Hayek: A Collaborative Biography

Robert Leeson

Part V Hayek's Great Society of Free Men

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Part V Hayek's Great Society of Free Men

Edited by

Robert Leeson
Visiting Professor of Economics, Stanford University

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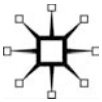

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Contents

Notes on Contributors

Gregory Christainsen, Professor of Economics, California State University, East Bay.

Benjamin Jackson, Associate Professor of Modern History, University of Oxford.

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

Corey Robin, Associate Professor of Political Science, Brooklyn College and the Graduate Center of the City University of New York.

David J. Theroux, Founder, President and Chief Executive Officer of The Independent Institute and Publisher of *The Independent Review*.

Rob Van Horn, Assistant Professor of Economics, University of Rhode Island.

1
Introduction

Robert Leeson

Hayek and Friedman: conflicting visions

In the second edition of *Capitalism and Freedom*, Milton and Rose Friedman (1982, viii) reflected on the

> transition from the overwhelming defeat of Barry Goldwater in 1964 to the overwhelming victory of Ronald Reagan in 1980 – two men with essentially the same programme and the same message.

Friedman openly – and Friedrich von Hayek covertly – played party political roles for the Republican and Conservative Parties – as public policy intellectuals are entitled to do. One difference is that Hayek's disciples appear to be dependent on maintaining a fund-raising image that is inconsistent with the evidence: 'Hayek himself disdained having his ideas attached to either party' (Caldwell 2010).[1]

Since 1931, Friedman's wife had waited for her 'dream' of living in San Francisco to 'come true'. But Rose Friedman, née Director, had to wait 46 years, because her husband 'could not really face deserting the intellectual climate at Chicago ... much to Rose's disappointment'. In 1977, the Friedmans joined the Hoover Institution on War, Revolution and Peace (Friedman and Friedman 1998, 370, 373–374).

The Hoover director, W. Glenn Campbell, also recruited the intensely aristocratic Hayek (1978):

> The robber baron was a very honored and honorable person, but he was certainly not an honest person in the ordinary sense. 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. But I know that in the strict commercial sense, they are not necessarily honest. They, like the officers, will make debts they know they cannot pay.[2]

Campbell was reared with his six siblings on a Canadian farm 'without running water and indoor plumbing'. Twenty-six of his Hoover Fellows served in Reagan's second administration (Martin 2001).

Hayek was anti-Semitic; the Goldwaters and the Directors were refugees from the 'oppressive' anti-Semitism of the Romanov Tsars (Goldwater 1979, 17; Friedman and Friedman 1998, 2). In a 1961 letter to Goldwater, Friedman traced the lineage of the Bretton Woods fixed exchange rate 'coalition' back to Hjalmar Schacht and the Nazis (Leeson 2003, chapter 12). Hitler acquired anti-Semitism in Habsburg Vienna from a culture which had been co-created by proto-Nazi and later card-carrying Nazi families like the von Hayeks (Leeson 2014, chapter 1).[3]

Richard Nixon defeated Reagan for the 1968 Republican Party nomination six years after declaring, following defeat by John F. Kennedy for the presidency (1960) and Pat Brown for the governorship of California (1962): 'you won't have Nixon to kick around anymore because, gentlemen, this is my last press conference'.[4] Following his 1964 endorsement speech for Goldwater, in 1966 Reagan succeeded in California where Nixon had failed: his 'Time for Choosing' speech led to an election platform organized around sending the 'welfare bums back to work', and cleaning 'up the mess' at the anti-Vietnam war University of California, Berkeley campus (Hall 2011, 134).

In the 1973 Saturday Night Massacre, Acting Attorney General Robert Bork (2013, chapter 5) sacked Watergate Special Prosecutor Archibald Cox (who had subpoenaed the White House tapes) in return for a promise from Nixon: 'You're next when a vacancy occurs on the Supreme Court.' In disgrace, Nixon retreated to the Western White House, San Clemente, not far from Los Angeles.

The first incarnation of Hayek's Great Society of Free Men collapsed during the Great War; the Great Depression – which Hayek and Ludwig von Mises sought to intensify – provided an opportunity to re-establish a version of it (Leeson 2015). Unintentionally, Arthur Burns, one of Hayek's Mont Pelerin Society recruits, used his power as Chair of the Federal Reserve to initiate the Great Inflation of the 1970s (Friedman cited by Leeson 2003, chapter 19). Ironically, it seems likely that the dislocations associated with this Mont Pelerin-initiated stagflation played a part in the decision-making of the 1974 Nobel Prize Selection Committee which, as the University of California Los Angeles economist

and Society President, Deepak Lal (2009) explained, implicitly led to the 'complacency' about financial sector deregulation that initiated the Global Financial Crisis.

Henry Simons (1935, 1421) wrote sarcastically of the 'strange human behavior induced latterly by the combination of economic depression and the California climate'. Nixon told David Frost (1978): 'When the president does it, that means it is not illegal'. In the 1978 UCLA tapes, Hayek was asked by Bork if

> you yourself have a preference for a certain kind of a society, which has a maximum amount of freedom in it. And I suppose you wouldn't call that a socially just society, but what general term would you use to describe it?

