Hayek and Mises: Some Vignettes

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ABSTRACT

My aim in this paper is to present a series of vignettes, snapshots if you will, that when I am finished will give us perhaps a little bit better idea of the Hayek-Mises relationship. Some of these stories are well known, others less so, and some that are well known might need to be modified. After I present these stories, I am hopeful that those in the audience who may have others will be encouraged to share them, and when necessary to correct my own. I should add that some of these come from research that the Viennese historian of economic thought Hansjoerg Klausinger and I have done for a planned biography of Hayek. Beginning at the beginning, Hayek has told us in his reminiscences that though he had once tried going to one of Mises’ lectures at the University of Vienna when he was a student there from 1918 to 1921, he found him not to his taste (Hayek 1994, p. 68). After finishing his first degree he went in search of a job, and found himself standing in fall 1921 before Mises at the Abrechnungsamt (which I shall henceforth refer to, given my hatcheting of the German language, as the Office of Accounts), a temporary governmental office charged with clearing war debts.

1. Introduction

Hayek had a letter of introduction from his own major professor, Friedrich von Wieser, who had described him as a promising student. Mises is reported to have smiled skeptically, noting that he had not seen him in any of his lectures, but nonetheless gave him a job (ibid., p. 67) Hayek did not report as to whether he corrected Mises’ observation then, or only later, or perhaps never. The story is a great way to begin an account of their

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relationship, but the documentary evidence raises some questions about it. Hayek took the exams that would lead to his first degree in October 1921, and began work on his second degree that same term, at the same time that he began work at the Office of Accounts. His university documents show that he signed up for Mises’ seminar at the University in summer 1921, that is, before he started working at the Office. He signed up for subsequent Mises seminars that coming winter (1921-22), the next summer (1922), and the next winter (1922-23). So perhaps he was a student of Mises, and perhaps even before he began working with him at the Office of Accounts?

Well, no, probably not. The key detail to reconcile the story with the records is this: Attendance at seminars was not obligatory. Hayek might or might not have even attended the earliest seminar, and in any event, Mises did not sign Hayek’s class enrollment documents for the first seminar. Mises did sign them for the next three, but in Mises’ own records, Hayek is listed as a participant and his address is included only in what appears to be the final seminar of winter 1922-23. So our best guess is that Hayek began participating in Mises’ seminars only after he joined the Office of Accounts, and did not become an active member until the final term. It was, by the way, in those seminars that Hayek probably first met Machlup, Haberler, and Walter Fröhlich, all three of whom are found in Mises’ seminar class lists.

2. Idea of the Hayek-Mises
Taking the job at the Office of Accounts turned out to be a key moment for Hayek, for Mises quickly became his mentor. This is evident, of course, in the topics that would become the focus of his research, first monetary theory, and later the economics of socialism. Though Hayek’s first published article in an academic journal was on a Wieserian theme, the problem of imputation, he soon made his reputation in the two areas where Mises had worked, monetary theory and the critique of socialism.

But it was more than just research, for Mises truly took the young scholar under his wing. The job itself was a financial savior of sorts, in that salary increases that were meant to keep pace with inflation were part of the deal, a fact that became very important when the Austrian hyperinflation began to
rage. It was Mises who invited Jeremiah Jenks, a then-famous American professor and expert on trusts, to Vienna to give a lecture in 1922. Hayek used the occasion to inveigle an invitation to the States, which he followed up on the next March, departing just after finishing up his second degree. Mises made it possible for him to get a leave of absence from the Office, rather than having to resign, so that he would have a job waiting when he returned. In the States he met many important American economists, learned some basic statistical smoothing techniques that would later come in handy, and, through his reading of British accounts of World War I in NY public Library, come to appreciate the British liberal tradition. The American trip, in many ways, set Hayek up to become the great fan of England that he certainly later was (ibid, p. 69; IB, 51, 56-57).

