



Personal report

A few remembrances of Friedrich von Hayek (1899–1992)

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Hayek was the seventh to receive the Bank of Sweden's new Nobel Prize in economics. In my judgment his was a worthy choice. And yet in the 1974 senior common rooms of Harvard and MIT, the majority of the inhabitants there seemed not to even know the name of this new laureate. (By contrast, the following year when I was in Stockholm to celebrate the 75th anniversary of the original five Nobel Prizes, it was my vague impression that the Royal Swedish Academy electors paid greater deference to Hayek than to their own native son Myrdal. Some majority fiends on the election committee must have known that they were making two opposite ideologues furious over their being ironically paired.)

Rise and Fall of 1931 *Prices and Production*

There were good historical reasons for fading memories of Hayek within the mainstream last half of the twentieth century economist fraternity. In 1931, Hayek's *Prices and Production* had enjoyed an ultra-short Byronic success. In retrospect hindsight tells us that its mumbo-jumbo about the period of production grossly misdiagnosed the macroeconomics of the 1927–1931 (and the 1931–2007) historical scene.

When a centrist like me says this about an extremist like Hayek, readers have a right to reserve judgment. More weighty was the later opinion to the same effect of the conservative Lionel Robbins. It was Robbins who had brought Hayek out of Austria to the LSE. It was Robbins who wrote a 1934 Hayekian book entitled *The Great Depression*. Not so very long after 1934, Robbins repudiated his own early take, saying in effect, I must have been a bit loony at the time.

Aside from the substance of Hayek's (1931) text, part of his short-lived popularity came from the fact that many in England, annoyed by Maynard Keynes's unorthodox testimonies before the 1930 Macmillan Committee, hoped that Hayek would be the White Knight to slay the Black Dragon.

Productivity and reputation of Keynes itself fluctuated in Kondratieff waves. His 1930 two-volume *Treatise on Money* posterity judged to have been an anti-climatic flop. But the deeper the drop into the 1929–1935 Great Depression, the more rapidly came the recognition of Keynes as top dog in the twentieth century. (In 1932 as a 16-year-old freshman, I asked my Chicago tutor, Eugene Staley: "Who is the world's greatest economist?" He answered, "John Maynard Keynes." For once I never became tempted to question the authority of my many great teachers.)

Gentle Charles Darwin had Thomas Huxley to be his bulldog for evolution. Sraffa (1932) must have been editor Keynes's bulldog to annihilate *Prices and Production*, and its author. I never much admired Sraffa's methodological contentions in that debate but at least his item did have the merit of introducing for the first time Sraffa's novel concept of "the own rate of interest" in terms of corn or rye or caviar.

For my money more to the point was Richard Kahn's simple oral 1932 statement: If Hayek believes that the spending of newly printed currency on employment and consumption will *worsen* our current terrible depression, then Hayek is a nut. Alas, one fatal error eclipses a few elementary true truths à la Mises and Hayek: Easy money *now* often does entail tighter money *later* which will come as a surprise to uncompleted projects and new contingent contemplated investment projects.

Hayek himself, naively, diagnosed the fall of his 1931 opus as due to the fact that his period-of-production mutterings there did not do full justice to the not-yet-completed Austrian theory of capital (Menger, Böhm et al.).

Therefore, heroically but hopelessly, he wasted years on a task that he was grossly under-equipped to handle. Hayek's (1941) *The Pure Theory of Capital* was not stillborn. But it was a pebble thrown into the pool of economic science that seemingly left nary a ripple.

Hayek's grave defeats in the early 1930s predisposed him in the World War II years to write what he entitled, *The Road to Serfdom* (1944). I will postpone my take on that bestseller.

So you might say Hayek as an economist fell into what physicists call a black hole. Wisely, libertarian Hayek turned away to weighty constitutional and philosophical interests. And from his pen came commendable items on history of economics doctrines. (One example is Hayek's biographical item on the love affair and marriage between John Stuart Mill and Harriet Taylor.)

The Jewel in Economist Hayek's Crown: Information Economics

Just prior to Hayek's departure from post World War II mainstream economics came what must be hailed as his greatest important contribution to economic science. It can be well understood if I make reference to the famous debate between Lerner–Lange and Ludwig von Mises (1935) over the role of the supply-and-demand mechanism in a socialist state. Lerner (1934), as well as Lange and Taylor (1938) quasi-independently, suggested that playing the game of parametric supply–demand auctioning could optimally organize a socialist society that had evolved beyond historic capitalism.

Arguably this general notion might be traced back to Adam Smith's legendary Invisible Hand, which led society unconsciously to achieve the maximal “general good.” Individual avarice, under market checks and balances, achieved this happy state. A more sophisticated version of the same idea came in the 1890s from Pareto (1896–97) and Barone (1908), long before Arrow–Debreu breakthroughs. Pareto deduced the mathematical theorem that the determinative equations of Walrasian general equilibrium mimicked exactly the maximizing welfare conditions for utopias.