Hayek (1978) replied: 'Well, I think I would just stick to "The Free Society," or "The Society of Free Men" – "free persons". ' Bork continued: 'But doesn't the demand for social justice merely mean – it's a shorthand for a preference for a different kind of society'; to which Hayek replied: 'Well, it's used like that, no doubt, but why then speak about justice? It's to appeal to people to support things which they otherwise would not support. ' This enlightened Bork: 'I see. Your objection really is that it's a form of fraudulent rhetoric –' to which Hayek replied: 'Yes.'[5]

Twelve days later in an interview with Leo Rosten, Hayek (1978) elaborated on these thoughts:

> There is still the strong innate need to know that one serves common, concrete purposes with one's fellows. Now, this clearly is the thing which in a really Great Society is unachievable. You cannot really know. Whether people can learn this is still part of the emancipation from the feelings of the small face-to-face group, which we have not yet achieved. But we must achieve this if we are to maintain a large, Great Society of Free Men. It may be that our first attempt will break down.[6]

Hayek (1978) explained:

> You see, I believe [Joseph] Schumpeter is right in the sense that while socialism can never satisfy what people expect, our present political structure inevitably drives us into socialism, even if people do not want it in the majority. That can only be prevented by altering the structure of our so-called democratic system. But that's necessarily a

> very slow process, and I don't think that an effort toward reform will come in time. So I rather fear that we shall have a return to some sort of dictatorial democracy, I would say, where democracy merely serves to authorize the actions of a dictator. And if the system is going to break down, it will be a very long period before real democracy can reemerge.[7]

Hayek (1978) outlined his social philosophy:

> My present aim is really to prevent the recognition of this turning into a complete disgust with democracy in any form, which is a great danger, in my opinion. I want to make clear to the people that it's what I call unlimited democracy which is the danger, where coercion is not limited to the application of uniform rules, but you can take any specific coercive measure if it seems to serve a good purpose. And anything or anybody which will help the politician be elected is by definition a good purpose. I think people can be made to recognize this and to restore general limitations on the governmental powers; but that will be a very slow process, and I rather fear that before we can achieve something like this, we will get something like what [J. L.] Talmon [1960] has called 'totalitarian democracy' – an elective dictatorship with practically unlimited powers. Then it will depend, from country to country, whether they are lucky or unlucky in the kind of person who gets in power. After all, there have been good dictators in the past; it's very unlikely that it will ever arise. But there may be one or two experiments where a dictator restores freedom, individual freedom.

Rosten appeared horrified by Hayek's Great Society of Free Men: 'I can hardly think of a program that will be harder to sell to the American people. I'm using "sell" in the sense of persuade. How can a dictatorship be good?'; to which Hayek replied: 'Oh, it will never be called a dictatorship; it may be a one-party system.'[8]

Volume overview

Chapter 2 offers a testable hypothesis: Hayek's and Mises' behaviour and their Great Society of Free Men corresponds with their universal behavioural postulate – amoral self-interest. Their objective – to restore an updated version of the neo-feudal order – resembled a constrained optimization problem.

The propertied alliance which expanded the franchise did not survive:

> Middle class liberalism had little appeal to a mass-electorate; and it fell to pieces in Germany as in every other country within a generation of the establishment of universal suffrage. (Taylor 1955, 150)

Austrians first enlisted 'Ludendorff and Hitler' and other 'fascists' to protect 'civilisation' and 'property' (von Mises 1985 [1927], 44, 51, 19); and then von Hayek (1978a; 2010 [1960]), 'anxious to put it in a more effective form',[9] enlisted – for the same purposes – the authority and 'spontaneous' order of those with inherited wealth.

Four years after the demise of the Habsburg spontaneous order, von Mises (1922, 435; 1951, 443) promoted 'consumer sovereignty': 'the Lord of Production is the Consumer' ('*Der Herr der Produktion ist der Konsument*'). The 'masses', equipped with their 'consumer sovereignty', had to be persuaded of the importance of aristocratic intergenerational entitlements:

> it is only *natural* that the development of the art of living and of the non-materialistic values should have profited most from the activities of those who had no material worries. [emphasis added] (von Hayek 2011 [1960], 190–193)

Underpinning this 'spontaneous' order was the Great Society of Free Men:

> we owe our freedom to certain restraints on freedom. The belief that you can make yourself your own boss – and that's what it comes to – is probably destroying some of the foundations of a free society, because a free society rests on people voluntarily accepting certain restraints[10] ... After all, our whole moral world consists of restraints of this sort, and [Freud], in that way, represents what I like to call the scientific destruction of values, which are indispensable for civilization but the function of which we do not understand. We have observed them merely because they were tradition. And that creates a new task, *which should be unnecessary*, to explain why these values are good. [emphasis added] (von Hayek 1978)[11]

