

# Hayek: A Collaborative Biography

Robert Leeson

---

Part IV England, the Ordinal Revolution  
and the Road to Serfdom, 1931–1950



# Hayek: A Collaborative Biography

## *Archival Insights into the Evolution of Economics*

Series Editor: **Robert Leeson**

This series provides a systematic archival examination of the process by which economics is constructed and disseminated. All the major schools of economics will be subject to critical scrutiny; a concluding volume will attempt to synthesise the insights into a unifying general theory of knowledge construction and influence.

*Titles include:*

Robert Leeson (*editor*)

THE KEYNESIAN TRADITION

Robert Leeson (*editor*)

THE ANTI-KEYNESIAN TRADITION

Robert Leeson (*editor*)

AMERICAN POWER AND POLICY

Roger Frantz and Robert Leeson (*editors*)

HAYEK AND BEHAVIORAL ECONOMICS

Robert Leeson (*editor*)

HAYEK: A COLLABORATIVE BIOGRAPHY

*Part I Influences from Mises to Bartley*

Robert Leeson (*editor*)

HAYEK: A COLLABORATIVE BIOGRAPHY

*Part II Austria, America and the Rise of Hitler, 1899–1933*

Robert Leeson (*editor*)

HAYEK: A COLLABORATIVE BIOGRAPHY

*Part III Fraud, Fascism and Free Market Religion*

Robert Leeson (*editor*)

HAYEK: A COLLABORATIVE BIOGRAPHY

*Part IV England, the Ordinal Revolution and the Road to Serfdom, 1931–50*

Robert Leeson (*editor*)

HAYEK: A COLLABORATIVE BIOGRAPHY

*Part V Hayek's Great Society of Free Men*

Robert Leeson (*editor*)

HAYEK: A COLLABORATIVE BIOGRAPHY

*Part VI Good Dictators, Sovereign Producers and Hayek's 'Ruthless Consistency'*

David Hardwick and Leslie Marsh (*editors*)

PROPRIETY AND PROSPERITY

*New Studies on the Philosophy of Adam Smith*

*Forthcoming titles:*

Robert Leeson (*editor*)

HAYEK AND THE AUSTRIAN SCHOOL

Leslie Marsh and Roger Franz (*editors*)

MINDS, MODELS AND MILIEUX

---

### **Archival Insights into the Evolution of Economics**

**Series Standing Order ISBN: 978–1–4039–9520–9 (Hardback)**

You can receive future titles in this series as they are published by placing a standing order. Please contact your bookseller or, in case of difficulty, write to us at the address below with your name and address, the titles of the series and the ISBN quoted above.

Customer Service Department, Macmillan Distribution Ltd, Houndmills, Basingstoke, Hampshire RG21 6XS, England.

---

# Hayek: A Collaborative Biography

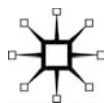
## Part IV England, the Ordinal Revolution and the Road to Serfdom, 1931–1950

Edited by

Robert Leeson

*Visiting Professor of Economics, Stanford University*

palgrave  
macmillan



Editorial matter, introduction and collection © Robert Leeson 2015  
Individual chapters © Contributors 2015  
Softcover reprint of the hardcover 1st edition 2015 978-1-137-45259-7

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No portion of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, Saffron House, 6–10 Kirby Street, London EC1N 8TS.

Any person who does any unauthorized act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

The authors have asserted their rights to be identified as the authors of this work in accordance with the Copyright, Designs and Patents Act 1988.

First published 2015 by  
PALGRAVE MACMILLAN

Palgrave Macmillan in the UK is an imprint of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire RG21 6XS.

Palgrave Macmillan in the US is a division of St Martin's Press LLC, 175 Fifth Avenue, New York, NY10010.

Palgrave Macmillan is the global academic imprint of the above companies and has companies and representatives throughout the world.

Palgrave® and Macmillan® are registered trademarks in the United States, the United Kingdom, Europe and other countries

ISBN 978-1-349-49747-8      ISBN 978-1-137-45260-3 (eBook)  
DOI 10.1057/9781137452603

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

A catalog record for this book is available from the Library of Congress.

# Contents

<i>Notes on Contributors</i>	vi
1 Introduction <i>Robert Leeson</i>	1
2 The Spiked Helmets of the Österreichische Schule <i>Robert Leeson</i>	67
3 Hayek and His Eastern Reich Fathers <i>Robert Leeson</i>	111
4 Austrian Debates on Utility Measurement from Menger to Hayek <i>Ivan Moscati</i>	137
5 Hayek, the ‘Spontaneous’ Order and the Social Objectives of Michael Polanyi <i>Struan Jacobs</i>	180
6 The Other Path to Mont Pelerin <i>Jeremy Sheamur</i>	197
7 Morality versus Money: Hayek’s Move to the University of Chicago <i>David Mitch</i>	215
<i>Index</i>	257

# Notes on Contributors

**Struan Jacobs**, Senior Lecturer, Faculty of Arts-Education, Deakin University.

**Robert Leeson**, Visiting Professor of Economics, Stanford University, and Adjunct Professor of Economics, University of Notre Dame Australia.

**David Mitch**, Professor of Economics and Graduate Program Director of the MA Program in Economic Policy Analysis, University of Maryland, Baltimore County.

**Ivan Moscati**, Associate Professor of Economics at the University of Insubria, Varese, Italy, and Adjunct Professor in History of Economic Thought at Bocconi University, Milan, Italy.

**Jeremy Shearmur**, Emeritus Fellow, School of Philosophy, Research School of Social Science, College of Arts and Social Sciences, Australian National University.

