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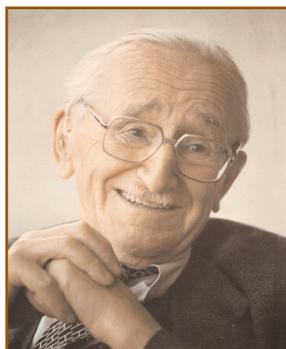
F. A. Hayek

BY PETER G. KLEIN

F. A. Hayek (1899–1992) is undoubtedly the most eminent of the modern Austrian economists. Student of Friedrich von Wieser, protégé and colleague of Ludwig von Mises, and foremost representative of an outstanding generation of Austrian School theorists, Hayek was more successful than anyone else in spreading Austrian ideas throughout the English-speaking world.

Unfortunately, Hayek's theory of the business cycle was eventually swept aside by the Keynesian revolution. Ultimately, however, this work was again recognized when Hayek received, along with the Swede Gunnar Myrdal, the 1974 Nobel Memorial Prize in Economic Science. Hayek was a prolific writer over nearly seven decades; his *Collected Works*, currently being published by the University of Chicago Press and Routledge, are projected at nineteen volumes.

Hayek's life spanned the twentieth century, and he made his home in some of the great intellectual communities of the period. Born Friedrich August von Hayek



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in 1899 to a distinguished family of Viennese intellectuals, Hayek attended the University of Vienna, earning doctorates in 1921 and 1923. Hayek came to the University at age 19 just after World War I, when it was one of the three best places in the world to study economics (the others being Stockholm and Cambridge).

Like many students of economics then and since, Hayek chose the subject not for its own sake, but because he wanted to improve social conditions—the poverty of postwar Vienna serving as a daily reminder of such a need. Socialism seemed to provide a solution. Then in 1922 Mises published his *Die Gemeinwirtschaft*, later translated as *Socialism*. “To none of us young men who read the book when it appeared,” Hayek recalled, “the world was ever the same again.”

It was around this time that Hayek began attending Mises’s famed *Privatseminar*. For several years the *Privatseminar* was the center of the economics community in Vienna. Later, Hayek became the first of this group to leave Vienna; most of the others, along with Mises himself, were also gone by the start of World War II.

At the L.S.E. Hayek lectured on Mises’s business-cycle theory, which he was refining and which, until Keynes’s *General Theory* came out in 1936, was rapidly gaining adherents in Britain and the U.S. and was becoming the preferred explanation of the Depression. Hayek and Keynes had sparred in the early 1930s in the pages of the *Economic Journal*, over Keynes’s *Treatise on Money*.

Within a very few years, however, the fortunes of the Austrian School suffered a dramatic reversal. Mises left Vienna in 1934 for Geneva and then New York, where he continued to work in isolation; Hayek remained at the L.S.E. until 1950, when he joined the Committee on Social Thought at the University of Chicago. Other Austrians of Hayek’s generation became prominent in the U.S. but their work no longer seemed to show distinct traces of the tradition founded by Carl Menger.

At Chicago Hayek again found himself among a dazzling group. But economic theory, in particular its style of reasoning, was rapidly changing. In addition, Hayek had ceased to work on economic theory, concentrating instead on psychology, philosophy, and politics, and Austrian economics entered a prolonged eclipse.

When the 1974 Nobel Prize in economics went to Hayek, interest in the Austrian School was suddenly and unexpectedly revived. Hayek's writings were taught to new generations, and Hayek himself appeared at the early Institute for Humane Studies conferences in the mid-1970s. He continued to write, producing *The Fatal Conceit* in 1988, at the age of 89. Hayek died in 1992 in Freiburg, Germany, where he had lived since leaving Chicago in 1961.

Among mainstream economists, he is mainly known for his popular *The Road to Serfdom* (1944) and for his work on knowledge in the 1930s and 1940s. Specialists in business-cycle theory recognize his early work on industrial fluctuations, and modern information theorists often acknowledge Hayek's work on prices as signals, although his conclusions are typically disputed. Hayek's work is also known in political philosophy, legal theory, and psychology.

Within the Austrian School of economics, Hayek's influence, while undeniably immense, has very recently become the subject of some controversy. His emphasis on spontaneous order and his work on complex systems has been widely influential among many Austrians. Others have preferred to stress Hayek's work in technical economics, particularly on capital and the business cycle, citing a tension between some of Hayek's and Mises's views on the social order.

Hayek's writings on capital, money, and the business cycle are widely regarded as his most important contributions to economics. Building on Mises's *Theory of Money and Credit* (1912), Hayek showed how fluctuations in economy-wide output and employment are related to the economy's capital

structure. In *Prices and Production* (1931) he introduced the famous “Hayekian triangles” to illustrate the relationship between the value of capital goods and their place in the temporal sequence of production.

In *Monetary Theory and the Trade Cycle* (1933) Hayek showed how monetary injections, by lowering the rate of interest below what Mises (following Wicksell) called its “natural rate,” distort the economy’s intertemporal structure of production. Most theories of the effects of money on prices and output (then and since) consider only the effects of the total money supply on the price level and aggregate output or investment.

Hayek’s writings on dispersed knowledge and spontaneous order are also widely known, but more controversial. In “Economics and Knowledge” (1937) and “The Use of Knowledge in Society” (1945) Hayek argued that the central economic problem facing society is not, as is commonly expressed in textbooks, the allocation of given resources among competing ends.

It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only those individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge not given to anyone in its totality.

Clearly, the Austrian revival owes much to Hayek. He ranks among the greatest members of the Austrian School, and among the leading economists of the twentieth century. His work continues to be influential in business cycle theory, comparative economic systems, political and social philosophy, legal theory, and even cognitive psychology. Hayek remains one of the most intriguing intellectual figures of our time. ■



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