With this purpose in mind: the masses must learn that

(a) they are 'inferior and all the improvements in your conditions which you simply take for granted you owe to the effort of men who are better than you' (von Mises 2007 [1958], 11);

(b) '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' (von Mises 1998 [1949], 272); and
(c) those who would 'ask for more' had to give in: 'you just had to raise your finger' (von Hayek 1978).[12]

The 1984 Mont Pelerin Society meeting was devoted to 40th anniversary celebrations of *The Road to Serfdom* which, in the popular imagination, especially in its General Motors cartoon or *Reader's Digest* versions, is synonymous with George Orwell's (1945; 1949) *Animal Farm* and *Nineteen Eighty-Four* (Lane 2013). Karl Popper, who recommended saving freedom through improving distributive justice and economic equality, provided Hayek with a list of 12 socialists who might be invited to join the nascent Mont Pelerin Society – including Orwell, Bertrand Russell, Victor Gollancz, H. D. Dickinson, Abba Lerner, Barbara Wootton and Evan Durbin (Farrant 2014). But Hayek had to appease Mises (2009 [1946]):

> The weak point in Professor Hayek's plan is that it relies upon the cooperation of many men who are known for their endorsement of interventionism. It is necessary to clarify this point *before* the meeting starts. As I understand the plan, it is not the task of this meeting to discuss anew whether or not a government decree or a union dictate has the power to raise the standard of living of the masses. If somebody wants to discuss these problems, there is no need for him to make a pilgrimage to the Mount Pèlerin. He can find in his neighborhood ample opportunity to do so. [Mises' emphasis]

According to Mises (2009 [1946]),

> In the last sixty or eighty years in every country eminent citizens have become alarmed about the rising tide of totalitarianism. They wanted to preserve freedom and Western civilization and to organize an ideological and political movement to stop the progress on the road to serfdom. All these endeavors failed utterly … [because] the founders of these movements could not emancipate themselves from the sway of the very ideas of the foes of liberty.

In *Liberalism in the Classical Tradition*, Mises (1985 [1927]) expressed the hope that he would become the intellectual Führer of a Nazi-Classical

Liberal Pact. In 'Anti-Marxism', Mises (2011 [1926], 94) reminded his impending civil war comrades: 'A great deal of intellectual work remains to be done'.[13] Fascists would have to embrace Mises' liberalism to achieve their common aims: if Fascism

> wanted really to combat socialism it would oppose it with ideas ... Fascism will never succeed as completely as Russian Bolshevism from freeing itself from the power of liberal ideas.

Mises (1985 [1927], 49, 50) would provide these ideas: 'There is however only one idea that can be effectively opposed to socialism, viz, liberalism.'

Hayek (1978) found his Americans disciples to be the most financially useful and manipulable. During an April 1945 *Road to Serfdom* promotional tour of the United States, he gave a talk on 'The Rule of Law in International Affairs' which he

> began with a tone of profound conviction, not knowing how I would end the sentence, and it turned out that the American public is an exceedingly grateful and easy public. You can see from their faces whether they're interested or not. I got through this hour swimmingly, without having any experience, and if I had been told about it before, I would have said, 'I can't possibly do it.' I went through the United States for five weeks doing that stunt [laughter] everyday, more or less ... It's the sort of lecturing you can do with the American audience but not the British audience. [laughter] It was a very instructive experience ... Well, after all, you see, the New York audience apparently was a largely favorable one, which helped me. I didn't know in the end what I had said, but evidently it was a very successful lecture ... I think I ought to have added that what I did in America was a very corrupting experience. You become an actor, and I didn't know I had it in me. But given the opportunity to play with an audience, I began enjoying it. [laughter][14]

Hayek (1978) detected

> two groups: people who were enthusiastic about the book [*The Road to Serfdom*] but never read it – they just heard there was a book which supported capitalism – and the American intelligentsia, who had just been bitten by the collectivist bug and who felt that this was a betrayal of the highest ideals which intellectuals ought to defend. So I was

> exposed to incredible abuse, something I never experienced in Britain at the time. It went so far as to completely discredit me professionally.[15]

By invoking the mythical concept of the 'natural' rate of interest, Hayek (1931; 1932) discredited himself professionally even before delivering his University of London Inaugural Professorial Lecture (Sraffa 1932a; 1932b); by abandoning his first wife and children, he was about to burn his British bridges. In the United States, the Department of Economics at the University of Chicago refused to even formally consider him for employment – it wasn't clear that he was employable anywhere else at the elite level. He would, presumably, have felt declassed through permanent employment at the University of Arkansas.

