

The lonely neoliberal

The role of Hayek's personal life in his intellectual formation

HAROLD JAMES

HAYEK

A Life: 1899–1950

BRUCE CALDWELL AND
HANSJOERG KLAUSINGER

824pp. University of Chicago Press. £35
(US \$50).

FRIEDRICH VON HAYEK was one of the twentieth century's most influential writers on economics and social and political theory. He was widely respected by those who knew him personally - even when, like John Maynard Keynes or Milton Friedman, they profoundly disagreed with him intellectually - and more recently has been even more ubiquitously condemned as a malign influence, the creator of neoliberalism (a term he didn't much care for) and the slayer of the welfare state. In many modern discussions, especially since the global financial crisis of 2008 and perhaps because of a viral video billed as "The Original Economics Rap Battle: Fear the Boom and Bust", he is seen as the great antagonist of Keynes.

This first volume of a new Life by Bruce Caldwell and Hansjoerg Klausinger is not the first Hayek biography; nor is it the only study to frame the Hayek story as a contrast to the life of Keynes. The authors point out that there are quite a number of existing biographies, and many studies explicating and evaluating Hayek's ideas. They begin by explaining the long trajectory of their work - how the philosopher W. W. Bartley III wanted to combine an extensive and complete English-language edition of Hayek's works with a comprehensively thorough biography, how Caldwell became the third general editor of the edition and how he was joined by a native German-speaker for the biographical treatment. Caldwell and Klausinger modestly explain that they aim to provide a study of Hayek's life that is both complete and accurate.

The study ends in 1950, not at the more obvious caesura of 1945, with the end of the Second World War and Hayek's greatest publishing success, the still hugely influential *The Road to Serfdom* (1944), which swept in particular the United States. That choice of 1950 is dictated by a biographical caesura, based on the intuition that what mattered most in Hayek's life was his long-drawn-out and unpleasant divorce from his first wife. The story, presented here with more detail than anyone has previously unfolded, is a simple and tragic one. It could have come straight out of the Romantic German literature that Hayek's father inculcated in the young boy as a guide to life.

In nineteenth-century literature and music, following Goethe's trailblazing *The Sorrows of Young Werther*, a standard trope presents a highly sensitive and delicate young man whose life is tragically derailed after the young woman he loves marries someone else. Hayek had grown up in a childhood friendship with a distant relative, Helene Bitterlich. As an eighteen-year-old, with Hayek as an Austrian soldier on the front, just before the end of the First World War, she had written in her diary, "If I ever

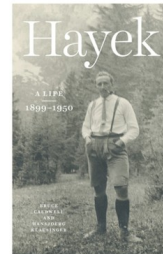
marry, then only him!". He too made his affections clear, but apparently not clear enough. When he went on a long visit to the United States in 1923-4, in an intellectually formative move, she married someone else and quickly had two children. The oldest was born a few months before Hayek returned from the US, and the economist seems immediately to have urged her to get a divorce. That did not happen - yet - and on the rebound, Hayek married Helena (or Héléne) von Fritsch, who physically bore some resemblance to Helene Bitterlich and also quickly had two children. In part to keep the two Helenes apart, the biography calls the first love (and second wife) Lenerl and the unsatisfactory substitute wife Hella. Not long after the quick marriage, however, Hayek revealed to Hella that his real affections still lay with Lenerl. The Second World War, with Hayek mostly in Britain and in Austria, did not end the emotional attachment, and after 1945 Hayek arranged his career and his move to the US and the University of Chicago around the need to obtain a unilateral divorce (since Hella was resolutely opposed) and to pay for it (and the legal fees, which Hayek resented greatly). He could not go directly to Chicago, as he needed to move as a legal resident for some time to a state (Arizona) with laxer divorce laws.

The problem for Hayek's romantic life was that he - like his whole family - was taciturn, frugal with words and emotions. He provides in this way a stark contrast with Keynes, who was capable of writing and talking about his emotions, who had a real gift for deep friendship and whose personal magnetism shines through every biographical treatment. In part in consequence, Keynes's life is much better recorded on paper. He kept detailed notes on his early homosexual attachments. It is impossible to imagine a similar document secreted somewhere in the Hayek papers; it is even doubtful whether he had any casual affairs. There is no hint here of the Viennese cliché of the sweet girl in the suburbs. Indeed, he seemed obsessed with his work: the authors neatly point out that the only reason we know where he honeymooned was because, three days into supposed marital bliss, he composed a letter to the great American economist Wesley Clair Mitchell.

