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F.A. Hayek: A Biography

By Richard M. Ebeling

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Review of [Friedrich Hayek: A Biography](#) by Alan Ebenstein (New York: Palgrave, St. Martin's Press, 2001), 403 pp. \$29.95.

In the more than twenty-five years since Austrian economist Friedrich A. Hayek was awarded the 1974 Nobel Prize in Economics, dozens of books and collections of essays, as well hundreds of popular and scholarly articles, have been devoted to expositions and critical evaluations of his contributions to economics and to political and social philosophy.

There also have appeared eight volumes in a projected nineteen-volume set of his collected works from the University of Chicago Press. In addition, Chicago Press in 1994 published a volume entitled *Hayek on Hayek: An Autobiographical Dialogue*, based on a series of interviews with Hayek in the late 1970s and on extensive excerpts from a set of previously unpublished autobiographical notes that Hayek had started writing in 1945. And in 1998, the Adam Smith Institute in London issued the charming and fascinating *Hayek: A Commemorative Album*, edited by John Raybould and containing a large number of pictures and documents chronologically documenting Hayek's life and career.

But there has not been a book-length Hayek biography—until now. Alan Ebenstein's *Friedrich Hayek: A Biography* is meant to fill this void. Ebenstein is an economist who earned his Ph.D. at the London School of Economics and has devoted most of his scholarly activities to intellectual history and political theory and philosophy. In 1997, he edited the *Collected Works of Edwin Cannan*, the great English economist who taught at the LSE and who influenced an entire generation of classical liberal economists during the early decades of the twentieth century. The first volume contains a 130-page detailed and thoughtful scholarly appreciation of Cannan's contributions, written by Ebenstein.^[i]

In his new work, Ebenstein has shown himself to be a careful and thorough biographer. In addition to having meticulously researched through all of the published material relating to Hayek's life, he also has drawn from various unpublished interviews, including archival documents and memoirs housed at the London School of Economics, as well as from interviews he did with a number of scholars and family members who knew Hayek fairly well over the decades.

Ebenstein traces the various phases of Hayek's life, giving details about his father and grandfathers and their connections with members of the Austrian School in the late nineteenth century, especially the friendships between Hayek's family and Eugen von Bohm-Bawerk. He tells about Hayek's experiences in the First World War on the Italian front and his time, following the war, at the University of Vienna when he decided to shift his interests from the natural sciences to psychology and economics. He also recounts Hayek's first visit to the United States in 1923 and 1924, during which he had the opportunity to meet some of the leading American economists of the time, including John Bates Clark and Wesley Clair Mitchell.

There are gaps, however, covering Hayek's years in Austria after his return from the United States. For example, Ebenstein offers almost no information about the period between 1927 and 1931, during which Hayek served as the first director of the Austrian Institute for Business Cycle Research in Vienna. Yet there is in fact quite a bit of material available about these years. A few years ago, my wife and I were given free access to the institute's archives, and we photocopied virtually all the

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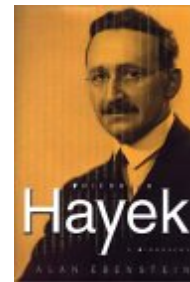
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documents, papers, and conference materials, as well as minutes of board meetings covering the period from the institute's founding in 1926 to its absorption into the German Institute for Economic Research following Hitler's annexation of Austria in 1938.

For one thing, the institute's documents show that Hayek ran the organization in a rather chaotic form of "spontaneous order," with little system or care with paperwork or records. Organizational *Ordnung* only arrived with Oskar Morgenstern's appointment as director, when Hayek moved to London in the autumn of 1931. From that point on, "discipline" reigned, with a careful keeping of all correspondence, research, and financial statements. And, incidentally, minutes of the board meeting at which Morgenstern was appointed as Hayek's successor make it clear that this was considered a temporary assignment, since Hayek's appointment at the London School of Economics was expected to be for no more than a year or two.

