

Harry C. Veryser

Friedrich August von Hayek: *Requiescat in Pace*

On March 23, 1992, Professor F. A. Hayek passed away in Freiburg, Germany. Few academics have in their lifetime so affected the course of events. A Nobel Laureate, Hayek was a tireless champion of individual liberty. His prolific writings and teaching career spanned the 20th century.

Born to the Austrian nobility in Vienna on May 8, 1899, Hayek attended the University of Vienna, then the seedbed of the famous "Austrian School" of economics. Founded by Carl Menger, Friedrich von Wieser, and Eugen von Böhm-Bawerk, the influence of this school in modern day economics and finance, as well as social theory, has been truly profound and far reaching.

After graduation, Hayek was introduced to another Austrian economist, Ludwig von Mises (1881-1973). Mises became his lifelong mentor and friend. Mises had already established a solid reputation in both monetary theory and social criticism. It was the reading of Mises' monumental study *Socialism*, in which he argued that socialism is impossible as an economic system due to the lack of a price system, that changed the entire direction of Hayek's academic career.

Hayek and Mises became close collaborators in their study of economics. In 1927, Hayek became director of the Institute for Business Cycle Research, which he and Mises founded. The institute applied the

insights of Böhm-Bawerk's capital and interest theory to the perennial problem of business fluctuations. Both Mises and Hayek successfully predicted the crisis of 1929 and the ensuing Depression of the 1930s.

Hayek's book *Monetary Theory of the Trade Cycle*, published in 1929, brought him to the attention of Lionel Robbins who invited him to lecture at the London School of Economics. Soon thereafter, Hayek was offered a professorship at the University of London. His lectures in London were later published in the book *Prices and Production*. His work on the trade cycle would win him the Nobel Prize in Economics in 1974.

In London, Hayek crossed paths with John Maynard Keynes. Keynes represented a school of economists who favored increased government intervention into economic affairs. Tracing their roots back to the 19th century, these economists saw themselves as economic engineers who could direct government activity. Their goal was an economy managed for more efficiency, believing that a managed economy would eliminate the trade cycle, differences in wealth, and wasteful consumption. It was World War I, with its increased regulatory activity and tremendous mobilization of

Harry C. Veryser is chairman of the Department of Economics and Finance at Walsh College in Troy, Michigan.

resources by government, that convinced them they were on the right path. If government could successfully prosecute the war, then it could solve other economic problems as well.

During the period leading up to the 1930s, these "interventionist" economists predicted unprecedented prosperity, but in spite of all their engineering and credit expansion, the Depression came about and rolled on until World War II. During this period, governments around the world expanded and took over the management of more and more of the political-economic systems. The Second World War provided an excuse for even more taxes, regulations, monetary expansion, and restriction of individual liberty.

It was during this time that Hayek began to become interested in the process of economic planning and its affect on society. He also began to study the origins of the social order. In 1944, Hayek published a book that would help to turn the tide against encroaching government, *The Road to Serfdom*.

This book marked him as a major social thinker. What was unique about this book was that at the very time governments and economies were centralizing, Hayek was arguing that increased government planning and control of the economy *would by its very nature* create the conditions that would lead to the kind of totalitarianism that shocked the world in Germany, Italy, and Russia.

However, planning and social engineering remained in vogue. It was no coincidence that the chief economics text of the post-war era was written by an economist whose undergraduate degree was in engineering, Paul Samuelson. It was a logical outcome. Economics became a sort of *mathenomics* and the establishment and activities of the Federal Reserve, the income and inheritance taxes, the regulatory agencies, and government management of the economy became part of an unquestioned

social canon. Students were taught that it was *laissez-faire* policies that caused the Great Depression. No mention was ever made of the affect of the credit expansion of the 1920s. The Smoot-Hawley tariff and other interventions were only mentioned in history classes. Accordingly, economics taught that to prevent depression and unemployment you needed an activist government operating with the help of Keynesian and other mathematical equations.

Undaunted, in 1946, with the help of the urbane free market economist Wilhelm Röpke, and with the aid of the Swiss economist Albert Hunold, Hayek and Mises founded the Mont Pelerin Society. This group was a mutual assistance and refuge group for the few free market economists and believers in liberty left in the world. It has since become one of the most prestigious groups of social thinkers in the world.

In 1950, Hayek accepted a position at the University of Chicago, not in the economics department, but a privately funded chair in the Committee on Social Thought. He arrived just as the American conservative movement was refining itself intellectually. Hayek became one of the fathers of the post-war conservative intellectual movement. He was instrumental in articulating to the post-war generation just how greatly the American tradition of ordered liberty was threatened by the policies of the Wilson and Roosevelt administrations, and their move to centralize power in the hands of the Federal government.

The conservative movement was made up of a coalition of groups who found common ground in their protest of this expansion of government activity. This coalition was basically divided into two groups, classical liberals, or libertarians, whose roots are basically economic and who looked to the ideas of Adam Smith; and traditionalists, who objected to the growth of the mod-

ern state as pushing aside the Anglo-Saxon tradition, embodied in the common law or the U. S. Constitution.

Classical liberals rejoiced in the traditional economic freedom that the United States offered. They feared high taxes and economic planning and thus opposed the thrusts of the government in determining their economic future. The traditionalists, looking to Edmund Burke and his 20th century champion, Russell Kirk, had a reverential view of society. Opposing the plans of the state, they believed centralized planning was disruptive to small communities, education, the family, the church, and imposed an unwanted and destructive ideology upon society.

Both groups had the same interest: stop the imposing of plans from above and leave society alone. The classical liberals used the term *laissez-faire*, while the traditionalists invoked Burke's idea of salutary neglect.

Hayek is truly a bridge figure between the two camps. In *The Constitution of Liberty*, he presents a classical liberal economic position embedded in a traditionalist social order. Traditionalists appreciate his emphasis on the rule of law and society developing without an imposing central plan. His constitutional arguments proceed along Burkean lines. Indeed, in an essay entitled "Conscious Direction and the Growth of Reason," he argued for a traditional moral order that develops over time from precedent to precedent.

Hayek's economic theory has always appealed to the classical liberal or libertarian

because it guarantees liberty and effectively demonstrates the futility of state intervention in the economy. But, in an essay entitled, "Why I am not a Conservative" from *The Constitution of Liberty*, Hayek abjures the names conservative and libertarian, preferring to call himself an "old Whig" in the tradition of Edmund Burke.

It is a sad commentary on the state of academia that Hayek, who correctly fore-



F. A. HAYEK

saw the collapse of socialism and the problems of the trade cycle, continues to be overlooked by the professional economic, to say nothing of the political, establishment. His policies have been proven correct in Germany, and to some extent in Japan, while his opponents have gone from one failure to another. It would seem that in our present economic crisis, educators and policy makers could profit by looking

more closely at Hayek's ideas, particularly in the area of trade cycles.

Nevertheless, the greatest tribute that can be paid to Hayek is that in spite of academic and personal reverses, he remained dedicated to truth. Every so often in human history, we are blessed with special persons who have a vision of truth and are able to make it clear to the rest of us. Such men and women are sometimes prophets, martyrs, saints, inventors, entrepreneurs, or explorers. What distinguishes them is their tireless dedication to truth and their determination to live out the truth they are privileged to see. Friedrich August von Hayek was one of these persons.