Hayek: A Collaborative Biography

Robert Leeson

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

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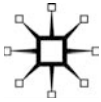

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1
Introduction

Robert Leeson

1 'Ruthless consistency': from Manchester to Vienna via London and Chicago

Ideologies – like religions – mix 'knowledge' with faith: followers are often unable to distinguish between the two, and have little understanding about 'knowledge'-to-faith quotients within their own community. As a result, ideologues are often incapable of predicting the consequences of their actions. Bringing deregulated 'personal liberty' to both the financial sector and the former Soviet Empire facilitated one form of tax-funded producer sovereignty: 'the strife over subsidies', as oligarchs cornered both markets *and* governments (see Chapter 7).

Feudalism and capitalism interacted in four phases: co-existence, partial economic elimination (neo-feudalism), social submergence, and liberty-driven reappearance through deregulatory capture in the financial sector and in post-communist Russia (financial neo-feudalism). Before the 1974 Nobel Prize for Economic Sciences, the British branch of the Neoclassical School had dominated economic discourse (mixed with some Lausanne elements, such as Pareto 'efficiency'); Marshallians proposed regulation and market-based remedies to encourage private and social benefits and discourage social costs. Coal symbolizes both: energy is tapped for productive or household consumption uses; and – assuming the evidence and analysis of relevant scientific community is more likely to be correct than false – climate change is the Pigouvian externality.

Coal-fired steam ships transported millions of migrants to the New World in the decades before the Great War, initiating vast social, as well as geographical, mobility. In 1895 (at aged 14), Milton Friedman's mother, Sarah, migrated to the United States and worked as a 'seamstress

in a "sweatshop"'. On 25 March 1911, Sarah Friedman leapt from an open ninth-floor elevator door to escape the Triangle Factory Fire. 140 mostly young migrant women were either burnt alive or jumped to their deaths. This 9/11-style New York trauma spontaneously intensified the 20th-century regulation wave – that lasted until Friedrich von Hayek's 1974 Nobel Prize for Economic Sciences. The two Sarah Friedmans were, presumably, not related: Milton once knew his father's surname but was 'too uncertain now to record my present impression'. His parents, who had 'heated discussions about where the money was to come from to pay incoming bills', spoke Hungarian 'only when they wanted to keep something from the children' (Friedman and Friedman 1998, 19–21; Stein 1962, 220).

The New World market-based correction of externalities provided Friedman with a subsidized education; in September 1946, his achieved status was rewarded by an appointment to the University of Chicago. Six months later, von Hayek's Old World-ascribed-status-assisted ability to acquire tax-exempt donations from businessmen (primarily, the 'Volker Fund of St Louis') facilitated an 'expenses paid' trip to the London Dorchester Hotel, the Paris Grand Hotel, and from there to Pilgrim Mountain (Mont Pèlerin):

> It was George [Stigler]'s and my first trip abroad ... Here I was, a young naïve provincial American, meeting people from all over the world ... This marked the beginning of my active involvement in the political process. (Friedman and Friedman 1998, 159–161)

Stigler's (1982) parents had migrated separately to the United States at the end of the 19th century: 'my father from Bavaria and my mother from what was then Austria-Hungary (and her mother was in fact Hungarian)'. The Victorian liberal, John Bright, found in America 'a free church, a free school, free land, a free vote, and a free career for the child of the humblest born in the land' (cited by Bradley 1980, 61). The post-1870 British system of publically-funded elementary education was influenced by the American model: compared to the Habsburg Empire, Britain and America have been relatively successful in promoting human-capital-fuelled social mobility.

The 1954 Brown versus Board of Education Supreme Court decision was a marker on the road-from-slavery: Little Rock became the symbol of resistance to 'interference' with the Arkansas anti-integration laws. In September 1957, a mob of over 1000 white protesters prevented nine African-American high school students from exercising their consti-

tution right by enrolling – and attending – Little Rock Central High School.

Arkansas Governor Orval Faubus questioned both the authority of the Supreme Court and the validity of desegregation. President Dwight D. Eisenhower (24 September 1957) declared:

> At a time when we face grave situations abroad because of the hatred that communism bears towards a system of government based on human rights, it would be difficult to exaggerate the harm that is being done to the prestige and influence and indeed to the safety of our nation and the world. Our enemies are gloating over this incident and using it everywhere to misrepresent our whole nation. We are portrayed as a violator of those standards which the peoples of the world united to proclaim in the Charter of the United Nations. (cited by Damms 2002, 129)

The year after Brown versus Board of Education, Friedman (1955) noted that there had been

> sizable underinvestment in human beings... This underinvestment in human capital presumably reflects an imperfection in the capital market: investment in human beings cannot be financed on the same terms or with the same ease as investment in physical capital... The productivity of the physical capital does not – or at least generally does not – depend on the co-operativeness of the original borrower. The productivity of the human capital quite obviously does – which is, of course, why, all ethical considerations aside, slavery is economically inefficient.

All bureaucracies – public and private – are prone to inefficiencies: Friedman (1955), who invoked Pigouvian externalities 'neighborhood effects' to justify public-funded education, proposed a 'mixed' system

> under which governments would continue to administer some schools but parents who chose to send their children to other schools would be paid a sum equal to the estimated cost of educating a child in a government school, provided that at least this sum was spent on education in an approved school.

