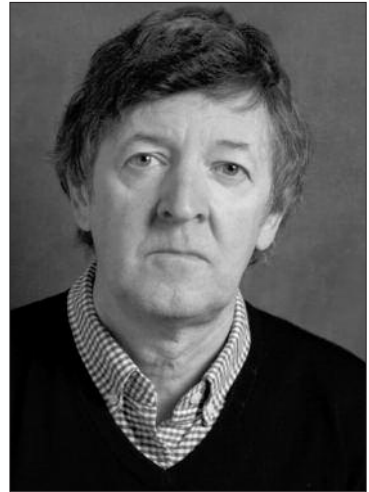


THE PRICE PROPHET*

The long-forgotten economist whose controversial theories help explain today's market mania

JOHN CASSIDY



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If there are two things most people can agree on these days, they are that free-market capitalism is the only practical way to organize a modern society and that the key to economic growth is “knowledge.” So prevalent are these beliefs that their origins are rarely examined, which is somewhat surprising, since both statements can be traced back in large part, to one man,

Friedrich August von Hayek, a reserved Austrian economist who died in 1992. In November of 1989, when the Berlin Wall came down, Hayek was a frail but mentally alert ninety-year-old living in Freiburg im Breisgau, a picturesque town in the Black Forest. Hayek didn't issue any public statements, but he thoroughly enjoyed watching the television pictures from Berlin, Prague, and Bucharest. “He would beam benignly, and the comment was ‘I told you so,’” Hayek's son, Dr. Laurence Hayek, said to me recently from his home in Devon, England.

Hayek did indeed tell us so, and at a time when that message was deeply unfashionable. In 1937, in the wake of the Great Depression and with capitalism and democracy under siege from communism and fascism, he published an academic article entitled “Economics and Knowledge”, which pointed out that free markets were not just a political construct, as many critics claimed, but remained the best way of coordinating scattered information. Seven years later, when most of the world's major economies were under unprecedented central control, Hayek published *The Road to Serfdom*, a damning indictment of socialism and state planning that once more, this time in plain English, laid out the fundamental advantage of the free market: by allowing millions of decision-makers to respond individually to freely determined prices, it allocates resources – labour, capital, and human ingenuity – in a manner that can't be mimicked by a central plan, however brilliant the central planner.

This argument is now widely accepted, but when *The Road to Serfdom* was published, Hayek later recalled, “it went so far as to completely discredit me professionally.” Many of his colleagues interpreted the book as a dangerous and antediluvian attack on the welfare states that were being built in wartime Britain, where Hayek lived, and in other European countries. The reviews didn't get any better for a long time. During the nineteen-fifties and sixties, the Soviet economy appeared to be doing pretty well, and the social democracies of Western Europe, with their large and growing state sectors, prospered mightily. In 1967, Eric Hobsbawm, a Marxist historian, dismissed Hayek as a “prophet in the wilderness”; in the same year, Anthony Quinton, a British philosopher, dubbed him a “magnificent dinosaur.”

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If economic history had stopped when the Beatles split up, Hayek would have remained a museum piece favoured mainly by right-wing cranks. Even when I began studying economics, at Oxford, during the early eighties, Hayek, with his seemingly outlandish proposals to emasculate the trade unions and privatize the money supply, was still considered well beyond the pale. True, he had received the Nobel Memorial Prize in 1974, but that was seen within the economics profession as a political sop, with Hayek's name added to balance that of his co-winner, Gunnar Myrdal, a left-wing Swedish economist. (Myrdal later said that he wouldn't have accepted the award if he had known he would have to share it with Hayek.) I made it all the way through undergraduate and graduate school without reading Hayek, and I wasn't unusual. Even today, nearly eight years after Hayek's death, there is no scholarly biography available. (The closest thing is a commemorative album produced by John Raybould, a British Hayek enthusiast.) Most economics textbooks still don't mention him, and his intellectual legacy is often obscured, even by his admirers.