In Chapter 3, Robert Van Horn explores Hayek's relationship with the Chicago School – which acquired a separate intellectual identity under his influence. In 1932, the German-born William Volker placed half of the fortune he had amassed from his Kansas City home furnishings business into the William Volker Charities Fund. In 1945, Hayek, anxious to fund his post-divorce life, promised Volker's nephew, Harold Luhnow, President of the Fund, to organize the writing of an 'American Road to Serfdom'. Although the project was never completed or even really begun, it enabled Hayek to find long-term donor-class-funding, channelled through the Committee on Social Thought at the University of Chicago. By tapping into the donor base, Hayek created a symbiotic relationship with profound consequences for knowledge construction. In Austria, von Mises had been a paid lobbyist (full-time, 1909–1934; part-time, 1934–1938); in 1946, he became a full-time employee of the Foundation for Economic Education: its 'true *spiritus rector*' (literally: Führer, or leader) (Hülsmann 2007, 851, 884).

From the Committee on Social Thought, Hayek's 'vision' of 'The Great Society of Free Men' cast a beguiling spell over economics and public policy formation. George Stigler (1988, 148) recalled: 'There was no Chicago School of Economics when the Mont Pelerin Society first met' in 1947. Hayek's strategy moulded their ideology and tactics:

> We must make the masses of people learn and understand the problem that is before us, make them capable of discriminating between methods which will achieve the end and methods which are empty promises.

To overcome 'lone-wolves and excessively individualist' tendencies, Simons proposed the establishment of an Institute of Political Economy

to promote pre-Hayek Chicagoan liberalism. Each member of the Institute needed to have a 'central credo'; everyone should, in accord with Lord Acton and de Tocqueville, believe that 'no large organization' could be trusted with much power. Simon recommended that non-Chicagoans such as Frank Graham and Frank A. Fetter should be included. From the outset, it was a marketing operation: the 'saleability' of the project to prospective donors was essential.

Hayek was a serial tax-evader (Cubitt 2006, 177): was he a great enemy of democracy – or a proponent of a 'really limited democracy' – because he objected to paying taxes that might benefit 'the other'?[16] In his posthumously-published *A Positive Program for Laissez Faire*, Simons (1948, 43, 40, 57) appeared to define much of pre-Hayek Chicago perceptions:

> This is frankly a propagandist tract – a defence of the thesis that traditional liberalism offers ... the best basis ... for a program of economic reconstruction ... the great enemy of democracy is monopoly, in all its forms: gigantic corporations, trade associations and other agencies for price control, trade-unions – or, in general, organization and concentration of power within functional classes.

According to Simons, the proliferation of monopoly had led to the Great Depression. Besides the abolition of monopoly, he also proposed the abolition of private deposit banking predicated on fractional reserves, the revision of the tax system to achieve greater equality of wealth and income, and the 'Limitation upon the squandering of our resources in advertising and selling activities'. Simons proposed that government should create the conditions needed for effective competition. According to Austrians: 'Henry Simons is Not a Supporter of Free Enterprise' (Block 2002).

In Chapter 4, Corey Robin examines *The Constitution of Liberty* – Hayek's vision of the wealthy and the well-born as an 'avant-garde of taste, as makers of new horizons of value from which the rest of humanity took its bearings'. Hayek explicitly linked the legislation of 'new values to the possession of vast amounts of wealth and capital, even – or especially – wealth that has been inherited'. According to Hayek, it is only the 'very rich who can afford new products or tastes'. Robin also argues that for Hayek some are more free than others: 'the freedom of some is worth more than the freedom of others'. The less free find freedom through servitude: 'To do the bidding of others is for the employed the condition of achieving his purpose.'

Robin places Hayek in the context of *fin-de-siècle* Vienna: the dying Austro-Hungarian Empire that gave birth to modernism, psychoanalysis, fascism and the Austrian School of economics. Robin finds parallels with Friedrich Nietzsche, whose life was 'plagued by the vision of workers massing on the public stage – whether in trade unions, socialist parties, or communist leagues.' Nietzsche illuminates Hayek's aristocratic vision of society: the heroic legislator of values.

Adam Smith (1827 [1776], 137) famously noted the 'spontaneous' order that emerged from employer trade unions:

> People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.

Hayek's (2011 [1960], 381) *Constitution of Liberty* reveals how far libertarian thought had shifted away from Simons: it contains no

> systematic discussion of enterprise monopoly. The subject was excluded after careful consideration mainly because it seemed not to possess the importance commonly attached to it. For liberals antimonopoly policy has usually been the main object of their reformatory zeal. I believe I have myself in the past used the *tactical* argument that we cannot hope to curb the coercive powers of labor unions unless we at the same time attack enterprise monopoly. I have, however, become convinced that it would be disingenuous to represent the existing monopolies in the field of labor and those in the field of enterprise as being of the same kind. This does not mean that I share the position of some authors who hold that enterprise monopoly is in some respects beneficial and desirable. I still feel, as I did fifteen years ago that it may be a good thing if the monopolist is treated as a sort of whipping boy of economic policy; and I recognize that, in the United States, legislation has succeeded in creating a climate of opinion unfavorable to monopoly. So far as the enforcement of general rules (such as that of non-discrimination) can curb monopolistic powers, such action is all to the good. But what can be done effectively in this field must take the form of that gradual improvement of our law of corporations, patents, and taxation, on which little that is useful can be said briefly. I have become increasingly skeptical, however, about the beneficial character of any discretionary action of government against particular monopolies, and I am seriously alarmed at the arbitrary nature of all policy aimed at limiting the size of individual

