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Hayek's Nobel

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Running Head: Hayek's Nobel

Abstract: The paper offers a number of vignettes surrounding Friedrich A. Hayek's receipt of the Nobel Prize. It examines Hayek's life before he got the prize, describes the events in Stockholm, and offers a summary of the main themes of his Prize Lecture. It then examines the subsequent impact on Hayek's life and career. It concludes by looking at the impact of the Prize on scholarship about Hayek and the Austrian movement.

Keywords: Friedrich A. Hayek, Nobel Prize, Gunnar Myrdal, Pretence of Knowledge, Austrian Economics

## Hayek's Nobel

### Introduction

On October 9, 1974 the Royal Swedish Academy of Sciences sent Friedrich A. Hayek a cable to inform him that he had been awarded the 1974 Sveriges Riksbank Prize in Economic Science in Honor of Alfred Nobel jointly with the Swedish economist Gunnar Myrdal. On the same day the Secretary General of the Academy, Carl Gustaf Bernhard, sent Hayek a letter that spelled out the details. The prize ceremony would take place on December 10, 1974. Myrdal and Hayek would each get a medal and a certificate, and they would split the monetary award, 550,000 Swedish crowns, equally, with each person's share coming to about US \$62,570 at the time. The citation for the prize would read: "For their

pioneering work in the theory of money and economic fluctuations and for their penetrating analysis of the interdependence of economic, social and institutional phenomena.”<sup>1</sup>

This paper will offer a number of vignettes about Hayek’s Nobel Prize. We will examine Hayek’s life before he got the prize, describe the events in Stockholm, and offer a summary of the main themes of his Prize Lecture. We will then examine its subsequent impact on the life and career of a man who, like many before him, was transformed from an accomplished academic into a public intellectual, with all the costs and benefits that are associated with such a transition. We will close by looking at the impact of the Prize in other dimensions; its “unintended consequences,” if one will.

## Prelude

Friedrich Hayek left the University of Chicago for the University of Freiburg in 1962. Over the next twelve years he would experience some ups and downs. His first Freiburg period (he would leave in 1969, but would return there in 1977) was one of relative calm and steady productivity, the life of a mature scholar who had hit his stride. Soon after arriving he began work on a big book project that ultimately would result in his 1970s trilogy, *Law, Legislation and Liberty* (1973-1979). He also began to write more about the evolution of self-forming, complex orders (spontaneous orders), orders that came about through rule-following behavior and that were evident in a variety of fields: linguistics, ethology, theory of automata, general systems theory, cybernetics, animal psychology, and so on.<sup>2</sup> He wrote too about the dangers of trying to control such complex orders through rational planning, coining the term

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<sup>1</sup> Carl G. Bernhard to F. A. Hayek, 9 October 1974, the F. A. Hayek Collection, the Hoover Institution, Stanford, CA., box 47, folder 10. A second copy of the letter was also sent to Tokyo, in care of Professor Chiaki Nishiyama of Rikkyo University. Apparently someone at the Academy knew that Hayek was planning to visit Japan at the end of the month.

<sup>2</sup> The inter-relations that he discovered are perhaps best illustrated by the topics he sought to cover in an “Analogy Symposium” that he organized in Bellagio in April 1966. For more on this, see the Hayek Collection, box 65, folder 7, and B. Caldwell (2004, 308).

“rationalist constructivism” to denote the propensity. This work was integrated into his larger book project in a variety of ways. The subtitle of the first volume (*Rules and Orders*) made the connection directly. In that volume he made a number of distinctions: cosmos versus taxis, organism versus organization, nomos versus thesis; law versus legislation – that had analogues to the orders versus planning division. Thus in the common law tradition the *law* is discovered by judges by applying the rules of precedence, and the complex order that results is constantly evolving to meet new circumstances, but *legislation* is the product of intentional design and typically aims at specific outcomes. During this period Hayek also continued his “hobby” of doing the history of economic thought, writing about such figures as Mandeville and Hume, as he had the decade before about John Stuart Mill and Harriet Taylor. Many of the papers from this time were brought together in his collections, *Studies in Philosophy, Politics and Economics* (1967); *Freiburger Studien* (1969), and *New Studies in Philosophy, Politics, Economics and the History of Ideas* (1978).