In an essay in the *Journal of Economic Perspectives*, for example, János Kornai, the Hungarian economist who holds a chair at Harvard, reports that several decades of comparing capitalism and socialism have convinced him of two things: capitalism is a necessary condition for democracy; and technological development is faster under capitalism, because the system encourages innovation. Kornai mentions Hayek's work in passing, but he doesn't say that Hayek made precisely the same points more than fifty years ago, in *The Road to Serfdom*, and amplified them in a series of books during the ensuing forty-five years. Hayek got some things wrong (he was tardy about acknowledging the need for government action to reduce unemployment during the thirties, for example) and neglected others (such as inequality and pollution); but on the biggest issue of all, the vitality of capitalism, he was vindicated to such an extent that it is hardly an exaggeration to refer to the twentieth century as the Hayek century.

Hayek wasn't the most brilliant economist of his era (that was probably John von Neumann, the Hungarian mathematical genius who invented game theory), or the most eloquent (John Maynard Keynes, Hayek's sparring partner during the nineteen-thirties, nabbed that title), but he was arguably the most durable. Like Popper, Schrodinger, and Wittgenstein (who was a distant cousin), Hayek was a product of fin-de-siècle Vienna. Critics can claim, with some justification, that his sunny view of capitalism reflected his initial vantage point above the clouds. He was born into an upper-class Austrian family, on May 8, 1899. His father was a medical doctor and a botanist. His mother's family were wealthy civil servants. Raised with two younger brothers, Hayek attended a local *Gymnasium*, where he was forced to repeat a grade. The teachers, he subsequently recalled, "were irritated by the combination of obvious abilities and laziness and lack of interest I showed." At eighteen, he became a cadet officer in a field-artillery regiment on the Italian front. The Great War destroyed the Austro-Hungarian Empire, but when Hayek enrolled at the University of Vienna he was more concerned with the malaria that he had picked up in the army. After considering psychology, he settled on law and economics, subjects that appeared to offer brighter career prospects. Many of Hayek's fellow-students would gather at the Café Landtmann to discuss Marxism and psychoanalysis, but Hayek found these fashionable disciplines "more unsatisfactory the more I studied them."

At this stage, Hayek was mildly socialist. His views changed as he studied under leading members of the pro-free-market Austrian School of economics, including Friedrich von Wieser and Ludwig von Mises. The latter, who in 1922 published a critical

book on socialism, combined teaching with running the Abrechnungsamt, a government office established to deal with official debts and other financial issues relating to the Treaty of Saint-Germain. Hayek became von Mises' research assistant, and his mentor's teachings – especially those that dealt with the central importance of entrepreneurship in what von Mises termed the capitalist “discovery process” – remained with him for life. After earning his economics doctorate, in 1923, Hayek spent just over a year in New York, working as a research assistant at N.Y.U., and attending lectures at Columbia, where Wesley Clair Mitchell and John Bates Clark, two of the big names of early-twentieth-century economics, were teachers. The operations of the Federal Reserve, which had been founded in 1913, fascinated economists (just as they do today), and Hayek set out to gather material for a history of the Fed, while also delving into the newfangled statistical techniques that, in the United States, were increasingly being applied to economics.

Although he absorbed the methods used on this side of the Atlantic, Hayek never turned into a recognizably American economist. (His interests were too catholic and philosophical for that.) Upon returning to Vienna, he rejoined von Mises at the Abrechnungsamt. The two great economic issues of the day were inflation and what drives business cycles. On the former, Hayek deferred to von Mises, who, in protomonetarist fashion, argued that the only way to end the hyperinflation that plagued Germany and Austria was to stop the government from printing more money. Business cycles – the tendency for economies to oscillate between booms and recessions – were another matter; neither the Austrian economists, such as von Mises, nor the American neoclassicists, like Clark, could explain them properly, and this failure was recognized as a gaping hole in economic theory. Hayek set out to fill the gap. His theory, which was eventually expostulated in a 1931 book, *Prices and Production*, portrayed economic slumps as the inevitable product of prior booms, during which growth had become “unbalanced,” with investment in the expansion of industrial capacity outstripping the supply of savings in the economy; recessions, in this view, were a way of restoring the balance between savings and investment.