Friedman's voucher system may improve outcomes through market-based incentives: the mission of The Friedman Foundation for

Educational Choice – to advance 'school choice for all children' – is within the Marshallian tradition (Pigou 1925); so too is Friedman's *mea culpa* capacity.

In Britain and elsewhere, the divisions *within* the working class are as strong as the divisions between classes: the aspirations of the upper working class require a distance to be maintained. Their relative social success can be explained through different discount rates: the interest rate in the brain. Education and business are both vehicles for social advancement for those who value deferred consumption; the 'business conservative' donor class can acquire a belated and ideology-loaded 'education' through Austrian-influenced think tanks. Those with low ascribed and achieved status, who heavily discount future consumption, pose problems for public policy and future tax liabilities.

Wartime patriotism facilitated a no-strike pledge by American labour unions: by autumn 1946, average real weekly wages had fallen to Great Depression levels. In 1945, Philip Murray, head of the steelworkers' union complained that steel company stockholders had received more than $700 million in wartime dividends. By the early 1950s, labour union membership reached its highest-ever level (Horowitz and Carroll 2002, 7, 9).

Most Americans describe themselves as middle class. In contrast, Leo Rosten noted

> the depth of the [English] class distinction, which is just beginning to disappear, has created degrees of bitterness which I've never found in the United States. There is a hatred.

Hayek (1978) replied:

> My impression of England may be wrong in the sense that I only really know the south. All you are speaking about is the north of England, where I think this feeling prevails. But if you live in London – Right now my relations are mainly in the southwest of England, where my children live, and I don't find any of this sharp resentment. And the curious thing is that in the countryside of southwest England, the class distinctions are very sharp, but they're not resented. [laughter] They're still accepted as part of the natural order.[1]

Hayek's (1949; 1975; 1994, 92) plan for social revolution was designed with previous failure in mind:

> the more conservative groups have acted, as regularly as unsuccessfully, on a more naïve view of mass democracy and have usually vainly tried directly to reach and to persuade the individual voter.

Hayek referred to

> 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…people got enchanted by merely listening to his words.[His Old Etonian] voice was so bewitching.

'The English working class, as Mr Wyndham Lewis has put it, are 'branded on the tongue' (Orwell 1968a, 5). Two advertising executives, the Baghdad-born brothers Charles and Maurice Saatchi, recruited the actor Laurence Olivier to equip the former Secretary of State for Education and Science to 'speak' persuasively to the British individual voter. Mrs. Thatcher regarded the Saatchi and Saatchi 'Labour isn't working' poster as 'wonderful'; their 'Britain is going backwards' television advertisement had shots of climbers inching their way down Mount Everest (Fallon 2007; Edwards 2011).

Hayek (1978) reflected:

> I oughtn't to praise them because the suggestion of the Institute [of Economic Affairs] came from me originally; so I let them on the job, but I'm greatly pleased that they are so successful.[2]

In addition to the Old Etonian Anthony Fisher, the IEA was founded and run by Ralph Harris (2006, 171–172) and Arthur Selden, who were 'proud' of their own upward social mobility and the 'unprivileged backgrounds' of the more 'robust' IEA authors. Harris, the son of a working class, council-housed tramways inspector, was the beneficiary of the primary vehicle of British social mobility: for-social-profit public education. At Cambridge University, Stanley Dennison introduced him to von Hayek's aristocratic social philosophy. At the IEA, 'poverty was the spur to invention' in 'proclaiming the missionary truths'. After ennoblement by a grocer's daughter – as Baron Harris of High Cross – he became President of the Mont Pelerin Society (1982–1984).

Neoclassical theory is *not* required to predict that British Airways would use 'dirty tricks' to sabotage their more cost-efficient Virgin competitor (Gregory 1993); all incumbents have incentives to deter entrants. Capitalism combined with tax-funded education allows achieved status to compete with its ascribed status incumbent – those who value democracy must protect its most valuable property: human capital formation.

According to Ludwig von Mises' (1985 [1927], 19, 44, 42–51) *Liberalism in the Classical Tradition*, Austrians have different priorities:

> The program of liberalism, therefore, if condensed into a single word, would have to read: *property*, that is, private ownership of the means of production (for in regard to commodities ready for consumption, private ownership is a matter of course and is not disputed even by the socialists and communists). All the other demands of liberalism result from this fundamental demand. [emphasis in original]

Mises left an eternal instruction:

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

The 'similar movements' of 'bloody counteraction' that von Mises referred to included the French anti-Semitic 'l'Action Française' plus 'Germans and Italians'. The Italians obviously refers to Mussolini's 1922 March on Rome; reference to 'Ludendorff and Hitler' obviously refers to the 1923 *Ludendorff–Hitlerputsch* (or Munich Beer Hall Putsch).

The demand for free trade in corn was followed by the demand for free trade in land: an attack on the landed aristocracy in the name of peasant proprietorship (Bradley 1980, 201–202). Hayek (1978) dismissed the First Austrian Republic as a 'republic of peasants and workers';[3] Mises (1985 [1927], 43–44) described the foundations of Hayek's (2010 [1960]) *The Constitution of Liberty*:

> Those of the old regime had displayed a certain aristocratic dignity, at least in their outward demeanor. The new ones, who replaced them, made themselves contemptible by their behavior. Nothing has done more harm to democracy in Germany and Austria than the hollow arrogance and impudent vanity with which the Social-Democratic

leaders who rose to power after the collapse of the empire conducted themselves.