Especially following the beginning of the Great Depression in late 1929, the institute, under Hayek's direction, worked frequently in preparing memoranda and documents about economic and financial conditions in Austria and central Europe in general for the Economic Research Division of the old League of Nations that was run by Alexander Loveday. I found and photocopied additional documents about the institute's connections with the League of Nations in the United Nations' archives in Geneva, Switzerland, including minutes of two conferences, held under league auspices in 1931, about the world economic crisis, at which Hayek reported on conditions in Austria. By the time Hayek left Vienna in 1931, he clearly had made the institute a widely known and highly regarded research center for both theoretical and statistical analysis.

As an aside in this context, I might mention a story Oskar Morgenstern related to me in the mid-1970s—a story that I have never seen recounted anywhere. Morgenstern said that, one morning in the spring of 1931, after Hayek had returned from having delivered the London lectures that became *Prices and Production*, he ran into Hayek at the elevator in the Vienna Chamber of Commerce building where the institute then had its offices. While riding up, Morgenstern said he turned to Hayek and said, "We are going to enter the office, you are going to look through your mail, and you will find a letter inviting you to be a professor at the London School." And they both laughed.

In the office, Hayek sat down at his desk and went through his mail. He came to a letter from the London School of Economics, opened it, and found the invitation for the position as the Tooke Professor of Economic Science and Statistics. Not saying a word, Hayek handed the letter to Morgenstern, and they looked at each other in a chilling silence. I must have looked incredulous after being told this story, because Morgenstern said to me with dead seriousness, "It happened just that way."

The story that Ebenstein tells after Hayek left Vienna falls into two broad segments: Hayek's life and work as an economist who became internationally renowned as the leading expositor of the Austrian theory of the business cycle in the English-speaking world in the 1930s; and his life from the 1940s on as an equally renowned defender of the free society and the market economy in the role of social and political philosopher.

Interwoven in the account are the personal circumstances that lead Hayek to leave Great Britain in 1949 and move to the United States. Hayek decided to divorce his first wife, with whom he had two children, and marry a distant cousin whom he had loved as a young man.

Ludwig M. Lachmann once told me that dinner at Hayek's home in London in the late 1930s was an awkward and embarrassing affair. By this time, Hayek and his first wife were not speaking to each other. At the dinner table, Lachmann carried on conversations with the two of them, but they said not a word to each other.

Lachmann believed that Hayek's productiveness in this period—during which he finished *The Pure Theory of Capital*; some of the essays that made up *Profits, Interest and Investment*; the articles that later were published as *The Counter Revolution of Science*; and *The Road to Serfdom*—was due in part to his unhappy home life. Hayek threw himself completely into his work.

There is a peculiar dichotomy in Ebenstein's biographical account in tracing out these two distinct periods of Hayek's life. In the part of the book devoted to Hayek as political philosopher, especially in the United States and then after he returned to Europe in the early 1960s, Ebenstein not only presents with care and detail the personal aspects of Hayek's career but also offers a clear and sympathetic summary of his contributions to social theory.

Thus, we are shown how Hayek's writings in the mid- and late 1930s on the question of economic calculation in a planned economy lead him to see and emphasize the significance of the division of knowledge that by necessity occurs with a division of labor. Ebenstein explains how Hayek's argument that production is guided by market prices that may be falsified by monetary forces during the phases of the business cycle made Hayek eventually grasp how market-based prices serve as the information economizer and disseminator for coordination of multitudes of individual plans in the network of market relationships.

This resulted in Hayek formulating his theory of social order and social evolution, in which many human institutions are the

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result of human action but not of human design, because the elements that make up the structure of society are not and cannot be known or comprehended by any single mind or group of minds.

Ebenstein summarizes what he sees as the resulting themes from this insight that Hayek then articulated in *The Constitution of Liberty* and *Law, Legislation and Liberty*. The reader may disagree with the particular emphases or interpretations that Ebenstein presents in this portion of the book, but he cannot dispute that the author has attempted to understand and appreciate the ideas that Hayek devoted so many decades of this part of his life to develop.

Ebenstein also tries to recreate the atmosphere in which Hayek worked during part of this time at the University of Chicago. He explains that it was Hayek's "Austrian" approach to economic theory that caused the economics faculty at Chicago not to want him to teach in their department. Instead, he was professor of social and moral science in the university's Committee on Social Thought. Although he was somewhat aloof and formal, it is clear that both his colleagues and his students at Chicago found him to be easy to work with, a valued intellectual companion and mentor, and always supportive and helpful.

