



## I Like Hayek

“Half a century later, it is Keynes who has been toppled and Hayek, the fierce advocate of free markets, who is preeminent.”

—DANIEL YERGIN AND JOSEPH STANISLAW<sup>1</sup>

Last year *Time* magazine named John Maynard Keynes the economist of the twentieth century for his countercyclical demand-management thesis—that big government is necessary to stabilize an inherently shaky capitalist system. But in the latest biography of Keynes, Robert Skidelsky declares that arch-critic Milton Friedman disproved Keynes’s theory by demonstrating with convincing empirical evidence that market economies were far more stable than Keynes believed, and that government—particularly central-bank monetary policy—is the real source of the boom-bust cycle. “It was as though Keynes had never been,” Skidelsky pronounced solemnly.<sup>2</sup>

Who should take the place of Keynes to lead economics into the 21st century? Should it be the economics of Friedman, Ludwig von Mises, Joseph Schumpeter, or F. A. Hayek? While all four have much to offer, I favor Hayek. I am not alone. Lately there has been a plethora of books and articles about Hayek, so extensive that an entire Web site, maintained by Professor Gregory Ransom, is devoted to

this eminent economist and philosopher. (See [www.hayekcenter.org](http://www.hayekcenter.org).) For the past dozen years, the University of Chicago Press has published the collected works of Hayek up to volume ten, with another ten expected.

In addition, an excellent biography has just been released, *Friedrich Hayek: A Biography*, by Alan Ebenstein. It offers a comprehensive look at Hayek’s life and ideas, and even includes some surprises, such as his controversial divorce and remarriage; how his best-seller, *The Road to Serfdom*, may have cost Sir Winston Churchill re-election in 1945; and the remarkable similarities between Hayek’s and Marx’s theories of crises.<sup>3</sup>

### Hayek’s Political Contributions

What do I like about Hayek? First, Hayek advanced the case for an institutional framework for liberty. In his classic work *The Constitution of Liberty*, he set out the legal and constitutional system needed to create the delicate balance between liberty and law in a liberal society.<sup>4</sup> Hayek rejected central planning by technocrats and emphasized the “spontaneous order” and prosperity generated by individuals using their own specialized knowledge and pursuing their own self-interest. According to Hayek, intervention could only lead down “the road to serfdom,” the title of

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his most famous book. This book was written during World War II and reflected his pessimism about the future of government and Western civilization. When he wrote chapter 10, "Why the Worst Get on Top," he had in mind Hitler, Stalin, and Mussolini.

In 1976 he was even more dejected: "Both the influence of socialist ideas and the naive trust in the good intentions of the holders of totalitarian power have markedly increased."<sup>5</sup> Yet, only a few years later, Margaret Thatcher and Ronald Reagan appeared on the scene and under the influence of Hayek and other free-market economists, reversed the tide of socialism and inflation. The worst don't always get on top!

## New Advances in Hayek's Economics

Hayek's economics has been both lauded and attacked by his colleagues. Economists have readily incorporated his concept of prices and profits as essential communicators of critical information. They signal where scarce resources should be allocated in the economy, thus creating "order without command."

But it's another story when it comes to the "Austrian" theory of capital, the business cycle, and monetary policy. "I am an enormous admirer of Hayek, but not for his economics," confesses Milton Friedman, "His writings in [political theory] are magnificent . . . [but] . . . I think his capital theory is unreadable. . . . There hasn't been an iota of progress."<sup>6</sup>

But Friedman spoke prematurely. There has been considerable progress in Austrian capital theory. Recent advancements in theoretical Austrian macroeconomics include Roger Garrison's *Time and Money*, which deftly compares the flawed models of Keynesian and monetarist theory with the more advanced Austrian theory, and Steve Horwitz's *Micro-foundations and Macroeconomics*. Both books were published in the past year by Routledge.

On the statistical side, I reported in my April column that the U. S. Department of Commerce's Bureau of Economic Analysis has recently begun to measure Hayek's triangle, that is, the total amount of annual spend-

ing at all stages of production. This new national statistic, called "Gross Output," is based on my original work *The Structure of Production*, an updated vision of Hayekian macroeconomics.<sup>7</sup>

## The Austrian Business Cycle and NASDAQ

The Hayek-Mises theory of the business cycle is also relevant to today's business cycle and financial markets. Indeed, the most recent boom-bust in technology stocks and the NASDAQ is a perfect example of Hayekian economic behavior. Hayek's theory predicts that an easy credit policy will create an artificial inflationary boom in the earlier stages of capital and technological development that will eventually and inevitably collapse. "Every period of inflation ends with a crash," he said. Indeed, that is precisely what has occurred in the past few years on the technology-weighted NASDAQ. The 1997–99 easy-credit policies by the Federal Reserve pushed the NASDAQ index far above its natural level, and when the Fed stopped inflating, the bubble burst. What goes up must come down.