His letters home and to members of the Office of Accounts, by the way, are hilarious. He was in New York City in the early 1920s, when everywhere one went there was noise, noise, noise. The construction of the subways was one problem on which he remarked, but there was also the radio, which had just attained commercial status. But instead of hearing opera or news, no matter where he went, he could not escape the song, “Yes, We Have No Bananas” (letter, Hayek to parents, December 10, 1923). American consumer culture horrified him, as did the painted women (it was the age of the flapper) and the fact that one could identify the class of a person by simply looking at their clothes (letter, Hayek to Office of Accounts, April 26, 1923). Hayek was not yet the cosmopolitan figure he would become later; he was still pretty much the upper middle class Viennese young man that his parents had raised him to be.

Mises even helped Hayek with his love life, at least indirectly. Hayek returned to Vienna and to the Office of Accounts in May 1924, and within a couple of years he had married one of his co-workers, Hella Fritsch. When

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1. The Popperian philosopher W. W. Bartley III was the first General Editor of *The Collected Works of F. A. Hayek* and was to have been Hayek’s official biographer, but he died with both jobs unfinished in 1990. Bartley playfully titled a time line that he was constructing based on interviews and file cards the ‘Inductive Base’ (a reference to a Popperian phrase for a set of facts that are taken provisionally as ‘given’ when formulating a theory; henceforth IB) because they were the ‘facts’ on which the biography would be built.
the office closed down, and the newly-wed needed a job, Mises tried first to set him up at the Chamber of Commerce where he himself worked. When that failed, Mises lobbied successfully for the establishment of an Austrian Institute for Business Cycle Research. Hayek started as its new director in January, 1927 (Hayek 1994, p. 69). So at every step along the way, Mises had been there to help.

In 1931 Hayek gave four lectures at the London School of Economics that led to him being offered the post of Visiting Professor there the next year, and then to his appointment as the Tooke Chair in Economics Science and Statistics. He, Hella, and their daughter Christine settled down in Hampstead Garden Suburb, where Lionel Robbins and his family also lived, a mere two minute walk away. Hayek maintained a professional correspondence with Mises during this period, but there was also a personal side to their relationship. For example, When Hella got pregnant a second time, she decided to go back to Vienna to have the child while Hayek remained in London and worked. There were complications that required Hella to be bed-ridden for a number of weeks before Laurence was born, and Mises was nice enough to call several times on the phone and once to come by with a box of candy (letter, Hella to Hayek, June 23, 1934). She was in Vienna in June and July 1934, which was a fraught time. (Hitler’s purge of the SA, dubbed the Night of the Long Knives and during which much of the leadership of the Brown Shirts was eliminated, took place on June 30.) Because Austrian newspapers were so unreliable, Mises sent her a paper from Paris after the event. This was by the way something that the Hayek family often did. Hayek learned how different reporting was in different countries when he was in New York. The way that he would argue with family members who were living in Austria and Germany in the 1930s was to send them copies of the newspaper from England or other countries.

Anyway, Mises visited again later in July, and Hella reported to Fritz that Mises was one of the few people she had met who had a lot of insightful things to say but who was not fanatical, someone who could talk about the situation with some objectivity. Hella contrasted Mises’ approach to the usual responses: “It is impossible to speak with people about politics without
ending up in a fight or just complaining together about how bad things were. I have never seen Austria so political” (letter, Hella to Fritz, July 19, 1934).

When the Second World War began, Hayek was finally in the position of at least trying to return some of the favors that Mises had performed. Everyone has heard about the Mises’ narrow escape via southern France, Spain and Portugal to New York in the summer of 1940. The episode I will recount here has to do with what happened after Mises and his wife finally made it to New York, in August 1940. Though they were finally safe, much remained to be done. The last she had heard from her, Margit von Mises’s 19-year-old daughter Gitta Serény had been living in France with family friends prior to the outbreak of hostilities. In a letter to Hayek that Mises wrote from Lisbon just before sailing to New York, Margit wrote an addendum pleading for Hayek’s assistance in locating her, but despite repeated efforts, he was unable to help. It was months before they finally were able to reach her, and a year before she departed France to join them in New York. This obviously was a harrowing time for the couple (M. Mises 1984, pp. 69-70; letter, Mises to Hayek, June 18, 1941; cf. Sereny 2001).