By contrast, Mises in his polemics prior to Lerner–Lange, had contended that only under *actual* capitalism could one *even* define a post-Bentham welfare economics. Autobiographically, I can testify that most economists born after 1910 at that time would have voted Lerner and Lange to be the debate winner, with Mises as the prime loser. (Even my Harvard mentor Schumpeter saw some merit in the Lerner–Lange conjectures.¹)

In the 1940s Friedrich Hayek in an invited Harvard lecture introduced a new dynamic element into the debate. Call it “information economics.” The broad competitive markets, Hayek proclaimed, were the recipients of heterogeneous idiosyncratic bits of individuals' information. Playing for matches rather than for real money or blood was as different an economic dynamics as night is from day.

I was not at all the only one to be converted to the view that, as between Abba Lerner, Oskar Lange and Ludwig von mises, Friedrich Hayek was actually the debate's winner. (After the U.S. State Department persuaded Lange to go back to Stalinesque Poland, Lange reportedly lost his lust for auction markets.)

The jury of history judges innovators not by adding linearly their plus and minus contributions. Hayek's 1974 Stockholm Nobel Prize was importantly won for him by his notions about decentralized information economics discussed that day in Cambridge, Massachusetts.

Never mind that Hayek over-praised the optimality of individualistic *spontaneity*. Charles Darwin's genius long earlier had eclectically enumerated both the *pluses* and *minuses* of individualistic natural selection.

I do not know how much George Stigler had ever been influenced by Hayek when later Stigler's work on information economics helped bring him his Nobel medal. Senior Robert K. Merton, as sociologist, historian and philosopher of history of science, taught us again and again that great things come in pairs and triplets. Darwin had his Wallace. Newton had his Leibniz. Leibniz had his Newton. Thomas Kuhn documented the case that the fundamental Law of Conservation of Energy had a dozen different fathers. Although what each had discovered was not precisely the same thing, maybe at most one of the dozen did understand *all* the nuances.

The Road to “Exactly What?”

The history of economic science is distinguishable from the history of ideas. Adam Smith is little remembered by the lay public for how and whether he got right the pricing of corn and the rent of land. Smith's thumb-nail popular fame comes from his glorification of free enterprise and market capitalism.

So it is with Friedrich Hayek's celebrity as author of the bestseller *The Road to Serfdom*. It was written in London, so to speak on a bus driver's holiday, during the first years of World War II when its author was readjusting himself to the popular rejection of his 1931 *Prices and Production*. As he has written many times, the book was a political polemic against the evolution *away* from pre-1929 market capitalism *toward* the cruel totalitarian state, in which almost certainly the worst type leaders will forge up to the top. (Laboristic Fabian socialists in Britain and Franklin Roosevelt New Deal legislation in America, by innuendo and coherent argument, were believed to be the vulnerable stepping stones toward the serfdom(s) already realized in Lenin–Stalin Russia and Adolph Hitler Nazi Germany.)

Biography is important for the understanding of a scholar's writing. Hayek himself was the son of a Viennese professor of botany. For a century his ancestors, moving from Bohemia to Vienna, were supporters of Emperor Franz Josef's Austro-Hungary Hapsburg empire. (Hence, the respectable honorific “von” in Hayek's own name.)

On Hayek's return from Austria's military defeat by the Allied Italian army, Hayek reports a short infatuation with “socialism.” Like a common cold its incidence must have been brief. He has acknowledged the influence of Ludwig von Mises to

¹ For the vast 1930s literature on the Lerner–Lange mechanism, see Lange references in Palgrave (1987, vol. 3, pp. 129–131). Aside from nineteenth century related notions by von Mises, it is of interest that ultra-conservative Fred Taylor at the University of Michigan, a textbook writer much admired by Frank Knight and Edward H. Chamberlin, had in his 1928 AEA Presidential Address already sketched the trial and error procedures of Lerner–Lange (Taylor, 1929).

convert him to his lifelong libertarian quasi-*laissez faire* market capitalism. Hayek, along with Mises and Milton Friedman and other libertarians, attended periodic meetings of the Mt. Pelerin Society. (Once it had been suggested to be named the Acton Society, in honor of Lord Acton who was thought to have coined the phrase: “Power corrupts; and absolute power corrupts absolutely.” However, Acton’s earlier role in Vatican debates disqualified him for the honor. Having spent a lifetime near libertarians, I can confirm that they are an individualistic idiosyncratic bunch. For example, my conservative mentor Gottfried Haberler was defined by Mises to be a “communist.” The number of Mt. Pelerin resignations never quite reached the number of its new members.)

Anthropological experts in “content analysis,” focusing their microscopes on the [Hayek text \(1944\)](#), might score its impact to be traceable to both (1) its version of history and (2) its projection of the future. Post Bismarck social legislation and Weimar unorthodoxies allegedly bred Hitler’s horror state and horror camps (sic). When Frank Knight peer reviewed Hayek’s book for an American edition, he blessed its message but demurred at its shallow handling of history (see [Hayek, 2007](#)).

