

surrenders to unions, mindless printings of money, the irresponsible establishment of wasteful bureaucracies in Health and Local Government. Such an election result would be the worst cop-out of all, a vote of confidence in every last worst thing which the 1950s, '60s and '70s have brought us. In June, October, or May 1984, an election should be about not going back to *that* consensus.

Friedrich Hayek on the Crisis



THE WORLD ECONOMY is in the grip of the most protracted recession since the end of World War II. We have market-economy models for overcoming that recession, and we have socialist models. What do you think of President Reagan's market-economy model?

HAYEK: The American President is moving in entirely the right direction. So why are things happening so slowly in America? I have serious doubts about the famous theory that you can increase tax

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revenue by cutting taxes. To a certain extent you undoubtedly can; but the quantitative factor is very much open to question. I wonder whether the expectations based on Reagan's announcement that he was going to balance his budget by means of tax cuts were not over-optimistic from the start. Nor has Reagan in fact managed to do so. This has got the President into enormous difficulties.

—Isn't high arms expenditure also a factor here?

HAYEK: I am convinced Reagan is right not to reduce arms expenditure. World peace depends upon America staying strong. We already have so many atomic weapons that a nuclear war would mean the end of civilisation: so the discussion as to whether arms increases intensify the threat of war is nonsense. In fact it's no longer a question of whether nuclear war can be avoided or not; the real problem is whether we have got ourselves into a situation in which the Soviets can intimidate us to such an extent that we knuckle under completely. We can't afford that kind of weakness. Ergo, the West must stay at least as strong as the Soviet Union. It is a complete delusion—not, I think, necessarily a malicious one but to some extent Communist-inspired—when they try to make us believe that the arms increases needed to achieve a balance increase the threat of nuclear war. Instead it becomes less. I don't believe any Russian is daft enough to start a nuclear war. But if ever the Soviets are in a position to intimidate us with military superiority, they won't hesitate to do whatever they want.

—To go back to Reagan's economic and budgetary policy: you don't regard his market-economy plan as wrong, only some of the methods used?

HAYEK: Yes.

—In Britain Mrs Thatcher is trying the drastic market-economy remedy of strict, not to say brutal monetarism. There too, there is no sign yet of any sweeping success—why is that?

HAYEK: The Prime Minister was prevented from doing it quickly enough. It is politically feasible to survive even 20% unemployment for six months; it is not politically feasible to survive 10% unemployment for three years. So you have to move fast. Mrs Thatcher knows that, but she was balked by the distribution of political forces. She may also herself be suffering slightly from the delusion that a reduction in inflation is an achievement in itself. It's only a step in the right direction, which does not become effective until you have really stopped inflation. You first have to get inflation down to zero; then there is a good prospect of a new upturn. The boom may even come very quickly.

—*In Germany the SPD and the trade unions have launched a campaign to brand the economic and budgetary policy of President Reagan and Mrs Thatcher as a "Neo-Conservative" ideology that in social terms seeks to make the rich richer and the poor poorer. Is Neo-Conservatism the contemporary intellectual expression of the idea of the free market economy?*

HAYEK: It brings together various things that are justified by the fact that they represent the only way back to the market economy, and that is also the only way to preserve a free society. Other interests may put their oar in from time to time, but there is no truth at all in the Socialist claim that this happens at the expense of the poor and to the advantage of the rich. No one has done better out of capitalism than the working class. Granted, capitalism created the proletariat, but not by making anyone any the worse off; rather by enabling many to survive who would not otherwise have done so. In this sense the poor have always done better than the rich: they owe capitalism their lives.

—*In France President Mitterrand is employing a socialist model for overcoming the economic crisis. What do you think of this experiment?*

HAYEK: It was doomed to failure from the start, and for France it will mean a serious retrograde step towards a more primitive system.

—*Looking at things now from the point of view of political economy, which of course must take constant account of social relations as well, and taking all the experiences of crisis management in the USA, Great Britain, and France together, what are your conclusions?*

HAYEK: That the only way in which we can maintain our present standard of living is by a radical return to the market economy—and this means doing away with inflation completely. We must not only combat socialism; we must also forget about Keynesianism.

MAY I REFER to an interview we had with you almost exactly two years ago? At that time you predicted a permanent economic crisis but added that, setting foot in Germany, Switzerland, or Japan, one could still have the feeling: "Perhaps I'm in a lifeboat. . . ." That's what you said then. Now you're back in Germany. Do you feel as if you're in "a lifeboat"?

HAYEK: It's certainly deceptive, because Germany still gives the impression of great prosperity. People are well off, they're doing all right, they go abroad

on holiday a lot. You wonder, when you're not actually in the industrial areas, where all the unemployed masses are. I saw and experienced the serious unemployment of 50 years ago. Then it meant great poverty; at the moment I don't see any great poverty. Of course, when I look at the shift of opinions, I find cause for concern . . . because of the intellectual tendency in the time of depression—down with the market economy, up with interventionism and even (heaven help us) protectionism—all that I find alarming.

—*Is that perhaps the consequence of the fact that intelligent young people in Germany are offered very little intellectual leadership?"*

HAYEK: It is Germany's misfortune that an entire generation of potential intellectual leaders died prematurely. I'm talking about Ludwig Erhard, Wilhelm Röpke, Walter Eucken, Franz Böhm—all men of whom I had the highest hopes. Even today there are talented people doing some very fine things. But we lack someone with the gift of inspiring the young people, and that is most disturbing.

—*At this moment West Germans are in an election campaign. The SPD and the trade unions are fighting the Kohl government's consolidation course with the slogan "Upward redistribution (Umverteilung von unten nach oben)." This represents the expression of that desire for social justice that is the ideal of "democratic socialism." What kind of priority can social justice have when it is a question of producing sufficient economic growth to overcome mass unemployment?*

HAYEK: I regard "social justice" as a nonsensical term—basically it means nothing at all, because it expresses desires that can never be fulfilled. Whenever you start discussing such desires you realise that the people who defend them have absolutely no clear idea of what the principles of social justice might be. The only practicable principle is . . . a striving for equality. But if you attribute "egalitarianism" to the supporters of social justice they protest as if they wanted to have nothing to do with it. It's a fearfully dangerous watchword, which unfortunately has lost less of its attraction in Germany than it has elsewhere in the West.

—*But do we have the concept of the "social market economy"?"*

HAYEK: May I tell you the story of when I last spoke to Dr Ludwig Erhard? We were alone for a moment, and he turned to me and said, "I hope you don't misunderstand me when I speak of a social market economy (*Sozialen Marktwirtschaft*). I mean by that that the market economy as such is social, not that it needs to be made social. . . ." If

you had to *make* the market economy “social”, the concept of social justice would immediately come into play. With that you can justify every demand that cannot be reconciled with having the market determine prices and incomes. There’s no better way of destroying the market economy than with the concept of “social justice.”

—*The SPD and the German trade unions are demanding a supplementary levy as a special tax to be imposed on the so-called Reichen, the rich, in order to finance government employment programmes. Is that a way out of the crisis?*

HAYEK: Certainly not. We’ve been suffering from progressive taxation for 70 years, and that would simply be a reinforcement of the progression under another name. I made myself unpopular years ago when I attacked the whole ideal of progressive taxation. Any reinforcement of the progression I can only regard as disastrous.

—*Do you regard the economic and budgetary policy adopted by Chancellor Kohl and Ministers Stoltenberg and Lambsdorff as a “free market economy policy”?*

HAYEK: I have a very positive impression of Lambsdorff. I object to his FDP party on the grounds that it was unforgivable to keep the Socialists in power for so long. I must admit, however, that with the exception of Franz Josef Strauss, I know no other politician in Germany with more sensible ideas about economic policy than Lambsdorff. My great regret is that the two of them don’t get on better together; I’d like to see Franz Josef Strauss and Lambsdorff directing this country’s economic policy together.

—*The current campaign slogan of the CDU is “Vote for a boom (Den Aufschwung wählen).” If Chancellor Kohl were to ask your advice as to the surest and swiftest way of bringing about a boom, what would you recommend he did?*

HAYEK: There’s a contradiction in terms in trying to bring about a boom swiftly and at the same time surely. It has to be a slow and steady process. First, you see, you must really achieve an end to inflation, and that alone will take some time. If a clear course were to be steered in this direction, a mood of optimism would set in, people would start investing, and we’d have the normal process of recovery—at a time when, with consumer demands not yet rising, future investments are already rising and consequently the upturn begins. Gradually unemployment would be reduced as well.