Hayek's ideas attracted attention in England, where one of the great economic debates of the century was unfolding. On one side, John Maynard Keynes and his young Cambridge acolytes were developing the theory that economic downturns were caused by a lack of overall demand in the economy and could be prevented by cutting taxes and increasing public-sector spending. On the other side, figures like Arthur Pigou, at Cambridge, and Lionel Robbins, at the London School of Economics, were defending the traditional view that recessions were “nature's cure”, and the only way to forestall them was through wage cuts and government retrenchment. Robbins, who read German, spotted Hayek's work and saw a potential ally against Keynes. He invited Hayek to the L.S.E., first as a guest lecturer and then, in 1932, as a full-time professor. Keynes dismissed Hayek's theory as “one of the most frightful muddles I have ever read”; and for the ensuing five years the cannons pointing north from London and south from Cambridge were rarely silent, with virtually everybody in the British economics profession taking one side or the other. The two primary combatants, however, remained on surprisingly amicable personal terms. “Hayek has been here for the weekend,” Keynes wrote to his wife, Lydia, in March 1933. “I sat by him in hall last night and lunched with him at Piero's today” – Piero Sraffa, a brilliant protégé of Keynes's. “We get on very well in private life. But what rubbish his theory is.”

In the end, Keynes won the battle over macroeconomic policy. The intellectual framework he set out in *The General Theory of Employment, Interest and Money*, which was published in 1936, is still used by central banks and governments the world over to

manage their economies. Hayek's work on business cycles, which was written in the obscure terminology of the Austrian School, is rarely referred to these days – although his argument that periods of overinvestment tend to end in slumps has never been fully refuted. (Certainly, few inhabitants of Indonesia, South Korea, or Thailand would quibble with it after their experience in the past few years.) Whether Keynes, who died in 1946, won the larger war over the proper role of governments and markets is another question. A less intellectually self-assured man than Hayek might have changed or, at least, questioned his views. Hayek found his isolation increasingly discomfoting, but it served only to convince him that the rest of the world was on the wrong track.

A photograph of Hayek taken in London in 1931 shows an austere figure, much older-looking than his thirty-two years, conservatively dressed in a dark flannel suit, with round glasses, dark hair combed back high on his head, and a neat moustache. Endowed with the fastidious habits and elaborate manners of pre-war Vienna, Hayek fell in love with an educated British society that shared many of the same traits. He and his wife, Hella, whom he had met when she worked at the *Abrechnungsamt*, settled with their two children in Hampstead Garden Suburb. Hayek worked at home in the morning and went to the L.S.E. in the afternoon, often stopping for lunch at the Reform Club, on Pall Mall. The economic-theory seminar that he taught with Lionel Robbins attracted many who later became famous, including John Kenneth Galbraith, John Hicks, and Nicholas Kaldor. Galbraith, who was visiting Cambridge from Harvard, and took the train to London every week to attend, later described Hayek as “one of the gentlest in manner, most scholarly and generally most agreeable men I have known,” but added that his seminar was “possibly the most aggressively vocal gathering in all the history of economic instruction.”

In 1937, Hayek published “Economics and Knowledge.” The paper attracted little public attention at the time, but, in retrospect, it marked the origin of what became Hayek's most lasting contribution to economics: the notion that free markets and free prices are a means of conveying and exploiting information. In any society, the central economic problem is how to best organize production and employ available resources in order to satisfy the needs and desires of millions of different people. Many of Hayek's contemporaries believed that the best way forward was via central planning, which would allow resources to be directed to socially useful areas while avoiding the chronic instability of capitalism. Hayek begged to differ. Centralized systems may look attractive on paper, he argued, but they suffered from a basic and incurable ailment: the “division of knowledge” problem. In order to know where resources should be directed, the central planner needs to know both what goods people want to buy and how they can most cheaply be produced. But this knowledge is held in the minds of individual consumers and businessmen, not in the filing cabinets (or, later, computers) of a government planning agency, and the only practical way for customers and firms to relay this knowledge to each other, Hayek argued, is through a system of market-determined prices.

“We must look at the price system as such a mechanism for communicating information if we want to understand its real function,” he wrote in a 1945 paper, “The Use of Knowledge in Society.” In a market system, people simply go out and buy the things they like, leaving unwanted goods on the shelves. If they want more of something – say, heating oil – becomes scarce and its price rises, thereby prompting oil companies to increase production and consumers to economize. If people decide to use less oil, say, because natural gas has become cheaper, the price of oil will fall, and its production will

be scaled back – all this taking place without any orders being issued by a government agency. “I am convinced that if it were the result of deliberate human design, and if the people guided by the price changes understood that their decisions have significance far beyond their immediate aim, this mechanism would have been acclaimed as one of the greatest triumphs of the human mind,” Hayek wrote.

This view of capitalism as a spontaneous information-processing machine – a “telecommunications system” was how Hayek referred to it – was one of the great insights of the century. It may have been implicit in the work of some previous economists, notably Adam Smith, but Hayek was the first to spell it out. Even left-wing economists, who regarded capitalism primarily as a system of social exploitation, were eventually forced to concede the acuity of Hayek’s analysis, and this resulted in elaborate efforts to construct a viable form of “market socialism,” one that would combine common ownership of the means of production with freely determined prices. Hayek, who debated market socialism with the Polish economist Oskar Lange and others during the nineteen-thirties, was always sceptical of these efforts. In a socialist system, prices could not play the same role that they do under capitalism, he argued, because under socialism there would be no competitive firms to react to the prices by innovating and redirecting resources. This point was confirmed in practice, as anybody who had the misfortune to drive an East German Trabant motor-car, or to wear a Romanian suit, the prices of which were supposedly set in the market, would gladly testify.

Since the collapse of communism, of course, Hayek’s arguments have become commonplace. From Mexico to China, the first move of reformist governments has been to privatize state-owned businesses and liberalize prices, usually with positive results. But the validity of Hayek’s analysis is by no means confined to the developing world. Here in the United States, we are currently witnessing a textbook case of price changes acting as signals for resources to be reallocated. The prices in question are the stock prices of firms like America Online, eBay, and Yahoo. During the last few years, soaring valuations for internet companies have prompted investors to finance thousands of would-be imitators, and established firms of all kinds have responded by spending heavily on information technology and e-commerce. This investment has underpinned the economy to such an extent that, according to some calculations, as much as a third of the rapid expansion during recent years can be attributed to spending on high technology.

When the Second World War broke out, the London School of Economics moved to Cambridge, where Keynes secured temporary lodgings for Hayek. Many British economists entered the wartime civil service, but Hayek, who had taken British citizenship in 1938 and supported the Allies wholeheartedly, was excluded because of his background. Despite the snub, Hayek’s sojourn in Cambridge “completed the process of thorough absorption in English life which, from the beginning, I had found very easy,” he later recalled. It also gave him time to write *The Road to Serfdom*.

Unlike Hayek’s earlier work, *The Road to Serfdom* was an explicitly populist tract, conceived in response to the growing support among British intellectuals for increased state intervention in the economy. While Hayek was in Cambridge, Sir William Beveridge, a former colleague of his at the L.S.E., published two famous papers – “Report on Social Insurance and Allied Services” and “Full Employment in a Free Society” – that laid the intellectual basis for the post-war welfare state. Beveridge, a member of the Liberal Party, was not an economist (“He knew no economics whatever,” Hayek later said tartly), but his reports reflected the impact of both the Keynesian revolution and wartime collectivism.

(Hayek always maintained that Nicholas Kaldor, an ally of Keynes, had been the real author of the paper on employment.) To Beveridge, capitalism needed saving from itself with a large dose of government control. Left untended, it had given the world, first, a Great Depression and, ultimately, fascism.

Hayek never accepted that fascism was a capitalist phenomenon. To him, Stalin and Hitler were two suits in the same closet, and the closet was marked “collectivism.” Hayek dedicated his book “To the Socialists of All Parties.” It was directed primarily against “classical Socialism,” by which he meant “nationalization of the means of production,” but what made it so controversial was the comparisons he drew between Nazi Germany and the way things were heading in the democracies. “Although few people, if anybody, in England would probably be ready to swallow totalitarianism whole, there are few single features which have not yet been advised by somebody or other,” Hayek wrote. “Indeed, there is scarcely a leaf out of Hitler’s book which somebody or other in England or America has not recommended us to take and use for our own purposes.”

In the United States, where opposition to the New Deal and to wartime industrial planning was strong, *The Road to Serfdom* caused a sensation. Henry Hazlitt, the conservative economic commentator, wrote a glowing article in the *Times Book Review*. *The Readers Digest*, the voice of God-fearing conservatism, rushed out a condensed version, which the Book-of-the-Month Club then published, selling six hundred thousand copies. By the time Hayek arrived in New York, in early 1945, he was something of a celebrity. Years later, he described the reception he received from his publisher:

“The original plan is off. You have suddenly become famous. You go on a lecture tour of the United States.”

“I can’t do that. I have never done any public lecturing.”

“Well, that’s all arranged, you must try and do it.”

“When do we begin?”

“Oh, you are late already.” It was a Saturday afternoon. “You start tomorrow morning at Town Hall in New York.”

Meant nothing to me. What came to mind was this beautiful New Yorker cartoon of a woman’s club. I thought, Sunday morning, it can only be such a woman’s club. When I was picked up at the Regency Hotel and taken downtown, I began to inquire from my chairman, who picked me up, “Well, what sort of audience do you expect?”

“The hall holds three thousand, but there’s overflow.”

“My God. I have never done such a thing. What am I supposed to lecture on?”

“Oh, we have called the tune, ‘Law and International Affairs.’”

“My God, I have never thought about it. I can’t do this.”

“Everything is announced, they are waiting for you.”

To his surprise, Hayek found that he liked public speaking, and he toured the country for five weeks, speaking to packed halls. In retrospect, it is clear that he seriously exaggerated the threat to liberty presented by social democracy of the sort practiced in Western Europe. “We are rapidly abandoning not the views merely of Cobden and Bright, of Adam Smith and Hume, or even of Locke and Milton, but one of the salient characteristics of Western civilization as it has grown from the foundations laid by Christianity and the Greeks and Romans,” he wrote in one overheated passage as he argued that “the basic individualism inherited by us from Erasmus and Montaigne, from Cicero and Tacitus, Pericles and Thucydides, is progressively relinquished.” This was a strange way to write about compulsory health insurance, state-financed education, and regional development programs – all of

which were intended to help people fulfil their individual potential. Alvin Hansen, the dean of American Keynesians, had a point when he wrote in *The New Republic*, “This kind of writing is not scholarship. It is seeing hobgoblins under every bed.”

All the same, the context in which Hayek was writing must be recalled. Many of his brightest pupils were socialists or communists; the true nature of Stalin’s regime was not yet commonly known; and capitalism had disgraced itself, for all to see. If the lure of central planning was to be repelled, lectures about the merits of Adam Smith and J. S. Mill would not suffice. The link between collectivism and tyranny would have to be spelled out in language that the man in the corner pub could understand:

When the government has to decide how many pigs are to be raised or how many buses are to be run, which coal mines are to operate, or at what prices shoes are to be sold, these decisions cannot be deduced from formal principles or settled for long periods in advance. They depend inevitably on the circumstances of the moment, and, in making such decisions, it will always be necessary to balance one against the other the interests of various persons and groups. In the end, somebody’s views will have to decide whose interests are more important; and these views must become part of the law of the land, a new distinction of rank which the coercive apparatus of government imposes upon the people.

“Planning leads to dictatorship,” Hayek went on, “because dictatorship is the most effective instrument of coercion and the enforcement of ideals and, as such, essential if central planning on a large scale is to be possible.” If these passages evoke memories of George Orwell, it is hardly surprising. Orwell reviewed Hayek’s book favourably (while pointing out that it ignored the parallel dangers of free-market ideology), and, in many ways, *The Road to Serfdom* was the nonfiction precursor to *Animal Farm*, Orwell’s 1945 fable about the dangers of collectivism.

When Hayek returned to London, he was an internationally renowned (and, in many quarters, reviled) figure. He would probably have lived out his life in England, but fate intervened. As a young man in Vienna, he had fallen in love with a cousin, Helene Bitterlich. After more than twenty years of marriage, he took up with Helene again, and eventually left Hella and their two children, Laurence and Christine. The subsequent divorce alienated Hayek from many of his friends and colleagues, most of whom took Hella’s side. Robbins, Hayek’s mentor, hardly spoke to him for years after the split. In 1950, Friedrich and Helene made a clean break and moved to the United States, where the University of Chicago had offered him a position, although not one in economics.

Chicago’s economics department had refused to accept Hayek, despite his pro-market views. “My understanding is that it was because, at that stage, he really wasn’t doing any economics,” Milton Friedman, who joined the Chicago faculty in 1946, told me recently. Hayek joined the Committee on Social Thought, which John Nef, an economics historian, had recently set up, attracting over time a host of distinguished figures, including T. S. Eliot, Michael Polanyi, and Hannah Arendt. The new job suited Hayek well. He had little sympathy for the mathematical direction in which economics was going, considering it a futile application of the methods of classical physics to social phenomena that resisted Newtonian mechanics. (Hayek believed that the economy was an innately “complex” and unpredictable beast – a lesson taken up by some economists only in the last decade or so, as they have begun to apply evolutionary models and chaos theory to economics.) Having settled in Chicago, and free from the burden of a heavy teaching schedule, he ranged extensively over political and philosophical questions. His weekly seminar, “The Liberal

Tradition” – Hayek always used the word “liberal” in its nineteenth-century sense – covered a panoply of thinkers, from Locke to von Mises.

The seminar formed the basis for *The Constitution of Liberty*, published in 1960, which some consider to be Hayek’s finest book. (Its fans included Margaret Thatcher, who, during a visit to the Conservative Party’s research department in the mid-seventies, slammed a copy of it on the table and declared, “This is what we believe.”) Capitalism had proved remarkably effective at raising living standards, Hayek argued, but its success wasn’t automatic; it depended on the existence of a generally accepted set of social norms (among them the sanctity of private property), a system of laws reflecting these norms, and a government that enforced the laws fairly, rather than discriminating arbitrarily among individuals. If any of these things were absent, economic development would be stymied. The pertinence of Hayek’s analysis has been amply demonstrated since the collapse of communism. Many Western economists, including most of those who acted as advisers to the post-communist governments, believed that the collectivist economies could be transformed merely by freeing prices and privatizing state-owned firms. In Hungary, Poland, and Czechoslovakia – where capitalism pre-dated communism, the rule of law was firmly established, and governments tended to respect private contracts – the optimists were proved, pretty much, right. In the former Soviet Union – where capitalism had never taken deep root, legal contracts were an alien tradition, and official corruption was rampant – the optimists got it horribly wrong. In Russia, for example, prices have been freed and firms have been privately owned for more than five years, but the economy is still only half the size it was before communism collapsed.

Hayek found the intellectual atmosphere of the Committee on Social Thought congenial, but, despite the fact that American society came closest to the free-market model he espoused, he never grew fond of his new country as a whole, at least not according to his son, Laurence. The reasons for this paradox may have been largely personal. While many immigrants find the informal nature of American life invigorating, Hayek missed the customs of the more rigid societies from whence he came. (Later in his life, he was to remark that the Reform Club was the “only real home” he had known for years.) Every summer, Friedrich and Helene would fly to Paris, where they kept a car, and set off for the Alps, where Hayek would indulge his favourite hobby, mountain climbing. In 1962, he accepted a post at the Albert-Ludwigs-Universität, in Freiburg, a reputable institution associated with Ludwig Erhard, the founder of the West German “social market” economy, though not one on the level of Chicago or the L.S.E. One reason for the relocation was financial – the Freiburg professorship offered a lifelong pension, something his job in ‘Chicago didn’t – but Hayek, by now approaching retirement age, was also glad to return to Europe, initially anyway.

Hayek loved the Black Forest scenery, but the move wasn’t completely successful. During the late nineteen-sixties, he began to suffer from deep and paralyzing depressions. “We used to talk on the telephone, and I could tell that he was depressed,” Laurence told me in recalling these years. “He couldn’t summon up any energy to do anything.” Hayek himself later attributed his mental problems to low blood sugar, which went undiagnosed by his doctors, but others thought differently. This was the era when faith in the power of government was at its highest, and support for free markets was at its lowest. “He was depressed, I think, mostly because he saw the condition of the world as depressing, and he felt he wasn’t receiving the kind of recognition he hoped for,” Friedman told me. After Hayek retired, in 1968, he moved to the University of Salzburg, which didn’t even have a proper economics department, but which was closer to Vienna, Helene’s family home. (The Hayeks returned to Freiburg in 1978.)

