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Opium of the Elite

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HAYEK: A LIFE, 1899-1950
by Bruce Caldwell and Hansjoerg Klausinger.
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WE SOCIALISTS like to hark back to better days, when ideals shone bright and principles stood tall: equality, fairness, democracy, internationalism, mutuality, jobs, education, food, housing, medicine, pensions, peace, friendship and love. But there is one strand of the tradition we prefer not to think about: the idea of putting an end to the wasteful chaos of capitalism by implementing a comprehensive economic plan. Central planning is usually associated with Marxism, though Karl Marx himself expressed only a vague hope of bringing industry under political control and getting rid of ‘haggling’ (*Schacher*). Friedrich Engels was more specific, asserting in 1878 that socialism would eliminate the ‘social anarchy’ of capitalist free markets by delivering ‘social regulation of production upon a definite plan’. Forty years later Lenin promised to rejuvenate Russia with a ‘nationwide state economic plan on scientific principles’. Modern postal services could serve as prototypes for a ‘socialist economic system’, he said, and the ‘immediate aim’ of a Bolshevik government would be to ‘organise the whole economy on the lines of the postal service’.

You didn’t have to be much of a socialist to think that Marx, Engels and Lenin might have a point. In 1927, Bertrand Russell warned that civilisation would collapse without a worldwide ‘central authority’ to ensure that ‘production is organised scientifically.’ His analysis seemed to be borne out by the calamities of the next two decades, and it eventually won an endorsement from Albert Einstein, who lamented the ‘economic

anarchy of capitalist society' and called for a 'socialist economy' in which 'means of production' would be 'utilised in a planned fashion'.

None of us would say that sort of thing any more. Enthusiasm for comprehensive economic planning collapsed following the implosion of the Soviet Union in 1991, but it had already been eroded by decades of criticism under the rubric of 'neoliberalism'. Today that term is used mainly as shorthand for a set of right-wing policies espoused in the 1970s by Augusto Pinochet, Ronald Reagan and Margaret Thatcher, and by miscellaneous demented conservatives ever since: 'rolling back the state' and 'empowering the individual' through privatisation, tax cuts and deregulation. But before that it referred to a body of theory about markets and how they work which deserves to be treated with respect.

Neoliberal theory traces its origins to the Austrian economist Ludwig von Mises, who came to prominence after the First World War, when – as it seemed to him – everyone was getting carried away by the notion that capitalism is 'the sum of all evil'. The reference to 'evil' (*Böse*) suggests that the anti-capitalists Mises had in mind weren't so much Marxists as Manicheans: rather than seeing capitalism as a complex historical precursor to socialism, they treated it as a thing of darkness, bent on the extermination of justice, generosity and goodwill. But this portrayal was in large part a projection: Mises already saw the rivalry between capitalism and socialism in terms of moral absolutes – it's just that he thought that capitalism stood for righteousness while socialism was an abomination.

As far as Mises was concerned, political economy was primarily a timeless mathematical theory of economic decision-making, but it also told a compelling story about the historical transition from static, isolated, premodern despotisms, in which exchange seldom went beyond sporadic acts of barter, to modern market economies in which money reaches everywhere and exchange knows no bounds. Free markets dissolve traditional social structures by encouraging everyone to enrich themselves through trade, but instead of unleashing mere anarchy – as most socialists seemed to think – they bring about a new kind of social order: a 'division of labour', as Adam Smith called it, which fosters individual innovation and specialisation, and directs scarce resources where society needs them most. The problems affecting a mature capitalist system are obvious (trade cycles, unemployment, inflation and constant upheaval), but they count for very little, according to Mises, compared to its spectacular success in increasing the productivity of labour and improving human welfare.

Socialists as Mises imagined them were no more than reactionary fantasists, trying to stuff the genie of capitalism back into a medieval bottle and imagining they could hang on to modern prosperity while banishing the free markets that make it possible. He made the

case with flair, and one of his jibes – about socialists who talk about ‘paths to socialism’ without saying anything about ‘socialism itself’ – still hurts. He chose, however, to confront the socialist ideal directly. There wasn’t much to go on: Engels’s *Socialism: Utopian and Scientific* had put a damper on speculation about socialism-as-such. But Mises found a convenient example close at hand, in the work of Otto Neurath, who was, like him, an Austrian economist-philosopher, but otherwise his complete opposite. In 1918, Neurath had run the Office of Central Planning in the shortlived Bavarian Soviet Republic, and he would go on to work in social housing and adult education for the socialist administration of ‘Red Vienna’.

