
1. Introduction

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A BRIEF BIOGRAPHICAL SKETCH OF FRIEDRICH A. HAYEK¹

Friedrich August von Hayek (1899–1992) was a notable contributor to twentieth-century economics and a central figure of the Austrian school. He is credited for advances not only in the field of economics but also in the fields of psychology, epistemology and political philosophy. His scholarly output spans seven decades.

Hayek was born in Vienna (then the capital of Austria-Hungary) on 8 May 1899. He served in the military as an artillery officer in World War I before entering the University of Vienna, where he obtained doctorates in law and political science. After spending a year at New York University (1923–24), Hayek returned to Vienna where he joined the celebrated Privatseminar conducted by Ludwig von Mises. In 1927 Hayek became the first director of the Austrian Institute for Business Cycle Research. His writing during the late 1920s reflected his experience in New York, during which time the US was experiencing the early phases of a dramatic economic boom, and his participation in Mises' seminar, during which his appreciation for the Austrian theories of money and business cycles were strengthened.

On an invitation from Lionel Robbins, chair of the economics department at the London School of Economics (LSE), Hayek delivered a series of lectures at the LSE in 1931 and subsequently accepted the Tooke Chair. With his lectures published as *Prices and Production* ([1931] 1935), Hayek emerged as the principal rival of John Maynard Keynes on the issues of business cycles and stabilization policy.

During the late 1930s and early 1940s Hayek's research centered on the role of knowledge and discovery in market processes and on the methodological underpinnings of the Austrian school. In particular, Hayek emphasized the subjectivism and methodological individualism that underlay the Austrians' thinking. His contributions in these areas were an outgrowth of his participation in the debate over the possibility of economic calculation under socialism. A key article during this period was his 'Economics and knowledge' (Hayek, 1937).

Though written for popular consumption, Hayek's *Road to Serfdom*

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([1944] 1967) can be seen as an application of his theorizing about socialism in all its forms. He was able to foretell the sequential consequences of encroaching socialism in England with an acuity that derived from his having witnessed the same sequence in his native Austria 20 or 25 years earlier (Hayek, [1944] 1967, p. 2). Unfortunately, Hayek's reaching out to the intelligent layman was accompanied by – and, in all likelihood, helped bring about – his estrangement from the economics profession.

In 1950 Hayek left the LSE and joined the Committee on Social Thought at the University of Chicago. His research there encompassed the broader concerns of social, political and legal philosophy. It was during his Chicago years that he wrote *The Constitution of Liberty* (1960). He returned to Europe in 1962 with appointments at the University of Freiburg, West Germany and then (in 1969) at the University of Salzburg, Austria. His Freiburg–Salzburg years were devoted to producing the three-volume *Law, Legislation and Liberty* (1973, 1976 and 1979). Hayek returned to Freiburg in 1977, residing there until his death in 1992.

HAYEK'S EVOLVING PERSPECTIVES²

Beyond the present volume's Chapter 2, in which Denis O'Brien sets out the place of Hayek in the history of economic thought, the sequencing of the chapters reflects the twists and turns of Hayek's academic career. I have resisted dividing the book into parts out of concern that that would overemphasize the shifts in Hayek's focus, as outlined above, and eclipse the underlying continuity of Hayekian thought. I am aware of the special attention that has come to be given to Hayek's 'Economics and knowledge' (1937), an article which, according to Terence Hutchison (1981), marks Hayek's rejection of Mises' *a prioristic* thinking and his turn towards Karl Popper's falsificationism. Hutchinson took this perceived change of mind as implying a first-order distinction between 'Hayek I' and 'Hayek II'. In my judgment Bruce Caldwell has effectively countered Hutchison in part by quoting from a 1981 letter from Hayek to Hutchison indicating that 'I was *never* an *a priorist*' (emphasis in the original), and that '[t]he main intention of my [1937 article] was to explain gently to Mises why I could not accept his *a priorism*' (Caldwell, 2004, pp.420–21).

Although Roy McCloughry, editor of a compilation of Hayek's early essays, swears off the task of interpreting Hayek, he identifies the 1937 article as a 'watershed in Hayek's thought' (McCloughry, 1984, p. viii) – almost as if this characterization involved no interpretation. The supposed watershed is taken to be the point when Hayek turned from the characteristics of an achieved equilibrium to the analysis of the equilibrating

process. That is, before the watershed, he was concerned with the end-state relationships that can be set out in a general equilibrium framework; after the watershed, he was concerned with the dispersion of information and with the price system as a network for communicating that information. I question whether this bifurcation can survive a broader understanding of Hayekian economics.

At best McCloughry's distinction is overdrawn. In Hayek's early writings, he was always careful to square his own theorizing with the general equilibrium theory of the Lausanne school of economics rooted in the works of Léon Walras. But the emphasis was on 'general' rather than on 'equilibrium'. It would be more accurate to say that Hayek always paid explicit attention to the general interdependencies among all markets – whether or not the market forces associated with those interdependencies are conceived as having actually achieved a state of equilibrium.

Having absorbed the insights of Walras and other Continental economists, Hayek had a keen awareness of both the virtues and the limitations of Alfred Marshall's partial equilibrium analysis. When theorizing about money, capital accumulation or capital consumption, or about fluctuations in business activity and widespread employment, it is impermissible to focus the analysis on one or two broadly defined markets while impounding others by way of a *ceteris paribus* assumption. Hayek was aware of the fallacious doctrines and disastrous policies that could be – and were – derived from the unfounded use of *ceteris paribus*. The undue extension of partial equilibrium analysis was evident both in the unschooled thinking of politicians and businessmen and in the theorizing of Keynes and other British economists who were schooled in Marshallian economics. It can fairly be said of Keynes that he had ventured far away from Marshall in terms of the questions asked (about the macroeconomy) but had leaned heavily on Marshall (relying, in effect, on partial equilibrium analysis) for the answers given. Keynes's assumption of a fixed structure of industry in the context of changing rates of interest and dramatic movements in employment and income is an especially relevant case in point.

Hayek had witnessed the results of this mode of theorizing and was neither surprised nor impressed. And because he was schooled in Vienna, it is not surprising that Hayek himself did not adopt the same strategy. Nor is it surprising that, having studied under the Walras-inspired Friedrich von Wieser, he grounded his own thinking in the Lausanne school. It is misleading, though, to identify the early Hayek as a general equilibrium theorist, given what that term has come to mean. But it is to Hayek's credit that he focused his attention on the interdependencies identified by Walras. Hayek's response to Keynes's *Treatise on Money* demonstrated

the edge that Walrasian thinking had over Marshallian thinking when macroeconomic relationships are at issue. And that edge was to become sharper with the subsequent writings of both Keynes and Hayek.

It is certainly possible to detect a change in the focus of Hayek's writings during his years of continuous interaction with British economists. In earlier years he was concerned predominantly with the questions of how the market process would have to operate if the preferences of consumers were to get transformed into the production plans of business firms and how government policy, particularly central-bank policy, could interfere with this process. With his post-Continental writings he became more concerned with the issue of how this same market process could in fact operate even though the information on which the process is based is incomplete and dispersed throughout the economy.

But Hayek was well aware of this second question in the early 1920s. In fact, as indicated by his own introductory remarks in the McCloughry edited volume (1984, p. 1), he was already working with and under the influence of Mises when Mises' *Socialism* appeared in 1922. That book dealt at length with the critical issue of economic calculation. Hayek may well have believed as the 1920s wore on that the economics profession had understood – or soon would understand – the full significance of Mises' contribution. His own efforts, then, could be directed towards developing the Misesian vision by focusing on the intertemporal coordination made possible by unhampered credit markets and the intertemporal discoordination caused by misguided central-bank policy. If anything, the so-called watershed referred to by McCloughry marks the period during which Hayek became aware that the profession, at least in Britain, had in fact not absorbed Mises' insights at all. Hayek himself says as much when reflecting in the late 1970s on his putting together a volume on collectivist planning in the early 1930s. 'I found that certain new insights which were known on the Continent had not reached the English-speaking world yet' (Hayek, 1994, p. 79). Hayek goes on to say that it was this revisiting of Mises' (and others') early ideas about socialism that led him to write the 1937 article 'Economics and knowledge' (*ibid.*, p. 80).

Also, Hayek's Copenhagen lecture, delivered in 1933 (halfway between the publication dates of the two editions of his *Prices and Production*), casts doubts on the notion of a watershed. Even a casual reading of the English translation, published six years later as 'Price expectations, monetary disturbances and malinvestments' (Hayek, [1939] 1975), reveals that his focus in that lecture is closer to his 1937 article than to his graph-laden exposition in *Prices and Production*. Hayek expresses concern about the gulf between the conventional statics and dynamics and about the inadequate treatment of time and hence of expectations, especially in theoriz-

ing about trade cycles. The ongoing change in his thinking, however, can be seen as an evolutionary one:

Not very long ago [1928? 1931? – RG] I myself still believed that the best way to [deal with the gulf between statics and dynamics] was to say that the theory of the trade cycle at which we were aiming ought to be organically superimposed on the existing theory of equilibrium. I am now [1933, and later in 1937] more inclined to say that the general theory itself ought to be developed so as to enable us to use it directly in the explanation of particular industrial fluctuations. (Hayek, [1939] 1975, pp. 137–8)

In sum, it had gradually dawned on Hayek that his British colleagues could not appreciate *Prices and Production* and related writings because they lacked a fundamental understanding of the significance of decentralized decision-making in a market economy. In an attempt to overcome this obstacle, Hayek began to deal in a more explicit way with the coordination of individual plans on the basis of dispersed and incomplete information. But both the early Hayek and the later Hayek were Walrasian in the looser sense of attention to interdependencies, and both were concerned with the market process as a coordinating mechanism. Even Hayek's early (1928) essay, 'Intertemporal price equilibrium and movements in the value of money' (in McClaughry, 1984) provides much direct and indirect evidence of the continuity of Hayek's thinking.

ECONOMICS *CUM* POLITICAL PHILOSOPHY

Hayek's move in 1950 from the LSE to the University of Chicago was accompanied by another change in his focus – though, again, without any implied discontinuity in his thinking. Had he been accepted into the university's department of economics, he may well have resumed work on his technical economics. However, he was found unsuitable by his would-be colleagues – not because of his political views but because of his technical economics and, more specifically, his capital theory and business cycle theory. Beyond citing an internal issue concerning the procedure in hiring faculty, Milton Friedman mentioned only this one issue during an interview conducted by biographer Alan Ebenstein. The economics faculty 'didn't agree with [Hayek's] economics. *Prices and Production*, his capital theory – if they [Chicago's economics faculty] had been looking around the world for an economist to add to their staff, their prescription would not have been the author of *Prices and Production*' (Ebenstein, 2001, p. 174). Hayek himself sized up the situation a little differently: '[t]he econometricians didn't want me' (ibid., p. 175).

Fortunately, the University of Chicago's Committee on Social Thought did want him. And, all things considered, the snubbing by the economics department was not much of a bruising for Hayek. Interviewed in the late 1970s, Hayek indicated that by 1950 he had 'become somewhat stale as an economist' and would have 'found it difficult to return to systematic teaching of economic theory' (Hayek, 1994, p.126). The Committee on Social Thought was conducive to his thinking and writing outside the field of economics narrowly conceived, a circumstance that meshed with his aspirations. As Ebenstein puts the matter, Hayek's focus on 'political economy and societal philosophy over technical academic economic theory during the last fifty years of his life reflected . . . his mature belief that the former is more important than and incorporates the latter' (Ebenstein, 2001, p.176).

Hence, Hayek's writings post-1950 do not require that we extend Hutchison's bifurcation and declare a 'Hayek III'. Throughout his long career, the common concern was coordination in a free society. His understanding of equilibrium states, the equilibrating process and the requisite social institutions combine into a remarkably coherent perspective on both the narrow and the broad issues of a market economy. In the early years of the revival of Austrian economics in the United States, Gerald P. O'Driscoll, Jr wrote a book titled *Economics as a Coordination Problem: The Contribution of Friedrich A. Hayek* (1977). Hayek himself penned the 'Foreword'. In it he wrote:

It is a curious fact that a student of complex phenomena may long himself remain unaware of how his views of different problems hang together and perhaps never fully succeed in clearly stating the guiding ideas which led him in the treatment of particulars. I must confess that I was occasionally myself surprised when I found in Professor O'Driscoll's account side by side statements I made at the interval of many years and on quite different problems, which still implied the same general approach. That it seemed in principle possible to recast a great part of economic theory in terms of the approach which I had found useful in dealing with such different problems as those of industrial fluctuations and the running of a socialist economy was [most] gratifying to me. (O'Driscoll, 1977, p. ix)

And had O'Driscoll's book been extended to include social philosophy, Hayek may well have been even more gratified.

Not all of the contributors to this volume would ascribe a lifetime of cohesiveness to Hayekian thought, especially in connection with aspects of Hayek's capital theory and business cycle theory of the 1930s and of the legal framework recommended by Hayek in his post-1950 writings. And as even I would concede, in Hayek's treatment of these and other topics, the devil is in the details. But the chapters in this volume suggest

a preponderance of cohesiveness – in part by virtue of the unavoidable overlap among the contributions, where similar arguments are made in dealing with very different issues.

Some of the overlap, much of it helpful in revealing the interconnections among different aspects of Hayekian thought, derives from the different ways of narrowing the focus of the separate contributors. One focuses on a particular time period, the 1930s; another on a particular book, *The Pure Theory of Capital*. Four of the contributions focus on the relationship between Hayek's ideas and those of another economist: Keynes, Friedman, Mises and Lachmann. The rest focus on particular topics, broad and narrow, almost all of which tend to be interrelated: socialism, the socialist calculation debate, social justice, spontaneous order, globalization, free trade and trade unions.

A NOTE ABOUT THE ORIGIN AND DEVELOPMENT OF THIS VOLUME

The selection of contributors to this volume reflects, in large part, the good judgment and entrepreneurship of Norman Barry. More than a dozen invitees answered his call for contributions. Collectively, they produced a scholarly, even-handed and fairly comprehensive treatment of Hayekian thought. It was to be a long road, though, from the initial acceptances of invitations in 2003 to the eventual appearance in print of the final product. Understandably, these chapters, all of substantial length and worthy of inclusion in Norman's project, could not be written in haste. This aspect of the production time was to be expected.

However, Norman's health had begun to decline in the late 1990s and his condition became increasingly debilitating. Still, Norman pressed on with his academic career, but in his final years progress on his publication project was dramatically slowed.

I never had the privilege of knowing Norman Barry personally, but I knew him through his writings and through our correspondence about my own submission to the volume. These connections gave me some idea about his character. When I discovered from others sometime in 2008 that his health had become an issue, I contacted him through Linda Waterman, the University of Buckingham's Departmental Administrator, and offered to become co-editor of the volume. Somehow I wasn't surprised to learn that his resolve to finish the job himself despite his failing health had already ruled out any thought of a co-editor.

In October of 2008, I was contacted by Mrs Waterman with the sad news of Norman's passing and with encouraging remarks about the

possibility of my taking over the editorial responsibility of his publication project. Subsequent overtures from Edward Elgar resulted in my becoming co-editor.

Norman's and my editing, then, has been strictly *seriatim*. And the transition was a rocky one despite the help and understanding of Edward Elgar and of Norman's close friend and colleague Martin Ricketts. Only a few of the contributions to the volume were found in Norman's files. Exhaustive searches over a period of many months failed to unearth any hard copies or electronic copies of any of the other papers. Not even a complete and up-to-date listing of submitted papers was found. And though there was reason to believe that edited copies of the papers and even a nearly completed introduction by Norman did exist, hope of finding any of them faded. Then, after getting a few leads from known contributors, I began to track down other contributors and to get still other leads. Eventually, there were enough chapters, all of good quality, to more than justify pushing forward with the project. I issued several new invitations, which in the end netted two additional contributions (by Richard Ebeling and Peter Lewin). And the pre-copy-editing finalization of the chapters allowed authors of some of the earliest submissions to include updated material and to cite recent literature.

On a personal note, let me say that I first became aware of Norman Barry shortly after my arrival at Auburn University in late summer of 1978. I had just completed a 15-month residency at the Institute for Humane Studies in Menlo Park, California, during which I worked toward completing my dissertation on the relationship between neoclassical and Austrian monetary theories. Happily, my stay overlapped Friedrich Hayek's residency at the Institute for Humane Studies – his during the summer of 1977. To say the least, opportunities to interact with Hayek did wonders for my enthusiasm for my dissertation topic.

While settling in at Auburn and beginning my teaching career, I paid a visit to the university bookstore and just happened to notice in the new-arrivals section *Hayek's Social and Economic Philosophy* by Norman Barry (1979). I didn't realize at the time how surprised I should have been to find such an academic publication at a state school bookstore that specialized mainly in textbooks and T-shirts. And now, on rereading large portions of Norman's book at the end of my teaching career, I am gratified to realize that my introduction to the *Elgar Companion to Hayekian Economics* is wholly compatible with his own view of Hayek's economic and philosophical writings. In the preface Norman wrote:

Professor Hayek has found academic recognition and very great world-wide respect for his contributions in a wide variety of disciplines and it is the aim of this book to present his social and economic philosophy as an integrated system of ideas in which seemingly very different subject areas can be seen as elements in a comprehensive framework. Thus, while Hayek is probably known publicly as a leading advocate of free market economics this standpoint finds its true significance only in a wider philosophical context. (Barry, 1979, p. ix)

Though critical of many specifics of Hayekian theory, the contributions to the present volume will stand in testament to the many ways in which Norman's summary assessment captures the essence of Friedrich A. Hayek.

NOTES

1. The first four paragraphs draw largely from Garrison and Kirzner (1987).
2. This section draws from and elaborates upon Garrison (1985).

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