This story of personal and sexual reticence, as well as ruptured family life, may surprise readers who think of *fin de siècle* Vienna as an adventure ground for every kind of licence, the world described by Arthur Schnitzler and famously analysed by Sigmund Freud. Schnitzler's notorious *Reigen* (*La Ronde*, 1897) was on Hayek's bookshelves, but he can't have imagined himself as a figure in that play. Caldwell and Klausinger get this aspect of Vienna right: it was a deeply socially segmented city, and there was an educated, well-off but not super-wealthy German professional class that stayed well away from the aristocratic or bohemian cultures that blossomed elsewhere in the city. And that class displayed all the characteristics of Freudian repression.

The authors tell us that Hayek only had three real (male) friends in his life. One died very young, in the First World War; the second was a schoolfriend, Herbert Fürth, who emigrated to the US in 1938 and became a distinguished economist at the Federal Reserve, and with whom he kept up throughout his life; while the third, the great British economist Lionel Robbins, became estranged after the divorce, as he had great sympathies for Hella Hayek's predicament. The biography also skilfully presents the genuinely liberal Hayek's growing estrangement from his casually but openly antisemitic family in the 1930s. (His mother was a special monster.)

Any biographer faces the question of how far the personal life matters: in this biography the question is central. What is the link between the work and an emotional orientation? The Keynes story can be thought of as a tale of optimism, induced by the intellectual certainties of late Victorian and Edwardian Cambridge. Keynes's biographer Robert Skidelsky wrote of the "arrogance of the place". It was the optimistic, cheerful outlook that led Keynes to think that problems were soluble, even



when politics failed and international relations were a hopeless mess. By contrast, the Habsburg empire, its decay and collapse, and the bleak politics of postwar Austria, were bound to produce despair and gloom. Another great economist who emerged from that Austrian background, Joseph Schumpeter, was even more pessimistic. In the imperial decay of Vienna, as a bon mot attributed to the great satirist Karl Kraus had it, every problem was hopeless but not serious. (Modern Britain in the Johnson and post-Johnson era may be the heir to this frivolous intellectual disposition.) By contrast, for Keynes's Cambridge, problems were always serious and never, never hopeless.

Caldwell and Klausinger also wrestle with the notorious problem of Hayek's economics. The first significant English-language work, *Prices and Production*, was cited by the Nobel prize committee in awarding the prize in 1974. But it had a rough ride. When Hayek presented it as a lecture in Cambridge in 1931 (in the absence of Keynes), the listeners were amazed and appalled. A longer set of lectures at the LSE went down much better and produced a permanent appointment.

The verdict in what is a semi-official biography is pretty damning. Hayek's first contribution to the theory of interest in 1927 "was not free from - sometimes fatal - confusions". *Prices and Production* attempted to identify a "Ricardo effect" that would doom investment-driven booms, but in attempting to defend and extend the intuition later, Hayek chose a numerical example that did not work, and gave more room to the critics. Nor do the biographers skimp on contemporary criticism of Hayek, notably from his fellow Austrian Oskar Morgenstern on Hayek's teaching and debating style: "you never know what point he is trying to make, and he also does not disclose it in the end". They also cite approvingly Hayek's own self-deprecation - that he was a muddler rather than a master of his subject.

“
As an eighteen-year-old, with Hayek as an Austrian soldier on the front, she had written in her diary, 'If I ever marry, then only him!'”

Can or should such flaws be overlooked? Hayek evolved, and propagated with substantial brilliance, a radical scepticism about big certainties, general laws, the effect of policy tools and the process of statistical aggregation in general. That drove him to a fundamental critique of economic planning, the famous denial that in a socialist model economy a planning algorithm could do the job of millions of individual consumers and producers. It also fired doubts about the fiscal solutions propounded by Keynes, and later - in the period not covered in this volume - about the concern of Milton Friedman with monetary aggregates. Hayek then developed the critique of scientism, or what he liked to term an "engineering approach", into a powerful series of studies of what distinguished social sciences from natural sciences.

A conventional way to narrate this trajectory was and is to insist on Hayek's Austrianness: how he stood as the culmination of a tradition that began with the nineteenth-century marginalist Carl Menger (who was much less mathematical than his British or French counterparts, W. Stanley Jevons and Léon Walras). He stood for another kind of economics than the one that came to dominate academic and political life, and he now set out to deliver an onslaught on the orthodoxy of the time. That campaign had a price. A sad chapter describes his descent from LSE superstar to a marginal figure from whom his most charismatic and intelligent disciples (notably Nicholas Kaldor) turned away, brutally attacking their old master.

How far the reinvention as a social philosopher rather than as an economist derived from this isolation, and how much from Austrian *Weltschmerz*, remains uncertain and ultimately unknowable. We can only speculate on how a strange mix of personal and intellectual loneliness drove Hayek to rethink disciplinary boundaries, or on how far the intellectual redefinition created the loneliness. His was a spectacular achievement, but one, in the end, that could not have been made by a gregarious man of deep friendships and profound personal commitments. ■

Harold James is Professor of History and International Affairs, and Claude and Lore Kelly Professor of European Studies, at Princeton University