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EDITED BY FRITZ MACHLUP

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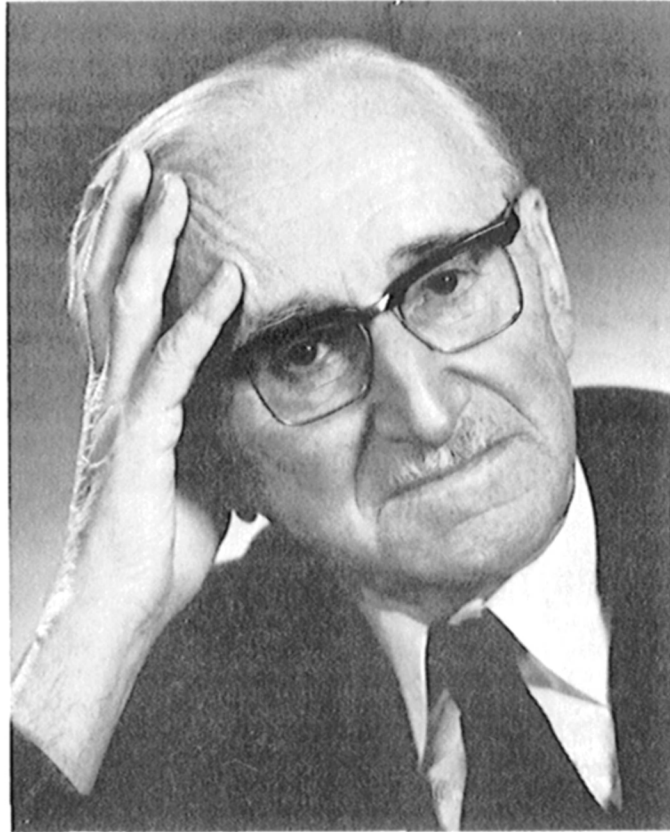
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FRIEDRICH A. HAYEK

Edited by Fritz Machlup
Foreword by Milton Friedman

ESSAYS ON **HAYEK**

WILLIAM F. BUCKLEY, JR.
GOTTFRIED DIETZE
RONALD MAX HARTWELL
SHIRLEY ROBIN LETWIN
FRITZ MACHLUP
GEORGE C. ROCHE III
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LONDON AND NEW YORK

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Notes from the Editor

This book is not designed as a *festschrift* nor as a volume of conference proceedings, though it shares some attributes of both: it is intended to honor Friedrich von Hayek and it contains essays presented at a conference. A genuine *festschrift* would have more contributors, most of them writing, not about the work of the man they wish to honor, but on a subject of their own choosing (though preferably in a field of interest to the honored person). Such a *festschrift* was, in fact, published under the title *Roads to Freedom*, edited by Erich Streissler *et al.* (London: Routledge & Kegan Paul, 1969, xix and 315 pages) with contributions by 14 of Hayek's friends and admirers. A genuine volume of proceedings would usually not be limited to the principal papers delivered at the conference; as a rule, it would contain also verbatim transcripts or condensed reports of the participants' contributions to the discussion of the papers. The present volume is confined to the major essays presented at a conference and to a foreword by the chairman of its opening session.

The conference at which the *Essays on Hayek* were delivered was a special regional meeting of the Mont Pelerin Society, held from August 24 to 28, 1975, at Hillsdale College in Hillsdale, Michigan. The editor believes that he should first enlighten those of the readers who do not know much, if anything, about the Mont Pelerin Society.

The Mont Pelerin Society

This association was founded in April 1947. A group of 39 persons had been called together at the instigation of Friedrich von Hayek to exchange ideas about the nature of a free society, about the dangers to its survival, and about the ways and means of strengthening its intellectual support. The group included economists, philosophers, jurists, historians, political scientists, literary critics, and publicists. Some of them had known one another personally, some had been

known only by their writings, but all were known as strong believers in political, economic, and moral freedom. They had come from ten different countries.

After spending ten days in intellectual communion on the beautiful Mont Pelerin, near Vevey, Switzerland, overlooking the Lake of Geneva, the group concluded that the discussions had been so stimulating and invigorating that opportunities for recurring meetings should be afforded by organizing a small international society of scholars, men of affairs, and men of letters (of both sexes, of course). The program of the society was clear, but the choice of a name was not. After rejecting a few proposed names, the group agreed to call itself, by the name of its first meeting place, the Mont Pelerin Society. The group adopted a concise "Statement of Aims," which well merits full reproduction at this point:

STATEMENT OF AIMS

A group of economists, historians, philosophers and other students of public affairs from Europe and the United States met at Mont Pelerin, Switzerland, from April 1st to 10th, 1947, to discuss the crisis of our times. This group, being desirous of perpetuating its existence for promoting further intercourse and for inviting the collaboration of other like-minded persons, has agreed upon the following statement of aims.

The central values of civilisation are in danger. Over large stretches of the earth's surface the essential conditions of human dignity and freedom have already disappeared. In others they are under constant menace from the development of current tendencies of policy. The position of the individual and the voluntary group are progressively undermined by extensions of arbitrary power. Even that most precious possession of Western Man, freedom of thought and expression, is threatened by the spread of creeds which, claiming the privilege of tolerance when in the position of a minority, seek only to establish a position of power in which they can suppress and obliterate all views but their own.

