

Up From Serfdom:

Friedrich A. Hayek and the Defence of Liberty

A Short Intellectual Biography by Professor Richard Ebeling

Friedrich August von Hayek was one of the greatest economists and political philosophers of the 20th century. After Ludwig von Mises, Professor Hayek was the leading figure of the Austrian School of Economics during the last six decades. He also was one of the most profound defenders of liberty over the last two hundred years. With his death on March 23, 1992, an era comes to an end.

Born on May 8, 1899, Professor Hayek served in the Austro-Hungarian Army during the First World War, seeing action on the Italian front. At the end of the war, he returned to Vienna and earned a doctorate in law with an emphasis in economics. He then acquired another doctorate in political science.

In 1923, he became an assistant to Ludwig von Mises at the Austrian Reparations Commission, and in 1927 they founded the Austrian Institute for Business Cycle Research, with Hayek as the director and Mises serving as the executive vice president. In 1929, Hayek published *Monetary Theory and the Trade Cycle* and an article on "The Paradox of Savings." As a result he was invited by the London School of Economics to deliver a series of lectures, which were published in 1931 as *Prices and Production*.

The success of these lectures also resulted in him being appointed the Tooke Professor of Economics and Statistics at the University of London, a position he held until 1948. While in England, Hayek published *Monetary Nationalism and International Stability* (1937), *Profits Interest and Investment* (1939), *The Road to Serfdom* (1944), and *Individualism and Economic Order* (1948); and he edited *Collectivist Economic Planning*.

In 1947, he brought together many of the leading proponents in the world of classical liberalism and economic liberty for a conference at Mont Pelerin, Switzerland, and he founded the Mont Pelerin Society.

In 1950, Hayek moved to the University of Chicago as professor of social and moral philosophy, a position he held until 1962. During this period, he published *The Counter Revolution of Science* (1952), *The Constitution of Liberty* (1961), and *The Sensory Order* (1952); and he edited *Capitalism and the Historians* (1954).

From 1962 to 1967, he was professor of economic policy at the University of Freiburg, then professor of economics at the University of Salzburg until 1974, at which he returned to the University of Freiburg, and

was professor emeritus there at the time of his death.

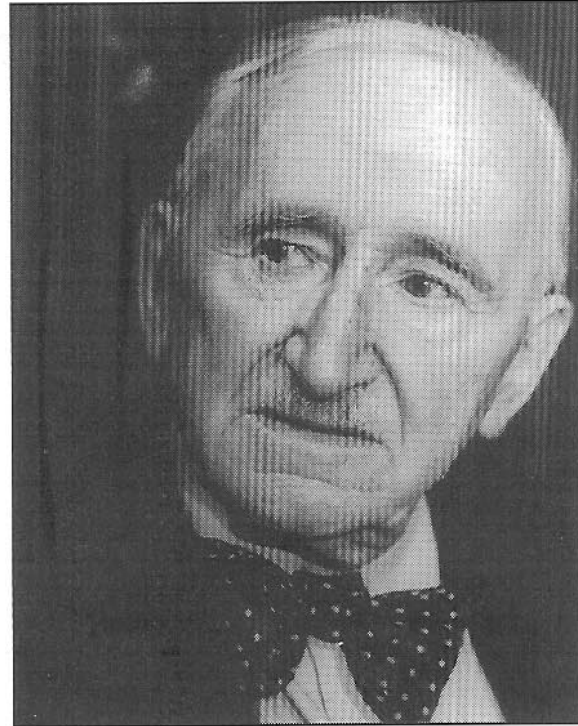
Among his works during this period were *Studies in Philosophy, Politics and Economics* (1967), *Law, Legislation and Liberty* (3 volumes, 1973-78), *Denationalisation of Money* (1976), *New Studies in Philosophy, Politics, Economics and the History of Ideas* (1978) and *The Fatal Conceit: The Errors of Socialism* (1990).

In 1974 he was awarded the Nobel Memorial Prize for Economic Science by the Swedish Academy of Sciences.