As well as being a tireless activist, Neurath was also an amiable ironist who ribbed his Marxist colleagues for taking themselves too seriously: their obsession with ‘scientificity’ was sucking the fun out of socialism, he said, and stifling ‘playful utopianism’. In 1919, writing in the spirit of ‘utopianism as science’, he published some essays about a socialist future in which economic decisions would be based not on comparisons of price but on *Naturalrechnung* or ‘calculation in kind’, that is to say on appraisals of the physical attributes that make different things useful to different people in different ways. A few months later Mises responded to Neurath with a paper on ‘economic calculation’ (*Wirtschaftsrechnung*), which argued that socialist hopes for a ‘rational economic system’ – cleansed of money, markets and all other vestiges of capitalism – were an impossible dream. The point was hardly new, but instead of resorting to the old argument that socialism presupposes a population of selfless saints, Mises stuck to economic theory. Planners in a socialist state could probably sustain the manufacture and distribution of standard consumer goods, he said, at least for a while (as in certain wartime economies), but they would be flummoxed when faced with choices about long-term investment. If they wanted to build a new factory, for example, they would need to evaluate thousands of options ranging over labour, plant, materials, location, transport and likely demand, many of them untested and all interacting far into the future; but without the guidance provided by prices in a free market they would be groping in the dark, and stumbling towards miseries unknown since the middle ages. Some socialists might relish the prospect, persuading themselves that wealth corrupts and poverty breeds virtue; but if they meant what they said about constructing a ‘rational economic system’ they would have to swallow their pride and recognise that economic rationality is impossible without free markets.

It was a novel argument, and brilliant in its way. But it was also a bit barmy. In the first place it was blatantly question-begging. Neurath had presented his proposal as an exercise in utopian speculation, and the fact that it defied the principles of pure economic reason wasn’t a flaw but a feature. And even if free markets were the perfect route to increased productivity, that wouldn’t make it irrational to want to live a different kind of life – in a society of equals, for example – even at some cost in economic efficiency. Second, Mises’s

argument was ridiculously polarised. He alluded to ‘decades of state and socialist endeavour’ – he was thinking of pension schemes and health insurance in Bismarck’s Prussia – but if he had stopped to think he would have realised that none of them came anywhere near abolishing prices and markets. He would have been equally hard-pressed to find examples of a pure market economy unencumbered by political institutions. Yet he chose to stick to the position he started from: that you can have either absolutely free markets or total central planning, but nothing in between.

In preferring abstractions to the lessons of experience, Mises was in some ways echoing his socialist counterparts. When they learned that some socialist enterprise was in trouble, they would always lay the blame on capitalism, arguing that socialism itself could not be said to have failed, because in its pure form it had not been tried. It was a feeble response, and Mises flipped it with panache, pointing out that no ‘socialist endeavour’ could ever have got underway without help from the intellectual, material and financial resources of capitalism. He conceded that capitalist systems have their imperfections, the main one being that they contain undiscovered ‘possibilities of production’ and are therefore inherently unpredictable. But that wasn’t so much a concession as a challenge, calculated to make advocates of socialist planning look like reckless fanatics with delusions of panoptic clairvoyance. Mises could then play the trump card of conservative thought: admitting that the world does not give us everything we deserve, but warning that any attempt to change it may rob us of what little we have.

Mises was not a conservative, however. He was a radical liberal, as he explained at length in 1922 in *Die Gemeinwirtschaft* (‘The Collective Economy’, translated as *Socialism*). The book was intended as a refutation of Marxism as a whole (‘the opium of the intellectual elite’) but it rested on the crudest of all the crude doctrines commonly attributed to Marx: ‘historical materialism’, or the idea that if you sort out the economy, the politics will look after itself. As Mises saw it, liberal values such as ‘freedom of expression’ flow automatically from ‘private ownership of the means of production’, whereas a ‘planned economy’ means treating society like an army, where ‘orders are issued and obeyed’ and individual initiative is suppressed along with free speech.

Mises expected Lenin’s Bolshevik government to prove his point. He had once dismissed Lenin as a cynic who ‘does not bother with issues beyond the end of his nose’, but he now counted him as an exemplary socialist. He didn’t expect the Bolshevik regime to last long – he thought it might fade away like the brief and farcical episode of Anabaptist rule in 16th-century Münster – but hoped it would survive long enough to teach the world a salutary lesson: that socialism is essentially authoritarian. In the event it kept going for seventy years, and given that it became a murderous dictatorship which treated liberal values as heresies, it might look as if Mises got it right.

In *Liberalismus* (1927), Mises offered a positive defence of capitalism, calling for a return to the ‘English’ liberalism of David Hume and Adam Smith – ‘the older liberalism’, as he called it, which was never ashamed of its links to ‘classical free-trade doctrine’. Mises admired English culture (and was happy to let it annex the Scotland of Hume and Smith) but he went on to accuse the English of betraying their precious inheritance. The rot began, he said, with John Stuart Mill, who started off as a liberal but went on to swallow a toxic draught of German metaphysics and then succumbed to the feminist wiles of Harriet Taylor, who married him and led him astray. Under Taylor’s tutelage, it seems, Mill ‘slid slowly into socialism’ and started promoting the ‘thoughtless muddling of liberal and socialist ideas that led to the decline of English liberalism while delivering a blow to the living standards of the English people’. With Taylor at his side Mill burnished his sinister arguments ‘with loving care’, as Mises put it, until he outstripped Marx, Engels and ‘all the other socialist writers’ to become ‘the great advocate of socialism’.

Mill was in fact never very keen on socialism. But Mises didn’t base his case for liberalism – or ‘classical liberalism’ as he was starting to call it – on his eccentric account of Mill’s intellectual development, or on historical contingencies of any kind. Liberalism as he understood it wasn’t one political opinion among others but a rigorous deduction from the mathematical principles of political economy, principles which also provided the theoretical justification for free trade and private property. It followed, Mises reasoned, that liberal freedoms are inseparable from capitalism.

The argument has a certain plausibility – a society in which everyone was free to start their own newspaper or radio station would make life difficult for dictators – but it is also rather strained, and in practice evidence that capitalism is compatible with authoritarianism was already plentiful in the 1920s and has proliferated ever since. But Mises, like his socialist opponents, was forearmed against bad news. When he talked about capitalism he was thinking not of oligarchs, tycoons, nepotists, profiteers, kleptocrats, inheritors, asset-strippers, mafiosi, hedgers, money launderers, monopolists, loan sharks, fraudsters, arms dealers, racketeers, tax-dodgers, plutocrats, press barons, slave traders and cartelists, but of plucky little Crusoes who start with nothing and make their luck by working hard and doing everyone a good turn. If liberalism was in trouble, that was because the waters of capitalism were polluted with socialist filth: capitalism itself could not be at fault, because in its pure form it had never been tried.

IN THE SUMMER of 1938 Mises attended a symposium in Paris intended to promote a ‘renewal of liberalism’ on both sides of the Atlantic. The organiser was a French philosopher called Louis Rougier who argued that socialism – which he defined as ‘the totalitarian state and economic planning’ – was discrediting itself in the Soviet Union but gaining ground elsewhere under the banner of fascism. Mises went along with that, but couldn’t agree when Rougier proceeded to argue that the liberalism of the past – the liberalism of ‘the law of the jungle’, or ‘laissez-faire’, ‘laissez-passer’ and ‘laissez-souffrir’ – needed to yield to a ‘new liberalism’ which, while accepting that there is no alternative to capitalism, recognised the need for state intervention to ensure fair competition and protect the poor. Most of the participants seem to have sided with Rougier’s state-friendly neoliberalism, but although the symposium left Mises feeling isolated, it energised him as well. He was nearly sixty, and had led a quiet life as an economic adviser in Vienna and a professor in Geneva; but in 1940 he moved to the United States and launched himself on a second career as a public intellectual, which continued till his death in 1973 at the age of 92. With the help of a privately funded post at New York University he lent his support to right-wing libertarianism, and ended up endorsing Ayn Rand’s tirades against ‘self-styled “intellectuals”’ – ‘moral cannibals’ and ‘gigolos of science’ – who mislead the masses with their ‘prattle’ about the unfairness of capitalism.