# 1

## Introduction

*Robert Leeson*

### White Terror

Friedrich August Hayek (1899–1992) was born a Habsburg ‘von’ – and died a Nobel Laureate (1974), a House of Windsor Companion of Honour (1984) and a recipient of President George W. H. Bush’s Medal of Freedom (1991). In *The Road from Serfdom*, Erik ‘Ritter von’ Kuehnelt-Leddihn (1992) explained:

with the exception of Fritz Machlup, the original Austrian school consisted of members of the nobility....[Hayek] descended from a family ennobled at the end of the eighteenth century by the Holy Roman Emperor.

Hayek (1978) grew up in Vienna, which had been at the heart of the Holy Roman Empire: ‘one of the great cultural and political centers of Europe’. When he was 19, the Habsburg Empire collapsed: the Great War was ‘a great break in my recollected history’. It also broke the Habsburg nobility: on 3 April 1919, what Hayek (1978) called ‘a republic of peasants and workers’ abolished coats of arms and titles (*Adelsaufhebungsgesetz*, the Law on the Abolition of Nobility).<sup>1</sup>

Republics transform ‘subjects’ into ‘citizens’: the status of “‘German Austrian citizens” equal before the law in all respects’ was forcibly imposed on Austrian nobles (Gusejnova 2012, 115). In the 17th century, *The World Turned Upside Down* during the Civil War (or English Revolution) (Hill 1972); after 1919, those previously at the top of the Habsburg social and political edifice and still claiming intergenerational entitlements (‘von’, ‘Archduke’, ‘Count’ etc), faced fines or six months’ jail.



The neo-feudal century (1815–1914) was an unstable equilibrium: Hayek (1978) reflected that

the world which ended either in 1914 or, more correctly, two or three years later when the war had a real impact, was a wholly different world from the world which has existed since. The tradition died very largely; it died particularly in my native town, Vienna.<sup>2</sup>

Between 1917 and 1922, almost two-and-a-half millennia of order imposed by four wealthy families ended: the Romanovs (1613–1917), the Hohenzollerns (1061–1918), the Habsburgs (1276–1918) and the Ottomans (1299–1922). After 1919, two wealthy beneficiaries of one of those systems – Hayek and his patron, Ludwig Mises – sought to reconstruct a ‘spontaneous’ order.

The upward mobility of Hayek’s family (1994, 37) illustrates the process of neo-feudal social advancement. His great-great-great-grandfather, Laurenz Hayek, had ‘served one of the great aristocratic land-owners of Moravia’. Laurenz’s son, Josef Hayek (1750–1837),

followed the landowner to Vienna as secretary when he was appointed to high government office, and after returning with him to Moravia became steward of the estate. In this capacity Josef Hayek developed two new textile factories in Moravia and Lower Austria, which in turn led to two new villages. He eventually also became a partner in these factories and acquired a substantial fortune. This was a significant achievement in the Austria of 1789, and it was this that led Kaiser Josef II to ennoble him ... the minor title of nobility (the ‘von’) which the family still bears.

Simultaneously, the Mises family became ‘wealthy merchants’ and in 1881 were rewarded with a ‘von’ (Hülsmann 2007, 6, 15). The Habsburgs allowed such families to turn business success into intergenerational entitlements. This led to concerns about the consequences of democracy for the sanctity of ‘property’ (Mises (1985 [1927], 19; see also Rothbard 1992; Greenspan 2008, 52; Rand 1943, 1957, 1964).

Hayek’s (1978) Austrian School mentor, Friedrich von Wieser ‘floated high above the students as a sort of God’;<sup>3</sup> Wieser (1983 [1926], 226) also reflected on the consequences of the Great War:

When the dynastic keystone dropped out of the monarchical edifice, things were not over and done with. The moral effect spread out across the entire society witnessing this unheard-of event. Shaken

was the structure not only of the political but also of the entire social edifice, which fundamentally was held together not by the external resources of power but by forces of the soul. By far the most important disintegrating effect occurred in Russia.

During the French Revolution, the *muscadin* – dandyish, musk perfume-wearing mobs – were the street-fighters of Thermidorian Reaction (the First White Terror); the return of the Bourbon King Louis XVIII led to the Second White Terror (directed at those with links to the former regimes). The Romanovs had long tolerated anti-Semitic pogroms: ‘the Jews’ were blamed for the 1881 assassination of Alexander II, Emperor and Autocrat of all the Russias. The resulting repressive May Laws (1882–1917) further restricted the civil rights of Jews. According to Peter Kenez (1991, 347), in 1919 alone 100,000 Jews were liquidated in the White Terror response to the Russian Revolution.

Mises (1881–1973) was born a ‘von’, and lived with ‘great chagrin’ because of his status as an academic market failure (Hayek 1978) – yet he died a Distinguished Fellow of the American Economic Association (1969).<sup>4</sup> In his *Memoirs*, written in 1940 from the safety of neutral America (where he had fled to from neutral Switzerland), Mises (2009a [1978], 62–63) explained:

The most important task I undertook during the first period, which lasted from the time of the monarchy’s collapse in the fall of 1918 until the fall of 1919, was the forestalling of a Bolshevik takeover. The fact that events did not lead to such a regime in Vienna was my success and mine alone. Few supported me in my efforts, and any help was relatively ineffective.

After three-and-a-half years as a prisoner-of-war in Russia, Otto Bauer, the Social Democratic Workers’ Party of Austria (*Sozialdemokratische Arbeiterpartei Österreichs*) Foreign Minister of ‘German-Austria’, negotiated a union with the defeated Germany, with Vienna as the second city after Berlin. On 5 March 1919, the Austrian president declared in parliament: ‘The Entente cannot limit the right of free disposition which is undoubtedly ours’ (*New York Times* 1919). However, this ‘Teutonic Union’ was prohibited by the peace treaties. According to Mises (2009a [1978], 62–63):

I have already mentioned the success of my influence with Otto Bauer in this regard. I alone convinced Bauer to abandon the idea of

seeking union with Moscow... When this danger had been overcome, I directed all of my efforts toward putting an end to inflation.

