

## Hans-Hermann Hoppe: Interviewed by Mateusz Machaj

(English version of [Socjaldemokratyczny Hayek](#), in *Najwyższy czas*, September 2004)

### 1. What is Hayek's contribution to economic science?

As a young man, under the influence of his mentor Ludwig von Mises, who in 1927 had set up an institute for Business Cycle Research in Vienna and had installed Hayek as its first director, Hayek did some extremely important work elaborating and expanding upon Mises's brilliant business cycle theory (first outlined in his *Theory of Money and Credit*). This work demonstrated that boom-bust cycles are caused not by some "inherent contradictions" of capitalism, but by inflationary bank credit expansion—the injection of fiduciary (paper) credit uncovered by genuine savings into the credit market—engendered by the government central bank.

Three books of Hayek's in particular deserve great praise in this connection: *Monetary Theory and the Trade Cycle*, *Prices and Production*, and *Monetary Nationalism*. It is probably fair to say that this early work of Hayek's is his least well-known work. Far better known (and far more dubious) are his later (post World War II) lucubrations in the field of political philosophy. The more important, then, is it to emphasize that Hayek's 1974 Nobel Prize was *not* awarded for his later, better-known work, but in explicit recognition of his early contributions to the so-called Mises-Hayek business cycle theory. Given this, Hayek's Nobel Prize was certainly well deserved. Incidentally, among Austrian economists there has been some speculation why Hayek's recognition came so late (in 1974). One highly plausible explanation is this: If the prize is awarded for the development of the Mises-Hayek business cycle, then as long as both Mises and Hayek are still alive you can hardly give the prize to Hayek without giving it also to Mises. Yet Mises was a life-long opponent of paper money (and a proponent of the classical gold standard) and of government central banking—and the prize money for the economics "Nobel" was "donated" by the Swedish National Bank. Mises, then, so to speak, was *persona non grata* for the "donors." Only after Mises had died in 1973, then, was the way free to give the prize to Hayek, who, in contrast to his "intransigent" master and mentor, had shown himself sufficiently willing to compromise, "flexible," and "reasonable."

### 2. Is there a difference between Hayek's and Mises's arguments against socialism?

While Mises and Hayek are typically mentioned in the same breath as critics of socialism, their critiques are fundamentally different. Mises's argument is this: If there is no private property in land and other production factors (everything is owned by one agent), then, by definition, there can also be no market prices for them. Hence, economic calculation, i.e. the comparison, in light of current prices, of anticipated revenue, and expected cost expressed in terms of a common medium of exchange—money—(permitting cardinal accounting operations), is literally impossible. There can be no "economizing" under socialism. Socialism is instead "planned chaos."

Socialism's fatal error, then, is the absence of private property in land and production factors, and, by implication, the impossibility of economic (monetary) calculation. Hayek's criticism is altogether different from Mises's. For Hayek, the ultimate flaw of socialism is the fact that knowledge, in particular "the knowledge of the particular circumstances of time and place," exists only in a widely dispersed form as the personal possession of a multitude of different individuals, and that it is "practically impossible" to assemble and process all the actually existing knowledge within the mind of a single socialist central planner. Hayek's solution to this problem is not private property, but the decentralization of the use of knowledge.

Let me only point out one fundamental error in Hayek's argument. If socialism's central problem is the practical impossibility of concentrating decentralized knowledge in the mind of a single central planner, then it is difficult to explain why there are firms and why the owner of a firm does not face exactly the same problem as the central planner under socialism. The owner of a firm also cannot concentrate in his mind all of the decentralized knowledge of the particular circumstances of time and place of all of his employees. Nonetheless, the owner of the firm designs a central plan, and within the guidelines of this overall plan the firm's employees then use their own decentralized knowledge to implement and execute this plan. And yet: the owner of a firm does *not* face the problems of the socialist central planner! This demonstrates that the so-called knowledge problem identified by Hayek *cannot* be responsible for the known inefficiencies of socialism. Instead: the problem of socialism is precisely the one identified by Mises: the absence, under socialism, of private property in factors of production and hence of money prices for such factors. In contrast: private firms are *based* on the institution of private property and operate within an environment characterized by the existence of factor prices; hence, unlike a socialist dictator, the owner of a firm can calculate and economize.