> enterprises. And when policy creates a state of affairs in which, as is true of some enterprises in the United States, large firms are afraid to compete by lowering prices because this may expose them to anti-trust action, it becomes an absurdity. [emphasis added]

Hayek (2011 [1960], 381) had other plans for labour trade unions:

> But, though very little is to be hoped for from any specific government action against enterprise monopoly, the situation is different where governments have deliberately fostered the growth of monopoly and even failed to perform the primary function of government – the prevention of coercion, by granting exceptions from the general rules of law – as they have been doing for a long time in the field of labor. It is unfortunate that in a democracy, after a period in which measures in favor of a particular group have been popular, the argument against privilege becomes an argument against the groups that in recent times have enjoyed the special favor of the public because they were thought to need and deserve special help. There can be no question, however, that the basic principles of the rule of law have nowhere in recent times been so generally violated and with such serious consequences as in the case of labor unions. Policy with respect to them will therefore be the first major problem that we shall consider.

Rosten asked Hayek:

> Does it strike you as ironic that perhaps the most influential group, in terms of political leverage, is not the business group or the capitalist group in the United States at all, but the unions?

To which Hayek (1978) replied: 'Oh, you know, my main interest is England; so I cannot be unaware of this'. He explained that the Constitution of the United States must be collapsed into a single sentence written by a European aristocrat:

> I think if instead of a Bill of Rights enumerating particular protected rights, you had had a single clause saying that government must never use coercion, except in the enforcement of uniform rules equally applicable to all, you would not have needed the further Bill of Rights, and it would have kept government within the proper limits. It doesn't exclude government rendering services apart from

> this, but its coercive powers would be limited to the enforcement of uniform rules equally applicable to all.[17]

Republics transform 'subjects' into 'citizens': Hayek's (1978) life was dominated by his resentment towards the 1919 abolition by 'a republic of peasants and workers' of coats of arms and titles (*Adelsaufhebungsgesetz*, the Law on the Abolition of Nobility).[18] The status of '"German Austrian citizens" equal before the law in all respects' was forcibly imposed on Austrian nobles (Gusejnova 2012, 115). Hayek (1978) told Robert Chitester:

> curiously enough, this is the same as we're now watching in England, the intellectual activity survives this decay for some time. The economic decline [in Austria] already was fairly dreadful, [as was] cultural decline.[19]

Hayek explained to Charlotte Cubitt (2006, 15), his secretary and appointed biographer, that of the two Empires he had watched decline, 'England's downfall had been the more painful to him.'

Hayek (1978) told James Buchanan:

> I am most concerned, because it's the most dangerous thing at the moment, with the power of the trade unions in Great Britain. While people are very much aware that things can't go on as they are, nobody is still convinced that this power of the trade unions to enforce wages which they regard as just is not a justified thing. I believe it's a great conflict within the Conservative Party at the moment that one-half of the Conservative Party still believes you can operate with the present law and come to an understanding with the trade union leaders, while the others do see that unless these privileges of the trade unions to use coercion and force for the achievement of their ends is in some form revoked or eliminated, there's no hope of curing the system. The British have created an automatic mechanism which drives them into more and more use of power for directing the economy. Unless you eliminate the source of that power, which is the monopoly power of the trade unions, you can't [correct this]. Fifteen years ago, when I knew more about it, it seemed to me that the American trade unions were a capitalist racket rather than, in principle, opposed to the market as such. There seem to be tendencies in public opinion and in American legislation to go the British way, but how far it has gone I don't know.[20]

After a visit to South Africa, Hayek (1978) defended the 'civilisation' of apartheid from the 'fashion' of 'human rights';[21] the Prime Minister and, later, President during Hayek's visit, Balthazar Johannes Vorster, had been interned during the war as a Nazi-sympathizing terrorist. The Fourth Secretary General of the United Nations and the Ninth President of Austria was a suspected Nazi war criminal (Leeson 2014, chapter 3). Hayek (1978) shuddered:

> The reason why I was so very much acutely aware of the British significance is because I happened to see the same thing in my native country, Austria, which is also a country governed by the trade unions. At the present moment, nobody doubts that the president of the trade union association is the most powerful man in the country. I think it works because he happens to be personally an extremely reasonable man. But what will happen if they get a radical in that position I shudder to think. In that sense, the position in Austria is very similar to that in Britain. And I think it's worsening in Germany.[22]

Behind the 'reasonable man' of Hayek's (1978) Great Society of Free Men lay deference: German labour union

> power was greater than they used, very largely because all the trade union leaders in Germany had known what a major inflation was, and you just had to raise your finger – 'If you ask for more, you will have inflation' – and they would give in.[23]

Simons (1948, 43, 40, 57) opposed the neo-feudal order: 'organization and concentration of power within functional classes'; so too did Friedman and A. C. Pigou and all who appreciate achieved status over the domination of Hayek's ascribed status. Moreover, the human capital revolution offers the prospect of common-interest reconciliation between the two owners of cooperating capital: employers and employees.