On 1 March 1934, Mises joined the Austro-Fascist Patriotic Front and their *Werk Neues Leben* social club (Hülsmann 2007, 677, n149). He had White Terror allies:

It cannot be denied that Fascism and similar movements aiming at the establishment of dictatorships are full of the best intentions and that their intervention has, for the moment, saved European civilization. The merit that Fascism has thereby won for itself will live on eternally in history.

The 'similar movements' of 'bloody counteraction' that Mises (1985 [1927], 42–51, 19, 44) referred to included the anti-Semitic '*L'Action Française*' plus 'Germans and Italians'. ('Italians' obviously refers to Mussolini's 1922 March on Rome; 'Ludendorff and Hitler' obviously refers to the 1923 *Ludendorff-Hitlerputsch* or Munich Beer Hall putsch.)

John Maynard Keynes (1919) resigned from the British government over the peace treaties that created the resentful environment in which fascism could emerge and thrive. In his 'A Plea for the Statement of Allies' Terms', his co-leader of the third generation British Neoclassical School, A. C. Pigou (1916), stated:

I have seen the shattered ruins of Ypres cathedral; I have watched the mud-stained soldiery staggering homeward from their trenches; I have been nearby when children in Dunkirk have been maimed and killed from the air. And the sorrow, terror, and pain that these things represent – the pitiful slaughter of the youth of seven nations, the awful waste of effort and organising power, the dulling and stunting of our human sympathies.

In continental Europe, the search for alternative, post-neo-feudal social and political foundations were undermined by the Austrian 'liquidation' policies that turned the bursting of an asset price bubble into the Great Depression (Galbraith 1975, 173; Haberler 1986, 425; Hoover 1952, 30).<sup>5</sup> Adolf Hitler, with his understanding about the 'great lie', created political disorder so as to present himself as the 'order'-based saviour, and then justified his dictatorship with *völkisch* folklore. In *Mein Kampf*, Hitler (1939 [1925], 161, 165–166, 518) reported that an October 1918 British gas attack at Ypres ended his war: soldiers

lay gasping and choking during gas attacks, neither flinching nor faltering, but remaining staunch to the thought of defending the Fatherland... Has all this been done in order to enable a gang of despicable criminals to lay hands on the fatherland?... I then decided that I would take up political work... At the beginning of the war, or even during the war, if 12,000 or 15,000 of these Jews who were corrupting the nation had been forced to submit to poison gas... then the millions of sacrifices made at the front would not have been in vain.

Two years later, the Jewish-born Mises (1985 [1927], 49) predicted:

The deeds of the Fascists and of other parties corresponding to them were emotional reflex actions evoked by indignation at the deeds of the Bolsheviks and Communists. As soon as the first flush of anger had passed, their policy took a more moderate course and will probably become even more so with the passage of time.

Misesian liberals and Fascists were allies but differed in tactics:

What distinguished liberal from Fascist tactics is not a difference of opinion regarding the use of armed force to resist armed attackers, but a difference in the fundamental estimation about the role of violence in a struggle for power.

Violence was 'the highest principle' and must lead to

civil war. The ultimate victor to emerge will be the faction strongest in number... The decisive question, therefore always remains: How does one obtain a majority for one's own party? This however is purely an intellectual matter.

Fascism would have to embrace Mises' (1985 [1927], 50, 19) liberalism to achieve their common aims: if Fascism 'wanted really to combat socialism it would oppose it with ideas'. Mises would provide these ideas: 'There is however only one idea that can be effectively opposed to socialism, viz, liberalism'. Mises provided a historicist inevitability justification:

Fascism will never succeed as completely as Russian Bolshevism from freeing itself from the power of liberal ideas... The next episode will be the victory of communism.

Mises' justification for this tactical embrace was that fascists would protect property – which he saw as the very essence of liberty.

The anti-Semitic Hayek (1978) initially disliked Mises:

At first we all felt he was frightfully exaggerating and even offensive in tone. You see, he hurt all our deepest feelings, but gradually he won us around, although for a long time I had to – I just learned he was usually right in his conclusions, but I was not completely satisfied with his argument. That, I think, followed me right through my life. I was always influenced by Mises's answers, but not fully satisfied by his arguments. It became very largely an attempt to improve the argument, which I realized led to correct conclusions. But the question of why it hadn't persuaded most other people became important to me; so I became anxious to put it in a more effective form.<sup>6</sup>

Hayek's mental illness manifested itself in obsessive self-interest and extreme mood swings: from suicidal depression to what he called 'frightfully egotistic' feelings.<sup>7</sup> Hayek became 'upset' after reading an article on schizophrenia: his secretary and appointed biographer, Charlotte Cubitt (2006, 188), 'wondered whether he thought it was referring to himself or Mrs Hayek'. The Nobel Prize exacerbated this personality split: Walter Grinder detected 'almost two different people' (Ebenstein 2003, 264).