In contrast with his first Freiburg sojourn, the five years or so that preceded Hayek’s receiving the Nobel Prize were unhappy ones. In 1969 he retired from his position in Freiburg and he and his wife Helene moved to Austria, where Hayek had secured a visiting professor position at the University of Salzburg. Financial considerations played a role in the decision: as part of the deal, the University bought his library. Hayek had not investigated the situation very thoroughly in advance and almost immediately realized that he had made a mistake, both academically and in terms of lifestyle. For starters, there was no department of economics at his new university. As a result he had few colleagues, and those he had were not very good.<sup>3</sup> Library facilities were inadequate. Students generally did not know who he was, and were in any event studying other fields. For someone like Hayek, it was a place almost wholly absent of intellectual stimulation. His living situation did not help matters. As noted by A. Ebenstein (2003, 252), his home was located in what has been described as a “slightly run-down suburb”

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<sup>3</sup> C. Cubitt (2006, 4); cf. 16-18 for Hayek’s negative feelings towards Austria generally.

that had only poor access to the city center and the university. The contrast with his pleasant, conveniently located flat in Freiburg could not have been greater.

On top of this, soon after arriving Hayek experienced a lengthy period of ill health that lasted around four years and that made work next to impossible. The cause or causes remain unclear. At the time he was treated for depression, a diagnosis that he always resisted: from his point of view, he was depressed *because* he could not work, and not the other way around. Sometime later he had an electrocardiographic examination that established that he had had two undetected heart attacks, one in the early 1960s and another in 1969, and that the symptoms were consistent with the depression he had experienced on both occasions.<sup>4</sup> In another discussion of the topic he attributed part of the problem to a misdiagnosis by his family physician in Salzburg, who in incorrectly treating him for diabetes caused him to have too low a level of blood sugar (S. Kresge and L. Wenar, 1994, 130). In any event, starting in 1969 and lasting for about four years he was unwell, and his work accordingly suffered. Though he had almost completed an initial draft of *Law, Legislation and Liberty* by the time he moved to Salzburg, he could not pull it together. He decided to bring out the first volume of the trilogy in 1973 because of his fears that he would never be able to complete the project as a whole.

Yet in spring of 1974 the depression, or whatever ailed him, suddenly disappeared and Hayek was able to get back to work. (He later would joke that he had tried old age, and didn't like it, so decided not to do it anymore.<sup>5</sup>) As we will see, he was remarkably productive for over a decade after having received the Nobel Prize. Significantly, he always was quick to emphasize that his recovery preceded his receipt of the honor, that it was *not* the cause of his recovery.

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<sup>4</sup> Hayek, interview with Nadim Shehadi, 1983, LSE Archives, Shehadi/1/4.

<sup>5</sup> E. Butler (1983, 7).

## The Nobel Prize Ceremony

That Hayek had fully recovered was evident in the weeks after the announcement. He kept to a plan to go to Japan, and while he was there he managed to write his lecture in about two weeks' time. He originally planned to title it "The Dangers of the Scientistic Error." Perhaps because of the similarity of the title to that of his inaugural address in Salzburg ("The Errors of Constructivism"), or perhaps because he was worried about the possibility of typographical mishaps,<sup>6</sup> he ultimately decided on "The Pretence of Knowledge." This is a phrase that he had used before: a variant of it appeared in lectures he gave at the University of Virginia in spring 1961, and it was the title attached to a book project that he began that same year but never finished.<sup>7</sup>

Hayek and Helene arrived in Stockholm on December 6 in order to attend a dinner hosted by Bertil Ohlin and his wife the next day. Hayek's daughter Christine, and his son Laurence with his wife Esca, also flew in in time to attend the ceremony on the 10<sup>th</sup>. The Prize Presentation took place in the late afternoon in the Stockholm Concert Hall. This was followed by a banquet in the Blue Hall at the City Hall, toasts by the King and the laureates, then dancing in the Golden Hall. Unfortunately Helene was somewhat under the weather and the couple retired rather early, so that Hayek missed out on much of the dancing.

Hayek's toast at the dinner stressed, as his Nobel lecture would the following day, the limits of economics as a science. It is worth quoting at length:

...if I had been consulted whether to establish a Nobel Prize in Economics, I should have decidedly advised against it... the Nobel Prize confers on an individual an authority which in

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<sup>6</sup> See F. A. Hayek to Stig Ramel, 17 October 1974, the Hayek Collection, box 47, folder 10, in which Hayek emphasized that the adjective was intentionally spelled "scientistic," and warned Ramel of the danger of it being changed by an over-zealous printer to "scientific."

<sup>7</sup> The notebook for the project ran to 85 numbered pages; it may be found in the Hayek Collection, box 139, folder 9. The Virginia Lectures are now available in F.A. Hayek ([1961] 2014).

economics no man ought to possess. .. the influence of the economist that mainly matters is an influence over laymen: politicians, journalists, civil servants and the public generally. There is no reason why a man who has made a distinctive contribution to economic science should be omniscient on all problems of society – as the press tends to treat him till in the end he may himself be persuaded to believe. One is even made to feel it a public duty to pronounce on problems to which one may not have devoted special attention (F. A. Hayek 1975, 38-39).