Thus, wherever democracy triumphed, an antidemocratic doctrine soon arose in fundamental opposition to it. There is no sense, it was said, in allowing the majority to rule. The best ought to govern, even if they are in the minority. This seems so obvious that the supporters of antidemocratic movements of all kinds have steadily increased in number. The more contemptible the men whom democracy has placed at the top have proved themselves to be, the greater has grown the number of the enemies of democracy.

There are, however, serious fallacies in the antidemocratic doctrine. What, after all, does it mean to speak of 'the best man' or 'the best men'? The Republic of Poland placed a piano virtuoso at its head because it considered him the best Pole of the age. But the qualities that the leader of a state must have are very different from those of a musician. The opponents of democracy, when they use the expression 'the best,' can mean nothing else than the man or the men best fitted to conduct the affairs of the government, even if they understand little or nothing of music. But this leads to the same political question: Who is the best fitted? Was it Disraeli or Gladstone? The Tory saw the best man in the former; the Whig, in the latter. Who should decide this if not the majority?

And so we reach the decisive point of all antidemocratic doctrines, whether advanced by the descendants of the old aristocracy and the supporters of hereditary monarchy, or by the syndicalists, Bolsheviks, and socialists, viz., the doctrine of force. The opponents of democracy champion the right of a minority to seize control of the State by force and to rule over the majority. The moral justification of this procedure consists, it is thought, precisely in the power actually to seize the reins of government. One recognizes the best, those who alone are competent to govern and command, by virtue of their demonstrated ability to impose their rule on the majority against its will. Here the teaching of *l'Action Française* coincides with that of the syndicalists, and the doctrine of Ludendorff and Hitler, with that of Lenin and Trotzky. Many arguments can be urged for and against these doctrines, depending on one's religious and philosophical convictions, about which any agreement is scarcely to be expected. This is not the place to present and discuss the arguments pro and con, for they are not conclusive. The only consideration that can be decisive is one that bases itself on the fundamental argument in favor of democracy.

Hayek (1978) agreed – democracy had one advantage and 'no other':

> You see, my concern has increasingly become that in democracy as a system it isn't really the opinion of the majority which governs but the necessity of paying off any number of special interests. Unless we change the organization of our democratic system, democracy will – I believe in democracy as a system of peaceful change of government; but that's all its whole advantage is, no other.[4]

Hayek (1978)

> just learned [Mises] was usually right in his conclusions, but I was not completely satisfied with his argument. That, I think, followed me right through my life. I was always influenced by Mises's answers, but not fully satisfied by his arguments. It became very largely an attempt to improve the argument, which I realized led to correct conclusions. But the question of why it hadn't persuaded most other people became important to me; so I became anxious to put it in a more effective form.[5]

Hayek (1978) reflected that

> omnipotent democracy which we have is not going to last long. What I fear is that people will be so disgusted with democracy that they will abandon even its good features.[6]

During the rule of the Habsburg Empire, Mises was legally allowed to add 'von' to his name; before the First Austrian Republic collapsed into a one-party police state, he had become a card-carrying Austro-Fascist (member number 282632) and a member of the official Fascist social club (number 406183) (Hülsmann 2007, 677, n149). In an apparent reference to *Liberalism in the Classical Tradition* (Caldwell 1995, 70, n67), Hayek (1995 [1929], 68), while praising Edwin Cannan's 'fanatical conceptual clarity' and his 'kinship' with Mises' 'crusade', noted that British-Austrians had failed to realise necessary consequences of the whole system of classical liberal thought: 'Cannan by no means develops economic liberalism to its ultimate consequences with the same ruthless consistency as Mises.'

Without making any connection to Hayek and Mises, George Orwell's (1968b [1940], 12–13) review of Hitler's *Mein Kampf* made two Austrian School-related observations. First, 'the situation in Germany, with its

seven million unemployed, was obviously favourable for demagogues'. And second, Hitler had recently been

> respectable. He had crushed the German labour movement, and for that the property-owning classes were willing to forgive him almost anything. Both Left and Right concurred in the very shallow notion that National Socialism was merely a version of Conservatism.[7]

According to Jeremy Rifkin (2005), in the first post-communist decade,

> 89 countries find themselves worse off economically than they were in the early 1990s… The 356 richest families on the planet enjoy a combined wealth that now exceeds the annual income of 40% of the human race.

Rifkin is a critic of capitalism – most economists are not; and his data must be critically evaluated. However, Elizabeth Warren's (2007) 'The Coming Collapse of the Middle Class' suggests that America has not been well served by Austrian-style policy advice.

The pre-Hayek liberal Utopian/optimism mix is primarily associated with 1776, 1789, 1832, 1833, 1846, 1848 and 1883. In 1903, the 1846 repeal of the Corn Law was defended by Henry Campbell-Bannerman, the leader of the Liberal Party, then in opposition: 'We believe in free trade because we believe in the capacity of our countrymen.' The 1833 abolition of slavery in the British Empire reflected the growing liberal consensus (Bradley 1980, 75, 68).

The 1832 Great Reform Act was followed by the 1867 enfranchisement of the 'labour aristocracy', and the 1884 enfranchisement of agricultural labourers: stepping stones on the road to the universal franchise. Benjamin Disraeli, who complained that the 1867 Act would 'lead to an American constitution', contemptuously described Richard Cobden and Bright as 'the two members for the United States'. The 3rd Viscount Palmerston complained that they had 'run amuk against everything that the British Nation respects and values – Crown, Aristocracy, Established Church, Nobility, Gentry and Landowners' (Bradley 1980, 62–63).