Two-thirds of a century after the book got written, hindsight confirms how inaccurate its innuendo about the *future* turned out to be. Consider only Sweden’s fig-leaf middle way. As I write in 2007, Sweden and other Scandinavian places have somewhat lowered the fraction of GDP they use to devote through government. But still they are the most “socialistic” by Hayek’s crude definition. Where are their horror camps? Have the vilest elements risen there to absolute power? When reports are compiled on “measurable unhappiness,” do places like Sweden, Denmark, Finland and Norway best epitomize serfdoms?

No. Of course not. American conservatives like my old friend the late David McCord Wright, confronted by such counter evidence would say to me up to his last years: “Paul, just you wait.” I never tired of waiting.

Actually, let the contents-analyst anthropologist go on to put her microscope on the many forewords to *The Road to Serfdom* quoted in forewords by the late Milton Friedman (see [Hayek, 1994](#)). She will conclude that the “serfdoms” believed to have occurred in accordance with Hayek’s 1940 crystal ball are not at all the Nazi-Burma-Mao-Castro totalitarian catastrophies. Instead *they are the mixed economies that have flourished almost everywhere in the post-1945 years!*

The Hayek I met on various occasions – at the LSE, at the University of Chicago, in Stockholm (1945), at Lake Constance-Lindau Nobel summer conferences – definitely bemoaned progressive income taxation, state-provided medical care and retirement pensions, fiat currencies remote from gold and subject to discretionary policy decisions by central bank and treasury agents. Not only is this what constitutes his predicted serfdoms, do notice that when the same anthropologist scans Milton Friedman’s various admiring forewords, her verdict will be that Hayek and Friedman were in essential agreement on what their singular verbal definitions are connoting.²

I can bear witness that, for twentieth century professional economists. Milton Friedman was infinitely more important for turning economists toward conservatism than Hayek. For the lay public maybe Hayek may have been more important?

² In this journal’s same issue, Professors Edward McPhail and Andrew Farrant of Dickinson College have published letters between Hayek and me, along with their comments. I desist from providing any peer-reviewer comments of my own.

But, since I happen to be still alive at so late a date, I jot down here certain *ad hominem* nuances that only I could be privy to.

Hayekian biography confirms a few commonplaces. His was a highly original mind. That meant he had to work out everything for himself rather than learning stuff from teachers. Also, his was a slightly depressive personality. Popularity, unpopularity and virtual anonymity added to this. Once he told me (and I quote from memory) that (in his seventies) he feared he had become stale and uncreative. But later his originality did come back. In hindsight he learned that his two periods of letdown in fact turned out to have coincided with two incidents of heart infarction. In paraphrase: Right there is the brain–mind connection that had preoccupied Hayek when writing his psychology treatise *The Sensory Order* ([Hayek, 1952](#)).

Add to the above that as I myself aged beyond seventy and eighty and ninety, it came to my notice that one must learn to appreciate that elderly friends do need to be handled gently. Here is a germane example. After Harry Johnson’s stroke in Venice he still produced many worthy research articles. But he became easily irritated. He argued with various long-time friends. When the publisher who had carried his stuff for decades was three weeks late in sending a book out for review, he broke off relations with that company. Often I heard myself saying to good mutual friends of Harry and me: “That’s not our Harry arguing. It’s his arteries. Let’s just go with the flow and remember Johnson’s fertility and admirable versatility.”

So it was when I began to receive complaints from my long-time acquaintance Friedrich Hayek. Why at so late a date should I belabor the persisting differences between us on ideological issues?

No good deeds go unpunished! Never then, or before, or later did I have reason to think or to say: Yes, I have misunderstood you. Yes, I have incorrectly quoted from you. *Mea culpa*.

Exactly what I have written above evaluating *The Road to Serfdom* is precisely what I believed about it in the 1940s and continued to believe about it up to the present 2007.

Why agitate ourselves when we are each entitled to harbor different analyses? One learns that often it is better to *avoid* an argument than to *win* one. Amen. In this footnote on *ad hominem* matters, some few additional remarks may be useful. Most of my gifted mentors, born in the nineteenth century, lacked today’s “political (and ethnic) correctness.” There were of course some honorable exceptions among both my Yankee and European teachers. [Reder \(2000\)](#) has provided a useful exploration of such unpleasanties. Central to his expositions were appraisals of the triad John Maynard Keynes, Joseph A. Schumpeter and Friedrich Hayek on the subject of anti-semitism.

Unexpectedly, I was forced in the end to conclude that Keynes’s lifetime profile was the worst of the three. In the record of his letters to wife and other Bloomsbury buddies, Keynes apparently remained in viewpoint much the same as in his Eton essay on that subject as a callow seventeen-year-old.

Hayek, I came to realize, seemed to be the one of the three who at least *tried* to grow beyond his early conditioning. The full record suggests that he did not succeed fully in cleansing those Augean Stables. Still, a B grade for effort does trump a C-grade.

Keynes’s visceral social repugnance would interest future historians less if it never contaminated his intellectual judgments. However early on, like Bertrand Russell, Keynes did recognize barbaric evils in Lenin’s utopia. Strange though that instead of discovering the key role of Georgian Josef Stalin, it was the beastliness of Leon (Lev) Trotsky that Keynes’s pen picks up on.

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