In the 1930s, Friedrich Hayek was the leading opponent of John Maynard Keynes and the emerging Keynesian Economics. Developing several of Mises's ideas, Hayek argued that the Great Depression had been caused by the Federal Reserve System and its attempt to stabilise the "price level" through monetary manipulation in the 1920s. Hayek said that the only cure for the Depression was allowing the market to self-correct in the face of the economic distortions and misallocations of labour and capital created by central bank mismanagement of money and credit.

When Keynes tried to argue that the cure for the Depression was governmental deficit spending, monetary expansion and increased governmental control and management of investment and spending, Hayek insisted that Keynes' focus on macroeconomic aggregates and averages hid from view all of the microeconomic price and cost relationships that were the real factors that determined investment profitability and employment opportunities. Hayek insisted that the types of policies advocated by Keynes would only be setting the stage for a future economic downturn by generating another artificial inflationary boom.

In the 1930s and 1940s, Hayek and Mises were the leading opponents of socialist central planning. Hayek's particular and profound contribution to the debate over the feasibility of socialism was the following argument: that the more complex a society, the more difficult it becomes for a central planner to possess the required knowledge to co-ordinate all the economic activity of that society. In a system of division of labour, human knowledge is also divided. Each member of society possesses a small fraction of all the world's knowledge. A successful co-ordination of all these bits of knowledge,



upon which the prosperity of the social order depends, is only possible through the use of market competition that transmits essential information about changing supply and demand conditions to every corner of the market through the price mechanism. Thus, the market competition also serves as a "discovery procedure" for finding out the capabilities and comparative advantage of each member of the social division of labour.

Furthermore, Hayek argued that the movement towards a planned economy would also result in the taking of a road that would lead to serfdom. Once the state takes over responsibility for the economic planning of society, it inevitably follows that the state controls access to employment. The state sets the levels of people's incomes, distributes the supply of all the goods and services made under the control of the state, and determines who has the use of the printing presses, lecture halls and artistic facilities. And since the political arena will be the only avenue of success and personal improvement, the worst qualities in people will tend to surface in the battle for political power, with the result that, in general, that the worst people will get on top.

Hayek's criticisms of socialist central planning led him to attack the premise behind all attempts at social engineering. Developing some of the ideas of Carl Menger, the founder of the Austrian School of Economics, Hayek argued that the central

planners and the social engineers all suffered from a "pretence of knowledge" (the title of his Nobel lecture).

Society and its institutions, he explained, are primarily the results of evolutionary processes that have created a vast and intricate spontaneous order. Language, custom, morality and the often unwritten rules of just conduct, as well as the institutions and workings of the market place, are the results of human action, but not of human design. They are the cumulative results of generations of a multitude of human beings acting and interacting in various ways for their individual purposes. Society and its institutions are the product of the shared and contributed knowledge and wisdom of many more people than any social engineer could ever hope to understand and comprehend. To limit society's development to what the social planners can master and handle is to straight jacket all social improvement and create an environment of social and economic stagnation.

Only when men are free to pursue their own ends for their own purposes can all of us benefit from the knowledge and creative capability that resides in some form in each of us. Only then can the social order incorporate all the knowledge in the world, knowledge that exists as fragmentary

parts in all of us, but resides in none of us. The social engineer's pretence of knowledge arises from his arrogance in believing that he has the ability to transcend the inherent limits of individual human knowledge

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In his essay "On Liberty", John Stuart Mill states that no one can be a great

thinker who does not realise that, as a thinker, his first duty is to follow his intellect to whatever conclusions it may lead. In a century hell-bent on collectivism, Hayek chose to follow his intellect to conclusions that challenged the premises of the age in which he lived. He paid a price for it. For several decades during the period of the Keynesian domination of economics, his writings on Austrian monetary and business cycle theory were totally forgotten. In an era during which conventional wisdom claimed that planning, interventionism and the welfare state were inevitable and desirable, Hayek's political writings were sneered at as the works of a dinosaur, soon to be extinct.

Hayek's good fortune was that he lived to see his ideas proven right and those of his opponents shown to be relics of a bygone era. Not only has socialism and the planned society been shown to be theoretically untenable, the collapse of communism has demonstrated the practical impossibility of the social engineer's designing fantasies. The world, with the help of Hayek's ideas may finally complete the task of rising up from serfdom.

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