Hayek (1978) marvelled at his own intellectual achievements as a law student: 300 out of 2000–3000 University of Vienna law students 'had really intellectual interests'; and, in any given year,

perhaps twenty would have an acute intellectual interest... I would go to lectures on biology, to lectures on art history, to lectures on philosophy, certainly, and certain biological lectures. I sampled around... I sometimes marvel how much I could do in the three years when you think, as I mentioned before, my official study was law. I did all my exams with distinction in law, and yet I divided my time about equally between economics and psychology. I had been to all these other lectures and to the theater every evening almost.<sup>8</sup>

Hayek (1978) recalled:

you could study economics in Vienna only as part of the law degree; so I did a regular law degree, although only the first part in the normal way. Thus, I have a very good education in the history of law. But then I discovered that I could claim veterans' privileges, and so I did

the second part in modern law in a rush and forgot most of modern Austrian law. I was later again interested. In fact, in 1939, or rather in 1940, I was just negotiating with the Inner Temple people to read for a barrister there when I had to move to Cambridge; so the thing was abandoned. But I got so fascinated with the differences of the two legal systems – and my interests had turned to these problems.<sup>9</sup>

As Austrian theory predicts, Hayek's (1978) social philosophy was driven by his own self-interest:

I think in general the question of the franchise is what powers they can confer to the people they elect. As long as you elect a single, omnipotent legislature, of course there is no way of preventing the people from abusing that power without the legislature's being forced to make so many concessions to particular groups. I see no other solution than my scheme of dividing proper legislation from a governmental assembly, which is under the laws laid down by the first. After all, such a newfangled conception gradually spreads and begins to be understood. And, after all, in a sense, the conception of democracy was an artifact which captured public opinion after it had been a speculation of the philosophers. Why shouldn't – as a proper heading – the need for restoring the rule of law become an equally effective catchword, once people become aware of the essential arbitrariness of the present government.'<sup>10</sup>

Hayek (1978) informed Leo Rosten:

The idea of equality before the law is an essential basis of a civilized society, but equality before the law is not compatible with trying to make people equal...our whole morals have been based on our esteeming people differently according to how they behave, and the modern kind of egalitarianism is destructive of all moral conceptions which we have had.<sup>11</sup>

Hayek (1994, 107) also explained:

you are only prohibited from calling yourself von in Austria...I was a law abiding citizen and completely stopped using the title von.

Some are more equal than others: he repeatedly called himself 'von' Hayek in his publications: including, symbolically, his *Economica* essay on 'The Maintenance of Capital' (1935).

Under Paragraph 83 of the 1811 Habsburg Civil Code, 'weighty considerations' could be considered grounds for aristocratic re-marriage (Silverman 1984, 691–702, 87–88). But 'arbitrary' British law did not allow Hayek dispensation to request a divorce when his first wife refused – and so in 1950, Hayek moved to Arkansas to satisfy the brief residency requirements for what Lionel Robbins described as a 'bootleg divorce' (Cubitt 2006, 67, 64). Jurisdictional arbitration imposed transaction costs on Hayek (1994, 98): 'if it had not been for very special circumstances, I should never have wished to leave [England] again'; the third party costs fell on his first wife and two children.<sup>12</sup>

The avoidance of marriage was central to Mises' middle age. When he met Margit Sereny in 1925, she was a 35-year-old widow with two young children. Mises declined to marry her until 1938 – after his own widowed mother died:

He knew I needed a father for my children; he was aware of the fact that I gave them all the love and affection I was capable of. But children need more than a loving and doting mother. They need guidance and direction for their development, and I, as a mother alone, was well aware that I was not strong enough to give them what they deserved ... Soon after we became engaged, he grew afraid of marriage, the bond it would mean, the change that children would bring to a quiet home, and the responsibilities that might detract him from his work. So it was a stormy relationship, the old problem of Adam and Eve. But we did not live in Paradise – far from it. We never had a fight between us. Lu fought himself, and then made me suffer. (Margit Mises 1984, 18, 19; Hülsmann 2007, 518–522)

In *Socialism*, Mises (1951 [1922], 85, 87, 90) justified his type of behaviour:

In the life of a genius, however loving, the woman and whatever goes with her occupy only a small place ... Genius does not allow itself to be hindered by any consideration for the comfort of its fellows even of those closest to it.

With respect to women, his opinion was that 'the sexual function, [the urge to] surrender to a man [and] her love for her husband and children consume her best energies'; anything more was 'a spiritual child of Socialism'.

Hayek had been pushing his first wife for a divorce since 1934: simultaneously, he promoted the Ordinal Revolution, which legitimized his behaviour (Hicks and Allen 1934; Hayek 1936; Robbins 1938). The disutility experienced by his first wife and two children could not be 'scientifically' measured – and therefore could not be compared with the utility he expected to gain from marrying his cousin.

Mises had a 'great influence' on Hayek (1978) –

but I always differed, first not consciously and now quite consciously. Mises was a rationalist utilitarian, and I am not. He trusted the intelligent insight of people pursuing their known goals, rather disregarding the *traditional element, the element of surrounding rules* [emphasis added]. He wouldn't accept legal positivism completely, but he was much nearer it than I would be. He would believe that the legal system–No, he wouldn't believe that it was invented; he was too much a pupil of [Carl] Menger for that. But he still was inclined to see [the legal system] as a sort of rational construction. I don't think the evolutionary aspect, which is very strongly in Menger, was preserved in the later members of the Austrian school. I must say till I came, really, in between there was very little of it.<sup>13</sup>

Hayek (1978) pushed for a return to the 18th century:

It has to be rules applicable to an unknown number of future instances, referring to the relation of persons to other persons so as to exclude internal affairs and freedom of thought and so on. But there was, in the nineteenth century, a development of the concept of law which defined what the legal philosophers then called 'law in the material sense,' as distinguished from law in the purely formal sense. [Law in the material sense] gives practically all the required characteristics of law in [the formal] sense and reproduces, I am convinced, essentially a conception in which law was being used in the eighteenth century. That law is no longer something which has a meaning of its own, and the legislator is confined to giving laws in this sense; but that we derive the word law from legislature, rather than the other way around, is a relatively new development.<sup>14</sup>

Hayek (1978) outlined his strategy to Robert Bork:

Nobody could believe more strongly that a law is only effective if it's supported by a state of public opinion, which brings me back – I'm



operating on public opinion. I don't even believe that before public opinion has changed, a change in the law will do any good. I think the primary thing is to change opinion on these matters.... When I say 'public opinion,' it's not quite correct. It's really, again, the opinion of the intellectuals of the upper strata which governs public opinion. But the primary thing is to restore a certain awareness of the need [to limit] governmental powers which, after all, has existed for a very long time and which we have lost.<sup>15</sup>

Hayek (1978) explained to James Buchanan that his constitutional proposal

was received exceedingly friendly by the people whom I really respect, but that's a very small crowd. I've received higher praise, which I personally value, for *The Constitution of Liberty* [2010 (1960)] but from a very small, select circle.<sup>16</sup>

In 1962, Hayek sent *The Constitution of Liberty* to the Portuguese dictator, António Salazar, with a covering note explaining that he hoped that it might assist him 'in his endeavour to design a constitution which is proof against the abuses of democracy' (cited by Farrant, McPhail and Berger 2012, 521). The year before the publication of Mises' *Liberalism* (1985 [1927]), the Portuguese First Republic was ended by a *coup d'état* – and was followed by the *Ditadura Nacional* (National Dictatorship) and the *Estado Novo* (New State). Portugal languished under Salazar's (1932–1968) corporatist-authoritarian regime: in the mid-20th century, just half of Portuguese homes had running water and 30 per cent electricity. Illiteracy was widespread. Even after joining the European Union, Portugal failed to catch up with respect to human capital formation: according to figures from the Organisation for Economic Cooperation and Development, in 2009 only 30 per cent of Portuguese adults had completed high school or its equivalent (Sayare 2012).<sup>17</sup>

In illiterate societies, miracles abound. In Portugal on 13 May 1917 – three months after the abdication of Tsar Nicholas II of Russia – the 'Three Secrets of Fátima' were allegedly provided to some young shepherds and their cousins. The first secret was a standard medieval vision of Hell. The second was a statement that should Russia not convert to Catholicism the Great War would end and be followed by another. The Roman Catholic Church announced in 2000 that the third secret had come to pass: the persecution of Christians had culminated in the 1981 failed assassination attempt on Pope John Paul II (Manuel 2013).

Otto von Bismarck created the German welfare state to reduce the relative appeal of socialism and of migration to the Americas. In 1918, 85 per cent of those ruled by the Habsburgs were illiterate (Taylor 1964, 166). Their migration in such vast numbers to the USA produced a 'spontaneous' response in that country: xenophobic legislation.

Unlike the first two waves of mass migration into the USA (1815–1860 and 1865–1890), the third wave (1890–1914) was not dominated by people from north-west Europe – over a quarter of all European immigrants came from Austria-Hungary (on average 219,782 per annum between 1902 and 1913). The Dillingham Commission (the United States Immigration Commission), established under pressure from 'nativists' and the eugenics movement, concluded that immigration from southern and eastern Europe should be reduced, while immigrants from north-west Europe should be tripled. Habsburg immigrants were particularly targeted: it was proposed that no more than 167,195 should be admitted each year. Immigration from southern and eastern Europe, which had averaged 730,000 per year in the decade before the Great War (1905–1914), was reduced to 20,000 per year. The Commission also proposed the enactment of literacy tests 'as the most feasible single method of restricting undesirable immigration' (Leonard 2005, 219; Koven and Götzke 2010, 129; Jenks and Lauck 1913, chapter XVI).

Hayek explained to Cubitt (2006, 48, 144) that politically he 'wished to further' Otto 'von' Habsburg, despite his low intelligence.<sup>18</sup> Between 1506 and 1800 the Habsburgs had reigned over Spain and its American colonies. But in March 1808, a popular revolt outside the Aranjuez winter palace forced the Spanish Bourbon King, Charles IV, to abdicate in favour of his son (who became Ferdinand VII). Then in April 1808, Napoleon deposed the Bourbon dynasty and installed his brother, Joseph Bonaparte, as King Joseph I of Spain. The Carlist Wars were fought to allow Charles' second surviving son, the Infante Carlos, to 'spontaneously' become Carlos V.

At the end of the 19th century, Spain remained a latifundia-based oligarchy. Arsenio Martínez-Campos y Antón ended the brief First Spanish Republic (11 February 1873–29 December 1874) by *pronunciamento* (a declaration of opposition to the government by military officers). The resulting Bourbon restoration lasted until 1923, when Miguel Primo de Rivera seized power in a military coup. The Second Spanish Republic (1930–1936) was persistently undermined by the Fascist *Falange Española*: General José Sanjurjo (1932) and General Francisco Franco (1936) staged military coups.

The Carlists regarded the resulting Spanish Civil War (1936–1939) as part of their crusade against secularism. They fought for the Spanish ‘tradition’ – God, Country, King, legitimism and Roman Catholicism – against liberalism and republicanism: 200,000 may have been murdered in the systematic ‘cleaning up’ White Terror (Preston 2006; Graham 2005; Beevor 2006; Jackson 1967; Thomas 2001).<sup>19</sup> Franco, however, also frustrated them: their militias were absorbed into the Nationalist army, and their political party (*Comunión Tradicionalista*) into his National Movement (*Falange Tradicionalista y de las J.O.N.S.*).

Franco ruled until his death on 20 November 1975. The Habsburg pretender told *Women’s Wear Weekly* that after World War II he ‘turned down an offer’ from Franco to ‘resume’ the Spanish Crown: Franco was ‘a dictator of the South American type...not totalitarian like Hitler or Stalin’. Shortly after the end of World War II, the Austrian School banker, Felix Somary, informed Otto that

‘[a]ristocracy has to begin somewhere’, and – pointing to westward bound ‘unkempt’ train passengers (some presumably refugees) – added: ‘These are going to be our overlords in the future’.

But Otto was

pleased to say Somary was wrong, pointing instead to America’s political aristocracy. ‘You have some political families which are playing a tremendous role. Take the Kennedys,’ he observes. How about the clan of the current President Bush and his father? ‘Too,’ says Von Habsburg. ‘It isn’t bad for a country to have people with a certain tradition, where the father gives the son the same outlook and training.’ (Watters 2005)

Hayek (1975) generalized from his own specific ‘knowledge’ to the universal:

You might object that I have left out some facts, and that the result would have been different if I had not neglected those other facts. Well, my answer to this objection would be: quote the facts, please, and I shall be willing to consider them.

Otto also derived his much of his knowledge from personal sources:

A nephew of mine, whose children go to the same school as Putin’s children, for the first time has started to speak against Putin...I

was writing an article about the Soviet Union's Central Comitern organization operating from Panama City, and I wanted to see what was happening. There was a little nightclub on the border of Guatemala and Belize. All the members of El Legion del Caribe were flying in to relax....I met them all three – Fidel and Raul Castro, Che Guevara. They talked all night long. After all, Castro was a very well educated person, having been trained by the Jesuits. (Watters 2005)

In his Nobel Lecture, Hayek (1974) Hayek (1974) praised

those remarkable anticipators of modern economics, the Spanish schoolmen of the sixteenth century, who emphasized that what they called *pretium mathematicum*, the mathematical price, depended on so many particular circumstances that it could never be known to man but was known only to God.

According to *The Essential Rothbard*,

the great sixteenth-century Salamancan scholastic Francisco de Vitoria found it an easy task to devise a natural rights theory on a Thomistic basis...The subjectivist insight by no means died with the close of the Middle Ages. On the contrary, the School of Salamanca upheld it in the sixteenth century. (Gordon 2007, 67, 116)

In Albertus Magnus (1193–1280) and ‘his great pupil’ Thomas Aquinas (1226–1274), Murray Rothbard (1976, 59), the co-leader of the fourth-generation Austrian School, found an antidote to Pigouvian externalities: they ‘held the just price to be the market price’. The 16th-century schoolmen were even more proto-Austrian: modernized notions of ‘natural law’ and ‘morality’ were added to Aquinas to counteract the threat posed by science, the Renaissance and the Reformation. Devotees such as de Vitoria at the University of Salamanca were part of the Dominican Order of Preachers; those at the University of Coimbra were Jesuits.

Hayek (1978) told a television entrepreneur:

The whole traditional concept of aristocracy, of which I have a certain conception – I have moved, to some extent, in aristocratic circles, and I like their style of life.<sup>20</sup>

*Women's Wear Weekly* concluded that the pretender

remains an aristocrat at heart, however, a background for which he offers no apology. And Dr. Von Habsburg, as he likes to be called, knows a lot about the subject. The Von Habsburgs, one of Europe's oldest and most influential royal families, provided the dukes and archdukes of Austria from 1282 on, the kings of Bohemia and Hungary from 1526 to 1918, the Holy Roman Emperors from 1438 to 1806, the kings of Spain from 1516 to 1700 and the emperors of Austria from 1804 to 1918... Last year, the late Pope John Paul II canonized Von Habsburg's father, Emperor Charles, making him the first monarch in almost five centuries to achieve sainthood. (Watters 2005)

Having failed to recruit Otto, Franco designated Prince Juan Carlos, grandson of Spain's former king, Alfonso XIII, as his official successor – to whom Otto acted as 'friend and adviser' (Watters 2005). Spain transitioned to democracy via the 1978 Constitution and referendum. Francoists, in pursuit of another type of Constitution, staged an attempted *coup d'état* on 23 February 1981 by storming the Congress of Deputies as they were electing the new prime minister.

Thomas Hazlett asked Hayek:

Will the horror of financing this colossal welfare bureaucracy prove the stimulus to 'shock' us into a more rational government framework?

Hayek (1992a [1977]) replied:

No. My only hope really is that some minor country or countries which for different reasons will have to construct a new constitution will do so along sensible lines and will be so successful that the others find it in their interest to imitate it. I do not think that countries that are rather proud of their constitutions will ever really need to experiment with changes in it. The reform may come from, say, Spain, which has to choose a new constitution. It might be prepared to adopt a sensible one. I don't think it's really likely in Spain, but it's an example. And they may prove so successful that after all it is seen that there are better ways of organizing government than we have.

During the medieval Iberian *Reconquista*, Christians 'took their country back' from the Islamic Moors. During the period between the defeat of Napoleon and full independence from Spain, royalist armies

in the Americas fought a second *Reconquista*: the Chilean War of Independence (1819–1821) was marked by *guerra a muerte* (total war, or a fight to the death). In 1924, three years before the publication of Mises' (1985 [1927]) *Liberalism*, a military coup in Chile led by General Luis Altamirano led to eight years of *de facto* dictatorship. Constitutional rule was re-established in 1932, and lasted until 11 September 1973, when General Augusto Pinochet seized power in a military coup.

Austrians assert that democracy is responsible for *Omnipotent Government: The Rise of the total war and the total state* (Mises 2010 [1944]) – they want to 'take their country back'. A few weeks before the announcement of his 1974 Nobel Prize for Economic Sciences, Hayek informed Seigen Tanaka (1974):

It may be said that effective and rational economic policies can be implemented only by a superior leader of the philosopher-statesman type under powerful autocracy. And I do not mean a communist-dictatorship but rather a powerful regime following democratic principles.

Tanaka reported, 'Saying this, Prof. Hayek shifted his eyes to the snow capped mountains at a distance.'<sup>21</sup>

Hayek's 1978 trip to apartheid South Africa was a 'trial run' for a full Mont Pelerin Society meeting.<sup>22</sup> According to *The Constitution of Liberty*, five distinct points separate freedom from slavery: 'legal status as a protected member of a community'; 'immunity from arbitrary arrest'; the right to work at 'whatever he desires to do'; the right to 'movement according to his own choice'; plus the right to own property (Hayek 2010 [1960], 70). According to these definitions, the South African Pass Law apartheid was a slave society.