*3. In your critique of Hayek's social thought you maintained that Hayek can be called "practically a social democrat." Can you explain your position? Wasn't Hayek a classical liberal?*

True, Hayek *calls* himself a classical liberal. However, take a look at part III of his *Constitution of Liberty* and Vol. III of his *Law, Legislation, and Liberty*, and you will come away with an entirely different impression. According to Hayek, government is "necessary" to fulfill the following tasks (and may acquire the means necessary to do so through taxation): Not only for "law enforcement" and "the defense against external enemies," but "in an advanced society government ought to use its power of raising funds by taxation to provide a number of services which for various reasons cannot be provided, or cannot be provided adequately, by the market." (Since at all times an infinite number of goods and services which a market does *not* provide exist, Hayek here hands government a blank check!) Among these are "protection against violence, epidemics, or such natural forces as floods and avalanches, but also many amenities which make life in modern cities tolerable, most roads ... the provision of standards of measure, and of many kinds of information ranging from land registers, maps and statistics to the certification of the quality of some goods or services offered in the

market.” Additional government functions are “the assurance of a certain minimum income for everyone”; government should “distribute its expenditure over time in such a manner that it will step in when private investment flags”; it should finance schools and research as well as enforce “building regulations, pure food laws, the certification of certain professions, the restrictions on the sale of certain dangerous goods (such as arms, explosives, poisons and drugs), as well as some safety and health regulations for the processes of production and the provision of such public institutions as theaters, sports grounds, etc. ...”; and it should make use of the power of “eminent domain” to enhance the “public goods.”

Moreover, according to Hayek it holds, that “there is some reason to believe that with the increase in general wealth and the density of population, the share of all needs that can be satisfied only by collective action will continue to grow.” Further, Hayek wanted government to provide for “monetary stability”; government should implement an extensive system of “compulsory insurance” ; public, subsidized housing was a possible government task; likewise “city planning” and “zoning” were considered appropriate government functions—provided that “the sum of the gains must exceed the sum of the losses”; and lastly “the provision of amenities of or opportunities for recreation, the preservation of natural beauty or of historical sites or places of scientific interest ... natural parks, nature reservations, etc.” were regarded as government tasks.

Even worse, Hayek insists we recognize that it is irrelevant how big government is or if and how fast it grows. What alone is important is that government actions fulfill certain *formal* requirements. “It is the character rather than the volume of government activity that is important.” Taxes as such and the absolute height of taxation are not a problem for Hayek. Taxes—and likewise compulsory military service—allegedly lose their character as coercive measures, “if they are at all predictable and are enforced irrespective of how the individual would otherwise employ his energies; this deprives them largely of the evil nature of coercion. If the known necessity of paying a certain amount in taxes becomes the basis of all my plans, if a period of military service is a foreseeable part of my career, then I can follow a general plan of life of my own making and am as independent of the will of another person as men have learned to be in society.” So, if I know that everyone must pay 90 percent income taxes and serve for 50 years in the army, then because I can adjust my life in accordance with this, I am essentially a free man!

What a terminological hocus-pocus!. In light of all this, where’s the difference between Hayek and, say, Swedish-style social democrats? When Hayek turned eighty, the then social-democratic German Chancellor Helmut Schmidt sent him a congratulatory telegram saying “we are all Hayekians now.” Certainly Schmidt *was* a Hayekian, but neither Schmidt nor Hayek were classical liberals!

*4. Why then, in your opinion, is Hayek considered a liberal, even a radical liberal (libertarian) at times?*

Partly, of course, this is due to sheer ignorance. People do no longer feel ashamed to make pronouncements on matters or persons they have never studied or made an attempt

to know. However, I fear that also something more sinister is at work here: what one might call a socialist double-strategy. In the minds of many people the word “liberal” has always had a positive connotation—after all who wants to be against *liberty*! And the good name of liberalism has become even better after the spectacular collapse of hard-core—Soviet-style—socialism. Who wants to be called a socialist nowadays?! If a well-known intellectual such as Hayek then is—incorrectly—identified as a liberal, this allows everyone except the most hard-core socialist to rename themselves as a liberal as well. And in labeling Hayek a “radical” liberal, it becomes possible for socialists-turned-liberals to adopt even more leftist views than those advocated by Hayek and still claim to be liberals and to exclude at the same time all true classical liberals or libertarians such as Mises and Murray Rothbard as extremists, entirely outside of the spectrum of “respectable” public opinion.