Ebenstein's account of Hayek after the Second World War stands in stark contrast to that part of his book devoted to Hayek's years at the London School of Economics in the 1930s. If the reader's knowledge of Hayek as an economist were to be based solely upon chapters five through eleven in Ebenstein's book, the only conclusion the reader could reach would be that, in this period, Hayek was a misguided and bumbling incompetent. Here we are told that "Hayek's basic misconception of economic production was concerning the nature of capital" (p. 54).

Yet the only interpretation offered for the reader to first understand what this "misconception" was based upon is a handful of paragraphs in a couple of chapters, in which there is presented no reasonable or intelligible summary of the Austrian theory of capital, interest, and the structure of production. Ebenstein merely says that Hayek's theory is based on the idea that capital is heterogeneous rather than homogeneous and adds, "If this empirical assumption of capital's heterogeneity is false, his theoretical system of economic activity falls."

And in a parroting of a standard Keynesian argument against Hayek, Ebenstein says that Hayek assumes resources are fully employed rather than unemployed, because if there is unemployed labor and capital then there can be an increase in aggregate production of both consumer and producer goods (p. 83). And the nail in Hayek's coffin as a monetary and business cycle theorist is supposed to naturally follow when Ebenstein quotes Milton Friedman as saying, "I think *Prices and Production* was a very flawed book. I think his capital theory book is unreadable" (p. 81).

In contrast to the positive impression that colleagues and students had of Hayek at the University of Chicago in the 1950s, colleagues at the LSE in the 1930s supposedly found him completely unintelligible, because of both his German accent and the content of his "Austrian" ideas, and students found him confused and uninformed in his teaching and unapproachable as a person. "Poor Hayek," the reader is expected to conclude from this portion of the book. "If only he had never tried to be an economist, he wouldn't have made such an embarrassing fool of himself during this period of his life."

More than anywhere else in the book, these chapters completely fail in presenting any fair and informative summary and understanding of what without a doubt stand out as some of Hayek's most important contributions to economic analysis. Contrary to the impression created by Ebenstein, Hayek was one of the leading and respected economists of the inter-war period in Europe. His work on monetary and business cycle theory was the main rival of Keynes's ideas in the Great Britain of the early and mid-1930s.

Erich Roll, for example, in his 1934 book on monetary theory and policy, referred to Keynes and Hayek as the "leading authors of the two schools," competing in presenting alternative theories of money's effects on the economy. In his own formulation of the business cycle and economic crises, Roll generally adopted the Mises-Hayek approach.^[ii] Summaries of contemporary business cycle theories placed Hayek's theory one-to-one against Keynes's.^[iii] Hayek's theory was used to explain the causes of and the reasons for the severity of the Great Depression.^[iv] Costantino Bresciani-Turroni, who wrote one of the most famous histories of the Great German Inflation, said in a review of Hayek's *Monetary Theory and the Trade Cycle* that the Austrian theory of the business cycle, as developed by Hayek, perfectly explained the phases of the German inflationary experience and the distortions that were created in the German economy during the process: a misdirection of capital in the structure of production, forced savings, and a scarcity of capital that prevented investment projects begun to be maintained when the inflation was finally brought to an end. "It seems to me that these facts are significant for Professor Hayek's theory," he said.^[v]

Hayek's business cycle framework was even adapted by socialist economists, one of whom stated in 1934 that, "It is almost unnecessary at this date to add that no discussion of money, no matter how humble or ambitious its scope, can hope to achieve any worthwhile results unless it uses the machinery that Professor Hayek has so brilliantly put at the disposal of the English-speaking students in the last few years."^[vi]