YOU HAVE SAID *you are confident about the prospects for restoring the market economy in the world. But you are no longer as confident as you were as far so developments in Germany are concerned. What’s the reason for your pessimism?*

HAYEK: In America and in parts of Europe too the market economy is finding a new response among intelligent young people. I find that cheering. If the politicians don’t destroy the world in the next fifteen or twenty years, then I’m confident, because then there’ll be a generation coming up that has rediscovered a feeling for economic freedom and responsibility. On the other hand I’m not convinced that this movement, which has started in Germany too, has really taken root yet. I have the feeling that German enthusiasm for the market economy is rather on the decrease.

—*Is that what disturbs you so much about Germany?*

HAYEK: Another thing is the rigidity of the trade unions over wages policy, which in Germany has now almost reached the point it has reached in England. I always used to make a point of my conviction that the great German post-War boom was largely due to the trade unions. The German trade-union leaders had experienced inflation, most of them twice over. They were sensible enough to give way when they were told: “Don’t ask for more, it will lead to inflation. . . .” I’m afraid that older generation of trade-union leaders has disappeared from the scene. The trade-union movement is now in the hands of a younger generation of leaders who are no longer so impressed with the dangers of inflation. It is in the nature of trade-union activity that real wages always have to rise. The fact that a steady change in the direction of relative wages can now no longer occur is affecting the economic use of available manpower. I’m afraid that the economy in the West German Federal Republic is going to be much more inhibited by trade-union policy in the years to come than it has been over the last 30 years.

—*You mean that while the “English disease” is slowly on the wane in Great Britain we are now getting a “German disease”?*

HAYEK: There’s that risk. I see more and more similarities between the German trade-union system and the—to me more familiar—English trade-union system; and I’m afraid that the hopes workers place in the trade-union leadership could push that leadership into a policy that might severely impede further economic recovery in Germany.

—*Your optimism regarding the renaissance of the market economy in the world is in contrast to the*

widespread feeling of pessimism that not only the international banking system but also the world financial system are in terminal crisis. I am referring to the enormous debts of countries like Mexico, Brazil, Argentina, Chile, Poland, Romania, and Yugoslavia. Also the collapse of the price of oil, with the result that even more countries could be approaching the verge of bankruptcy (as the example of Nigeria shows).

HAYEK: I find these things disturbing too, but for a quite different reason. I'm afraid that these exceptional strains on the organisation of international credit will lead to an acceleration of inflation. I can imagine a situation in which many governments would keep their ailing banking institutions alive by

simply printing the necessary cash. That is one of the biggest dangers in the present situation. I can only say that I'm glad it is not my responsibility to decide between the twin problems of either letting major banks go bust or providing the means for inflation.

—*Journalists are always invoking the memory of the world economic crisis of 1930–31. Do you think that's an exaggeration?*

HAYEK: The stupidity of politicians may very easily lead to a similar outcome to that of 1930–31. If the politicians are driven any further into protectionism, we're in for exactly the same mess as we got into then.

Great Temptations

*Maids and matrons numbering some fifteen hundred
Were waiting in their aprons to be married to Jesus.
But not a whit was Mistress Southcott flustered.*

Not a wit, Satan reminded himself. It was useless
To insinuate that the Son of God was no polygamist.
“O come, Lord”, they were singing in sisterly chorus,
“Come quickly!” Was this what they meant by Methodist?

Why was he fated to strive with this female, he wondered.
Simply so she could boast of repelling his advances?—
Like the blowing of rams' horns, or so her lot reckoned,
Would repel the Frenchies. If only she'd try her chances
With Boney! But worldly emperors weren't up to scratch.

The Lord, he proposed, might appreciate a better class
Of conversation, supposing he had time for it. *Spirit
Shall speak unto spirit*, she said. But if it came to pass
That the match was postponed, how would the ladies
While the long hours away, asked the Father of Fibs—
In artistic pursuits, so proper to prospective brides?
They would talk of babies, they would sew and make cribs.

Not up to scratch, said the fiend archly. Listen, Joanna,
I can make you an eminent stylist, your books best sellers.
Like Mr Macpherson, like Mr Sterne, like Pamela and Shamela?
No, she cried. *Style is a snare. Meaning is what matters!*

He had failed again. Again she would wallow in sanctity.
All he could do was slip a lottery ticket among her relics.
Why did the crazy prosper? Why were the stupid so happy?
(Those to come would credit her existence but not Old Nick's.)

D. J. Enright