

# **Friedrich Hayek**

By  
Danny Quah  
Professor of Economics  
Economics Department LSE  
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Economics never labels anything any more. Well, more accurately, it does; only now it hardly ever uses labels formed from people's names.

In part, this is due to the smorgasbord approach to ideas taken by economics. Like many other academic disciplines, economics ruthlessly mixes and matches, customises and adapts, rips and mashes the most penetrating insights, the most appropriate models from all different sources, applying those to whichever economic problem is currently being addressed. In those circumstances the message gets through to the practitioner economist that it is more useful to know an idea itself, and how to apply and modify it, than to peer into its provenance or to understand how the originator of that idea thought about three or five other substantively different problems.

In mathematics, this idea is taken even further. The most powerful and insightful practitioners are those whose names become so merged with a discovery that their surnames get lower-cased whenever mentioned with the matching idea. The proper name disappears as anything distinctive, and instead becomes just vocabulary.

In economics, perhaps partly at fault as well, those intellectual leaders in the profession now, whose names are most likely to deserve such adjectivisation, themselves eschew debates that might lead to such identification. Thus, for instance, the same economists who argued that the money supply is the fundamental cause of inflation also argued for the importance of fiscal balance and discipline in determining, again, inflation. The same economists whose work set the agenda for decades of business cycles research were also the ones who provided calculations showing that such economic fluctuations are fundamentally insignificant for society's well-being overall. Mainstream economics pragmatically emphasizes debate about results, not about methodologies.

So, certainly, individual's names can be bolted onto specific curves, econometric estimators, statistical tests, probability inequalities, interest-rate rules, and mathematical equations and models—but not onto entire systems or ways of thinking.

The case of Friederich Hayek, however, provides a rare example of a consistent body of work in the profession where such identification might be justified.

Living the frenetic cultured existence of the mid 1900s—as political events forever changed the global geography of intellectual endeavor—Hayek became one of the 20<sup>th</sup> century’s most influential economists and political philosophers. In economics he made profound and enduring contributions in areas as diverse as monetary and business cycle theory, the social organization of dispersed knowledge, and the spontaneous emergence of order. But while seemingly varied all these research questions were attacked by Hayek in a consistent, unified perspective. It is this single perspective then that potentially can be most identified with Hayek.

However, matters are complex from the opposite direction as well.

Hayek viewed business cycles having their initiating impulse of central bank credit over-expansion and their propagation mechanism of misallocation of capital across short- and long-term investments. This sees echo in many modern technical treatments—both empirical and theoretical—of economic fluctuations.

Hayek saw the price system to be the single leading mechanism by which limited local knowledge and actions can be efficiently aggregated into optimal social outcomes—through human action, not human design. This is, in one guise, simply the fundamental theorem of welfare economics. But combining these two Hayek propositions—that on business cycles and that on local knowledge—also recovers critical ingredients of Robert Lucas’s rational expectations reconciliation of the short-run Phillips curve with monetary neutrality. Being clear on the distinction between monetary and credit over-expansion brings to the fore modern econometric investigations of the different roles for money and credit over business cycles. Exploring the full implications of whether markets perfectly aggregate imperfect information is precisely the idea underlying a rich seam of technical research in microeconomics.

Hayek’s description of order emerging spontaneously, in a self-organized way, from out of seeming chaos—the application of which to economics he coined the term catallaxy—turns out to be the defining characteristic of the science of complex adaptive systems. It is an idea that sees profound application not only, again, in the fundamental theorems of welfare economics, but in areas as varied as Alan Turing’s explanation for the black and white speckled patterns on cattle, hypotheses on the emergence of peaks and troughs in economic activity across not just time but geographical space, and indeed is embedded deeply in speculations on the origins of life itself, in research on computational and mathematical biology.

While pre-Thatcher, pre-Reagan mainstream politics and social policy worldwide might have grown interventionist with fine-tuning and demand management, and thus distant from Hayek’s intellectual position, by contrast, many mainstream economists and social scientists never really left Hayek. Instead, the great majority have absorbed his ideas so implicitly that the name has been not just lower-cased but left unmentioned altogether. Hayek’s ideas are seamlessly

intertwined with so much of modern academic economics that, indeed, practically everyone in the profession has come into contact with or uses (lower-case) hayekian insights. What this does for intellectual history is likely unfortunate. But, on the other hand, it might be the ultimate accolade for Friedrich Hayek, an intellectual concerned with ideas and knowledge, and their use for good in society.

I congratulate the Ludwig von Mises Institute for bringing back into print Hayek's writings on business cycles. This collection will be a critical touchstone for future thinking in the area.