Daughter Christine had some vivid memories of the trip, which she described as “a cracking time.” She recounted how they were driven in a big limousine from the airport to a grand hotel. A young man (a Mr. Magnus Wernstedt) was put in charge of her father and his guests, but according to Christine, his services at the ceremony were unnecessary: “Pa was astonishingly with it. He got which hand to reach out for the presentation absolutely right” without any help.<sup>8</sup> She recalled too that among the others being honored that day was Aleksandr Solzhenitsyn, who had won the Nobel Prize for Literature in 1970 but had been unable to leave the Soviet Union to accept it. In February 1974 he was expelled from the country and stripped of his citizenship, an act that finally permitted him to travel to Stockholm to receive the Prize.

Christine also had strong memories of her father’s co-recipient, Gunnar Myrdal, whom she described as “a very gloomy chap,” who “didn’t smile and made no attempt to be friendly.”<sup>9</sup> She said that they concluded that he was probably miffed about having to share the prize. They did not know that the enmity between Myrdal and Hayek was long-standing, and would soon grow worse, more on which soon.

#### Hayek’s Prize Lecture

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<sup>8</sup> Christine Hayek, interview with the author, 15 October 2012.

<sup>9</sup> Ibid.



At 11 a.m. the next day Hayek gave his Prize Lecture at the Stockholm School of Economics. It is not completely surprising that Hayek was able to complete his Nobel Lecture in two weeks' time: he drew directly on themes that had appeared in other papers he had written over the past decade or so, so not much was new. What surprises more is that the central message of the talk was a methodological one. Economic ideas are invoked mainly by way of example.

Hayek begins by noting that the dominant problem of the day – accelerating inflation – made the choice of topic almost inevitable. He immediately blames the problem on “policies which the majority of economists recommended and even urged governments to pursue”, concluding that “as a profession we have made a mess of things” (F.A. Hayek [1975] 2014, p. 362).<sup>10</sup> He then locates the source of the problem: the profession's scientific attitude. One sees this on display in the profession's acceptance of a theory that posits a simple positive relationship between total employment and aggregate demand. This (Keynesian – though he does not use the phrase) theory is popular, he asserts, because it is one for which strong quantitative evidence can be adduced. (By this he presumably means the statistics that governments collect measuring employment statistics and the national income accounts.) He contrasts this with his own preferred theory, one that locates the cause of the cycle in distortions in the structure of relative prices. Unfortunately, because the structure of relative prices is the result of decisions made every day by millions of market participants, we can never quantitatively estimate what the “right” structure might be. The conclusion is evident:

...there may thus well exist better “scientific” evidence for a false theory, which will be accepted because it is more “scientific,” than for a valid explanation, which is rejected because there is no sufficient quantitative evidence for it (ibid., 363-64).

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<sup>10</sup> Hayek's politeness is evident in his use of the word “we” when he clearly meant “you” economists!

This procedure is dangerous because it can lead to incorrect policy conclusions, e.g., that unemployment can be “lastingly cured by the inflationary policies recommended by the now fashionable theory” (ibid., 364).

Hayek moves from his specific example to make a more general point, that when dealing with phenomena of “organized complexity,” often the best we can do is to make pattern predictions, that is, make predictions about some of the general attributes of the structures that will form themselves. He is eager to emphasize that he is not anti-mathematics; within his own field, for example, the equations of general equilibrium theory provide a picture of the structure of prices. But one cannot meaningfully fill in the equations with data. He recognizes that his own preferred theory is a limited one, but he concludes by confessing that “I prefer true but imperfect knowledge, even if it leaves much indetermined and unpredictable, to a pretence of exact knowledge that is likely to be false” (ibid., 367).

Hayek’s concerns go beyond economics. The danger he sees is that the public will come to expect science to be able to do more than it can in the field of human affairs. He specifically mentions the “enormous publicity” given to the Club of Rome’s report on “the predicament of mankind” in the 1972 book *The Limits to Growth*, and the lack of media attention to the devastating criticisms that had been given to this report by “competent experts.”<sup>11</sup> Hayek’s fear was that a false image of the overwhelming power of science, joined with progressive views about how to reshape the social world, all reinforced by uncritical media attention, would bring about policies that would end up doing great harm. His fears would only be reinforced by the very public debates among professional economists over such issues that would soon take place.

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<sup>11</sup> *The Limits to Growth* (Meadows, D.H., Meadows, D.L., Randers, J., Behrens, W.W., 1972) used a computer simulation to provide dire prognostications concerning the fate of the planet in terms of population growth, resource depletion, and environmental degradation. This work is a precursor to more recent climate change modeling. For more on this period, see P. Sabin (2013).

Christine and Esca Hayek recounted an anecdote about the address that is fascinating but apparently impossible to establish.<sup>12</sup> Both recall that Hayek ended his Lecture with a dramatic thundering peroration that “we must not allow deflation to go too far.” As he was sitting down his wife, Helene, poked him in the back and said, you said deflation, it should have been inflation. He turned around and replied, in a sharp and pointed way, “I said exactly what I meant.”

The problem with the story is that there is no mention of either inflation or deflation at the end of the published Lecture, and no draft of the address exists. So Hayek’s statement, if it occurred and whatever its content, was either an extemporaneous addition or something that he later decided to delete. Hayek was not someone who reacted well when he was told that he had made a mistake, especially in such a setting, and inflation was presumably what people were most worried about in 1974, so maybe Helene had been right, and he had confused inflation with deflation. On the other hand, about six months afterwards, in an interview and discussion later reported on by his old friend Gottfried Haberler (1986, 426), Hayek allowed that what he termed a secondary deflation (a severe deflation brought on by high unemployment, falling prices, and an increase in deflationary expectations) could sometimes occur and when it did should be met with expansionary policy.

#### Battles of the Nobels

Hayek and Gunnar Myrdal’s relationship went way back and, ironically, Hayek played a (albeit quite unwilling!) role in getting Myrdal’s early work on monetary theory, work that was mentioned in the Nobel citation, published. Hayek had asked the Swedish economist Erik Lindahl to prepare a paper for a volume that Hayek was editing (F.A. Hayek, 1933). Lindahl could not complete the task in time and

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<sup>12</sup> Christine Hayek and Esca Hayek, interview with the author, Devon, 16 October 2012.

suggested that Hayek include a paper by Myrdal in its place. As Hayek later recounted to Jerry O'Driscoll,

When I received the latter's essay I did not like it at all and only very reluctantly published it because if [sic – should be *I*] could not help it in the circumstances. I am still puzzled why it should have become much the best-known contribution to that volume. (This story had better not be published why [sic – should be *while*] Myrdal and I are both alive!)<sup>13</sup>

There was little reason for either recipient to be pleased with the joint award. As was evident in the October 10, 1974 *New York Times* piece that announced the Prize, their economic beliefs could not have been more different. In response to the inflation that was then building in the U.S., Myrdal said that wage and price controls and gasoline rationing were necessary to stabilize the economy. Hayek argued that a temporary increase in unemployment was necessary to reduce it.

The reception of the two men's Lectures was also quite different. Hayek had gotten permission from the Nobel Committee to submit his address for simultaneous publication in a professional journal. The journal he chose was *Economica*, the LSE house journal for which he had served as editor during the Second World War. The response from *Economica* editor Ray Richardson was less than heartening. He said that they would accept his paper but preferred a *revised* version, noting that "it was the general opinion of the editors and the Board that the Nobel Prize ceremony probably inhibits laureates from giving as scholarly and well-ordered account of their views as they would wish."<sup>14</sup> He then provided five points for Hayek to consider if he chose to revise the paper. Hayek withdrew it from consideration.

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<sup>13</sup> Letter, F. A. Hayek to Gerald P. O'Driscoll, Jr., 25 August 1974, the Hayek Collection, box 40, folder 27. Hayek's letter to O'Driscoll was prompted by papers the latter had sent to him in which he tried to trace the origin of his ideas. Note that Hayek's letter to O'Driscoll was sent two months before he and Myrdal were awarded the Prize.

<sup>14</sup> Letter, Ray Richardson to F. A. Hayek, 26 February 1975, the Hayek Collection, box 126, folder 20.

Myrdal gave his Prize Lecture not at the December award ceremony but on March 17, 1975. Titled "The Equality Issue in World Development," it could be taken as containing just the sort of approach that Hayek had warned about in his own Lecture. The world, and especially the "Third World" (as the less-developed portion of it was then called), was facing enormous challenges: the immediate oil crisis, but also a food crisis, a population explosion, and the depletion of non-renewable resources. The amount of humanitarian aid (as opposed to military aid) given by the US and many other developed countries to the Third World was miniscule, and was so small because it was typically justified with national self-interest arguments. (This he contrasted with the highly moral arguments proffered by his own Swedish government when they gave aid.) If catastrophe was to be avoided, the "lavish" level of consumption in the developed world would need to be reduced, and aid to the developing world correspondingly increased. Myrdal concludes by offering what he terms "moral and rational reasons for a new world order", and some steps that would need to be taken:

...the cutting down of consumption, and of production for home consumption, of many other items besides food, and in all the developed countries, is rational and in our own interest. This is what the discussion of the "quality of life" is all about. Our economic growth in a true sense could certainly be continued, but it should be directed differently, and in a planned way, to serve our real interest in a better life....