Given the intellectual climate of the time, the 1974 Nobel Prize came as a complete surprise to Hayek, and it had a remarkably rejuvenative effect. Suddenly, he found the energy and inspiration to think, write, and travel again. “Some years ago, I tried old age but discovered I didn’t like it,” he later joked. By the end of the nineteen-seventies, he had produced the three-volume *Law, Legislation, and Liberty*, a wide-ranging update of *The Constitution of Liberty*. In 1988, at the age of eighty-nine, he published *The Fatal Conceit*, an astonishingly erudite book that stressed the evolutionary nature of capitalism. By gradually learning to follow a few rules – honesty, how to exchange goods for money, respect for private property – he maintained, man had “stumbled upon” an extremely effective, though unplanned, method of coordinating human activity. Socialism, Hayek explained, was a futile attempt to overturn the evolutionary process. A year later, as if on cue, communism collapsed.

During his years in intellectual exile, Hayek inspired or founded a network of libertarian groups, including the Mont Pèlerin Society, the Atlas Economic Research Foundation, and the London-based Institute of Economic Affairs. These organizations kept Hayek’s ideas in circulation, but they also insured that his legacy was appropriated by the far right. This is unfortunate. Hayek always saw himself as a nineteenth-century Whig, rather than a twentieth-century conservative, and, unlike many of his latter-day “followers,” he was by no means anti-government on principle. He simply re-established the Victorian presumption that, unless there are strong and specific arguments to the contrary, the market is usually the most efficient method of providing goods and services. Where the market failed, though, the government should step in, providing defence, public infrastructure, and even a guaranteed minimum income for all citizens. It is quite possible to be a Hayekian and still believe in active government. “All I am arguing about is that, where you can create a competitive condition, you ought to rely upon competition,” he insisted during a 1945 radio discussion. These days, everybody from Bill Gates to Jiang Zemin would agree with that statement. One of the main challenges facing modern economists is to detail areas of the economy where Hayek’s ideal model of information-sharing doesn’t work. Health-insurance providers, for example, have less information about the medical history of potential customers than of their existing customers, so they tend to exclude poor and self-employed people, which creates a need for remedial government action. Similar arguments can be made in the fields of education, retirement planning, and finance.

Aspiring Presidential candidates, Federal Reserve policymakers, and individual investors, too, might consider picking up some of Hayek’s long-forgotten papers. With the Nasdaq above four thousand, and the economy growing at an annual rate of five per cent or more, the great unanswered question of the moment is whether the correct model to apply is the Hayek of 1937 or of 1931. Does internet mania reflect a rational price system responding to a revolutionary new technology and unprecedented profit opportunities (*Economics and Knowledge*)? Or is the current boom merely the latest example of “unbalanced” growth, destined to end in a slump (*Prices and Production*)? Economics, as Hayek would have been the first to admit, is not an exact enough science to provide a definite answer – the balance of evidence points toward the latter explanation – but, whatever happens, we can be sure that capitalism will survive. Whether it will live on in the competitive form Hayek wrote about, or whether it will evolve into a system of “co-opetition,” in which a handful of gigantic corporations dominate the information economy, sometimes cohabiting, sometimes warring, is a question for a new century.

20.9.18

Dearest D

I have just been to the Coliseum for tickets for to-morrow and found that there was nothing whatever going except the Royal Box. I've taken it for you but while it would be rather nice to sit in it alone, it seems wasteful since it holds 4 in the front row and if necessary 8 altogether. If you would like to ask anyone to come to it, will you telegraph to me at the Tr? to-morrow?

Perhaps it might be a good plan to ask Etta Lewis and get her over. But then would one get her over? Or I might ask ^(not the Jas, but S) Wolf? Or Virginia? Or Hobbs!?) Or wouldn't Nessa come and go on to Roxe on Sunday? Or your mother? Or Aunt Jamie? Or Madame Brody?
(instructor.)
Telegraph early full 1/2 J.H.H.