The bust of the anti-Austrian hero of 1848, Lajos Kossuth, is displayed in the United States Capitol, atop Capitol Hill, with the inscription: *Father of Hungarian Democracy, Hungarian Statesman, Freedom Fighter, 1848–1849*. Von Hayek apparently wished it to be known – posthumously – that *The Road to Serfdom* was written to justify the liberty of the 'old' European aristocracy and to provide the road-back-to-serfdom

for the tax-paying 'new' aristocracy of labour (Leeson 2014a, chapter 3). Three years after *The Road to Serfdom* (1944), Hayek's fundraising provided a 'private railroad car' (Friedman and Friedman 1998, 161): the April Fool's Day convening atop Pilgrim Mountain.

2 The Magic Pilgrim Mountain

John Davenport described the ascent:

> From the station platform at Vevey, Switzerland, a little funicular railroad pointed up the mountain-side. As I swung aboard and as the cables tightened, I was vaguely conscious that something new and exciting lay at the top. It did, for the first meeting of what became known as the Mont Pelerin Society ... was indeed a unique gathering and a turning point in the life of most participants. (cited by Friedman and Friedman 1998, 160)

The year Hayek was awarded the Nobel Prize for Economic Sciences, his Society met in Brussels:

> Murray and Joey [Rothbard] had met up with Ralph Raico in Germany and they made their own way by car to Brussels ... As is customary, the Mt. Pelerin meetings were held in one of the most expensive hotels in the city as befitted the fact that almost all attendees were either think-tank executives traveling on expense accounts, South American latifundia owners, for whom hundred-dollar bills were small change, or the officers of the Society itself, a self-perpetuating oligarchy who, thanks to its members' dues, traveled around the world in first-class accommodations. (Hamowy 2003)

To Victorian classical liberals, the United States was 'regarded as a shining example of all that was best in modern civilization' (Bradley 1980, 60). The *Buchanans of Tennessee* include a State governor and a Nobel Laureate (Kyle 2012); James Buchanan (1992, 130) met his first 'Princess' through one of Hayek's 'luxurious' Mont Pelerin Society meeting. Hayek (1978) explained to Buchanan that the Constitution of the United States must be collapsed into a single sentence written by a European aristocrat.[8]

The essence of Victorian liberalism was self-reliance: as Cobden explained, 'while I will not be the sycophant of the great, I cannot become the parasite of the poor' (cited by Bradley 1980, 70). Buchanan (1992, 130) observed that at Mont Pelerin Society meetings, there was

'too much deference accorded to Hayek, and especially to Ludwig von Mises who seemed to demand sycophancy'. In return, Mises conjured-up an alluring aristocratic demeanor:

> He could be unbelievably stubborn, but people would not detect that in daily life, for he had excellent manners. He was brought up at a time when Austria was an empire and good manners and self-discipline were not only a prerequisite of the court, but a must for a member of every cultured family. One does not lose good habits in later life, nor did Lu. He would never sit down with me at mealtime, even on the hottest day, without wearing his jacket. (Margit Mises 1976, 143)

Raico (2012), Ronald Hamowy (2002; 2010) and Rothbard (1973) made careers as courtiers and fools to von Hayek and von Mises:[9]

> For those of us who have loved as well as revered Ludwig von Mises, words cannot express our great sense of loss: of this gracious, brilliant and wonderful man; this man of unblemished integrity; this courageous and lifelong fighter for human freedom; this all-encompassing scholar; this noble inspiration to us all. And above all this gentle and charming friend, this man who brought to the rest of us the living embodiment of the culture and the charm of pre-World War I Vienna. For Mises' death takes away from us not only a deeply revered friend and mentor, but it tolls the bell for the end of an era: the last living mark of that nobler, freer and far more civilized era of pre-1914 Europe ... Mises himself, spinning in his inimitable way anecdotes of Old Vienna ... a mind of genius blended harmoniously with a personality of great sweetness and benevolence. Not once has any of us heard a harsh or bitter word escape from Mises' lips. Unfailingly gentle and courteous ... an inspiration and as a constant star ... Ludwig Mises never once complained or wavered ... stand[ing] foursquare for the individualism and the freedom that he realized was required if the human race was to survive and prosper ... We could not, alas, recapture the spirit and the breadth and the erudition; the ineffable grace of Old Vienna. But I feverently [*sic*] hope that we were able to sweeten his days by at least a little ... But oh, Mises, now you are gone, and we have lost our guide, our Nestor, our friend. How will we carry on without you? But we have to carry on, because anything less would be a shameful betrayal of all that you have taught us, by the example of your noble life as much as by your immortal works. Bless you, Ludwig von Mises, and our deepest love goes with you.[10]

During the Great War, Hayek (1994, 44–45)

> developed a great interest in the drama, and this must have been the first interest which I pursued systematically for some time and where I showed real initiative.

In addition to reading and watching the 'ancient Greek dramas', he

> even started to write tragedies myself. On rather violent and more or less erotic historical themes (Andromache, Rosamund, etc), but I never finished a play, though I was working up towards some rather effective scenes I had thought out.

One theme occupied him

> most for quite a long time. It was a play about Andromache. With all the implications; very obscure, and only half understood. But ending in a magnificent scene which indeed would be theatrically very effective – Andromache is the slave of Achilles's son, wandering from the castle out onto the sea, onto a rock extending out into the sea, and the sun rises and she runs up to the sun: 'It's you, it's you, my Hector.' And she falls into the sea.