I am in deep sympathy with the urgings of medical men, environmentalists and other colleagues in the natural sciences, when they speak for the rationality in our own interest, individually and still more collectively, of a much more frugal life style so far as growth in consumption, and production for home consumption, of many material products is concerned. This is what I

sincerely mean is in line with our own welfare as well as our proclaimed ideals. Real economic planning should be done in these rational terms.<sup>15</sup>

The moral argument is accompanied by criticisms of certain groups and practices. He mentions the arms race and the “illegal, immoral, and ruthlessly cruel American warfare in Southeast Asia,” the fact that “in our competitive society all groups are...always brought to press for more” and that “commercial marketing does certainly not work for a more rational discussion of our consumption demands.”<sup>16</sup> Still, Myrdal is able to end on a positive note, because of the promise of science:

Even though my world view must be gloomy, I am hopeful about the development of our science. We can by immanent criticism in logical terms challenge our own thinking and cleanse it from opportunistic conformism. And we can widen our perspective. Everything can be studied. We are free to expand and perfect our knowledge about the world, only restricted by the number of scientists working and, of course, the degree of their diligence, brightness and their openness to fresh approaches.<sup>17</sup>

Unlike Hayek’s Lecture, Myrdal’s was very well received. A couple of years after it was delivered, Alfred Kastler, a Nobel laureate in Physics (1966), sent out a circular letter to his fellow laureates, asking them “to read and to meditate upon” Myrdal’s Lecture and reminded them of their “responsibility to use their public prestige to help make things go in the right direction and to prevent the misuse of science....” Responding to some of his proposals, Hayek sent Kastler a telegram to “strongly protest

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<sup>15</sup> G. Myrdal, “The Equality Issue in World Development,” Nobel Address, March 17, 1975, retrieved from <http://www.nobelprize.org/nobel-prizes/economic-sciences/laureates/1974/myrdal-lecture.html>

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

against political abuse of prestige of Nobel laureates in supporting agitation for subsidizing socialist experiments that will only prolong the agony of suffering peoples.”<sup>18</sup>

Another laureate to cause Hayek concern was Wassily Leontief, the father of input-output analysis, who won the prize in 1973. Soon after he gained his Nobel he joined a chorus of voices that already were calling for economic planning to deal with the economic problems facing the United States. In March 1974 he penned an article for the *New York Times* calling for a National Economic Planning Board, and in February of the next year offered up an editorial that began with the sentence “Why is planning considered a good thing for individuals and business but a bad thing for the national economy?” By July he was testifying before the Joint Economic Committee of the US Congress. Hayek and Ludwig von Mises had, of course, offered compelling arguments in the 1920s and 1930s against the sort of planning that Leontief was advocating in the 1970s, and Hayek must have been genuinely amazed to see the case being revived in the public arena by a well-respected economist. Hayek ultimately responded with a piece titled, “The New Confusion about ‘Planning’” that appeared in January 1976 in *The Morgan Guaranty Survey*, a business periodical.<sup>19</sup> His criticisms of Leontief were substantive and certainly demanded a response, but the one that he got was not altogether satisfying. Instead of responding publicly, Leontief sent a letter to the publisher of *The Morgan Guaranty Survey* in which he called into question Hayek’s *scientific* credentials, noting that he could find no reference to Hayek in the *International Encyclopedia of the Social Sciences*. He concluded that “Professor Hayek can claim the unique distinction of being the only Nobel Laureate whose name and contributions are not

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<sup>18</sup> The circular letter and copy of the text of the telegram are undated, but from surrounding correspondence appear to be from June 1976. Both may be found in the Hayek Collection, box 30, folder 4.

<sup>19</sup> F. A. Hayek [1976] 1978. Hayek’s article includes references to the *New York Times* articles and to Leontief’s appearance before the Joint Committee.

mentioned even once in the authoritative international reference work on the discipline that he represents.”<sup>20</sup>

The next episode involved Hayek only indirectly.<sup>21</sup> In 1976 Milton Friedman won the Prize. The year before Friedman has visited Chile, and during the visit had an audience with General Augusto Pinochet, who had become President after a military coup overthrew the democratically-elected government of the Marxist politician Salvador Allende. Friedman had offered the Pinochet government advice on how to reduce inflation. Within weeks of the announcement, the *New York Times* published two letters, each signed by two Nobel laureates.<sup>22</sup> One letter spoke of the Nobel selection committee’s “deplorable exhibition of insensitivity” in giving him the prize, the other called the committee’s decision “disturbing” and “an insult to the people of Chile” who were “burdened by the reactionary economic measures sponsored by Professor Friedman” (M. Friedman & R.D. Friedman 1998, 596-97). When Friedman went to Sweden to receive the prize in December there were multiple demonstrations, and during the ceremony itself an individual protester shouted “Down with capitalism, freedom for Chile” as Friedman was receiving his medal.

On December 14, 1976, four days after the awards ceremony, Hayek’s Nobel co-recipient published a piece in the Swedish newspaper *Dagens Nyheter*, an English translation of which soon appeared in the American popular economics magazine *Challenge*. Noting Friedman’s recent receipt of

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<sup>20</sup> Letter, Wassily Leontief to Milton W. Hudson, 23 February 1976, the Hayek Collection, box 33, folder 8. Hayek found out about the letter because the publisher of the *Survey* sent him a copy. Some recent research suggests a different view of Hayek’s influence: D. Skarbek (2009) examined the Nobel laureates that the other laureates in economics had cited the most in their Prize Lectures, and the top two on the list were Kenneth Arrow and Hayek. Hayek got 13 citations; Leontief and Myrdal each got 3. Along similar lines, a recent Google Scholar search indicated higher citation counts for Hayek than for either Leontief or Myrdal. Hayek’s top piece (“The Use of Knowledge in Society”) was cited just under 11000 times, whereas the top pieces of Myrdal and Leontief received 5674 and 2585 citations, respectively. Retrieved 3 November 2014.

<sup>21</sup> The next few paragraphs draws on B. Caldwell and L. Montes 2015, where Hayek’s reaction to the public criticism of Friedman is noted in the course of explaining why Hayek decided to accept an invitation to visit Chile in November 1977.

<sup>22</sup> One was signed by George Wald (medicine) and Linus Pauling (chemistry and peace), the other by David Baltimore and Salvador E. Luria (both medicine).



the prize, Myrdal criticized the Swedish Academy of Science for its secretive practices in choosing recipients, a process that made it difficult for any opposition to form prior to their recommendation.<sup>23</sup> He also argued that, because economics is at best a “soft” science, the awarding of a Nobel in it had become a political act that should be discontinued. Myrdal then segued into a discussion of the prize he had shared with Hayek (another political act, in his view), noting the “thousands of cablegrams I received from colleagues all over the world, mostly informing me that they were deeply critical of the Nobel Prize being given to von Hayek” (G. Myrdal 1977, 52). Thousands! He ended his piece expressing regret that he had accepted the award. His excuse was that “I should have declined to receive it, particularly as I did not need the money but gave it away... But I had not then thought the problem through. I was merely disgusted. Also, the message reached me very early one morning in New York, when I was totally off my guard” (ibid.).<sup>24</sup>

Hayek knew of the Myrdal piece soon after it was published in Swedish because Ole-Jacob Hoff sent a letter summarizing its contents to Friedman, and copied Hayek on it.<sup>25</sup> Hayek had throughout his career been known for keeping his disagreements with opponents on a professional level.<sup>26</sup> By the 1970s he was doubtless beginning to wonder if this had been a good strategy. The treatment Friedman

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<sup>23</sup> A. Lindbeck (1985) offers a description of the process by which the Nobel Prize winners in economics are selected. The prize in economics dates only to 1969. Given Myrdal’s later ambivalence about such an award, it is interesting to note that before the decision had been made to grant one in economics, Myrdal was a leader of those who “energetically pushed the idea of a prize in economic science” (ibid, 38). His actions in this regard led biographer W. J. Barber (2008, 164) to remark, “The thought that he might have a personal stake in this was rather ill disguised.”

<sup>24</sup> Myrdal’s piece did not go unnoticed. On May 31, 1977 the *New York Times* published an article by Leonard Silk entitled “Nobel Award in Economics: Should Prize Be Abolished?” Silk begins by summarizing the controversy: “The award of the Nobel Memorial Prize in Economic Science to Prof. Milton Friedman of the University of Chicago last October provoked a storm of criticism over Professor Friedman’s right-wing politics, focused particularly on his willingness to give advice to the central bank and the post-Allende Government in Chile. This storm has been followed by a blast from an earlier Nobel Laureate, Prof. Gunnar Myrdal.” The disagreement among economists had become a very public event.

<sup>25</sup> Hoff’s letter may be found in the Hayek collection, box 147. Throughout his career Hayek would write phrases, epigrams, ideas, quotations, and other notes to himself on notecards. This box principally contains Hayek’s notecards, so has no folders. The letter was folded up amongst the cards.

<sup>26</sup> In his review of Hayek’s *The Road to Serfdom*, J. Schumpeter (1946, 269) characterized both Hayek and the book as (perhaps overly) polite: “...it is also a polite book that hardly ever attributes to opponents anything beyond intellectual error. In fact, the author is polite to a fault...”

was receiving would have angered him. So would Myrdal's incredibly intemperate public remarks: "disgust" is a strong word. (At least this explains why Myrdal appeared gloomy at the awards ceremony!)

