all the former Misesians in its wake.

England was then the prestigious center of world economic thought, and Keynes had behind him the eminence of Cambridge University, as well as his own stature in the intellectual community. Add to this Keynes's personal charm, and the fact that his allegedly revolutionary theory put the imprimatur of "economic science" behind statism and massive increases of government spending, and Keynesianism proved irresistible. Of all the Misesians who had been nurtured in Vienna and London, by the end of the 1930s only Mises and Hayek were left, as indomitable champions of the free market, and opponents of statism and deficit spending.

In later years Hayek conceded that the worst mistake of his life was to fail to write the sort of devastating refutation of the *General Theory* that he had done for the *Treatise*, but he had concluded that there was no point in doing so, since Keynes changed his mind so often. Unfortunately, this time there was no demolition by Hayek to force him to do so.

If the business cycle theory was swamped by the Keynesian model, so too was the Mises-Hayek critiques of socialism, which Hayek had also brought to London, and to which he had contributed in the 1930s. But this line of argument had been brought to an end, in the late 1930s, when most economists came to believe that socialist governments could easily engage in economic calculation by simply ordering their managers to act as if they were participating in a real market for resources and capital goods.

During World War II, at a low point in the fortunes of human freedom and Austrian economics, in the midst of an era when it seemed that socialism and communism would inevitably triumph, Hayek published *The Road to Serfdom* (1944). It linked the statism of communism, social democracy, and fascism, and demonstrated that, just as people who are best suited for any given occupations will rise to the top in those pursuits, so under statism, "the worst" would inevitably rise to the top. Thanks to promotion efforts funded by J. Howard Pew of the then Pew-owned Sun Oil Company, the *Road to Serfdom* became extraordinarily influential in American intellectual and academic life.

In 1974, perhaps not coincidentally the year after his mentor Ludwig von Mises died, F.A. Hayek received the Nobel Prize. The first free-market economist to receive that honor, Hayek was accorded the prize explicitly for his elaboration of Misesian business cycle theory in the 1920s and ‘30s. Since both Mises and Hayek had by that time dropped down the Orwellian memory hole of the economics profession, many economists were sent scurrying to find out who this person Hayek might be, thus helping give rise to a renaissance of the Austrian School.

Hayek's receipt of the Nobel at this time was deeply ironic, since after World War II his ideas began to diverge increasingly from those of Mises and thus acquire acclaim from latter-day Hayekians who are scarcely familiar with the work which had made Hayek eminent to begin with.

To the extent that Hayek remained interested in cycle theory, he began to engage in shifting and contradictory deviations from the Misesian paradigm—ranging from calling for price-level stabilization, in direct contrast to his warning about the inflationary consequences of such measures during the 1920s; to blaming unions instead of bank credit for price inflation; to concocting bizarre schemes for individuals and banks to issue their own newly named currency.

Increasingly, Hayek's interests shifted from economics to social and political philosophy. But here his approach differed strikingly from Mises's ventures into broader realms. Mises entire lifework is virtually a seamless web, a mighty architectonic, a system in which he added to and enriched monetary and cycle theory by wider economic political and social theories. But Hayek, instead of providing a more elaborate and developed system, kept changing his focus and viewpoint in a contradictory and muddled fashion. His major problem, and his major divergence from Mises, is that Hayek, instead of analyzing man as a rational, conscious, and purposive being, considered man to be irrational, acting virtually unconsciously and unknowingly.

Since Hayek was radically scornful of human reason, he could not, like John Locke or the Scholastics, elaborate a libertarian system of personal and property rights based on the insights of human reason into natural law. Nor could he, like Mises, emphasize man's rational insight into the vital importance of laissez-faire for the flourishing and even survival of the human race, or of foregoing any coercive intervention into the vast and interdependent network of the free market economy.

Instead, Hayek had to fall back on the importance of blindly obeying whatever social rules happened to have "evolved," and his only feeble argument against intervention was that the government was even more irrational and was even more ignorant, than individuals in the market economy.

It is sad commentary on academia and on intellectual life these days that Hayek's thought, possibly because of its very muddle, inconsistency, and contradictions, should have attracted far more scholarly dissertations than Mises's consistency and clarity.

In the long run, however, it will be all too obvious that Mises has left us a grand intellectual and scientific system for the ages whereas Hayek's lasting contribution will boil down to what was acknowledged by the Nobel committee—his elaboration of Misesian cycle theory. In addition, Hayek must always be honored for having the courage to stand shoulder to shoulder with his mentor, in the dark days of the interwar and postwar years, against the twin evils of socialism and Keynesianism.