Hayek was of more help when it came to the question of finances. Mises had a bank account in England, but he could not access it in America, and it was illegal for Hayek to send him pounds. As an Austrian, Mises was considered without further documentation an enemy, so he had to prove to the British authorities that he had entered the US on a permanent visa to enable a bank- to-bank transfer to go forward. The matter took over a year to settle. Luckily he and Hayek, the latter always an avid book collector, had already come up with a scheme in which Hayek would buy books in England and ship them to Mises, who could then sell them in the States. Wartime exigencies allowed for some marvelous purchases – during the blitz Hayek was able to secure a first edition of *The Wealth of Nations* at a price he described as “ridiculously cheap” (letter, Hayek to Mises, October 24, 1941).

As for employment, Hayek being in England of course could do nothing, and neither could people like Fritz Machlup who were in the States and who tried to help. Machlup lamented at one point that Mises had become his “problem child” (letter, Machlup to Hayek, December 11, 1940). Hayek
worried in return that Mises’ letters to him before and after his arrival in New York had been “extremely laconic” (letter, Hayek to Machlup, October 13, 1940). Mises was in fact deeply depressed, by the world situation and his own lack of prospects in a strange new country (Hülsmann 2007, p. 792).

Still, some of the wartime correspondence sparkled. In one of his first real letters after settling in New York, Mises teased Hayek about his move to Cambridge (that was where LSE evacuated in fall 1939), then offered a perhaps predictable assessment of the intellectual climate he had entered:

I trust your stay in Cambridge will not convert you to Keynes’ ideas. It is a dreadful thing. I am very sorry to realize that he and Marx are the idols of the youth in this hemisphere too. (The other favorites are your colleague L. [Laski] and Bertrand R. [Russell]) Is it not dreadful? (letter, Mises to Hayek, December 22, 1940)

In his reply Hayek assured Mises that he had not become a Keynesian, but acknowledged the truth of Mises’ dismal assessment of “the horrible state of economic thinking here and in the U.S.A….“ (letter, Hayek to Mises, January 12, 1941). In his next letter Mises complained about how, in America, liberalism has lost everything, even its name. L. means today a special brand of communism, very popular with movie stars, sons of bankers (Lamont!) and ‘progressive’ society ladies. There are two weeklies (Nation and New Republic) which represent this type of thought. They have plenty of money whereas there is not a penny available for ‘economic royalism’ (letter, Mises to Hayek, January 27, 1941).

Mises’ mood about his profession and the American public remained downbeat throughout the war: “Two centuries of economic theory were in vain…” (16 December 1941); “The Econometricians have not the slightest notion of the issues involved” (20 November 1942); “All the experts contradict themselves continually” (28 March 1944); “…what is the use of economics, if only a small minority are prepared to learn something from its teachings. The public’s ignorance is amazing” (27 July 1944; cf. also 18 June 1941, 16 April 1943). But occasionally he would inject some dark humor:
Incidentally: do you know that the official philosophy of the University of Chicago is Neo-Scholasticism? Both its president and the head of its Department of Philosophy (Mortimer Adler) plan to regenerate the ailing world by a return to Saint Thomas. It is too bad that poor Spann does not know English; he would be the right man to teach in this milieu (letter, Mises to Hayek, August 15, 1944).

In an early reply it was evident that though equally unhappy about the current state of affairs, Hayek was also worried about the future:

I still find it is difficult to form a concrete picture of the probable developments in the next few years. The horrible thing is, of course, that there is not much ground for hope even if this war should not last too long and end as one wishes. How unfortunate it really is to be an economist! I often envy the pure scientists and engineers their unbounded confidence in the future! (letter, Hayek to Mises, April 10, 1941).