Throughout this period other laureates took public policy positions on various issues of the day, usually on the opposite side from Hayek. In October 1976 the Club of Rome published its third report, titled *Reshaping the International Order*. The book was produced by a group of about twenty experts led by Nobel laureate Jan Tinbergen, and had many "proposals for action" to speed economic development and reduce income inequality. Another episode involving laureates culminated in Hayek once more standing virtually alone. A "Manifesto on World Hunger" was circulated among Nobel laureates by a group called Food and Disarmament International and whose program drew directly on Myrdal's ideas that spending on armaments should be greatly reduced and redirected towards providing food and other assistance to developing countries. Fifty four Nobelists signed by the time the group went public in June 1981. The economist signatories included Myrdal, Tinbergen, Lawrence Klein, and Kenneth Arrow. Hayek's reaction was given at a Kuratorium meeting of Nobel laureates in the Bavarian town of Lindau that he happened to be attending at around the same time. On June 28, 1981 (only a few days after the group's announcement) he read a four page speech there protesting the Manifesto, contesting its factual claim that the Third World was facing mass starvation. He also pointed out that the majority of signatories were natural scientists who had no expertise in such matters, yet were using their scientific prestige to attempt to sway public opinion. This seemed a clear violation of scientific principle: "we have no right to vouch for the scientific validity of views which [we] are not professionally competent to judge."<sup>27</sup>

There were some positive episodes, however, associated with other Nobelists. One of the perquisites of being awarded a Nobel Prize is that the Swedish Academy invites one to nominate others for consideration, not every year, to be sure, but nonetheless a high honor when it happened. On three

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<sup>27</sup> The relevant papers may be found in the Hayek Collection, box 30, folder 4; box 32, folder 1; and box 110, folder 3.

separate occasions (1978, 1982, and 1985) Hayek nominated Ronald Coase. He must have been pleased when Coase finally garnered a Nobel in 1991, the year before Hayek died.<sup>28</sup> Another highlight was a conference of twelve laureates drawn from a variety of fields that was convened in Rome by the Vatican in December 1980. Each laureate was asked to provide a statement of what he viewed as the most pressing problem in his own field for science to solve. Hayek's response was predictable: "to warn against the progressive destruction of human values by scientific error."<sup>29</sup>

Hayek also prepared a fairly detailed nomination for Karl Popper for the Nobel Prize in Literature. He noted that philosophers had won the prize three times in the past: Rudolf Eucken (1908), Henri Bergson (1928), and Bertrand Russell (1950), and that surely if it were to be given to a philosopher again, Popper was the one to whom it should go. Though Hayek was able to gather a number of other laureates to sign on to the nomination, nothing came of it.<sup>30</sup>

#### Consequences, Intended and Unintended

As it did for many others before and since, the awarding of the Nobel changed Hayek's life opportunities. Within three years he was able to return not only to Freiburg, but to the very apartment he had lived in previously!

Along with finishing up his *Law, Legislation and Liberty* trilogy, he also found time to return in his research to the two topics – monetary theory and the critique of socialism – which had occupied him when his career first began more than forty years earlier. The result of the first effort was "The

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<sup>28</sup> The invitation and nominations may be found in the Hayek Collection, box 47, folder 10. The first time he nominated Coase, Hayek mentioned some other economist whom he thought deserving, though still ranking behind Coase. These included J. M. Buchanan and Gary (misspelled "Garry" by Hayek) Becker.

<sup>29</sup> Hayek's full statement and details of the conference may be found in the Hayek Collection, box 62, folder 1. Two others who attended were Lawrence Klein – once again, a balancing act in economics – and Ilya Prigogine, the chemist and complexity theorist.

<sup>30</sup> See the Hayek Collection, box 47, folder 10. Milton Friedman declined Hayek's invitation to sign the nomination. Friedman explained that he had been disturbed by the "increasingly intolerant attitude" that he had noticed in Popper's writings and behavior. He characterized Popper's talk at a recent Mont Pèlerin Society meeting as "pompous ado about very little." This is somewhat ironic given how frequently Popper's falsificationist methodology is linked with Friedman's methodology of positive economics.

Denationalization of Money” (F.A. Hayek [1978] 1999), a pamphlet that argued for benefits of the competitive issue of money and which helped to spawn a renewed interest in the study of alternative monetary regimes that continues today.

The second topic was a direct response to the evident gap between his own views and those of the majority of other Nobel laureates in economics in the 1970s that was just discussed. We can trace Hayek’s reaction in the notecards that he inscribed during this period. He was clearly increasingly agitated about claims that were being made by other prominent economists, and resolved to write a book that would be titled *What Is Wrong with Economics*.<sup>31</sup> His targets would include Paul Samuelson on unemployment, Leontief on planning, Tinbergen on social justice, and Myrdal on development, with appendices on (John Stuart) “Mill’s Muddle” and “The Neglect of Ludwig von Mises.” Though he never wrote the book, the behavior of certain of his fellow laureates clearly disturbed him.