Hayek (1978) defended the 'civilisation' of apartheid from the American 'fashion' of 'human rights':

You see, my problem with all this is the whole role of what I commonly call the intellectuals, which I have long ago defined as the secondhand dealers in ideas. For some reason or other, they are probably more subject to waves of fashion in ideas and more influential in the American sense than they are elsewhere. Certain main concerns can spread here with an incredible speed. Take the conception of human rights. I'm not sure whether it's an invention of the present [Carter] administration or whether it's of an older date, but I suppose if you told an eighteen year old that human

rights is a new discovery he wouldn't believe it. He would have thought the United States for 200 years has been committed to human rights, which of course would be absurd. The United States discovered human rights two years ago or five years ago. Suddenly it's the main object and leads to a degree of *interference* [emphasis added] with the policy of other countries which, even if I sympathized with the general aim, I don't think it's in the least justified. People in South Africa have to deal with their own problems, and the idea that you can use external pressure to change people, who after all have built up a civilization of a kind, seems to me morally a very doubtful belief. But it's a dominating belief in the United States now.<sup>23</sup>

The 1981 Mont Pelerin Society meeting in Chile was preceded by a visit from Hayek in 1977. Hayek (1979, 124) was working on *Law, Legislation and Liberty: Volume 3 The Political Order of a Free People*. Chapter 6, 'A Model Constitution', contains a section on

Emergency Powers: The basic principle of a free society, that the coercive powers of government are restricted to the enforcement of universal rules of just conduct, and cannot be used for the achievement of particular purposes, though essential to the normal workings of such a society may yet have to be temporarily suspended, when the long-run preservation of that order is itself threatened.

In 1977, Hayek met Pinochet and other government officials, who he described as 'educated, reasonable, and insightful men'. According to the Chilean newspaper *El Mercurio*, Hayek told reporters that Pinochet 'listened carefully' and 'asked him to provide him with the documents he had written on this issue'. Hayek sent a draft of his 'Emergency Powers' (Robin 2104).

Hayek (3 August 1978) then complained to *The Times*:

I have not been able to find a single person even in much maligned Chile who did not agree that personal freedom was much greater under Pinochet than it had been under Allende.

Pinochet's White Terror murdered (or made to disappear) 3,000 trade unionists and political opponents;<sup>24</sup> another 200,000 – about 2 per cent of the population – went into exile (Wright and Oñate 2005, 57).

In 1981, Hayek returned to Chile, where the Pinochet regime had recently adopted a new constitution named after his *Constitution of Liberty*. During this visit, Hayek told *El Mercurio*:

As long-term institutions, I am totally against dictatorships. But a dictatorship may be a necessary system for a transitional period. At times it is necessary for a country to have, for a time, some form or other of dictatorial power. As you will understand, it is possible for a dictator to govern in a liberal way. And it is also possible for a democracy to govern with a total lack of liberalism. Personally, I prefer a liberal dictator to democratic government lacking in liberalism. My personal impression...is that in Chile...we will witness a transition from a dictatorial government to a liberal government...during this transition it may be necessary to maintain certain dictatorial powers.

In a second interview with *El Mercurio*, Hayek praised temporary dictatorships 'as a means of establishing a stable democracy and liberty, clean of impurities': the 'Chilean miracle' had broken, among other things, 'trade union privileges of any kind' (O'Brien 1985, 179; Robin 2014).

### **Wealth, monarchy, property, and non-propertyied intellectuals**

Milton Friedman's (1985 [1972]) presidential Mont Pelerin Society address on 'Capitalism and the Jews' is insightful but limited. Rose Friedman recalled that under the Romanovs 'Jews lived in fear of their Russian neighbours'; those members of her family who did not emigrate 'all died in the Holocaust. We have never learnt where or how'. Her father 'left rather precipitously and sooner than he intended'. A non-Jewish worker was killed in an accident at her father's mill: 'My father feared for his life because of anger in the Russian community' (Friedman and Friedman 1998, 5–6).

Milton Friedman was the beneficiary of the 'high value that my parents, like the Jewish community in general, placed on education' (Friedman and Friedman 1998, 21). Endemic pogroms can explain why Jewish people invested in (transportable) human capital; and can also explain anxiety about the security of property. Mises (1985 [1927], 19) typically transformed neurosis into rigid ideology:

The program of liberalism, therefore, if condensed into a single word, would have to read: *property*, that is, private ownership of the means



of production (for in regard to commodities ready for consumption, private ownership is a matter of course and is not disputed even by the socialists and communists). All the other demands of liberalism result from this fundamental demand. [Mises' emphasis]

Hayek (1978) explained his strategy:

So, again, what I always come back to is that the whole thing turns on the activities of those intellectuals whom I call the 'secondhand dealers in opinion,' who determine what people think in the long run. If you can persuade them, you ultimately reach the masses of the people.

Hayek (1949, 420–21) distinguished between 'the real scholar or expert and the practical man of affairs', and non-propertied intellectuals, who were 'a fairly new phenomenon of history', and whose low ascribed status deprived them of what Hayek regarded as a central qualification: 'experience of the working of the economic system which the administration of property gives'.<sup>25</sup>

According to Hayek (1949, 428), non-propertied intellectuals,

unencumbered by much knowledge of the facts of present-day life, had to be recruited through visions: 'socialist thought owes its appeal to the young largely to its visionary character; the very courage to indulge in Utopian thought is in this respect a source of strength to the socialists which traditional liberalism sadly lacks...The intellectual, by his whole disposition, is uninterested in technical details or practical difficulties. What appeal to him are the broad visions, the specious comprehension of the social order as a whole which a planned system promises.