The Paris symposium gave a similar fillip to another Austrian economist, Friedrich Hayek, who was a generation younger than Mises. In the early 1920s, after abandoning a youthful dalliance with socialism, Hayek gained admission to Mises’s seminar in Vienna. He resisted for a while (‘I ... rather disliked his manner’) but then became a convert, adopting Mises’s veneration for pure political economy and his conception of politics as a battle between capitalist freedom and socialist authoritarianism, as well as his Anglophilia and his interest in the apostasy of John Stuart Mill. But while he would always be grateful for what he learned from Mises (‘more than from any other living person’) he told him as early as 1933 that he had moved on to a ‘new liberalism’ which made room for ‘collective action’ and dispensed with the dogmas of laissez-faire.

By that time Hayek had been working in England for a couple of years, at the London School of Economics. He wasn’t very happy there. For one thing he spent a lot of time teaching, and students sometimes mocked him for his idiosyncratic English. On top of that the LSE was oriented less towards economic theory than towards public policy, especially left-wing policy, and under the ambitious leadership of William Beveridge it was in permanent chaos (‘an empire on which the concrete never set’, in the words of Eileen Power). Hayek would have preferred a fellowship at some sleepy ancient university, such as Cambridge, where John Maynard Keynes had carved out a safe space for pure economics. But that didn’t stop him publishing a harsh attack on Keynes, who responded with

supercilious amusement: Hayek, he said, suffered from a surfeit of passion ('passion which leads him to pick on me') and a deficit of 'good will', and his arguments provided 'an extraordinary example of how, starting with a mistake, a remorseless logician can end up in Bedlam'.

Hayek soon redeemed himself. In 1936 he delivered a paper on 'Economics and Knowledge' – the first of a series in which he sought to exorcise a spectre which had long been haunting the world of economics: the spectre of the 'quasi-omniscient individual', also known as 'economic man'. Some commentators attributed the notion to Adam Smith, but Hayek regarded it as an invention of the 'over-pure economists' of the 19th century, who tried to turn political economy into 'an exercise in pure logic', applicable only to perfect markets where 'every event', as he put it, is 'known instantaneously to every member'.

Building on Mises's remarks about the inherent unpredictability of markets, Hayek distinguished between two kinds of economic knowledge, one of them comprising abstract information which can be codified, aggregated and entered into a central ledger for the benefit of the 'observing economist', and the other consisting of all the random local knowhow, essentially rough and imperfect, on which ordinary people base their everyday economic decisions. This second kind of knowledge – agent knowledge, you might call it – was inherently 'divided': it was 'dispersed among many people' and could never be 'concentrated in one mind'. That was where markets came in, offering a solution not so much to Smith's 'problem of the division of labour' as to what Hayek called the 'problem of the division of knowledge'. Markets were fundamentally a 'mechanism for communicating information', but unlike newspapers, which operate like a web, gathering and distributing information through a central hub, they function as a centreless net which allows us to 'avail ourselves . . . of knowledge which individually we do not possess'. Markets were, as he put it with uncharacteristic exuberance, a 'marvel', co-ordinating economic decisions in 'a process in which the individual plays a part which he can never fully understand'. They are, you might say, a device for pooling our ignorance. This way of looking at markets may not have been revolutionary, but it was genuinely illuminating, and Hayek would describe it as the only 'discovery' he had ever made, hoping it had finally disposed of that 'skeleton in our cupboard' – the fiction of 'economic man'.

THE OUTBREAK of war in 1939 cut Hayek off from friends in Austria, but otherwise brought him good fortune. He had acquired a British passport, and already thought of himself as a patriotic Englishman, and when the LSE shed most of its students and evacuated to Cambridge, Keynes took pity on him, finding him rooms and inviting him to dinners at King's College. ('Among the pleasantest recollections of my life,' Hayek said.) He now had leisure to improve his English prose, using Anthony Trollope as a model, and started work on a polemical history of the social sciences, only to set it aside a year later in favour of a popular book on the fallacies of socialist planning, which he hoped might be issued as a 'sixpence Penguin volume'.