And contrary to the impression Ebenstein tries to give of Hayek's limited importance and influence during this period at the LSE, Sir Arnold Plant, who was a colleague at the London School, said, "I can testify from personal experience to the immense stimulus and direction which Hayek's migration to this country gave to economic research in the 1930s, not only in London and economics faculties throughout the United Kingdom, but also in the international world of scholarship. . . . Few of us who attended the seminars and lectures failed to be impressed by the welcome he gave to criticisms of his attempts to clarify the concepts of the effects of divergences between the monetary and the 'natural' rates of interest on economic structure of production, and of 'neutral money.'" [\[vii\]](#)

Austrian economist and economic historian Sudha Shenoy once told me how her father, B. R. Shenoy—who, in the post-World War II period became the leading free market economist in India—had heard Hayek deliver the lectures at the LSE in early 1931 that were published as *Prices and Production* and how their clarity opened a new and wide vista for understanding the nature and workings of the economic process.

Furthermore, the Austrian theory of capital, interest, money, and business cycle, rather than passing away in the dust bin of history, is experiencing a revival and reformulation that heralds a new dawn for Austrian economics. Hayek's contributions, as well as those of Ludwig von Mises, are serving as the cornerstones for this renaissance. [\[viii\]](#)

What Ebenstein completely fails to incorporate in his biography is an appreciation for the Austrian theory of production as a temporal process that requires the transformation of means of production into finished consumer goods through stages of production. In a money-using economy, these interconnected and interdependent stages of production are coordinated through the network of market prices and the rate of interest.

The heart of Mises's and Hayek's theory of the business cycle is that monetary and credit expansion can distort market rates of interest, resulting in false price and profit signals that result in misdirections of resources and misallocations of capital and imbalances between savings and investment. The Austrian theory shows how this can come about by looking beneath the macroeconomic aggregates of total output, total employment, and the general price and wage levels, and tracing out the microeconomic processes and sequences of how monetary and credit expansions can influence the structure of relative prices and, therefore, the structures of production in the market.

Unfortunately, Ebenstein fails to do justice to Hayek's monetary and business cycle writings in comparison to the interest and care with which he attempts to explain Hayek's social and political philosophy.

Finally, note should be taken of Ebenstein's discussion of Hayek's views on the methodology and methods of the social sciences, as well as his comments on Mises's praxeological method. He has nothing but ridicule and disdain for the Austrian emphasis on introspection as a source of knowledge in comprehending the formal logic and core relationships in economic theory. He rightly points out that Hayek's own views did change on questions of economic methodology from his introductory chapter to *Collectivist Economic Planning* in 1935 to some of the essays included in *Studies in Philosophy, Politics and Economics*, published in 1967.

But Ebenstein also goes out of his way to attack Mises's a priori deductive method of economic theorizing, drawing upon an interview given by Milton Friedman in 1995 in which Friedman argued that the praxeological approach "has very negative influences." Why? Because, in Friedman's view, if two praxeologists disagree, there is no experimental and, therefore, no empirically "objective" method to settle the dispute. "We can yell, we can argue. . . but in the end we have no way to resolve it except by fighting, by saying you're wrong and I'm right" (p. 273).

First, I must say that I have been around Austrian economists since the first Austrian economics conference in South Royalton, Vermont, in June 1974, and I have never seen two Austrians put on the boxing gloves to resolve disputes over either theory or historical applications of their theories. Have they argued? Have they sometimes had falling-outs and not spoken to each other for periods of time? Yes, but I've heard that even experimental physicists comparing laboratory results have shouted, cursed, verbally attacked each other, and sometimes refused to be in the same room with their scientific colleagues. Unfortunately, these are failings attributable to being human. The "scientific method" has not changed this aspect of human nature. I have even witnessed Milton Friedman get "cranky" at a professional meeting.

Second, and more important, without the tool of introspection it seems impossible to imagine how anyone, including the professional economist, would ever know what economizing means, what "ends" and "means" mean, how to distinguish between the concepts of "cost" and "benefit," of "more preferred" and "less preferred," and the meaning of "the margin." In 1910, Philip Wicksteed took as the opening motto of his great treatise, *The Common Sense of Political Economy*, a line from the German poet Goethe: "We are all doing it; very few of us understand what we are doing." The logic of action and choice is in us; it is the way our minds work in terms of concepts, categories, and relationships. Economics attempts to raise to the level of the conscious and the explicit that which guides us in all our doings, but which most of us do not reflect on in terms of any formal understanding.

Have some men, at a particular period of time, preferred voodoo dolls to violins? Have they demonstrated a greater or lesser quantity demanded for tuna when the price decreased in North Carolina during June 1963? Obviously, these questions can only be answered on the basis of the "historical facts," the "empirical evidence." But even to refer to people's preferences requires the notion of a "scale of value," and this cannot be derived from "experience" other than the "inner experience" from reflection on how our minds work under a condition of scarcity. To speak of a "demand" for tuna requires a prior conception of the meaning of a "good" and the logical distinguishing of one type of good from another. To devise the standard economic conception of "elasticity of demand" requires the a priori deducing of the meaning of "diminishing marginal usefulness" and the "marginal unit," and of the meaning of "price" and "trade-off."

The foundation of all economic theorizing is dependent upon these "introspective" starting points. The economist who denies this or tries to reject it is exactly like the man in the story who never realized that he was speaking prose.

Ebenstein therefore presents not only an incomplete intellectual biography of Friedrich A. Hayek, but one that fails at the most fundamental level of what should be expected of any biographer: a fair, generous, and reasoned attempt to understand the ideas of the individual whose life story is being told—even if the biographer concludes that he disagrees with the ideas of his subject. Ebenstein has written a notable first biography of Hayek, but the definitive one still waits to be penned.

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FOOTNOTES

[i] Alan Ebenstein, ed., *Collected Works of Edwin Cannan*, 8 vols. (New York/London: Routledge/Thoemmes Press, 1997); for a review, see Richard M. Ebeling, *Freedom Daily* (August, 1998), pp. 41-44.

[ii] Erich Roll, *On Money* (London: Faber & Faber, 1934), p. 179-180.

[iii] See Alec L. Macfie, *Theories of the Trade Cycle* (London: Macmillan, 1934), and Raymond J. Saulnier, *Contemporary Monetary Theory: Studies of Some Recent Theories of Money, Prices, and Production*, (New York: Columbia University Press, 1938).

[iv] Frederic Benham, *British Monetary Policy* (London: P. S. King, 1932); H. F. Fraser, *Great Britain and the Gold Standard* (London: Macmillan, 1933); Lionel Robbins, *The Great Depression* (London: Macmillan, 1934); and C. A. Phillips, T. F. McManus, and R. W. Nelson, *Banking and the Business Cycle: A Study of the Great Depression in the United States* (New York: Arno Press [1937] 1972).

[v] C. Bresciani-Turroni, *Economica* (August 1934), p. 347; see also C. Bresciani-Turroni, "The Theory of Savings," Pts. I & II in *Economica* (Feb. 1936), pp. 1-23 and (May 1936), pp. 162-181.

[vi] M. A. Abrams, *Money, and a Changing Civilization* (London: John Lane, 1934) p. 25; see also E.F.M. Durbin, *Purchasing Power & Trade Depression: A Critique of Under-Consumption Theories* (London: Jonathan Cape, 1934), and Hugh Gaitskell, "Four Monetary Heretics" in G.D.H. Cole, ed., *What Everybody Wants to Know About Money*, (New York: Alfred A. Knopf, 1933).

[vii] Sir Arnold Plant, *Selected Economic Essays and Addresses*, (London Routledge & Kegan Paul, 1974) pp. 169-170.

[viii] From among the growing recent literature, the following represents just two notable contributions that in particular show Hayek's influence: Mark Skousen, *The Structure of Production*, (New York: New York University Press, 1990); and Roger W. Garrison, *Time and Money: The Macroeconomics of Capital Structure*, (London/New York: Routledge, 2000). For a restatement of the Mises-Hayek Austrian theory of money and the business cycle and a critical evaluation of Keynes and Keynesian Economics in the context of an interpretation of the Great Depression, see Richard M. Ebeling, "The Austrian Economists and the Keynesian Revolution: The Great Depression and the Economics of the Short-Run," in Richard M. Ebeling, ed., *Human Action: A 50-Year Tribute* (Hillsdale, MI: Hillsdale College Press, 2000), pp. 15-110.

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