To recruit non-propertied intellectuals, Hayek (1949, 432–433) needed

to offer a new liberal program which appeals to the imagination. We must make the building of a free society once more an intellectual adventure, a deed of courage. What we lack is a liberal Utopia...The main lesson which the true liberal must learn from the success of the socialists is that it was their courage to be Utopian which gained them the support of the intellectuals and therefore an influence on public opinion which is daily making possible what only recently seemed utterly remote.<sup>26</sup>

Hayek succeeded: after the second Austrian-American revivalist meeting (June 1975), he received an anonymous letter (23 July 1975) which explained that for conference participants

spiritually and intellectually Vienna will always be our home: and we will always return to the charge against the forces of macro-darkness now threatening to overwhelm the world, carrying aloft the intellectual flag of Austria-Hungary... we still love you: and we feel that by continued association with us, we may yet show you the light and truth of anarcho-Hayekianism... And so, ladies and gentlemen, I give you two toasts to victory in the future, and to the best legacy of Vienna to the world, Professor Hayek. [emphases in original]<sup>27</sup>

Mises (1998 [1949], 272) provided these vision-recruited, non-property intellectual with their mission: to persuade the non-wealthy that

A wealthy man can preserve his wealth only by continuing to serve the consumers in the most efficient way. Thus the owners of the material factors of production and the entrepreneurs are virtually mandataries or trustees of the consumers, revocably appointed by an election daily repeated.

According to Mises (1998 [1944], 16),

meddling with the conditions of competition is an authoritarian policy aimed at counteracting the democracy of the market, the vote of the consumer.

Mises distrusted election outcomes: as he saw it, voters had to be told what their interests were. He wanted one of his New York University students to undertake a PhD:

People are voting according to what they *believe* their interests are [emphasis in original]. Every housewife knows a higher price of bread is worse than a lower price, but on election day they do not know this fact. What is necessary is to find some people in a position to tell these things to voters so they will remember them on election day (May 22, 1958).

What was required was a

Realistic book on the corporation. Point out that the corporation is neither (1) a self-acting automaton, nor (2) something operated by hired bureaucrats, but (3) subject to the control of the consumers because it is forced to make profits and avoid losses. Deal with the corporation from the point of view of the market, realizing that the changes in the market are based on the conduct of the consumers (May 5, 1960). (cited by Greaves no date)

Mises (2006 [1931] 158, 1944, 21, 2010 [1944], 50, 1956, 2, (2009b [1958], 21) reiterated this theme: in *The Causes of the Economic Crisis* ('The capitalistic market economy is a democracy in which every penny constitutes a vote'); in *Bureaucracy* ('Thus the capitalist system of production is an economic of democracy in which every penny gives a right to vote'); in *Omnipotent Government* ('The market is a democracy in which every penny gives a right to vote and where voting is repeated every day'); in *The Anti-Capitalistic Mentality* ('In a daily repeated plebiscite in which every penny gives a right to vote the consumers determine who should own and run the plants, shops and farms'); and in a Mont Pelerin Society lecture ('It has been observed by eminent economists, I think first by the late Frank A. Fetter, that the market is a democracy in which every penny gives a right to vote').<sup>28</sup>

## The delusional Mises

As Mises (1985 [1927]) looked to fascism hoodlums to protect property and civilization, tax-evading fascist kleptocrats eyed Jewish property. In the Anschluss of March 1938, Austria was reunited with (Austrian-led) Germany – and the Austrian Adolf Eichmann opened the Central Office for Jewish Emigration. The Decree on the Declaration of Jewish Assets revealed fascism to be a conveyor belt along which Jews had their property confiscated before being exterminated or driven abroad. As *The Last Knight of Liberalism* bemoaned: 'Mises family property had become free booty' (Hülsmann 2007, 728, 677, n149). After the Anschluss, Hans Mayer – Mises' co-leader of the third-generation Austrian School – instructed all non-Aryans to leave the Austrian Economic Society (*Nationalökonomische Gesellschaft*), 'in consideration of the changed circumstances in German Austria, and in view of the respective laws now also applicable to this state' (cited by Mises 2009a [1978 (1940)], 83).

Mises (1 March 1940) assured the Austrian School American, Benjamin Anderson, that 'Your doubts about a visit in Europe are unfounded. It is just the right time for you to come and to see what is going on.' According to his biographer,

Mises had been convinced that the new war would start just as the last war had ended – in the trenches. He was convinced that France and its allies would withstand any German attack. Modern conditions had made defense the most effective military strategy. Two months later, 'Mises could hardly believe what he read in the newspapers. 'Belgium! Holland!' he exclaimed in his notebook on May 10... On June 14, Mises exclaimed again: 'Paris!' and three days later 'Armistice!' It was an ordeal. May 1940 was, as he later recalled, 'the most disastrous month of Europe's history'. (Hülsmann 2007, 750–751)

Guido Hülsmann (2007, 750–751), the author of *The Last Knight of Liberalism*, declared that this 'was the only time he was ever wrong in forecasting an important political or economic event'. Mises (2009 [1944], 119) later asserted that the British had an

ostrich policy in the face of the most serious situation that Britain ever had to encounter... It was all wishful thinking, refusing to take account of Hitler's schemes as exposed in *Mein Kampf*.

Mises was lucky to escape with his life: he devoted much of the rest of it to describing his opponents as 'Fascists' and prostitutes ('camp followers').

## The Hayek delusion

If Hayek (1992b [1945], 223) was to be believed:

Neither legal scruple nor a false humanitarianism should prevent the meeting out of full justice to the guilty individuals in Germany. There are thousands, probably tens of thousands, who fully deserve death; and never in history was it easier to find the guilty men. Rank in the Nazi party is almost certain indication of degree of guilt. All the Allies need to do is decide how many they are prepared to put to death. If they begin at the top of the Nazi hierarchy, it is certain that the number they will be shooting in cold blood will be smaller than the number that deserve it.