The Road to Serfdom was published in Britain in March 1944, not by Penguin but by Routledge and at the rather high price of ten shillings and sixpence. Paper shortages meant that copies were scarce (it became 'that unobtainable book', according to Hayek), but it appeared at a time of vigorous public debate about the prospects for British society after the war. Hayek's old boss William Beveridge had produced a government report recommending state support for incomes (a 'national minimum') together with 'comprehensive health and rehabilitation services', and his proposals were proving popular, even in the right-wing press. Meanwhile the Labour Party seemed to have captured the national imagination by promising to sweep away the 'unplanned competitive world of the interwar years' and replace it with a 'New Society' based on 'planned production for community use'. *The Road to Serfdom* may not have been widely read, but its more pungent arguments – that socialists are obsessed with 'central direction of all economic activity according to a single plan', and that they are 'totalitarians' seeking to destroy the liberal foundations of 'Western civilisation' – were soon notorious, and its author ('the awful Dr Hayek' as Isaiah Berlin called him) was widely seen as violating a benign national consensus.

George Orwell praised Hayek for having the courage to be 'unfashionable', but was otherwise unimpressed. We already know, he said, that 'collectivism is not inherently democratic,' and there was no need for Hayek to shout about it; but we also know that 'laissez-faire capitalism' involves 'a tyranny probably worse, because more irresponsible, than that of the state'. If Orwell had read *The Road to Serfdom* more closely he might have been more sympathetic. He would have noticed, in the first place, that Hayek repudiated the 'dogmatic laissez-faire attitude' and recognised a 'wide and unquestioned field for state activity'. He would also have seen that Hayek favoured a 'legal framework' – 'factory laws' and 'building regulations' and limits on 'working hours' – to protect the poor, ensure fair competition and prevent 'fraud and deception'. He would no doubt have endorsed Hayek's suggestion that the state ought to protect its citizens from 'common hazards of life', perhaps through a 'comprehensive system of social insurance', while guaranteeing

‘work and a minimum income for all’. And he would surely have welcomed Hayek’s support for government interventions aimed at promoting ‘mobility’, reducing ‘inequality of opportunity’ and even disseminating ‘knowledge and information’.

Orwell might also have acknowledged that Hayek took care to address his socialist adversaries with scrupulous civility, speaking not of wickedness or folly but of the ‘tragedy which comes to pass when we ‘unwittingly produce the very opposite of what we have been striving for’. (Socialism, he said, ‘can be put into practice only by methods of which most socialists disapprove’.) Hayek also made the striking observation that a country which embraces socialism, at least to the extent of granting all its citizens the right to a comfortable ‘standard of living’, is likely to succumb to xenophobic nationalism. Rather than getting on with some ‘positive task’, he said, politicians will start stirring up ‘hatred of an enemy’, cultivating antisemitism and ‘racialism’, and promising to be ‘strong and resolute’ against ‘the foreigner’ and of course to ‘get things done’. Hayek’s warnings may have been vague – he never explained how far state intervention would have to go before tipping into totalitarianism – but Orwell should have paid them some heed.

Other readers of *The Road to Serfdom* were more alert to its ambivalence. A reviewer for the *Times Literary Supplement* pointed out that Hayek’s liberalism was hedged with so many ‘exceptions’ that it allowed for ‘a considerable measure of social control’, and should therefore appeal to ‘moderate planners’ if not to out and out socialists. Keynes, who read a copy while crossing the Atlantic for the Bretton Woods conference on international finance, praised Hayek for recognising that when it comes to state intervention, ‘it is a question of knowing where to draw the line,’ but pointed out that he failed to offer ‘guidance whatever as to where to draw it’.

In 1945, when the war in Europe was coming to an end and Britain was preparing for its first general election in ten years, Hayek found himself drawn into a fractious political campaign. The Labour leader, Clement Attlee, accused the Conservatives of undermining the solidarity of the war years by adopting ‘the academic views of an Austrian – Professor Friedrich August von Hayek’. (It was cunning of him to describe Hayek as a foreign academic, and to refer to him with the hereditary honorific ‘von’, even though it had lost its meaning with the end of the Austro-Hungarian empire and Hayek himself never used it.) Winston Churchill borrowed from *The Road to Serfdom* in a radio talk a month before the election.

My friends, I must tell you that a socialist policy is abhorrent to the British ideas of freedom . . . Socialism is inseparably interwoven with totalitarianism and the abject worship of the state. It will prescribe for everyone where they are to work, what they are to work at, where they may go and what they may say. Socialism is an attack on the right to breathe freely . . . No socialist system can be established without a political police . . . They would have to fall back on some form of Gestapo, no doubt very humanely directed in the first instance.

Churchill's Hayekian rant about a Labour Gestapo didn't do the Conservatives much good in 1945, and the influence of *The Road to Serfdom* went into dormancy in Britain till the rise of Thatcher thirty years later. But the book did much better in the United States. It was published there at the end of 1944, and the following February the mass-circulation *Look* magazine summarised it in a series of eighteen cartoons, later reissued by General Motors, in which 'national planning' leads to dictatorship, secret police and firing squads. In April *Reader's Digest* followed up with a twenty-page 'condensation' which left a lot out but made room for the suggestion that socialism is incompatible with Christianity – a claim that Hayek, an unwavering non-believer, would never have made.

Hayek was crossing the Atlantic, under radio silence, when the *Reader's Digest* article appeared. He had been anticipating a relaxed promotional tour of a handful of American universities, but when he landed in New York he found that he was suddenly famous, and his publishers had booked him for a string of town hall meetings and radio shows. He didn't like being 'pressed into public lecturing', but soon grew accustomed to people who, as he put it, 'were enthusiastic about the book but never read it'. When he told them about the dangers of state intervention they responded with warm applause, but when he went on to argue that governments should 'step in where competition cannot possibly do the job' (financing hydroelectric power for example) and implement a 'plan for competition' (including 'unemployment insurance' and a 'minimum-wage law'), he noticed that 'the temperature of the room went down at least ten degrees.'

When Hayek returned to Britain he set about raising money for an international conference to carry on the work of the prewar Paris symposium on neoliberalism. The conference took place in the spring of 1947 at a hotel in the Swiss village of Mont Pèlerin, with Hayek guiding some forty participants – including an ambitious young American called Milton Friedman – through a long agenda, under the wary gaze of Ludwig von Mises. They agreed to create a permanent organisation called the Mont Pèlerin Society, dedicated to the proposition that a 'free society' depends on 'market-oriented economic systems'; but they stopped short of committing themselves to pure laissez-faire capitalism, which led Mises to storm out, denouncing them all as 'a bunch of socialists'.

The fact that the Mont Pelerin Society is still going after 75 years testifies to Hayek's organisational skill. But it also owes something to his peculiar personality – self-certain, enigmatic, obtuse, elusive and often oblivious – which comes into focus in a new biography by Bruce Caldwell and Hansjoerg Klausinger. Caldwell is the author of an excellent intellectual portrait of Hayek, *Hayek's Challenge* (2004), while Klausinger is a distinguished historian of Austrian economic thought, and their collaboration has resulted in a gloriously detailed and thoroughly reliable account of the first half of Hayek's life (they are still at work on the second volume).

Hayek was born in Vienna in 1899, into great wealth and privilege, but wasn't interested in either. He was an energetic schoolboy with a taste for the dangerous new sport of alpine skiing, and when he was drafted into the Austrian army at the age of seventeen he volunteered for 'real fighting' and got what he asked for. ('May or may not have killed a man,' as he said towards the end of his life: 'in the dark ... a small Italian, with a knife'.) He also loved beautiful books, and became an enthusiastic collector who took pride in reading everything he owned, and 'rather rapidly'. After the war he wrote a paper proposing that governments should 'require the daily newspapers within their territory to print regularly a page of news and articles compiled by an international committee' so that all social and political tendencies would be able to 'report on facts which they think may not otherwise be reported fairly'. The later Hayek might have considered the proposal heavy-handed, but it fits in with a larger story told by Caldwell and Klausinger, about the way Hayek's interest in old books led him to a preoccupation with intellectual history, and particularly with the allure and persistence of bad ideas.

WHEN HAYEK was only twenty he dreamed of offering the world an 'overview of the evolution and the system of sciences'. His main theme was that human knowledge has developed through three historical phases: it began, he said, with simple perceptions which rely on the classifications suggested by our senses; it then morphed into natural science, which explores the objective forces at work behind the veil of sensation; but in 'the next great revolution in science' we would turn our attention inwards to examine our own subjective lives and the social and cultural activities of 'humanity itself'.

Hayek clung to this view of the shape of intellectual history for the rest of his life, never realising, it seems, that there was nothing original about it (it could have been cribbed from Hegel's remarks on the limitations of *Aufklärung* or 'Enlightenment') or that it depended on the questionable assumption that the European classical tradition epitomises the history of the world. But it provided the frame for a tale he was keen to tell about the curious career of 'social studies' or the 'moral sciences'. They got off to a good start, according to Hayek, when Adam Smith showed that they are concerned not with

external objects governed by natural laws but with the inner logic which links human actions to their ‘unintended or undesigned results’. But then catastrophe struck: Smith’s subjectivist revolution provoked a ‘counter-revolution’ in which blinkered devotees of the natural sciences conspired, in the name of Francis Bacon (‘demagogue of science’), to crush the autonomy of social science.

This was to be the theme of the projected two-volume study ‘The Abuse of Reason’ which Hayek was working on when he arrived in Cambridge in 1940. The opening scene was set in France in the 1790s, when Napoleon started to dismantle institutions of humanistic education and replace them with schools of engineering and natural science. Napoleon’s grand design prospered, breathing life into the conceptual monster which Hayek referred to as ‘scientism’, ‘rationalism’ or ‘scientistic hubris’. But the theory wasn’t fully articulated until the 1830s, when Auguste Comte launched his *Philosophie Positive* and began, in Hayek’s telling, to propagate the two dogmas of scientism: that history is ‘subject to simple laws’, and that social institutions cannot prosper unless they are under ‘conscious control’.

Before starting work on the second volume, however, Hayek broke off in order to write *The Road to Serfdom*. The two projects were closely connected: the imperious scientistic rationalist of ‘The Abuse of Reason’ was identical to the fanatical planner depicted in *The Road to Serfdom*. And if Caldwell and Klausinger are right, Hayek’s portrait was drawn from life. His model was Lancelot Hogben, who was one of several voluble British scientists – including J.B.S. Haldane, Hyman Levy, Joseph Needham and J.D. Bernal – who spent the 1930s trying, with some success, to convince the British public that socialism is simply science in action. Hogben held a personal professorship in ‘social biology’ at LSE, and took pleasure in insulting his colleagues in economics by calling their discipline ‘pseudo-scientific’ and comparing it to astrology. He also described Hayek’s work as ‘ultra-individualist metaphysical nonsense’, informing him in the name of biological science that there could be no ‘rational basis for human society’ without ‘planned consumption’. Hayek responded by explaining that when economists study ‘individual actions’ they consider them not as isolated metaphysical absolutes but as ‘directed towards other people’, and indeed as part of ‘the state’ and of ‘the much richer organism which we call society’. If anyone was guilty of superstition, therefore, it was not the economic theorists but Hogben and the other ‘men of science’. They were simply benighted clones of Comte, according to Hayek: hence their obsession with the supremacy of natural science and their inability to recognise the wonders that can be achieved through the ‘spontaneous activities’ of ordinary people, without ‘deliberate organisation by a commanding intelligence’.

After the war Hayek returned to ‘The Abuse of Reason’ and rounded it off with a perfunctory survey of several 19th-century social philosophers who, as he saw it, had sold out and joined the scientistic counter-revolution. He started with Mill, presenting him not

as a political economist in his own right but as a slave to Comte, but he also took the trouble to track down unpublished correspondence in order to confirm what Mises had suspected: that Mill was seduced into rationalistic socialism by Harriet Taylor. He might have been expected to show more sympathy for Hegel, who admired classical political economy and argued emphatically that attempts to take control of historical processes led not to freedom but terror. But after confessing (or boasting, like a good Englishman) that he could not ‘pretend to understand Hegel’, he lumped him in with Comte as an advocate of ‘historical determinism’, ‘fatalism’ and ‘moral relativism’. He found Marx just as unreadable and – overlooking his rather conspicuous interest in classical political economy – dismissed him as a minor follower of Comte, afflicted with ‘historical fatalism’ and the ‘hubris of collectivism which aims at conscious direction of all forces of society’. Hayek wasn’t, you might say, a careful reader; but he established, to his own satisfaction, exactly what he set out to prove: that just as Adam Smith, with the help of Hume, was the architect of the ‘liberalism of the 19th century’ so Comte, abetted by Mill, Hegel and Marx, was responsible for ‘the totalitarianism of the 20th’.

These works on intellectual history didn’t appear until the 1950s, so Caldwell and Klausinger won’t get to them until their second volume, which will cover Hayek’s activities up to his death in 1992 at the age of 92. They will no doubt tell the story well, but it is bound to be dispiriting. In 1950 Hayek took a job at the University of Chicago, where Milton Friedman and his wife, Rose, were turning the economics department into a beacon of free-market absolutism in the manner of Mises and even Rand. But Hayek took no part in it: he was employed in a different department (‘Social Thought’), with his salary paid by a private sponsor, and while his relations with the Friedmans were friendly enough, he considered their work ‘dangerous’, though not as bad as the ravings of Ayn Rand.

Hayek was restless in Chicago and deeply nostalgic for England (nothing was more important to him than his subscription to the *Times*); but no English institution wanted to give him a job and in 1962 he settled for a professorship in Freiburg im Breisgau where, according to Milton Friedman, he became ‘extremely depressed, withdrawn and unproductive’. The award of the Nobel Prize in Economics in 1974 lifted his spirits a little, but not much: he was disgruntled at having to share it with the socialist economist Gunnar Myrdal. On the other hand he was gratified when Margaret Thatcher told her supporters that she had been inspired by *The Road to Serfdom* when it first came out. After she became prime minister he presented her with a leather-bound copy, and she sought his advice from time to time; but he had to keep reminding her that he was a liberal rather than a conservative, and could never condone any kind of nationalism. He also became a frequent contributor to the letters page of the *Times*, writing as a nostalgic expatriate to express dismay at various assaults on the ‘old English traditions which have made this country

great'. He was appointed Companion of Honour in 1984 and relished a brief audience with the queen. 'I've just had the happiest day of my life,' he said, and announced that he would now like to be known as Frederick.

As he grew older his political opinions became weirder and wilder: he praised Pinochet as a protector of individual freedom, for example, and urged Thatcher to bomb Argentina. Rose Friedman must have been thinking of him when she said she had always found she could 'predict an economist's positive views from my knowledge of his political orientation', whereas 'I have never been able to persuade myself that the political orientation was the consequence of the positive views.' Hayek's insights into the economic importance of dispersed, implicit, local knowledge could certainly be turned against any absolute doctrine of central planning, but they count equally against centralised management of large firms, and also against the economic power of remote bankers, financiers, consultants and accountants. Perhaps it isn't surprising that followers of Mises started muttering darkly about 'Hayekian socialism'. If he had been born with a sunnier temperament, Hayek might have come out as a libertarian socialist, a bohemian existentialist, an anarchist hippy, or a small-is-beautiful beatnik, without abandoning his economic principles. He might even have glimpsed the possibility that liberal values will never be safe without socialism.

By ending their volume in 1950, Caldwell and Klausinger give prominence to an appalling moment in Hayek's otherwise uneventful private life. In 1926 he married Helena Fritsch, who became a loyal wife, running his household in Vienna and then Hampstead, seeing to all his domestic comforts, and bringing up their two children. 'She jolly well had to be practical,' as their daughter Christine put it in conversation with Caldwell, 'because my father had *no idea*.' In 1948 Hayek informed the unsuspecting Helena that he was going to leave her for his cousin Helene Bitterlich, a former girlfriend from Vienna. The following year Christine, aged 19, accompanied her father to a summer school in the Austrian Alps, where he arranged for her to share a bedroom with an older woman who turned out to be Helene – which 'really, *really* showed', as Christine told Caldwell, that 'he had *no idea*.' In 1950 he took a temporary job in Arkansas, where state law allowed him to obtain a quick divorce, leaving wife and children forlorn in London. 'You see he would have no idea,' Christine Hayek said, 'absolutely none.'



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Letters

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Jonathan Rée writes that Ludwig von Mises expected the Bolshevik government to fizzle out, imagining it would ‘fade away like the brief and farcical episode of Anabaptist rule in 16th-century Münster’ (LRB, 2 February). But that rebellion remains ever present in the city. Three cages in which the corpses of the Anabaptist leaders Jan van Leiden, Bernhard Krechting and Bernhard Knipperdolling were displayed after they had been publicly tortured and executed still hang from the tower of St Lambert’s Church on the Prinzivalmarkt. As the novel *Q* by the Italian collective Luther Blissett has it, ‘No one looks at them. The past hangs right over their heads. And if they try to lift their heads too far, the cages are there as a reminder.’

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