It was with the future in mind that in 1941 Hayek began turning away from the Abuse of Reason project that he had started to focus on writing The Road to Serfdom. By July he reported to his friend Fritz Machlup that it was turning into a “full-fledged book,” and by October that, though he had been making progress on the “Scientism” essay, Road had become in his mind the “more important” contribution, a remarkable statement from a scholar. The reason was plain: “If one cannot fight the Nazis one ought least to fight the ideas which produce Nazism; and although the well-meaning people who are so dangerous have of course no idea of it, the danger which comes from them is none the less serious” (letter, Hayek to Machlup July 31, 1941; cf. October 19, 1941). He would turn his full attention to finishing it.

To close there is one final, familiar, and controversial, episode that I would like to bring up, if only to shed a bit more historical light on it. In 1936 Hayek delivered his presidential address before the London Economic Club, titled “Economics and Knowledge,” which was published the next year in Economica (Hayek [1937] 2014). Hayek remarked on numerous occasions that it was a seminal piece,¹ for it was where he raised what would

¹. Thus in 1965 he wrote,
be come to be known as “the knowledge problem” – how does social coordination occur in a world of dispersed and subjectively-held knowledge – a problem that he later resolved in his essay, “The Use of Knowledge in Society,” highlighting the role of a competitive market order (Hayek [1945] 2014; cf. Caldwell 2004, chapter 10).

3. Another element which has been too much neglected.

That “Economics and Knowledge” was the beginning of this fruitful avenue of research is evident. But often overlooked is the methodological distinction that Hayek drew in the article between two sorts of analysis. On the one hand there is the “Pure Logic of Choice,” or “formal analysis,” which he described as a set of tautologies, a “series of propositions which are necessarily true because they are merely transformations of the assumptions from which we start and which constitute the main content of equilibrium analysis” ([1937] 2014, pp. 58-59). Hayek stated that much recent formalization in economics consisted simply in extending this sort of analysis. But, he insisted, it is important to keep these efforts separate “from another element that has been too much neglected,” the investigation of what he called “causal processes”:

In distilling from our reasoning about the facts of economic life those parts which are truly a priori, we not only isolate one element of our

Though at one time a very pure and narrow economic theorist, I was led from technical economics into all kinds of questions usually regarded as philosophical. When I look back, it seems to have all begun, nearly thirty years ago, with an essay on “Economics and Knowledge” in which I examined what seemed to me some of the central difficulties of pure economic theory (Hayek [1965] 2014, pp. 49-50). Hayek also mentions “Economics and Knowledge” in interviews he sat for in the late 1970s. …it was really the beginning of my looking at things in a new light. If you asked me, I would say that up till that moment I was developing conventional ideas. With the ’37 lecture to the Economics Club in London, my Presidential Address, which is “Economics and Knowledge,” I started my own way of thinking.

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And it was with a feeling of sudden illumination, sudden enlightenment, that I ---- I wrote that lecture in a certain excitement. I was aware that I was putting down things which were fairly well known in a new form, and perhaps it was the most exciting moment in my career when I saw it in print (Hayek 1983, pp. 425-26).
reasoning as a sort of Pure Logic of Choice in all its purity but we also isolate, and emphasize the importance of, another element which has been too much neglected. My criticism of the recent tendencies to make economic theory more and more formal is not that they have gone too far but that they have not yet been carried far enough to complete the isolation of this branch of logic and to restore to its rightful place the investigation of causal processes, using formal economic theory as a tool in the same way as mathematics (ibid., p. 59).

This latter type of analysis is what has come to be called market process analysis. I emphasize it here because the distinction between the two sorts of analyses has a direct connection to Hayek’s later statement that “Economics and Knowledge” could be read as a gentle criticism of Mises.¹

By way of background: Mises had in his privatseminar and in a collection of early essays (Mises [1933] 1981) made the claim that the fundamental axioms of the science of human action were a priori true, and further, that the theorems of economics (and thereby statements about the world) could be derived from the fundamental axioms and carried the same apodictic certainty.² As most here know, this turned out to be controversial view.

