# Hayek: A Collaborative Biography

Robert Leeson

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

Hayek: A Collaborative Biography

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

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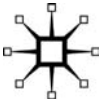


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# 1
# Introduction

*Robert Leeson*

## 1 The Eastern Reich and its School of Economics

Friedrich August von Hayek (1899–1992) was born into the nobility of a failing neo-feudal social order and state: his first 19 years coincided with the close of almost six and a half centuries of continuous rule by the House of Habsburg over its empire (from 1276 until 11 November 1918). Its origins stemmed from Count Radbot of Habsburg (c. 985–1045) building both Habsburg Castle and Muri Abbey, a Benedictine monastery; his family acquired preeminent feudal status under his descendant, Rudolf 1 (1218–1291). Between 1438 and 1806, the Habsburgs continuously occupied the throne of the Holy Roman Empire for all but four years; in the 16th century, the name was officially changed to Holy Roman Empire of the German Nation (*Heiliges Römisches Reich Deutscher Nation*). The Habsburg Emperor Frederick III (1415–1493) inscribed on official buildings the five vowels, A E I O U: '*Alles Erdreich ist Österreich untertan*', 'All the Earth is Subject to Austria', or 'Austria Will Stand Forever' (Klemperer 2009, 149, n5; Snyder 2009, 15; Keyserlingk 1988, 16; Vaughan 1973, 123; Taylor 1964, 13).

In 1494, Pope Alexander VI signed the Treaty of Tordesillas, dividing the newly discovered lands around the world outside Europe between Spain and Portugal. The House of Habsburg thus came to control vast tracts of the Americas through the Spanish Empire and, before their expulsion, Jesuit missions. Dynastic marriages facilitated geographic expansion but also genetic contraction: consanguineous marriages (between cousins) produced physical disorders and defects. In the 18th century, the House of Habsburg became extinct; its successors titled themselves the House of Habsburg-Lorraine (although are still referred to as Habsburgs). It was these 'potential hereditary implications' that

dissuaded Hayek from marrying his cousin before leaving for America in 1923 (Ebenstein 2003, 253).

The Habsburgs were the 'last possessors of the shadowy universal monarchy of the Middle Ages'. Their Empire was a 'geographic nonsense, explicable only by dynastic grasping and the accidents of centuries of history'. Their *Österreich* (Eastern Reich) empire was only partly European: as Foreign Minister Prince Klemens Wenzel von Metternich noted, 'Asia begins at the Landstrasse', the road leading eastward out of Vienna. The zenith of its power was reached in the 16th and 17th centuries; during the Counter-Reformation, the Jesuits helped the Habsburgs regain the Germanic lands, the siege of Vienna was lifted (1683) and victory achieved in the War of the Holy League against the Ottoman Turks (1699). The Turkish invasions provided the Habsburgs with a 'mission [as] defenders of Christianity'. A 'new, Imperial aristocracy' emerged: 'the hangers-on of the Habsburgs' (Taylor 1964, 11–15, 284). After two centuries of decline, especially relative to Prussia, the Holy Roman Empire (962–1806) was dissolved by Napoleon's reorganization of Germany; the *Doppelkaiser* (double emperor) Francis II had just declared himself hereditary Emperor of Austria, as Francis I. Victory as part of the Seventh Coalition which ended Napoleon's Hundred Days (July 1815) was one of the Habsburg's last military successes.

After a quarter-century of almost continuous warfare, the Congress of Vienna (1814–1815) restored equilibrium by endorsing Austrian dominance in Central Europe; yet Prussia was emerging as the stronger military and economic power. Friedrich List's (1841) *Das Nationale System der Politischen Ökonomie* (*The National System of Political Economy*) advocated economic unification and development: his work provided inspiration for the European Coal and Steel Community (1951) and the European Economic Community/European Community/European Union (1957–). The post-1818 German Customs Union (*Zollverein*) helped unify Prussian and Hohenzollern territories: by 1866 it had expanded to include most of the German states.

Alois Hitler's (1837–1903) employment symbolized this exclusion: he was an Austrian customs official (1855–1895). The first sentence of chapter 1 of his son's *Mein Kampf* (1939 [1925], 17) relates to the 'destiny' associated with his border birthplace: 'German Austria must be restored to the Great German Motherland'. In 1919, Mises declared that 'a unitary German state is a political and moral necessity' and would become the 'starting point of a new calm and peaceful development in German affairs' (cited by Silverman 1984, 69, 941). John Van Sickle (18 September 1930) recorded in his diary that Mises still believed that some

form of Anschluss was inevitable (Leonard 2011, 93, n22). According to Kurt Leube (2003, 13), Hayek also favoured Anschluss with Germany (without specifying whether Hayek later changed his mind).

The end of the Cold War allowed the European Union (EU) and its predecessor to lift sanctions against partial-post-apartheid South Africa (1991) and admit partially-denazified Austria as a member (1995). Six years later, the EU imposed sanctions on Austria after Jörg Haider, leader of the far-right anti-immigration Freedom Party of Austria (FPÖ) entered the governing coalition. From the dissolution of the First Reich to the imposition of EU sanctions (1806–2001) and beyond, the 'German question' involved two issues: who would be included in the Second and Third Reichs; and how to prevent a Fourth. The 'German question' of the Third Reich (1933–1945) involved the extent and composition of *Deutschland*: the same issue preoccupied Europe in the interregnum between the First and Second Reichs (1806–1871).

*The New York Times* (1860) described the Habsburgs (like the Ottomans) as the 'sick man of Europe'.[1] Prussian victories against the Habsburgs (1866) and France (1870–1871) led to the exclusion of the Austrian Germans and their ethnically diverse Eastern Empire from the Second Reich (1871–1918).This was a triumph for the small German solution (*Kleindeutsche Lösung*) and a defeat for the greater German solution (*Großdeutsche Lösung- Deutschland* including *Österreich*). Hitler's newspaper, *Völkischer Beobachter* (*The People's Observer*), was *Kampfblatt der nationalsozialistischen Bewegung Großdeutschlands* – the 'fighting paper of the National Socialist movement of Greater Germany' (Layton 1970). The Second Reich had been *a* German Empire; but the Austrian-led Third Reich was *the* German Empire (Seaman 1972, 96).