Hayek (1978) was enthralled by Johann Wolfgang von Goethe (1749–1832), the author of the play in which *Doctor Faustus* sells his soul to the devil in return for academic advancement:

> In a purely literary field, I was reading much more fine literature as a young man and, as you have probably become aware, I was a great Goethe fan. I am thoroughly familiar with the writings of Goethe and with German literature, generally, which is incidentally partly because of the influence of my father. My father used to read to us after dinner the great German dramas and plays, and he had an extraordinary memory and could quote things like the 'Die Glocke,' Schiller's poem, from beginning to end by heart, even in his – I can't say his old age; he died at fifty-seven. He was, in the field of German literature, an extraordinarily educated man. As a young man before the war, and even immediately after, I spent many evenings listening to him. In fact, I was a very young man. Of course, I started writing plays myself, though I didn't get very far with it. But I think if you ask in this sense about general influence, Goethe is really probably the most important literary influence on my early thinking.[11]

The *Bildungsroman* – the coming-of-age literary genre – is conventionally dated to Goethe's (Schiller-assisted) *Wilhelm Meister's Apprenticeship*: the chronicle of a personal ascent via the mysterious Tower Society. When Robert Chitester asked about classical education being 'no longer at all a common thing in the United States', Hayek (1978) replied:

> You see, I used to define what the Germans call *Bildung*, a general education, as familiarity with other times and places. In that sense, Americans are not very educated. They are not familiar with other times and places, and that, I think, is the basic stock of a good general education. They are much better informed on current affairs … I doubt whether the Americans are book readers. You see, if you go to a French provincial town, you'll find the place full of bookstores; then you come to a big American city and can't find a single bookstore. That suggests a very fundamental contrast.[12]

Hayek told Charlotte Cubitt (2006, 5) that he and his fellow European émigrés sat in the 'sardonic corner' of the London School of Economics (LSE) Common Room making 'malicious' comments about the competence of their English colleagues. The classically-educated Hayek (1994, 84) concluded Department of Economics meetings with a call-to-action against the LSE Director: '*Beveridge delendus est*' ('Beveridge should be destroyed'). But:

> It turned out that the LSE economists, and even Lionel Robbins, had not had a classical education … I found out that not one of them understood what I was saying. It's a famous phrase, a story from, I believe, Cicero … I assumed this to be popular knowledge.

In Thomas Mann's (1960 [1924]; 372–373, 380, 390, 403, 441; 1953) *Magic Mountain*, the ascenders are transported from mundane 'flatlands' to fantasyland, where – through medical institutionalization – those with 'a grudge against life' achieve 'a higher sanity'. Vienna is described as 'a sort of mummy, as it were, of the Holy Roman Empire of the German people'; Hans Castor – who may have symbolized both the Weimar Republic and the Revelation of St John of the Cross – is the 'pure fool', the Knight in pursuit of the Holy Grail. Two characters compete for Castor's loyalty: Settembrini, the authorial 'homo humanus' voice; and the 'well dressed' Jewish 'homo dei', Naphta, who compared 'Manchester liberalism' with 'the kingdom of God'. Naphta's medical problems may be associated with his father's death, 'nailed crucifix-like on the door of his burning home'.

Those on *The Magic Mountain* are exposed to 'Mental Gymnastics' in 'the charmed circle' and 'mystic triangle', before 'sudden enlightenment', which leads to 'Freedom', 'Research', 'Changes', the 'Fullness of Harmony' and a 'contemptuous aristocratic air' (Mann 1960 [1924], 65, 149, 276, 203, 219, 267, 345, 635, 464).

Psychiatry flourished in post-Habsburg Vienna. The Freudian Mises, whose first episode of mental illness may have been triggered by his father's death in 1903, lived with his devoutly Jewish mother until she died in 1937 (Hülsmann 2007, 75, 726). Cubitt (2006, 168), Hayek's secretary and appointed biographer, did not specify which school of psychiatry her employer was supervised by; but Hayek (1978) told Earlene Craver: 'it seems that it was through psychiatry that I somehow got to the problems of political order.'[13]

Austrians attribute Hayek's and Mises' academic market failure status to ideology-driven corruption. However, in Viennese academic circles, Mises was 'regarded as a monstrosity – a Jew who was neither a capitalist nor a socialist' (Hayek 1978).[14] Mises' hysteria has explanatory power:

> The one thing about Lu that was as astonishing as it was frightening was his temper. Occasionally he showed terrible outbursts of tantrums. I do not really know what else to call them. I had experienced them in Vienna on various occasions. Suddenly his temper would flare up, mostly about a small, unimportant happening. He would lose control of himself, start to shout and say things, which coming from him, were so unexpected, so unbelievable, that when it happened the first few times I was frightened to death. Whatever I said would enrage him even more. It was impossible to reason with him. So I kept silent or went out of the room. I gradually realized that these outbursts had nothing to do with me. I was just there, I was the outlet which gave him the opportunity to relieve himself. And I learned to understand that these terrible attacks were really a sign of depression, a hidden dissatisfaction and the sign of a great, great need for love. Sometimes I could not help myself, I cried when I was alone. But it never took long, and he followed me to my room or wherever I was. He could not bear to see me crying. He took me in his arms; he kissed me again and again and started to apologize. I stopped him. I could not be angry with him. I pitied him too much. (Margit Mises 1976, 44)

Intervention is required to counterbalance the efforts of those who seek to kick away the ladder of social and economic mobility. Von Mises (2009a [1946]), a paid business sector lobbyist, suspected that Hayek had

invited some to ascend Pilgrim Mountain who might question, rather than obediently consume, his producer-sovereignty 'knowledge':

> What makes for freedom – political, intellectual and religious as well as economic – is not government interference, but the market economy. No government interference is needed to prevent the emergence of monopoly prices…*Laissez faire* does not mean: let the evils last. It means: let the consumers, i.e., the people, decide – by their buying and by their abstention from buying – what should be produced and by whom. The alternative to *laissez faire* is to entrust these decisions to a paternal government. There is no middle way. Either the consumers are supreme or the government.