In contrast, Hayek (1978) was preoccupied by the 'other': especially non whites, trade unions, Keynesians, and Jews. With respect to non-whites, Hayek (1978) explained:

> I don't have many strong dislikes. I admit that as a teacher – I have no racial prejudices in general – but there were certain types, and conspicuous among them the Near Eastern populations, which I still dislike because they are fundamentally dishonest. And I must say dishonesty is a thing I intensely dislike. It was a type which, in

> my childhood in Austria, was described as Levantine, typical of the people of the eastern Mediterranean. But I encountered it later, and I have a profound dislike for the typical Indian students at the London School of Economics, which I admit are all one type – Bengali money-lender sons. They are to me a detestable type, I admit, but not with any racial feeling. I have found a little of the same amongst the Egyptians – basically a lack of honesty in them.[24]

Hayek's LSE colleague, Abba Lerner, was born in the pogrom-prone Romanov Empire; and grew up and continued to live in the east end of London.[25] Armen Alchain told Hayek

> that when he [Lerner] was a very young child, they were so poor his mother used to put water in the milk, and he always thereafter liked skim milk.

Hayek (1978) reflected: Lerner 'was a very recent convert to civilization. [laughter]'[26] With respect to 'the race problem, the anti-Semitism', Hayek (1978; 1994, 61) asserted that

> The violent anti-Semitism occurred when very primitive, poor Polish Jews immigrated, already before the war and partly in flight before the Russians during the war. Vienna became filled with the type of Jew which hadn't been known before, with cap on and long beards, which hadn't been seen before. And it was against them that anti-Semitism developed.[27]

The implication is that had these 'very primitive' Jews been prevented from entering Habsburg territory, the Holocaust would not have happened.

With respect to John Maynard Keynes and the labour 'trade-union problems', Hayek (1978) explained:

> In the effect, of course, they are driven by their policies, which are made necessary by the trade unions, into ever-increasing controls, which make things only worse. Yet, in addition – but even that was initially caused by the trade-union problems – [there was] dominance of Keynesian monetary theories. But it is rather important to remember that even in the 1920s, when Keynes conceived his theories, it all started out from the belief that it was an irreversible fact that wages were determined by the trade unions. They had to find a way around this, and he suggested the monetary way to circumvent this effect.[28]

Hayek (1978) circumvented neoclassical economic theory:

> You know, I have just published an article in the London *Times* on the effect of trade unions generally. It contains a short paragraph just pointing out that one of the effects of high wages leading to unemployment is that it forces capitalists to use their capital in a form where they will employ little labor. I now see from the reaction that it's still a completely new argument to most of the people. [laughter][29]

In neoclassical terms, *ceteris paribus*, increasing capital per worker will tend to increase productivity whilst also increasing exports in the tradable goods sector. Human capital analysis suggests that displaced workers should be retrained to increase their productivity.

Vice-presidential aspirant David Koch of Koch Industries funded the 1980 Libertarian Party campaign against Reagan: Hayek (19 May 1981) told Karl Hill that although 'of course' he had 'sympathies' with the Libertarian Party, he was happy to see Reagan victorious and was full of 'hopes' for the future of the United States.[30] Hayek assisted Reagan's victory both indirectly and directly: by scripting a press conference (Chapter 2, below).

During his lifetime, Hayek (*The Times* 16 May 1981) projected a well-crafted image:

> If I may be allowed to say that, while I have the greatest admiration for [Mrs Thatcher's] principles and proud, when told, that they resemble mine, I am too much aware of my limited knowledge of political possibilities to presume to advise her on particular decisions.[31]

The evidence is unambiguous: Hayek was a factional Conservative Party 'dry' operative who advised which 'wet' ministers should be replaced. Mrs Thatcher's (17 September 1979) diary reveals that they had a 'confidential' meeting – during which he urged her to tackle labour unions through a referendum.

Epistemologically, the UCLA oral history interviews can be located mid-point between the 'disdain' and the reality:

> Well, of course, there is a limit. You see, I'm very interested in politics; in fact, in a way I take part. I now am very much engaged in strengthening Mrs. Thatcher's back in her fight against the unions. But I would refuse to take any sort of political position or political

> responsibility. I write articles; I've even achieved recently the dignity of an article on the lead page of the London *Times* on that particular subject. I'm represented in England as the inspirer of Mrs. Thatcher, whom I've only met twice in my life on social occasions. I enjoy this, but on the principle that I will not ask, under any circumstances, what is politically possible now. I concentrate on what I think is right and should be done if you can convince the public. If you can't, well it's so much the worse, but that's not my affair. (von Hayek 1978)[32]

Von Hayek (1978) had a low opinion of intellectuals. Between Friedman's 1976 Nobel Prize and Hayek's 1978 UCLA oral history interviews (and beyond), Chitester worked intensively with the Milton and Rose Friedman on their highly influential *Free to Choose* (1980) television series. Presumably briefed by the Friedmans, Chitester asked:

> You work obviously within a scholarly framework. The average person is not in a position to be able to deal with the subtleties of your efforts because they don't have the basic education that permits them to do that. How does the translation between your work and thoughts and the need for the average person to have some sensitivity in regard to them occur?