Hayek decided instead to organize “the Paris Challenge,” a grand debate between the proponents of socialism and capitalism. The proposition to be debated was, “Was Socialism a Mistake?” He envisaged a five or six day affair, with twelve speakers on each side. Hayek worked on the project for much of 1978, but could not get the line-up of personnel that he hoped for, nor, perhaps more importantly, sufficient funding. He turned again to the writing project, but this time it was not to be directed against the economics profession, but against socialism itself. The book that was finally produced was his last major publication, *The Fatal Conceit: The Errors of Socialism* (1988).<sup>32</sup>

For the second time in his long career, Hayek had become a recognized public intellectual.<sup>33</sup> As invitations to speak poured in, his already extensive travel schedule expanded, and wherever he went

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<sup>31</sup> The book is mentioned on notecards in the Hayek collection, box 147, cards that are proximate to the letter from Hoff mentioned in note 25.

<sup>32</sup> See C. Cubitt (2006, 24-26) for more on the Paris Challenge. The materials relating to the Paris Challenge episode may be found in the Hayek Collection, box 125, folders 7-10.

<sup>33</sup> The first time was the publication of *The Road to Serfdom* in 1944 and, perhaps more important, the subsequent condensation of that book in *The Reader’s Digest*. For more on this, see the editor’s introduction to F.A. Hayek ([1944] 2007).

he not only gave lectures, but also newspaper and magazine interviews, and sometimes he met with government officials. Hayek had always written letters to the editor, but this activity also markedly increased, especially to *The Times* of London and, for a while, the *Frankfurter Allgemeine Zeitung*. The topics he chose to write on covered a wide assortment of often controversial issues: critiques of monetary and immigration policy, and of press coverage of places like Chile and South Africa, as well as numerous pages on the necessity of reining in the power of the British trade unions, whose actions he felt exacerbated inflation and whose privileges he felt violated the rule of law. Especially in the United Kingdom as the Thatcher government began to enact policies that challenged the growth of the welfare state, Hayek became for many among the British chattering classes a figure of scorn, the “mad professor” or “Mrs. Thatcher’s pin-up boy” (in Labour MP Michael Foot’s colorful prose) who had somehow taken control of Thatcher’s mind (Cubitt 2006, 28). Hayek had not, of course, contributed directly to the rise of political figures like Thatcher and Ronald Reagan, whose successes were due more to public disenchantment with the manifold policy failures of their predecessors, and he had very little influence on the policies that were actually enacted. But at least certain politicians mentioned his name positively and paid lip service to his ideas, which was a welcome change from his treatment in other quarters during the 1970s.

How important was Hayek for the revival of interest in Austrian economics? He certainly played a role, but arguably the starting point was the death of Ludwig von Mises in October 1973. The next June a meeting took place at South Royalton, Vermont, in which major figures like Israel Kirzner, Ludwig Lachmann, and Murray Rothbard presented papers. This event arguably marks the birth of the American Austrian movement, though the announcement of Hayek’s Nobel four months later evidently

helped to give it some forward momentum.<sup>34</sup> The fruits became manifest over the next decades and are demonstrated in the papers presented at this conference. And indeed, the Philosophy, Politics and Economics Program of the Mercatus Center at George Mason University that is our sponsor is just one of the more tangible outcomes of those heady days in the early 1970s when a revitalized classical liberalism began again to find its voice.

I will close on a personal note. As noted above, the battle of the Nobels that took place in the 1970s ultimately led Hayek to write *The Fatal Conceit*. That book was edited by Bill Bartley, who in the course of editing it became the General Editor of a book series, *The Collected Works of F. A. Hayek*, a series that I now edit. This project also led to the creation of the Hayek archival collection at the Hoover Institution, documents from which loom so large in the footnotes of this paper. The Nobel also created enough interest in Hayek that he was invited to sit for numerous interviews that have provided much insight into his life and mind.<sup>35</sup> In short, because of the Nobel Prize, we have available much more information on Hayek's life and the development of his ideas. As Hayek's editor and, someday, his biographer, I am very happy about that.

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<sup>34</sup> At the conference at which this paper was presented, Karen Vaughn (who had attended the South Royalton meeting) noted that Hayek's Nobel also conferred a sense of legitimacy on the study of Austrian ideas, something that was important for the young scholars who were then beginning their studies.

<sup>35</sup> F.A. Hayek (1983) is the most important of these. The interviews took place in 1978 and yielded a transcript of nearly 500 pages.

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