The group holds that these developments have been fostered by the growth of a view of history which denies all absolute moral standards and by the growth of theories which question the desirability of the rule of law. It holds further that they have been fostered by a decline of belief in private property and the competitive market; for without the diffused power and initiative associated with these institutions it is difficult to imagine a society in which freedom may be effectively preserved.

Believing that what is essentially an ideological movement must be met by intellectual argument and the reassertion of valid ideals,

the group, having made a preliminary exploration of the ground, is of the opinion that further study is desirable *inter alia* in regard to the following matters:

(1) The analysis and exploration of the nature of the present crisis so as to bring home to others its essential moral and economic origins.

(2) The redefinition of the functions of the state so as to distinguish more clearly between the totalitarian and the liberal order.

(3) Methods of re-establishing the rule of law and of assuring its development in such manner that individuals and groups are not in a position to encroach upon the freedom of others and private rights are not allowed to become a basis of predatory power.

(4) The possibility of establishing minimum standards by means not inimical to initiative and the functioning of the market.

(5) Methods of combating the misuse of history for the furtherance of creeds hostile to liberty.

(6) The problem of the creation of an international order conducive to the safeguarding of peace and liberty and permitting the establishment of harmonious international economic relations.

The group does not aspire to conduct propaganda. It seeks to establish no meticulous and hampering orthodoxy. It aligns itself with no particular party. Its object is solely, by facilitating the exchange of views among minds inspired by certain ideals and broad conceptions held in common, to contribute to the preservation and improvement of the free society.

Mont Pelerin (Vaud), Switzerland, April 8, 1947

Friedrich Hayek served for over 12 years as president of the Society and, when he resigned this office in 1960, was elected honorary president. Over the 29 years since its founding, the Society held 27 meetings in 12 countries: Austria, Belgium, France, Germany, Guatemala, Italy, Japan, the Netherlands, Switzerland, United Kingdom, the United States, and Venezuela. Faithful to its stated aims, the Society takes no actions, makes no public pronouncements, and does not engage in propaganda. Its only functions are to organize meetings to debate issues of public and international concern, and thus to afford its members, through exchanges of ideas with like-minded students of and believers in liberty, opportunities for recharging their moral batteries: these batteries are likely to run down or even go dead if their owners lack intellectual contacts with other analysts of the free society and are constantly exposed to the judgments of collectivists and "socialists of all parties."

All contributors to this book are members of the Mont Pelerin Society. Milton Friedman and Fritz Machlup are founding members (1947-); Friedman served as president from 1970 to 1972, Machlup as treasurer from 1954 to 1959. Arthur Shenfield was president from 1972 to 1974. Gottfried Dietze has been a member since 1959, Ronald Max Hartwell and Shirley Letwin since 1969, George Roche since 1971, and William Buckley since 1972. Notes on the contributors are on pp. v-vii.

Liberalism and Libertarianism

A strong attachment to liberalism unites the members of the Mont Pelerin Society, but it is the classical brand of liberalism, the one sometimes described as Nineteenth Century Liberalism, or liberalism in the continental European sense. Words have a habit of changing their meaning, especially if those who adopt them are not careful students of the literature or avid users of dictionaries. Thus it happened that, particularly in the United States, the word "liberalism" has been gradually appropriated by champions of collectivism who reject liberalism in its classical sense. (See my essay on "Liberalism and the Choice of Freedoms," in Erich Streissler, *et al.*, eds., *Roads to Freedom*, pp. 117-146.)

Old liberals may go on calling themselves by this designation—which is rightfully theirs—but they do so at the risk of being confused with American liberals. To avoid such confusion, they may resort either to explanatory footnotes or to adopting a new appellation for themselves, such as "libertarians." The most essential difference is that the classical liberal wants the individual to be free from coercive interferences, especially from interventions by the state, whereas the American liberal wants the state to intervene in all sorts of situations and restrict the individual's freedom of action in a variety of ways for a variety of objectives.

Hayek, the Nobel Laureate

In October 1974 the Nobel Prize Committee announced that it had awarded the Nobel Prize in Economic Science to

Gunnar Myrdal and Friedrich von Hayek. The Mont Pelerin Society subsequently decided to celebrate this award to its founder and honorary president by devoting a regional meeting to a discussion of his work as scholar and teacher.

The editor does not believe that he should at this point provide either an appraisal or a biographical sketch of Professor Hayek. For such a sketch he may refer readers to the first section in his own essay—see pp. 13-14, below. For an official appraisal of Hayek he may be permitted to quote a few paragraphs from the Official Announcement of the Royal Academy of Sciences, republished by the *Swedish Journal of Economics*, Vol. 76 (December 1974), pp. 469 ff.; they refer in part also to Myrdal, with whom Hayek shared the prize, but the passages selected for reproduction here are those that relate chiefly to Hayek.

*Excerpts from the Official Announcement
of the Royal Academy of Sciences*

The Royal Swedish Academy of Sciences has awarded Professor Gunnar Myrdal and Professor Friedrich von Hayek the Prize in Economic Science in memory of Alfred Nobel for 1974. The Prize has been awarded for their pioneering work in the theory of money and economic fluctuations and for their penetrating analysis of the interdependence of economic, social and institutional phenomena.

The Academy of Sciences is of the opinion that, in addition to their contributions to economic theory, Myrdal and von Hayek have carried out important inter-disciplinary research so successfully that their combined contributions should be awarded the Prize for Economic Science.

Since the Economics Prize was inaugurated, the names of two economists, whose research has reached beyond pure economic science, have always been on the list of proposed prizewinners: Gunnar Myrdal and Friedrich von Hayek. They both began their research careers with significant works in the field of pure *economic* theory. In the main their early work—in the twenties and thirties—was in the same fields: theory of economic fluctuation and monetary theory. Since then both economists have widened their horizons to include broad aspects of social and institutional phenomena.

Mainly by directing most of his research to economic problems in the broadest sense, particularly the Negro problem in the USA and poverty in the developing countries, Myrdal has sought to relate economic analysis to social, demographic and institutional conditions. Von Hayek has extended his field of study to embrace such elements as the legal framework of economic systems and

issues concerning the ways individuals, organizations and various social systems function. Both have been deeply interested in problems of economic policy and have therefore also studied changes in the organizational, institutional and legal conditions in our societies.

A quality which Myrdal and von Hayek have in common is a well-documented ability to find new and original ways of posing questions and presenting new ideas on causes and policies. This characteristic has often made them somewhat controversial. This is only natural when the field of research is extended to include factors and linkages which economists usually take for granted or neglect.

Von Hayek's contributions in the field of economic theory are both profound and original. His scientific books and articles in the twenties and thirties aroused widespread and lively debate. Particularly his theory of business cycles and his conception of the effects of monetary and credit policies attracted attention and evoked animated discussion. He tried to penetrate more deeply into the business-cycle mechanism than was usual at that time. Perhaps partly due to this more profound analysis, he was one of the few economists who warned about the possibility of a major economic crisis before the great crash came in the autumn of 1929. Von Hayek showed how monetary expansion accompanied by lending which exceeded the rate of voluntary saving could lead to a misallocation of resources, particularly affecting the structure of capital. This type of business cycle theory with links to monetary expansion has fundamental features in common with the postwar monetary discussion. The Academy is of the opinion that von Hayek's analysis of the functional efficiency of different economic systems is one of his most significant contributions to economic research in the broader sense. From the mid-thirties he embarked on penetrating studies of the problems of centralized planning. As in all areas where von Hayek has carried out research, he gave a profound historical exposé of the history of doctrines and opinions in this field. He presented new ideas with regard to basic difficulties in "socialist planning" and investigated the possibilities of achieving effective results through decentralized "market socialism" in various forms. His guiding principle when comparing various systems was to study how efficiently all the knowledge and information dispersed among individuals and enterprises is utilized. He concluded that only through far-reaching decentralization in a market system with competition and free price-fixing would it be possible to make full use of knowledge and information.

Von Hayek's ideas and his analysis of the efficiency of economic systems were published in a number of works during the forties and fifties and have without doubt provided significant impulses to the extensive and growing field of research in "comparative economic systems."

Hayek's Responses

This is a book on Hayek, not by Hayek. Of course, a scholarly appraisal of Hayek's work cannot refrain from providing many quotations. An ample supply of statements by him will therefore be found in the various essays that form the bulk of this book.

The proponents of this book were sorely tempted to include, for the reader's illumination, a reproduction of the Nobel Memorial Lecture which Hayek delivered in Stockholm, on December 11, 1974, under the title "The Pretence of Knowledge." This plan was discarded, because it would not be appropriate to include a major address by Hayek in a book designed to discuss and appraise his work. The lecture was published by the Nobel Foundation in the volume *Les Prix Nobel 1974* (Stockholm, 1975), pp. 249-258. It was republished as Part II of F. A. Hayek, *Full Employment at Any Price?*, Occasional Paper No. 45 of the Institute of Economic Affairs (London, July 1975).

It would not be inappropriate, however, to reproduce here the very brief speech which Hayek made at the banquet given to the Nobel Laureates in Stockholm after the presentation of the prizes. These few sentences, reprinted here with the kind permission of the Nobel Foundation from the volume *Les Prix Nobel 1974*, pp. 38-39, testify to Hayek's modesty and moral integrity:

F. A. von Hayek

Your Majesty, Your Royal Highnesses, Ladies and Gentlemen,

Now that the Nobel Memorial Prize for economic science has been created, one can only be profoundly grateful for having been selected as one of its joint recipients, and the economists certainly have every reason for being grateful to the Swedish Riksbank for regarding their subject as worthy of this high honour.

Yet I must confess that if I had been consulted whether to establish a Nobel Prize in economics, I should have decidedly advised against it.

One reason was that I feared that such a prize, as I believe is true of the activities of some of the great scientific foundations, would tend to accentuate the swings of scientific fashion.

This apprehension the selection committee has brilliantly refuted by awarding the prize to one whose views are as unfashionable as mine are.