Mises (2009a [1946]) explained the importance of his *a priori* scientific method:

> 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]

For Friedman (1955), market-based intervention was required to address 'neighborhood effects'; Mises 'stomped' out of one of the inaugural Mont Pelerin sessions because 'You're all a bunch of socialists' (Friedman and Friedman 1998, 161); Lionel Robbins recounted that Mises made

> a dreadful exhibition of himself – attacking us all calling us Socialists and Interventionists and indulging in a degree of irrelevance quite unbelievable to those who didn't know his prickly temperament. (cited by Howson 2011, 662–663)

The Great War and its aftermath undermined intergenerational entitlements. Arthur Koestler (1950, 19) described some of the affected:

> Those who refused to admit that they had become déclassé, who clung to the empty shell of gentility, joined the Nazis and found

> comfort in blaming their fate on Versailles and the Jews. Many did not even have that consolation; they lived on pointlessly, like a great black swarm of tired winter flies crawling over the dim windows of Europe, members of a class displaced by history.

Free Traders like Bright described the aristocracy as a moribund social class; Whigs and Tories saw a noble background and land ownership as 'essential requirements for political power'. In the public policy domain, experts confronted landowning aristocratic amateurs for influence (Bradley 1980, 52, 66).

A century later, von Hayek (1949, 420–421), in reaffirming the pre-democratic view, appropriated the label of expertise for the aristocratic amateurs: there was a crucial distinction between 'the real scholar or expert and the practical man of affairs' and non-propertied intellectuals, who were 'a fairly new phenomenon of history', and whose low ascribed status deprived them of what Hayek regarded as a central qualification, 'experience of the working of the economic system which the administration of property gives'.[15]

Capitalism utilized more potent sources of wealth than land; the mid-19th century struggle for influence was, symbolically, between 'the millowners of Manchester and the landowners' (Bradley 1980, 58). To maintain their aristocratic lifestyles, von Hayek and von Mises 'plundered the mill' through 'business conservative' donors.

Before Hayek, liberals had an entirely different vision. 'Trust the People' was the motto of the Victorian liberals; Gladstone had more faith in Scottish crofters than 'the upper ten thousand' (Bradley 1980, chapter 6). Before Mises – *The Last Knight of Liberalism* – the Manchester Party vision was that 'the battle plain is the harvest-field of the aristocracy, watered with the blood of the people'; and the foreign policy establishment was 'a gigantic system of outdoor relief for the aristocracy of Great Britain' (Bright cited by Bradley 1980, 124).

The writing of Mann's *The Magic Mountain* (*Der Zauberberg*) spanned 12 years but two distinct worlds (1912–1924): in 1912, Hayek and Mises were legal aristocrats; by 1924, they were 'von' criminals. Mann (1953), whose Berghof sanatorium was located atop a Swiss mountain – both geographically and figuratively – recommended that those seeking to understand this imaginary world should read it at least twice.

3 Hayek, Mises, McCarthy and Nixon

Shortly after Fritz Machlup's recommendation that Hayek be awarded the Nobel Prize for Economic Science, John Kenneth Galbraith's (1973,

1) presidential address to the American Economic Association addressed the 'insufficiently normative' content of economics. According to Galbraith, earlier in the century

> Businessmen and their political and ideological acolytes kept watch on departments of economics and reacted promptly to heresy' including 'anything that seemed to threaten the sanctity of property, profits ... or which involved sympathy for unions ... public regulation.

This could have been addressed at Hayek, Stigler and the Mont Pelerin Society.

In 1936, Charles Walgreen, the founder of the largest drug retailing chain in the United States, withdrew his niece from the University of Chicago because he observed that she was being corrupted by free love and communism. The *Chicago Tribune* stirred up the case, and the Illinois legislature set up an investigating committee. Walgreen, who was then persuaded that his observation was wrong, donated $500,000: after 1958, Stigler (1988, 157) held the 'princely salary' and 'luxuriously upholstered chair, the Charles R. Walgreen Professorship of American Institutions'.

Half a century after the end of the American civil war, Europe confronted its own dysfunctional neo-feudal legacy. Mises (2009b [1978], 62–63) described his role as the preeminent intellectual White Terrorist:

> My political activity from 1918 to 1934 can be broken down into four stages. The most important task I undertook during the first period, which lasted from the time of the monarchy's collapse in the fall of 1918 until the fall of 1919, was the forestalling of a Bolshevist takeover. The fact that events did not lead to such a regime in Vienna was my success and mine alone.

Mises (1985 [1927], 49, 50) expected to become the intellectual Führer of a Nazi–Classical Liberal Pact. 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 would provide these ideas: 'There is however only one idea that can be effectively opposed to socialism, viz, liberalism'.