Hayek replied:

> Well, I think under normal circumstances it ought not to be too difficult, because what I call the intellectuals, in the sense in which I defined it before – the secondhand dealers in ideas – have to play a very important role and are very effective.[33]

Hayek (1978) identified his adversaries:

> You know, in a sense I believe the British intellectuals in their majority are less committed to a doctrine of socialism than, say, the Harvard intellectuals. They still have their great sympathy with the [labour] trade-union movement and refuse to recognize that the privileged position which the [labour] trade unions have been given in Britain is the cause of Britain's economic decline.[34]

In Chapter 5, Ben Jackson highlights a paradox: labour trade unions were an example of spontaneous order:

> they had sprung from civil society rather than the state, organized labour appeared to embody virtues that Hayek himself valued: self-reliance, associational autonomy, and a vigorous defence of freedom from coercion.

Jackson also examines the writings of the British and South African economist, W. H. Hutt (1990 [1936]), who may have been the first to coin and utilize the emotive phrase, 'consumer sovereignty' – which qualified him for the title The 'Classical' Austrian (Egger 1999).

Hutt (3 December 1984) asked Hayek to get him a Nobel Prize: 'just as Machlup did for you .' He submitted a draft circular letter for Hayek to sign and forward to the Selection Committee. On 25 January 1985, he wrote again, pleading for Hayek to use his 'influence' with the Nobel 'authorities'.[35] Hayek (20 February 1985) replied that he would do what he could.[36] Hutt (26 February 1985) further explained that he wanted the Nobel Selection Committee to be 'forced' to consider his 'contentions' and 'Lord knows', they might be willing to concede him a 'victory, however reluctantly'. His recently-finished autobiography, he told Hayek, would give the Committee an 'idea' of what he had 'achieved.'[37]

In *Economics and the Public: A study of competition and opinion*, Hutt (1990 [1936], 122, chapter 16) referred to the

> feudalisation of industry, the growth of the great cartels and trusts in which ultimate control becomes vested in small groups of powerful financiers. The tendency of recent industrial changes has been to create a state of affairs in which analogies with medieval feudalism are many and striking.

For Hutt, 'consumer sovereignty' rebutted these accusations. According to *15 Great Austrian Economists*, this was a 'valuable response to the economically illiterate who identify businessmen with feudal nobility' (Egger 1999, 199).

Hayek's LSE 'was described as a court' (Shehadi 1991, 386). According to Cubitt (2006, 321, 329, 334–335, 356, 358, 372, 237, 207, 236, 150–151) Hayek's physical decline opened a 'Pandora's Box of greed and hypocrisy, the betrayal of Hayek by persons he had been fond of and whom he trusted, even by his peers.' With the exception of J. Herbert Fürth, all sought to 'press their claims and further their own ends'. Henceforth Hayek would 'distrust ... his personal bogeyman, [Kurt] Leube.'

Cubitt (2006, 149) reported that Max Hartwell, who was Mont Pelerin Society President (1992–1994) at the time of Hayek's death,

> had taken away some Mont Pelerin papers, promising to return them, but had never done so ... Naturally I did not trust him to remove further papers, and did my best to watch over whatever he did ... He continued to make fairly outrageous remarks throughout his stay, such as that Hayek had given factually wrong information ... Embarrassingly he

> discovered a Mont Pelerin folder that had somehow evaded being sent to the Hoover Institution … Hartwell asked whether he could take it with him to his hotel, and since he had also enquired about whether he could have a spare key to the office … I decided to ask Hayek first. 'Noooo,' Hayek replied.

Chapters 6 and 7 respond to the material contained in Part 1 of *Hayek: A Collaborative Biography* (Leeson 2013, chapter 9). David Theroux and Gregory Christainsen, President and Senior Economist, respectively, of the Anthony Fisher-initiated, California-based Pacific Institute for Public Policy Research, began looking for donors for the *Collected Works of F. A. Hayek* project. In August 1984, Fisher proposed 'with enthusiasm' that Theroux be awarded Mont Pelerin Society membership; Friedman seconded the proposal.

A dispute then arose over royalties – which rapidly escalated. William Warren Bartley III (22 June 1985) telephoned Hayek and sent a telegram plus a follow-up letter:

> I began to smell a rat three weeks ago … [the Pacific Institute] were abusing the situation … they had (again without consulting us) appointed an 'associate editor' (Kurt [Leube]'s friend Greg Christainsen) and 'co-editors' for the individual volumes.

Sudha Shenoy was one of the proposed coeditors.

Bartley (20 July 1985) inferred that Leube was involved:

> the net effect of his proposal (which I gather has independently been conveyed to you via an 'envoy' – I presume K. L.) is – although not expressed explicitly – to put Theroux in entire control of your literary estate … If this were, as he has indicated to me, really your wish as conveyed by your 'envoy' I should of course lay down this responsibility.

Hayek diary (14 July 1985) records a scheduled visit from Leube and his wife; according to Cubitt (2006, 166), Bartley's inference was correct.

Hayek (26 July 1985) replied from his summer retreat in Obergurgl:

> you need not be alarmed. I smelled a rat as soon as Leube presented me with Theroux's elaborate proposals and not only refused to sign anything but even to study it in detail or express any opinion but told Leube explicitly that they just not do anything without your approval.

Bartley (2 August 1985) subsequently reported that he had

> discussed the matter with Leube; and although there are inconsistencies in his story, he says he was duped by Theroux and Christainsen, and he has apologised.

Shortly afterwards, Theroux was dismissed by the Pacific Institute and replaced by William H. Mellor III (1986–1991).

Hayek then 'descended into a massive depression'. Referring to 'Leube's treachery', Cubitt (2006, 157, 167–169) 'wondered whether these events had not been responsible for Hayek's breakdown: he must surely have felt betrayed'. Hayek's eyes were so red that Cubitt thought he must have been crying; she and Mrs Hayek put Hayek on a suicide watch.[38] Mrs Hayek was unable to mention Leube to her husband because 'the very mention of his name excited him extremely'.

Bartley (6 September 1989) drafted for Hayek a list of people who must at all costs be excluded from the *Collected Works* project: including 'Leube D. L. E. (Salzburg)', Christainsen, Theroux, Hannes Gissurarson and Larry White. The letter was posthumously delivered on 9 February 1990, four days after Bartley's death.

The second Mrs Hayek told Cubitt that

> Leube had telephoned and warned her to prevent Hayek from signing any agreement in connection with the Collected Works project because he wanted to do the job himself!

Despite visits and further calls, Hayek was 'so annoyed' and told Leube '*Was geht Sie das den an* [What has that to do with you]?' Mrs Hayek called Leube a 'cheat and a liar'. After initially allowing contact to be resumed, Hayek 'dropped [Leube] completely'. Mrs Leube, however, continued to telephone, and obtained information (Cubitt 2006, 206). It was such information that provided Leube with his 'Hayek insider' status.

Four (or maybe five) competing biographers (authorized or conditionally authorized) hovered in the background. One, Leube, complained that Bartley's partner and heir, Stephen Kresge, was 'not qualified for or capable of' continuing the Hayek project that Bartley had initiated. Cubitt (2006, 340–342), another biographer, offered her competitor, Shenoy, access to her own diaries: 'I also asked her not to mention the project until I had returned to Freiburg and consulted Hayek.' Shenoy immediately mentioned this to Leube, who informed Mrs Hayek ,who became was 'very cross' with Cubitt. Leube and Shenoy 'caused an

uproar' at the Munich Mont Pelerin Society meeting by sending a fax about Cubitt's proposed biography.

Ralph Harris (6 September 1990), the General Director of Fisher's Institute of Economic Affairs (1957–1988), informed Hayek that Shenoy had provided him with reports which indicated that 'serious scholars' – which presumably meant Shenoy and Leube – could be denied access to the archives and that taped interviews could be misused. Two days later (8 September 1990) Leube and Shenoy followed Hayek to Obergurgl and pressured him into signing the 'Obergurgl Document' which transferred the literary executorship away from Kresge in favour of Harris (Cubitt 2006, 342). Shortly afterwards (15 December 1991), this acrimonious dispute was resolved in Kresge's favour – four months before Hayek's death.

Bartley (20 July 1985) informed Hayek that

> I curse the day that I ever let [Theroux] cross the door of my home ... I have had to put out one fire after another; gossip and malicious attacks and petty conspiracies, for he works by stirring up and dividing. I am a scholar and a writer and have no gumption for such behaviour.[39]

In Chapter 6, Theroux adds important information to this murky episode; in Chapter 7, Christainsen corrects the record with respect to his own involvement.

Notes

1. 'Even though Hayek himself disdained having his ideas attached to either party, he nonetheless provided arguments about the dangers of the unbridled growth of government' (Caldwell 2010).
2. UCLA oral history interview with Robert Chitester.
3. There are, of course, no intergenerational implications: that is, no reason to think that the next generation (Hayek's children and their cousins) were even aware of the attitudes of their parents or grandparents.
4. http://whitehousetapes. net/clip/john-kennedy-pat-brown-kicking-nixon-around
5. UCLA oral history interview with Robert Bork.
6. UCLA oral history interview with Leo Rosten.
7. Ibid.
8. Ibid.
9. UCLA oral history interview with Earlene Craver.
10. UCLA oral history interview with Robert Bork.
11. UCLA oral history interview with James Buchanan.
12. According to Hayek (1978), 'things seem to have changed a great deal since I knew the United States better. Fifteen years ago, when I knew more about it,