Prussia was predominantly Protestant; Austria was predominantly Roman Catholic. As Carl Menger (Austrian School), William Stanley Jevons (British Neoclassical School) and Leon Walras (Lausanne School) became Neoclassical Founding Fathers, the First Vatican Council (1869–1870) proclaimed the 'Holy Father' Pius IX and his successors as beneficiaries of the dogma of papal infallibility. The Unification of Italy undermined papal power: Pius IX described himself as 'a prisoner in the Vatican'. But the Syllabus of Errors (1864) condemned specific attitudes associated with modernity: including the separation of Church and State (No. 55), the threat to Catholic monopoly power associated with freedom of religion (Nos. 77, 15, 78) and the heretical idea that 'The Roman Pontiff can, and ought to, reconcile himself, and come to terms with, progress, liberalism and modern civilization' (No. 80) (Morris 2011, 213).

This Ultramontanism, which asserted the superiority of papal authority over the authority of local temporal or spiritual hierarchies, was a direct challenge to emerging, modernizing states. Military victories had left Prussia, and thus the Second Reich, with sizeable Catholic components: Posen, Alsace-Lorraine and Upper Silesia. These Catholics gravitated towards the German Centre Party (formed in 1870). The liberal intellectuals in Otto von Bismarck's coalition viewed Catholicism with suspicion: the *Kulturkampf* (1872–1878) was an assault on their power. Many seminaries were closed; the Jesuits were banned; religious teachers were banned from government schools: and clerics who discussed politics from the pulpit faced two years' imprisonment.

This 19th-century conflict between Church and State had a medieval forerunner: the Investiture Contest, which had culminated in civil war (the Great Saxon Revolt, 1077–1088) and the excommunication of Henry IV, the Holy Roman Emperor and the King of the Germans, in 1076. In 1077, he had made a penitential journey from Speyer, near Mannheim, to the Castle of Canossa to seek forgiveness from Pope Gregory VII. This mid-winter, hair-shirt, barefoot walk of about 500 miles (800 km) across the Alps had reflected the relative diplomatic and military power of the medieval papacy. Prussia's power, meanwhile, was derived from what Bismarck described as 'blood and iron'. In 1872, when its relations with the Vatican were severed after Pius IX rejected the appointed ambassador, in the Reichstag Bismarck responded: 'Have no fear; neither in body nor in spirit are we going to Canossa' (cited by Lowe 2005, 281). Blood and iron plus Alfred Nobel's explosive chemistry remained the sources of military power until the atomic age.

The 17th-century spoils of Habsburg victory in the Balkans added to their unstable ownership of a non-German Empire. Then 19th-century nationalism further undermined their power: the 1867 Austro-Hungarian Compromise obliged the Habsburgs to share power with a separate Hungarian government. German and Italian unification also weakened the Habsburgs; then, after the Great War of 1914–1918, the Serbs, Croats and Slovenes broke away to form what became known as Yugoslavia. The 'Unification or Death' ('Black Hand') terrorist group had provoked the 1914 July Crisis, which led to the Habsburg invasion of Serbia and the Great War; during his trial for the assassination of Habsburg Archduke Franz Ferdinand, Gavrilo Princep proclaimed: 'I am a Yugoslav nationalist, aiming for the unification of all Yugoslavs, and I do not care what form of state, but it must be free from Austria' (cited by Andjelic 2003, 11).

The Austrian School of Economics was born amid these inter-German tensions. Menger's (1985 [1883]) *Investigations into the Method of the Social Sciences with Special Reference to Economics* attacked the methods of the German Historical School; Gustav von Schmoller's unfavourable review initiated the *Methodenstreit* (the battle over method). The term 'Austrian school' was interpreted by Mises (2003 [1969], 19) as a slur, reflecting the excluded status of 'backward' Austria compared to 'modern' Prussia: 'When the German professors attached the epithet "Austrian" to the theories of Menger and his two earliest followers and continuators, they meant it in a pejorative sense.'

Mises' assertion was false or at least unproven: the term 'Austrian' had been attached to 'School of Economics' by Austrians; and Menger was the first to use *Österreichische Schule von Volkswirthen* (Schulak and Unterköfler 2011, 27–28). If anything, the 'rivalry ... made Austria more prominent in economical discussions than she had been for almost a century' (Bonar 1888, 1). However, between the 'debacle of 1848' and the German Anschluss, Austrians 'suffered feelings of inferiority' (Johnson 1972, 391, 396).

Menger became tutor to the Habsburg Crown Prince Rudolf (1858–1889), who committed suicide with his 17-year-old mistress. The new heir, Karl Ludwig, renounced his claim in favour of his son, Franz Ferdinand. But in 1894, Franz Ferdinand fell in love with Countess Sophie Chotek, who was not one of his royal cousins. After much pressure, in 1899 Emperor Franz Josef (reigned 1848–1916) agreed to a morganatic marriage (also known as 'left-handed'), involving spouses of significantly different social ranks. Their descendants would have no right of succession to the throne, Sophie would not share her husband's rank and title, and she would not appear in public beside him when he was fulfilling his imperial, as opposed to his military, duties. Thus when Franz Ferdinand travelled to Sarajevo (28 June 1914) to inspect the army in Bosnia, his wife was permitted to ride beside him in an open carriage. Franz Josef, who was devoted to 'the maintenance of dynastic power and nothing more', was 'relieved' when the death of his heir vindicated the principles of 'dynastic purity' (Taylor 1974, 1, 1964, 85, 249).

The Habsburg Holy Roman Emperor Charles V reigned from 1519 to 1558, ruling over nearly 1.5 million square miles (4 million square kilometres) in Europe, the Far East, and the Americas; he voluntarily abdicated in 1556 (his son became Philip II of Spain). Franz Ferdinand's nephew, the inauspiciously named Charles I, reigned for less than two years before issuing a proclamation renouncing 'all participation in

the affairs of state' (11 November 1918). This was interpreted as abdication. However, in the hagiographic *A Heart for Europe: The Lives of Emperor Charles and Empress Zita of Austria-Hungary*, Bogle and Bogle (1990, 114–115) explained: 'At the same time it was hoped that the door remained open, and that once saner times arrived the Monarch would be able to resume his place at the head of his people.' Charles insisted: 'I bear no trace of blame' for the Great War; the book's Foreword was provided by his eldest son, 'HRIH Archduke Otto of Austria'. After beatification by the Roman Catholic Church, the last Habsburg Emperor became 'Blessed Charles of Austria'.

Napoleon, after attempting to regain his imperial crown, had been exiled to St Helena; Charles after trying twice to regain his Hungarian throne, was exiled by the Allied Council of Ambassadors to the island of Madeira (*The New York Times* 1921). The English, French and Russian Revolutions undermined the feudal oath of loyalty that had previously stigmatized rebellion against the existing social order as the 'ultimate civil and moral crime' requiring punishment-by-horrible-death (Seaman 1972, 32–33). Regicide, however, changed the structure of incentives: the Stuarts, Bourbons and Romanovs – unlike the Habsburgs – exited the public policy domain either abruptly or with a lag.

According to Mises (2003 [1969], 17, n12, 6), Menger and his two second-generation disciples, Eugen von Böhm-Bawerk and Friedrich von Wieser, 'looked with the utmost pessimism upon the political future of the Austrian Empire'. As Minister of Commerce in the wartime Austrian cabinet, Wieser's powers were apparently restrained: 'his activity was rather impeded by the far-reaching powers – already given before Wieser took office – to a functionary of the ministry, Richard Riedl. Virtually only matters of secondary importance were left to the jurisdiction of Wieser himself.' Somewhat mysteriously, Hayek (19 April 1924) told Wesley Clair Mitchell – in confidence – that there were plans to elect Wieser President of the Austrian Republic.[2]

Wieser (1983 [1926], 226) 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.

Franz Josef (28 June 1900) insisted that because Crown Prince Franz Ferdinand had 'followed the call of his heart' he must swear an oath of renunciation on the Bible. In 1919, what Hayek (1978) contemptuously described as a republic of his social inferiors banished the Habsburgs from Austrian territory until they renounced all intentions of regaining the throne and accepted the same legal status as their former subjects.[3] Archdukes Felix and Karl Ludwig refused; Otto von Habsburg described the demand as 'a madness that could only have come from the brain of some indescribably small-minded fanatic' (cited by Brook-Shepherd 2009, Foreword).

The end of a dynasty often reveals the dysfunction of such succession arrangements. The Manchu Qing Dynasty Empress Dowager Cixi effectively controlled China for almost as long as Franz Josef controlled Austria (1861–1908); just before her death she installed the two-year-old Puyi as Emperor. This 'Last Emperor' collaborated with the invading Japanese in return for which he was made Emperor of the puppet state of Manchukuo (1934–1945). In 1922, the nine-year-old Otto (1912–2011) became Pretender to four thrones.[4] In May 1961, to expunge the exclusion clause in his passport which prevented him from travelling to Austria, Otto made what appeared to be an unqualified pledge of renunciation (Brook-Shepherd 2003, 18, 182e–183). Later, Otto admitted his 'heart had not been in the renunciation, which he made out of sheer pragmatism'. His body was entombed in the Imperial Crypt under the Capuchin Church in Vienna; his heart was buried in Pannonhalma Archabbey in Hungary (van der Vat 2011).

As elsewhere, aristocrats participated in business and finance; but according to the author of *The Economic Rise of the Habsburg Empire: 1750–1914,* 'it is scarcely a secret that in the Habsburg Empire what counted most in determining one's position in society was one's blood line not one's economic or financial acumen' (Good 1984, 234). According to Erik Ritter von Kuehnelt-Leddihn (no date), Mises had an

> attachment to Austria and the monarchy. Indeed, I met Mises for the first time in New York in the company of our former crown prince Archduke Otto von Habsburg, whom he greatly admired ... The old order in our part of the world was 'vertical' and patriotic, not 'horizontal' and nationalistic. Our dynasties, as a rule, had foreign origins, were ethnically mixed, and usually married foreigners. The same was true of the aristocracy. With the powerful rise of the middle classes all this was challenged. And it was obvious that Mises did not feel Jewish or Polish or German, but Austrian. With profound anxiety

> he looked into the future ... terrified that collectivism – ethnic and socialist – would tear the monarch asunder.

During the Great War, Hayek and Mises fought 'to prevent the "world from being made safe for democracy"'.[5]

Otto von Habsburg (1986, vii–viii) smelt counter-revolution: 'people read Somary ... his memory is coming back to life'. He was referring to Felix Somary (1881–1956),

> one of Switzerland's leading bankers and certainly his time's outstanding expert on economic crises ... His roots were in the old Austro-Hungarian Empire with its great supranational tradition and its remarkable Vienna school of economics ... We all too often lack the universal person ... Let us hope that those responsible for our fate will follow the path which he traces for us.

Despite a disdainful public pose, Hayek was a party political operative: he told Charlotte Cubitt (2006, 48, 144), his secretary and appointed biographer, that he 'wished to further' Otto politically despite his low intelligence.[6] Von Habsburg revealed that the Fascist dictator General Franco had invited him to 'resume' the Spanish crown; Franco was 'a dictator of the South American type ... not totalitarian like Hitler or Stalin'. He also revealed that shortly after the end of World War II, Somary informed him that 'aristocracy has to begin somewhere,' and – pointing to westbound 'unkempt' train passengers (some presumably refugees) – added: 'These are going to be our overlords in the future'. But von Habsburg was full of hope: 'There is an extraordinary revival of religion in France ... I never would have thought one could dare to say in France what Sarkozy is saying – that the separation of church and state in France is wrong' (Watters 2005).[7]

## 2 The Enlightenment, von Hayek, Freud and the Nazis

From the Protestant Reformation to the Peace of Westphalia (1517–1648) Europe was engulfed by almost 130 years of continuous religious warfare. The Enlightenment – or the Age of Reason – sought to replace superstition and intolerance with faith in reason and scepticism: the scientific method. The Habsburg Empire rested on 'tradition, on dynastic rights'. In 1918, 85 per cent of the population were illiterate; the 'nationalist intellectuals had appealed to the masses; the masses answered by repudiating intellectual values' (Taylor 1964, 166, 41, 35).

In a journal committed to 'gold economics finance world events stock markets', Hayek (1980) explained that the 'great masses' had been fed opium or false consciousness through

> the media and the schools ... this intellectual conceit which believes that if you only used your intelligence properly you could design everything much more effectively than it is. It's really a sort of intellectual arrogance which believes that man, after all, which had, as they imagined, built his civilisation, certainly should be capable of greatly improving civilisation.

The Habsburg chief of police explained: 'His Majesty desires the purely monarchical and the purely catholic since they support and strengthen each other' (cited by Seaman 1972, 45). The 'Austrian idea' which had 'in shaky form survived dynasty and Empire – was of Roman Catholic manufacture'; from the Jesuits, the Habsburgs learnt 'patience, subtlety, and showmanship' (Taylor 1964, 190, 14). Both Hayek (1945) and Enlightenment intellectuals examined the use of knowledge in society. Enlightenment philosophers typically found that 'knowledge' served absolutist monarchs and organized religion (especially the Roman Catholic Church). Non-Austrian libertarians who observed Hayek and his disciples at close quarters detected not a school of economics but a religion:

> There was a great difference in focus between Hayek (the Austrians) and Chicago as a whole. I really respect and revere those guys. I am not one of them, but I think I once said that if somebody wants to approach economics as a religion, the Austrian approach is about as good as you can get. They approach it from the angle of philosophy: They derived the principles of free market economics from what they saw as 'the nature of man' and other fundamental principles. (Harberger 1999)

Hayek (1978) was an unabashed atheist:

> I am in a curious conflict because I have very strong positive feelings on the need of an 'un-understood' moral tradition, but all the factual assertions of religion, which are crude because they all believe in ghosts of some kind, have become completely unintelligible to me. I can never sympathize with it, still less explain it ... So far as I do feel hostile to religion, it's against monotheistic religions, because they

> are so frightfully intolerant. All monotheistic religions are intolerant and try to enforce their particular creed.[8]

Hayek regarded socialism as 'just another religion' (Cubitt 2006, 60). Hayek (1984) not only created his own 'free market' religion but also promoted faith in traditional religions (particularly Catholicism) and the 'spontaneous' order as an alternative to Enlightenment endeavours in the social sciences. We must, he informed his Mont Pelerin Society 'intermediaries', recognize that we owe our civilization to beliefs which he used to call 'superstitions' but which for polemical purposes he now called 'symbolic truths'. Our lives must be co-governed by 'morals' and reason, where the 'truth of morals is simply *one* moral tradition, that of the Christian West, which has created morals in modern civilization [Hayek's emphasis]' (cited by Leeson 2013a, 197).[9]

According to Hayek (1975), in opposition to this moral revival was 'the dominating fashion of scientific method'. Truth operated under a disadvantage: 'the true theory is rejected because, by its very nature, it cannot be supported by empirical evidence'. The pre-Keynesian truth could be re-established: 'What we can confirm from daily observations are the elements from which a theory is built up, our knowledge of the behaviour of individuals in various situations'. Echoing the empiricism of Sir Francis Bacon, 1st Viscount St. Alban, Hayek asserted: 'If we take as premises some undisputed fact, which everybody accepts as facts of daily observation, we can logically deduce from them from them certain consequences, which permit only one answer to the problem. In other words, if we deduce certain consequences from admitted facts, by logically correct arguments, the truth of our deductions has to be accepted'.

The devil could intercede:

> the silver voice of that genius in persuasion, Lord Keynes … [who] was exceedingly difficult to resist in conversation or discussion. Even if you knew that he was wrong, you sometimes found it extraordinarily hard to maintain your position while you talked to him – although once you turned away, you realised that you had been misled.

Hayek (1975) had a remedy: 'Before we can return to reasonable stability and perhaps lasting prosperity, I am convinced that we must exorcise this Keynesian devil.' The devil's followers had 'forfeited their right to be heard'.

Hayek (1975) completed his knowledge construction model: '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'. Hayek had been transformed from Prophet to King: 'For forty years I have preached that the time to prevent a depression is during the preceding boom'. After his 'prediction had come true' he was tempted to tell the public: 'Well, if you had listened to me before you wouldn't be in this mess'.

Hayek (1978) operated on several levels: he could deliver a 'highly abstruse argument which nobody in the audience [of LSE economists] would have understood'.[10] But as Lawrence White (2008) and an increasing number of Austrians have unknowingly discovered, Hayek's scholarship could more accurately be described as sophisticated propaganda. Behind the facade of 'Liberty', Hayek triangles, neutral money and *The Pure Theory of Capital* lies another agenda: the revival of a society dominated by ascribed status.

The period from the storming of the Bastille to the tearing down of the Berlin Wall is an identifiable episode in world history – and also in Hayek's family. Hayek (1994, 37), the co-leader of the fourth generation Eastern Reich or Austrian School of Economics, traced his paternal 'von' ancestry to 1789. Kaiser Josef II declared: 'I am Emperor of the German Reich; therefore all the other states which I possess are provinces of it'. Kaiser Josef II ennobled Josef Hayek (1750–1830) for developing two textile factories and associated villages in Brno, Moravia (the present-day Czech Republic). Unlike Prague and Budapest (where the national revival which undermined the Habsburg Empire flourished), Brno remained German into the 20th century (Taylor 1964, 27). Towards the end of the 'Hayek Century' it was reported that Hayek 'thoroughly enjoyed watching the television pictures from Berlin, Prague, and Bucharest'; his son, Lorenz Josef Heinrich Erich (Laurence) Hayek, recalling that he 'would beam benignly' while adding 'I told you so' (cited by Cassidy 2000).

Democracy in the United States is legitimized by the belief that individual effort can propel anyone from 'log cabin to the White House'. Under the Habsburgs, however, politics was reserved for 'polite society'. German was the language of the 'master races'; a few non-German words of the 'submerged peoples', Czech, for example, could be 'learnt from their stable boys' (Taylor 1964, 23, 35). Hayek (1978) was ashamed of his own Italian accent which he had picked up from 'peasants': 'I picked up Italian during the war in Italy – well, sort of Italian. I don't dare to speak it in polite society'.[11] Post-Habsburg Austrian politicians provoked the second Mrs Hayek to 'disgust … She herself still had a firm ear, and

therefore she knew that the Baden-Württemburg's Prime Minister Lothar Späth, had his roots among the lower order!' (Cubitt 2006, 256).

In 1789, George Washington became the first President of the United States, and in France the Bourbons were obliged to call a parliament in an attempt to resolve their financial crisis. The American Revolution deprived the British of much of their first Empire; subsequently the French and the Romanovs lost, or sold, their North American territories. The Seven Years' War (1756–1763) pitted the Old European Empires (the Bourbons, Habsburgs and Romanovs) against the modernizing British and Prussians. Defeat left the Bourbons virtually bankrupt; Louis XV's official mistress, Madame de Pompadour, allegedly comforted the King with '*après nous, le déluge*'.

Austria was 'an Imperial organisation, not a country ... the Austrian nobility had no home other than the Imperial court'. In the aftermath of the French Revolution, the Habsburgs and their 'pseudo-historic nobility' sought to save themselves by 'a "historical" camouflage. They collected traditions as geologists collect fossils, and tried to make out that these fossils were alive' (Taylor 1964, 25, 107, 48). In contrast, Enlightenment philosophers and activists sought to promote a career open to talent and to abolish titles and to privatize (de-establish) State religions.

The United States was founded by those who were apprehensive about inherited titles: this found expression in The Title of Nobility Clause – Article 1, Section 9, Clause 8 of the Constitution.[12] Thomas Paine's (2000 [1775]) 'Reflections on Titles' is part of *The Founders' Constitution* (Kurland and Lerner 2000).[13] Paine approved of the title 'The Honorable Continental Congress'; but when reflecting

> on the pompous titles bestowed on unworthy men, I feel an indignity that instructs me to despise the absurdity ... The lustre of the *Star* and the title of *My Lord,* over-awe the superstitious vulgar, and forbid them to inquire into the character of the possessor: Nay more, they are, as it were, bewitched to admire in the great, the vices they would honestly condemn in themselves. This sacrifice of common sense is the certain badge which distinguishes slavery from freedom; for when men yield up the privilege of thinking, the last shadow of liberty quits the horizon [emphases in original].[14]

Paine's 'Reflections on Titles' is available on the Ludwig von Mises Institute website.[15]

A legitimate noble title requires a legitimate royal source: a *fons honorum* (the 'fountainhead' or 'source of honor'). Hayek (1978) reflected that the

Great War was 'a great break in my recollected history'.[16] It also broke the Habsburg nobility: coats of arms and titles ('von', 'Archduke', 'Count' etc.) were abolished on 3 April 1919 by the *Adelsaufhebungsgesetz* (the Law on the Abolition of Nobility). Violators face fines or six months' jail. 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).

Hayek (1994, 37) referred to 'the minor title of nobility (the "von") which the family still bears'. *The Times* (17 December 1931) reported that 'von Hayek' had been appointed to the Tooke Professorship at the London School of Economics (LSE); at the LSE Hayek was known as '*von* Hayek'; he wore his family coat of arms on his signet ring (Ebenstein 2003, 75, 298). In Frederic Benham's (1932, v) *British Monetary Policy*, his LSE colleague, 'Professor von Hayek', was thanked. *The Times* (19 October 1932) published a letter from 'von Hayek' (and three LSE colleagues: T. E. Gregory, Arnold Plant and Lionel Robbins) on 'Spending and Saving Public Works from Rates'. Over half a century later – with Hayek's approval – the shield of his coat of arms was reproduced on the cover of *The Fatal Conceit: The Errors of Socialism* (1988), edited by William Warren Bartley III (Cubitt 2006, 274).[17] Hayek (1994, 107) explained: 'you are only prohibited from calling yourself von in Austria ... I was a law abiding citizen and completely stopped using the title von'.

Hayek repeatedly called himself 'von Hayek' in his publications, including, symbolically perhaps, his *Economica* essay on 'The Maintenance of Capital' (1935). Yet, in a letter to *The Times*, Hayek (14 November 1981) professed deep indignation that 'von' had been attached to his name: perhaps even Labour MPs could be 'shamed' into not answering arguments by reference to 'descent'. After British naturalization in 1938, he did not, he claimed, generally use it himself in that form.[18]

After his Nobel Prize, *The Times* and the *Financial Times* promoted Hayek for at least four reasons. First, Hayek's Second Estate assault on the labour union component of the Third Estate matched their policy agenda (see Chapter 3, below). In his *Memoirs*, Lord William Rees-Mogg (2011), the editor of *The Times* (1967–1981), reflected on Rupert Murdoch's success after purchasing *The Times* in 1981: 'Above all, the power of the print unions was broken'.

Second, according to the Roman Catholic Rees-Mogg (1992),

> If we are lucky, mankind as it is has about 50 years left ... If the world is to be saved, it will be saved by the spirit ... We need saints ... If spiritual grace is real and is given to human beings, the possibility of a

> completely different and higher consciousness does at least exist. The outcome will presumably be the result of interaction between the free choice of human beings and the divine providence. God does not force humanity to survive, but at least we are sent enough saints in each generation to show us the possibility. A world guided by saints and the spirit would not only be a better world but also far, far safer into a much longer future.

*The Times* portrayed Hayek as 'The Sage of the Free Thinking World' (Sereny 1985).

Third, Rees-Mogg, like Hayek, thrived by projecting an aristocratic image:

> Partly it is the potency of this English vision of his and an aura that might persuade you that this fogeyish figure has access to wisdom denied to lesser mortals. His family must surely have been around for a thousand years or so, playing an essential role in the constitutional process? Actually, no. His life peerage was granted by Margaret Thatcher only five years ago. Historically, the Rees-Moggs were neither very grand nor very rich. Nor were they a political family. He was the son of a relatively modest Somerset landowner who married an American actress. 'Squirearchical and quintessentially English – with a dash of something exotic stirred in' according to someone who served with him on the committee of the Oxford Union. (*The Independent* 1993)

Rees-Mogg, who had a 'stately demeanour and slightly otherworldly, almost aristocratic appearance' once stated: 'I don't feel very 20th century'; he was, instead, 'a country person who spends most of his time in London' (*The Independent* 1993).[19]

Fourth, because Rees-Mogg 'regularly warned of a 1930s-style Great Depression' he was known as 'Mystic Mogg' – a parody of a tabloid astrologer – for the poor quality of his predictions (Wilby 2007; Bates 2012). He also had a supplementary career offering 'private consultations to corporations and individuals' for 'hedging and capital preservation' purposes – with, he claimed, a 'superlative' track record. In Deflation Ahead, a chapter in *The Great Reckoning*, Mogg explained that deflation would 'take years to unfold'. Citing Hayek's business cycle model as his unquestioned source, Mogg asserted: 'The process works something like this…'. Mogg also explained that the 'theory of socialism proved to be a lethal blunder…Much of the important work that established

the counterarguments to Marx has been done in the Viennese academic tradition counter, including Karl Popper, Friedrich von Hayek, and Ludwig von Mises' (Davidson and Rees-Mogg 1992, 556, 351, 192).

Rees-Mogg (2011) was perfectly equipped for the role as Hayek's intermediary: 'I had the basic qualities not of a good historian, but of a good journalist – I had trenchant opinions: I wrote with vigour at short notice on any subject: I was manifestly clever, without being particularly consistent, accurate or profound'. One of these opinions was that Keynes' rejection of moral rules led him to reject the gold standard 'which provided an automatic control of monetary inflation' (Rees-Mogg 1983).

One former colleague at *The Times* observed that Rees-Mogg had the enthusiasms of an economically uneducated man: 'Hard as it may be to believe today, he discovered Europe and for a while saw that as a panacea. He discovered incomes policy and got all excited. He discovered the gold standard and the same thing happened. Peter Jay (then economics editor of *The Times*) told him about monetarism and he fell for that' (*The Independent* 1993). Jay at *The Times* and Samuel Brittan (1995, 20, 113) at the *Financial Times* were regarded as the 'terrible monetarist twins'. Brittan noted that Hayek, like Keynes, had 'suffered from both sycophantic admirers and scoffers, unwilling to make the effort to see what he was getting at ... Hayek soon dropped the von in front of his name, although sneering critics often insisted on re-inserting it'.

Certainly, after 'von Hayek' became an issue in the 1945 election, Hayek (1946) signed his essay on 'The London School of Economics 1895–1945' 'FAH'. However, in and out of Austria, professionally and personally, Hayek repeatedly attached 'von' to his name: the doorplate on the Freiburg address from which he sent the letter to *The Times* was labelled 'Prof. Dr. Friedrich A. von Hayek' (Ebenstein 2003, 317). At the University of Salzburg, where he worked from 1969–1977, his notepaper was headed 'PROF. F. A. von HAYEK'.[20] However, when writing to those who might have bad memories of people with 'von' attached to their names, such as the Mayor of Jerusalem, he used notepaper headed 'PROF F.A. HAYEK'.[21] In letters to the Israeli prime minister (suggesting a Habsburg-style solution to Middle East conflict), he signed himself 'Professor F. A. Hayek Nobel Laureate Economics'.[22]

Hayek (1994, 37, 107, 137) provided an explanation for his British 'von': it was

> inevitably on my birth certificate. So that when I got naturalised in England and for that purpose submitted the birth certificate, when I

> received the certificate of naturalisation, my English name suddenly became 'von Hayek'. Now it was a moment when I was very anxious to go on an English passport for a holiday to Europe, so instead of invoking the bureaucracy to change this I put up with this ... in 1939 I wanted to visit Austria and didn't want to be suspected of having any special privileges with the Germans. In fact I was visiting my present wife.[23]

The birth certificate argument is dubious, since Hayek presumably also submitted the birth certificates of his two children (who were naturalized on the same certificate), neither of whom had been born a von. The British Home Office has no record of Hayek submitting birth certificates, but does have a record of Hayek recording his parents' names as 'von Hayek', so presumably he applied in the name of 'von Hayek'. He signed his oath of allegiance (18 July 1938) as 'Friedrich August von Hayek'.[24]

The Habsburgs were known as the 'August House' (Taylor 1964, 12). As a young man, Hayek (1994, 39–40) had been intimately connected to the Austrian intellectual elite – and through them much of the American intellectual elite. His father, 'August Edler von Hayek' (1871–1928), a Medical Officer of Health, became 'a kind of social centre for the botanists of Vienna who met at regular intervals at our flat'. Hayek's (1978) 'determination to become a scholar was certainly affected by the unsatisfied ambition of my father' to acquire the title of full university professor:

> I grew up with the idea that there was nothing higher in life than becoming a university professor, without any clear conception of which subject I wanted to do ... my interests started wandering from biology to general questions of evolution, like paleontology. I got more and more interested in man rather than, in general, nature. At one stage I even thought of becoming a psychiatrist;[25] ... it seems that it was through psychiatry that I somehow got to the problems of political order.[26]

Including Hayek (1974), nine Nobel Laureates have taught at the University of Vienna: Robert Bárány, Medicine (1914), Julius Wagner-Jauregg, Medicine (1927), Hans Fischer, Chemistry (1930), Karl Landsteiner, Medicine (1930), Erwin Schrödinger, Physics (1933), Viktor Hess, Physics (1936), Otto Loewi, Medicine (1936) and Konrad Lorenz, Medicine (1973). Lorenz shared the Nobel Prize for Medicine with the Viennese born

and trained Karl Frisch.[27] Hayek had family ties to at least four of these laureates.

Hayek (1978) 'grew up in an atmosphere which was governed by a very great psychiatrist who was absolutely anti-Freudian: Wagner-Jauregg, the man who invented the treatment of syphilis by malaria and so on, a Nobel Prize man'.[28] When asked to go through the 'list' of 'famous people of Vienna', Hayek found he

> knew almost every one of them personally. And with most of them I was somehow connected by friendship or family relations and so on. I think the discussion began, 'Did you know Schrödinger?' 'Oh, yes, of course; Schrödinger was the son of a colleague of my father's and came as a young man in our house.' 'Or Frisch, the bee Frisch?' 'Oh, yes, he was the youngest of a group of friends of my father's; so we knew the family quite well.' 'Or Lorenz?' 'Oh, yes, I know the whole family. I've seen Lorenz watching ducks when he was three years old.' And so it went on. Every one of the people who are now famous, except, again, the purely Jewish ones – [Sigmund] Freud and his circle I never had any contact with. They were a different world.[29]

According to Hayek (1978), the composition of Viennese intellectual groups was 'connected with what you might call the race problem, the anti-Semitism. There was a purely non-Jewish group; there was an almost purely Jewish group; and there was a small intermediate group where the two groups mixed'.[30] Hayek's (1994, 61) own family was in 'the purely Christian group; but in the university context I entered into the mixed group'.

The phrase 'purely Christian' appears to mean proto-Nazi or anti-Semitic. Hayek's childhood friend, J. Herbert Fürth (20 April 1984), informed Gottfried Haberler that Hayek's family 'adhered to Nazism long before there was an Adolf Hitler'.[31] Fürth (23 March 1992) also told Paul Samuelson that Hayek's father was the president of a 'highly nationalistic society of "German" physicians' who competed with the politically neutral general Medical Association. Hayek's mother was 'equally nationalistic, and mad at me because I had "seduced" her son from nationalism'.[32] Hayek explained to Cubitt (2006, 17, 51) that his mother was 'converted to Nazism by a woman friend'; Hitler's success was due to his appeal to women, 'citing his mother as another example'. To 'his certain knowledge', Nazism 'had been actively upheld [in Austria] long before it had reached Germany'.

Leo Rosten asked Hayek about Mises' (1944, 94–96) description of the *Wandervogel*: 'most of whom had one aim only: to get a job as soon as possible with the government. Those who were not killed in the wars and revolutions are today pedantic and timid bureaucrats in the innumerable offices of the German *Zwangswirtschaft*. They are obedient and faithful slaves of Hitler'.

Hayek (1978) replied

> Oh, I saw it happen; it was still quite active immediately after the war. I think it reached the highest point in the early twenties, immediately after the war. In fact, I saw it happen when my youngest brother [Erich] was full time drawn into that circle; but they were still not barbarians yet. It was rather a return to nature. Their main enjoyment was going out for walks into nature and living a primitive life. But it was not yet an outright revolt against civilization, as it later became.[33]

Hayek was 'at pains to point out and was to repeat this many times, that his family could not have Jewish roots ... when I asked him whether he felt uncomfortable about Jewish people he replied that he did not like them very much, any more than he liked black people' (Cubitt 2006, 51). Hayek's (1994, 61–62) obsession about his own ancestry derived from an overheard conversation about his middle brother, Heinz, looking Jewish. Whilst in Shanghai (a magnet for White Russians), Heinz had become enthusiastic about Hitler and joined the German Nazis. Interned by the Americans in the Würzburg de-Nazification camp, Heinz was released after informing his interrogators that he was the brother of the author of the *Reader's Digest* version of *The Road to Serfdom* (Blundell 2007, 146–147). The Germans were less forgiving: Heinz was barred from post-war university employment under de-Nazification laws.

According to Bruce Pauley (1992, 31),

> The origins of racial anti-Semitism among students at the University of Vienna can be traced to Dr Theodore Billroth, a world famous German-born surgeon and professor at the Medical College of the University of Vienna. Jewish enrolments at the Medical College had been high since before the Revolution of 1848 and about half the teaching staff were also Jewish.

Two of the five University of Vienna recipients of the Nobel Prizes for Medicine had Nazi connections: Lorenz (1903–1989) and Wagner-Jauregg (1857–1940). The university website has three links to 'Konrad

Lorenz and National Socialism'; plus a link to a 'controversial discussion' about Wagner-Jauregg's involvement with the Nazis. This 'Exculpatory report' states: 'The conviction of the need for population policies was present in all political and social groups'. A list of 'social hygiene' and 'eugenics' related organizations and associated individuals was provided, including 'Ludwig von Mises, economist and founder of the Institute for Business Cycle Research (now the Austrian Institute for Economic Research), [and] Othmar Spann, philosopher of history and a staunch opponent of Marxism'.[34]

Wagner-Jauregg was Director of the First and Second University of Vienna Psychiatric Clinics; the Upper Austrian State psychiatric institution is named after him. According to his biographer, 'there is documentary evidence that in his later years Wagner-Jauregg joined the Nazi party' (Whitrow 1993, 199); according to a 2004 official investigation, his Nazi party application was rejected on 'race' grounds: his first wife was Jewish (Regal and Nanut 2007, 75).

Hitler's 'Vienna days [1908–1913] stamped an indelible impression on his character and mind'; the anti-Semitic Mayor, Karl Lueger (1897–1910), became his inspiration (Bullock 1991, 36; 22–24; Wistrich 1989, 235, 647; Hitler 1939 [1925], 54, 88–89, 104–105, 145). When Mises enrolled at the University of Vienna in October 1900, there was a culture of 'widespread anti-Semitism' (Hülsmann 2007, 65). Mises (2003, 3) made an extensive study of psychoanalysis: '[Josef] Breuer, Freud, and [Alfred] Adler interpreted neurotic phenomena in a way radically different from the methods of [Richard] Krafft-Ebing and Wagner-Jauregg'.

Austria is still coming to terms with past and its future. On the 123rd anniversary of Hitler's birth (20 April 2012), it was announced that the Dr Karl-Lueger-Ring was to be renamed Universitätsring (the University Ring). The leader of the Freedom Party of Austria (FPÖ), Heinz-Christian Strache, declared the decision 'a scandal!' Lueger had been an 'excellent Viennese mayor' and his Christian Social Party (now the *Österreichische Volkspartei*, ÖVP, Austrian People's Party) had become 'Austria's second-strongest political force'.[35]

## 3 Hayek and five generations of the Austrian School of Economics

Hayek (1994, 40) may have been somewhat embarrassed by his close family connections to Menger, the School's founder: he reported that his maternal grandfather, Franz von Juraschek (1849–1910), had taught

at the University of Innsbruck, without adding that he had also taught at the University of Vienna in the same faculty as Menger, von Wieser and von Böhm-Bawerk (Seager 1893, 253). Hayek's (1978) father also became an 'extraordinary professor' at the University of Vienna.[36]

For understandable reasons, Hayek (1994, 57) benefited from these family connections: Böhm-Bawerk was a 'close friend of my parents and grandparents, later I used to meet his widow…my mother called his widow "aunt" because of the years they were together in Salzburg'. Böhm-Bawerk was 'a former colleague at [the University of] Innsbruck, and as a mountaineering companion of my grandfather's'.[37] Hayek (1978) 'became very friendly with [Wieser]; he asked me many times to his house. How far that was because he was a contemporary and friend of my grandfather's, I don't know'.[38]

Wieser and Böhm-Bawerk were the major second-generation Austrians; Mises, Mayer, Schumpeter and Othmar Spann the third. Through Wieser, Hayek met Mises and obtained his first professional job; then through Mises, he met Jeremiah Jenks which led to his first transatlantic trip (1923–1924).

Schumpeter provided the 22-year-old Hayek (1995, 35, 40) with letters of introduction to 'his friends' on the American east coast from whom he received treatment 'much beyond my deserts': at Harvard, the friends were Thomas Carver and Frank Taussig; at Yale, Irving Fisher; at Johns Hopkins, Jacob Hollander; and at Columbia, Mitchell, John Bates Clark, E.R.A. Seligman, Henry Rogers Seager and Henry Parker Willis. Hayek also attended a lecture at the New School for Social Research in which Thorstein Veblen 'mumbled sarcastically and largely inaudibly to a group of admiring old ladies – a curiously unsatisfactory experience'.

Parker Willis had co-designed the Federal Reserve System and was its first Secretary (1914–1918). In addition, 14 of the people that Hayek met, or probably met, during his 14-month visit to America were, became, or had been, presidents of the American Economic Association (AEA): John B. Clark (1894–1895), Seligman (1902–1903), Jenks (1906–1907), Frank A. Fetter (1912), Carver (1916), Fisher (1918), Hollander (1921), Seager (1922), Mitchell (1924), Edwin Gay (1929), John M. Clark (1935), Alvin S. Johnson, New School (1936), Oliver M. W. Sprague, Harvard (1937) and Frederick Mills (1940). During his first trip to America, Hayek had links with three other AEA Presidents: he already knew Schumpeter (1948) and Haberler (1963) and narrowly missed Taussig (1904–1905) during his visit to Harvard. Yet there were unintended consequences: during his absence in America, his cousin Helene married Hans Warhanek. This

complication overshadowed much of his life and probably contributed to his chronic depression.

According to Hansjörg Klausinger (2006, 39), until Hayek won his Nobel Prize, Austrian economics 'survived only in the various Mises circles, primarily in the United States'. Hayek's (1978) fourth-generation pre-eminence was disputed by some Miseans who followed Murray Rothbard. The American–Austrian revival

> means the Mises school…I am now being associated with Mises, but initially I think it meant the pupils whom Mises had taught in the United States. Some rather reluctantly now admit me as a second head, and I don't think people like Rothbard or some of the immediate Mises pupils are really very happy that they are not – The rest are not orthodox Misesians but only take part of their views from Mises.[39]

The Austrian School prospered into a fifth generation for six reasons. First, the fertility of Hayek's insights; and second, his post-Nobel Prize scientific prestige. The third relates to the endorsement of Austrian business cycle theory by the Nobel Prize Selection Committee: Hayek had 'tried to penetrate more deeply into the business cycle mechanism than was usual at that time. Perhaps, partly due to this more profound analysis, he was one of the few economists who gave warning of the possibility of a major economic crisis before the great crash came in the autumn of 1929'.[40] This unintentionally created a gold rush for Austrian advice about how to beat both markets (spectacular investment returns) the governments (tax havens and tax evasion).

The fourth reason relates to the aristocratic personalities projected by 'von' Hayek and 'von' Mises; the fifth to the patronage opportunities offered by the Mont Pelerin Society. The sixth relates to the 'Use of Knowledge in Society' by Hayek's biographers and disciples.

Hayek wished for – and deserves – a sympathetic, warts-an'-all biography. With this in mind, in the 1970s and 1980s he provided hundreds of taped interviews to his four appointed biographers: Bartley, Leube, Cubitt (2006) and Sudha Shenoy. Two were unlikely to descend to hagiography: he made racist and anti-Semitic remarks in front of Cubitt; and Bartley (1973) had already authored a non-hagiographic biography of Hayek's cousin, Ludwig Wittgenstein.

Hayek (1976, 15) also referred to those who benefited from 'the increasingly unrecognisable image of St. Maynard'. The fund-raising associated with the unrecognizable images of St. Friedrich and St. Ludwig may

prevent the release of this taped, non-hagiographic knowledge: Hayek's wishes are thus being thwarted by those who describe themselves as more Hayekian than Hayek. If Austrians can be persuaded to cease suppressing non-hagiographic information, the sympathetic biography that Hayek wished for can be provided; until then, the market can only speculate about the contents of the suppressed tapes.

Hayek inspired loyalty from his students and disciples. Armen Alchian informed him that *Prices and Production* (2012 [1931])

> has a particularly warm place in my heart. The first book in my first year in upper-division work in economics – in 1934, the year I came to Stanford ... there were two books: one was Adolf Berle's [and Gardiner Means' 1932] *The Modern Corporation and Private Property*; and your book. *Prices and Production* ... Those two books I've read, and I've reread them, and they've both been influential. One I think is grossly full of error – *The Modern Corporation and Private Property*; yours may be grossly full of error, but I haven't yet caught them all. But, nevertheless, it was a book that set a tone of thinking for me.[41]

The phrase attributed to Harry Johnson – 'the Law of Diminishing Disciples' – can apply to any School: Johnson was referring to *The Shadow of Keynes* (Johnson and Johnson 1978, 151). However, at the LSE, Hayek had a remarkable student: Bellikoth Raghunath Shenoy (1905–1978). Shenoy is a common surname amongst the Brahmin caste – but B.R. Shenoy had earned his status through academic publications. In the November 1932 issue of the *Quarterly Journal of Economics*, 'F.A. von Hayek' (1932b, 123–133) published 'A Note on the Development of the Doctrine of Forced Saving' and the 27-year-old Shenoy (1932, 138–149) published 'An Equation for the Price Level of New Investment Goods'. Shenoy may have been the first Indian economist to publish in a leading scholarly journal;[42] shortly afterwards, Shenoy (1934) also published 'The Interdependence of the Price-Levels' in the *QJE*.[43]

In the 20th century, the Indians rebelled against British rule as successfully (although with different tactics) as the Americans had in the 18th. Before attending the LSE, Shenoy studied at the Banaras Hindu University which had been established in 1914 by a future president of the Indian National Congress, Pandit Madan Mohan Malviya, to assist the process of achieving independence. According to the Centre for Civil Society obituary, Shenoy was jailed for participating in the struggle against British rule.[44] In 1932, Shenoy identified himself as 'London,

England' (presumably the LSE); by 1934 he was working at Nowrosjee College, Poona, India. After working at Gujarat College (Ahmedabad) and the University of Ceylon, he became involved with various Ceylonese government bodies, including the Commission on Currency and the Department of Commerce.

The fall of Singapore (February 1942) severely undermined the prestige of the European empires in Asia. After making debilitating British defence miscalculations, Churchill issued an instruction to the defenders of Singapore which indicated that civilian 'subjects' were expendable: 'There must be at this stage no thought of sparing the troops or saving the population. The battle must be fought to the bitter end and at all costs ... commanders and senior officers should die with their troops. The honour of the British Empire and the British Army is at stake' (cited by Bayly and Harper 2004, 142). Many Indians fought alongside the Japanese; many Indian prisoners of war volunteered to fight for the Japanese. In August 1942, Gandhi began the Quit India campaign.

Shenoy was appointed Principal of the L. D. Arts College, Ahmedabad, in 1942, and joined the Reserve Bank of India in 1945. He was a prominent critic of post-independence economic policies, publishing 'Note on Dissent to the Second Five Year Plan' and delivering the Madras University Lectures on 'Problems and Indian Economic Development'. He contributed to the deregulation movement that – after his death – transformed the economies and societies of India and China. He devoted the last decade of his life to the 'Economic Research Centre' in Delhi.

These 'subversive' activities did not appear to adversely affect his academic career: he became the Far Eastern Representative of the International Monetary Fund (1948) and an Alternate Executive Director of IMF as well as of the World Bank (1951–1953). He was Director of School of Social Sciences, Gujarat University (1954–1968), President of the Indian Economic Association (1957) and Visiting Professor at the LSE (1966).[45]

Peter Bauer (1998, 1, 1972, 231) described Shenoy as a 'hero and a saint' with 'stature'; and one of the 'unpersons' not mentioned in Gunnar Myrdal's (1968) *Asian Drama: An Inquiry into the Poverty of Nations*. His daughter, Sudha Ragunath Shenoy (1943–2008), became Hayek's first official biographer and was equally esteemed by the fifth-generation Austrian School of Economics.

In 1976, Hayek toured Australia. Roger Randerson (15 September 1976) informed him that Sudha Shenoy would time her arrival in