Mises (1951 [1922], 87, 104, n1, 105, 89, 88; 2009b [1978], 62–63) instructed his disciples to examine 'life history through the psycho-analytical method ... The sickness of a man whose sexual life is in the greatest disorder is evident in every line of his writings.' In his successful post-First War anti-communism: 'Few supported me in my efforts, and any help was relatively ineffective.'

In the competitive post-Second War anti-communist environment, Mises often had in his hand a list of figures:

> whenever a discussion or a speech bored him, he took out one of the little scraps of paper he used to carry with him and started to write. People who watched him must have thought he made notes, but he wrote nothing but irregular rows of figures, and once in a while he added them up. They must have been meaningless, and I considered them a sort of doodling, but I never asked him about it. (Margit Mises 1976, 27)

Eighty-five years after the end of the American civil war, on Lincoln Day (9 February) 1950, Senator Joe McCarthy began his crusade for a 'new birth of honesty and decency in government' by claiming to have in his hand a list of figures:

> This is a time of 'the cold war' ... war between two diametrically opposed ideologies. The great difference between our western Christian world and the atheistic Communist world is not political, gentlemen, it is moral. For instance, the Marxian idea of confiscating the land and factories and running the entire economy as a single enterprise is momentous. Likewise, Lenin's invention of the one-party police state as a way to make Marx's idea work is hardly less momentous ... The real, basic difference, however, lies in the religion of immoralism ... invented by Marx, preached feverishly by Lenin, and carried to unimaginable extremes by Stalin. This religion of immoralism, if the Red half of the world triumphs – and well it may, gentlemen – this religion of immoralism will more deeply wound and damage mankind than any conceivable economic or political system.
>
> Today we are engaged in a final, all-out battle between communistic atheism and Christianity. The modern champions of communism have selected this as the time, and ladies and gentlemen, the chips are down – they are truly down ... Ladies and gentlemen, can there be anyone tonight who is so blind as to say that the war is not on? Can there by anyone who fails to realize that the Communist world has said the time is now? ... that this is the time for the show-down

> between the democratic Christian world and the communistic atheistic world? Unless we face this fact, we shall pay the price that must be paid by those who wait too long ... The reason why we find ourselves in a position of impotency is not because our only powerful potential enemy has sent men to invade our shores ... but rather because of the traitorous actions of those who have been treated so well by this Nation. It has not been the less fortunate, or members of minority groups who have been traitorous to this Nation, but rather those who have had all the benefits that the wealthiest Nation on earth has had to offer ... the finest homes, the finest college education and the finest jobs in government we can give. This is glaringly true in the State Department. There the bright young men who are born with silver spoons in their mouths are the ones who have been most traitorous ... I have here in my hand a list of 205.

McCarthy wrote to President Harry S. Truman:

> I have in my possession the names of 57 Communists who are in the State Department at present ... While the records are not available to me, I know absolutely of one group of approximately 300 certified to the Secretary for discharge because of communism. He actually only discharged approximately 80 ... Failure on your part will label the Democratic Party of being the bedfellow of international communism. Certainly this label is not deserved by the hundreds of thousands of loyal American Democrats throughout the Nation, and by the sizable number of able loyal Democrats in both the Senate and the House.[16]

Disraeli (20 February 1846) referred to 'the disciples of the school of Manchester' to denigrate the promoters of laissez-faire – especially Cobden and Bright, founders of the Manchester-based Anti-Corn Law League. In a letter to Henry Drummond, Disraeli (19 November 1848) described himself as a 'wretched correspondent – in the matter of letter writing, being of the Manchester school & caring only for the imports' (Chaloner 1962, 137; Monypenny 1912, 363; Disraeli and Gunn 2004, 482).

For the classical-liberal intellectual wing of the Democratic Party, New York was the 'Manchester of America' (Bradley 1980, 36). In April 1945, Hayek (1978), on a *Road to Serfdom* promotional lecture tour,

> 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 ... I went through the United

> States for five weeks doing that stunt [laughter] everyday, more or less, and I came back as what I thought was an experienced public lecturer, only to be bitterly disappointed when I went back to England [where his American 'stunt' didn't work]. 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 ... 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][17]

Eight months later, the *American Economic Review* published Hayek's (1945) 'Use of Knowledge in Society' – a prelude to his 1974 Nobel lecture on 'The Pretence of Knowledge'. At the 1949 Mont Pelerin Society meeting in Seelisberg, Popper led a session on the 'Role of the State in Education and Research' which addressed 'Selection of teachers.'[18] At the same meeting, Hayek scribbled a note with three sections: first 'summer reading' (which contained 'Mill–Taylor'), second an eight-person list of prospective Mont Pelerin Society members (which included 'Nymeyer'), plus ten 'Source[s] of Funds' (which also included Frederick Nymeyer).[19]

Shortly after leaving Britain, Hayek (23 December 1950) informed Lawrence A. Kimpton, the University of Chicago Vice-President, that he had just had lunch with a rather exceptionally intelligent and educated businessman who had startled him by seriously asserting that the first two of the sequential Social Science courses were organized by communist sympathisers. This apparently honest and intelligent man, whose son was studying at the University, had undertaken continuous observation before reaching this conclusion.[20]

The evidence suggests that Hayek was referring to Nymeyer who, through the Libertarian Press, had devoted a large part of his life and presumably his finances to locating and publishing everything he could find on the second-generation Austrian School economist Eugen Böhm-Bawerk – a project that Hayek (4 September 1962) assisted him with. Kimpton rose to the bait. After an arranged lunch with Kimpton, Nymeyer (22 January 1951) informed Hayek that the University authorities now knew that they could not claim the reputation of being an institution of learning; they could, instead, be perceived rather as an institution of propaganda with an anti-capitalist and subversive to freedom and a competitive freedom bias. Nymeyer suggested to Kimpton that someone who holds to Individualism should be designated to audit all courses.[21]

Nymeyer's (2 April 1951) objectivity consisted of as much information on Menger–Böhm Bawerk–Mises–Hayek as on Marx–Veblen–Keynes, with naturally the material heavily weighted for the former. Hayek (30 March 1951) replied that his tactic had worked: Nymeyer's lunch with Kimpton had evidently made a considerable impact.

Somewhat conspiratorially, Hayek (23 December 1950) forwarded to Kimpton a pamphlet – apparently written by Representative William Horsley – which he explained incidentally, he had received in a plain envelope soon after he arrived in Chicago.[22]

Hayek (7 November 1953) invited Nymeyer to join the Mont Pelerin Society.[23] In 1954, the US House of Representatives investigated tax exempt foundations (H. Res 217). Mr Reese of Tennessee investigated 'Pro-communist and pro-socialist propaganda financed by tax-exempt foundations'. The University of Chicago was targeted: its 'Roundtable is propaganda not education'. Moreover 'The U of C under Hutchins has distinguished itself by being the 'only institution for higher learning in America which has been investigated five times for immoral or subversive activities'. In the fifth hearing, Horsley sought to deny the University of Chicago tax exemption.[24]

As noted above, William Beveridge, the LSE Director and designer of the British Welfare State, recruited Hayek (1994, 84), who concluded LSE Department of Economics meetings with: '*Beveridge delendus est*' ('Beveridge should be destroyed'). Hayek also told Nadim Shehadi: 'I personally believe that Beveridge was completely incapable of any sexuality' (cited by Dahrendorf 1995, 156). President Robert Hutchins attempted to persuade the Department of Economics to accept Hayek; when they refused, he appointed him to the Committee on Social Thought as the Professor of Social and Moral Sciences. Hayek (30 March 1951) speculated to Nymeyer that this 'knowledge' could prove to be of 'considerable importance' for the future. According to the University of Chicago website, in 1949 'Hutchins steadfastly refused to capitulate to red-baiters who attacked faculty members'; in 1951 he was replaced by Kimpton.[25]

When in 1955, the University of Michigan considered promoting the Keynesian econometrician and future recipient of the Nobel Prize for Economic Sciences, Lawrence Klein, from part-time lecturer to full professor, William A. Paton, an accountant and soon-to-be Mont Pelerin Society member, informed Gardner Ackley, the Chair of the Department of Economics, that this was 'all a plot' to 'solidify Jewish control of the department' (Ackley cited by Hollinger 1998, 152, n76). Paton (11 February 1955) insisted that Hayek be allowed to 'respond candidly' to the proposed promotion. Just in case Hayek was unaware of the

ideological dimension, Paton reminded him that Klein was 'completely in the wrong camp'. The University of Michigan formally invited Hayek to pass judgement on Klein. Hayek's written reply (if he made one) is not in the Hayek archives.[26]

The anti-Semitic Hayek (1978) 'never sympathized with either macroeconomics or econometrics': the Klein episode, and Hayek's role, have *not* been exhaustively examined (see, for example, Schrecker 1986, 253–255; Brazer 1982, 219–228). In a postscript to *Science Jews and Secular Culture Studies in Mid-Twentieth-Century American Intellectual History* (1998), David Hollinger (2013) reported that he had been unable to use some evidence because of a restriction that had since expired (Ackley describing Paton's anti-Semitic statements in a 1979 interview with Marjorie Brazer): Paton's 'successful opposition to Klein is central to my discussion of the McCarthy Era at Michigan'.

William Haber, a University of Michigan economist who aided Jewish refugees, believed that Paton's anti-Semitism underpinned his opposition to Klein – a charge contested by Paton's son, William A. Paton, Jr (Hollinger 1998, 152, n76; Howe Verhovek 1989). The restricted 1979 Ackley interview supports Haber's judgement.[27]

According to Klein (1986, 28), the campaign succeeded:

> A large scale digital computer was installed at Michigan, and we started a project for automatic model solution – simulation, if you like – but it was not quite brought to fruition before I was to leave Ann Arbor. In the McCarthy era I left Michigan for the peace and academic freedom of Oxford ... In 1958 I returned to America and took up a professorship at Pennsylvania, where I admired the position of the president, provost and deans on the serious matter of academic freedom.

In the 1946 election, the Republican Party national chairman proclaimed: 'The choice which confronts Americans is between Communism and republicanism'. Richard Nixon (House of Representatives) and McCarthy were beneficiaries. In 1957, McCarthy died in disgrace; on 9 August 1974, Nixon was forced to resign the presidency after being pursued by *The Washington Post* and then by the broader press. Alive, Mises (1881–1973) had been a liability: the planning for the June 1974 Austrian revivalist meeting only began when he was unambiguously incapable of attending.

On 9 October 1974, the Nobel Foundation issued a press statement:

> von Hayek's contributions in the field of economic theory are both profound and original. His scientific books and articles in the twenties