On a personal note, I had the opportunity to meet Nobel-laureate Hayek twice, once in the late 1970s at the New Orleans Investment Conference and again in the mid-1980s, when Gary North and I visited him at his summer home in the Austrian Alps and conducted what turned out to be his last interview. Even at the age of 86, he greeted us warmly and for three hours spoke masterfully of his career and his contributions to economics. His biggest regret was that his theory of capital had not been pursued. Now all that is changing.

Yesterday's heresy is tomorrow's dogma! □

1. Daniel Yergin and Joseph Stanislaw, *The Commanding Heights* (New York: Simon and Schuster, 1998), p. 431.

2. Robert Skidelsky, *John Maynard Keynes: Fighting for Britain, 1937–1946* (London: Macmillan, 2000), p. 506.

3. Alan Ebenstein, *Friedrich Hayek: A Biography* (New York: Palgrave/St. Martin's Press, 2001).

4. F.A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960).

5. F.A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1976 [1944]), p. xxi.

6. Quoted in Ebenstein, pp. 81, 273.

7. Mark Skousen, *The Structure of Production* (New York: New York University Press, 1990).

# CAPITAL LETTERS



## The State of the Comic Book

### To the Editor:

I enjoyed Raymond Keating's article on comic books in the May 2001 issue of *Ideas on Liberty*. I was surprised to see something like this covered in the magazine, and he did the topic justice. His comments on Captain America were particularly enlightening, since I had never read that series.

I'm a big comic book fan and keep an eye on the politics of them. The conclusion that I have reached is that most writers are of the liberal-left variety. The more politically charged writing probably appears more in the non-superhero work. For instance, there was one comic by DC called "Uncle Sam" that was extremely left-wing, borderline Marxist. Alan Moore, who wrote "Watchmen," is a big leftist, and there is environmentalism in his "Swamp Thing" from the '80s. Another left-wing example would be the latest issues of "The Punisher," a once-conservative-right comic in the "Death Wish" mold, which pushed anti-big corporation views.

An interesting comic to be on the look-out for will be Frank Miller's sequel to "The Dark Knight Returns," which was supposed to be released in the summer of 2001. Miller has said in interviews that he wants to take an "Ayn Randian" approach. The first one dealt with political issues, and some newspaper reporters even went so far as to call it "fascist." I'm really interested to see what Miller does in the sequel. In one comic he did in the mid-1990s, "Martha Washington Goes to War," Miller credited *Atlas Shrugged* as a major influence.

Anyway, the article was a pleasant surprise. Thanks a lot.

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## Jefferson, Madison, and the Post Roads

### To the Editor:

I read with interest Wendy McElroy's article on the postal monopoly's unconstitutionality (May 2001). It reminded me of a little known exchange between Thomas Jefferson and James Madison, the earliest advocates of a strict construction of the Constitution.

As a representative in Congress, Madison was among the first to propose a bill for the creation of post roads. Today such a bill would hardly draw notice, let alone objections, but Jefferson did object, and he wrote to Madison:

Have you considered all the consequences of your proposition respecting post roads? I view it as a source of boundless patronage to the executive, jobbing to members of Congress and their friends, and a bottomless abyss of public money. You will begin by only appropriating the surplus of the post-office revenues: but the other revenues will soon be called in to their aid, and it will be a sense of eternal scramble among the members who can get the most money wasted in their state, and they will always get most who are meanest. We have thought hitherto that the roads of a state could not be so well administered by the state legislature as by the magistracy of the county, on the spot. What will it be when a member of N.H. is to mark out a road for Georgia? Does the power to establish post roads given you by congress, mean that you shall make the roads, or only select from those already made, those on which there shall be a post? (Letter to James Madison, March 6, 1796, reprinted in *The Republic Of Letters: The Correspondence Between Thomas Jefferson And James Madison*, J. Morton Smith, ed., 1995, pp. 923–24)

An embarrassed Madison backpedaled in his response to Jefferson: