

## 115 Years After His Birth, Hayek's Ideas Remain Relevant

By Gerald P. O'Driscoll jr.

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Thursday is the 115th anniversary of the birth of F.A. Hayek, the great Austrian economist and political philosopher. Hayek had a huge impact on intellectual thought in his time, but his ideas are as relevant today as then.

Hayek's work, whether on economics, politics or law, focused on the ineluctable problems of uncertainty and incomplete information.

In economics articles going back to the 1930s, he analyzed the price system as a mechanism for communicating information to buyers and sellers about the intensity of preferences for goods and their relative scarcity. He concluded that the information does not exist anywhere in its entirety and could not be centralized.

Many of his arguments were developed in the socialist calculation debate. Socialist (really communist) societies relying on centralized planning would be characterized by gross economic inefficiencies. Hayek was vindicated by subsequent events.

The power of this argument is lost today on policymakers engaged in "planning lite," attempts to allocate credit to favored industries and pick winners. The Great Recession was in large part the consequence of such a policy. The Fed's balance sheet is loaded up with housing finance paper.

In "Ben Bernanke Versus Milton Friedman," historian Jeffrey Rogers Hummel argues that the Fed has evolved from monetary authority to a credit allocator.

Hayek first began evolving his information argument in his monetary analysis. In 1932, he questioned whether deliberate monetary management could avoid economic fluctuations.

Friedman later developed the argument against discretionary monetary policy in a series of articles that detailed the information problems confronting a central bank.

His argument later became encapsulated as the "lags" in monetary policy — i.e., the unpredictability of when the effects of monetary policy actions will be felt. Monetary policymakers give lip service to Friedman's arguments, but ignore them in practice.

Hayek deftly summed up his argument on information in his 1988 book, "The Fatal Conceit": "The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design." A market economy is a complex order, the outcome of societal evolution that confounds efforts to redesign it.

The central tenet of classical liberalism was summed up by George Smith in his brilliant book, "The System of Liberty": "Laissez faire in all spheres, personal, social and economic, was the fundamental presumption of liberalism — its default setting, so to speak — and all deviations from this norm stood in need of justification."

In America, by linguistic legerdemain, progressives transformed the meaning of liberalism into nearly the opposite of what it originally meant. Progressives became liberals, and true liberals lost their identity.

Hence, we have the peculiar use of conservative to denote in America what had once been liberal thought.

So when Hayek wrote a famous essay on "Why I Am Not a Conservative," he confabulated some American conservatives. He was not attacking American conservatism. Instead, he was combating the transplantation to America of a "European type of conservatism, which (is) alien to the American tradition." That European conservatism upheld tradition and status over liberty and innovation.

Hayek argued there, and elsewhere, that liberalism must be the political philosophy of principles. Its central principle is individual liberty. Liberalism must present an optimistic program that appeals to young people, the next generation who must carry the torch of liberty for it to survive.

Hayek provided a much-needed program for American conservatives today. They must stand for free markets and free people. Free markets and free trade must be seen as the economic core of an opportunity society that provides hope for all.

To borrow a slogan from Steve Forbes, an electorally successful political party of liberty will articulate a program of hope, growth and opportunity. Traditions undergird such a program, but the young will never be won over to a message of mere tradition.

Hayek was born in Vienna at the high point of the global, liberal economic order comprising free markets, free trade and capital movements, and the classical gold standard. That glorious edifice ended with World War I.

So for decades he was arguing against the tide of history. Yet he lived long enough to be vindicated. His words, written over the course of much of the 20th century, constitute a message for today.

- O'Driscoll is a senior fellow at the Cato Institute and the author of "The Economics of Time and Ignorance."