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¹ In one of his 1970s interviews Hayek said, “…it was in that same article on economics and knowledge where I made the point that while the analysis of individual planning is in a way an a priori system of logic, the empirical element enters in people learning about what the other people do…. That was a gentle attempt to persuade Mises to give up the a priori claim, but I failed in persuading him” (Hayek 1983, pp. 57-58).

² Two representative passages are:
The theorems of economics are derived not from the observation of facts, but through deduction from the fundamental category of action, which has been expressed sometimes as the economic principle (i.e., the necessity to economize), sometimes as the value principle or as the cost principle. They are of aprioristic derivation and therefore lay claim to the apodictic certainty that belongs to basic principles so derived (Mises [1933] 1981, p. 17).
…the elementary laws of value are valid without exception for all human action. When an isolated person acts, his action occurs in accordance with the laws of value. Where, in addition, goods of higher order are introduced into action, all the laws of the theory of imputation are valid. Where indirect exchange takes place, all the laws of monetary theory
In the early 1930s many scholars were trying to figure out the logical status of the statements made in economics and other sciences. Mises’ claim obviously contradicted those of the logical positivists, who insisted on a strict division of scientific statements between those that were analytic (e.g., tautologies or definitions) and those that were synthetic (empirical statements about the world that were potentially testable). Around the same time the philosopher Felix Kaufmann, a member of both the Mises circle and the Vienna Circle of logical positivists, published an article in *Economica*, the LSE house journal, that directly opposed Mises’ position (Kaufmann 1933). Hayek’s colleague at the LSE Lionel Robbins had praised Mises’ work in the first (1932) edition of his book on *The Nature and Significance of Economic Science*, but in the second edition he seemed to distance himself from Mises’ views (Robbins 1935). Finally, in December 1935 the mathematician Karl Menger (son of the Austrian School founder Carl Menger) presented a workshop paper that directly criticized Mises’ views by attacking the claim that the law of diminishing returns could be deductively proven. Hayek heard about the dispute from his friend Alfred Schütz, and, significantly, wrote to Oskar Morgenstern that he thought that there was confusion on both sides.  

1. This was only about half a year before he composed “Economics and Knowledge.”

### 4. Conclusion

are valid. Where fiduciary media are created, all the laws of the theory of fiduciary media (the theory of credit) are valid (ibid., p. 26).

The secondary literature discussing Mises, Hayek and *a priorism* is large. See Caldwell [1982] 1994, pp. 117-24; 2004, pp. 119-26, pp. 191-96; 2009 and citations therein; the discussion above draws on Caldwell 2004. It should be noted that certain prominent Austrians, among them Peter Boettke and Richard Ebeling, have both told me in private correspondence that in their view Mises’ claims have been misrepresented by both his critics and certain of his supporters; that Mises was fully aware that praxeology had to be supplemented with empirical statements in order for it to be used to make statements about the world.

One way to read Hayek’s proposed bifurcation of economics is that it was meant to adjudicate this argument about the status of the axioms of economics. It would allow Mises’ claims about the \textit{a priori} or tautological nature of the basic axioms (of the economic calculus) to be retained, but would drop the idea that they carried over with the same necessity to the world – for that one needed to make additional empirical assumptions regarding knowledge and its acquisition.

Interestingly, when Hayek with a certain trepidation sent his paper to Mises, the latter, who was known not to take criticism well, did not interpret it as critical of his own position.\footnote{Curiously enough, while Mises was very resentful of any criticism by his pupils and temporarily broke both with Machlup and Haberler because they had criticized him, he took my critique silently and even approved the article as if he had not been aware that it was a criticism of his own views. I cannot explain this” (Hayek 1994, p. 72).} Israel Kirzner has suggested a reason: when Mises read Hayek’s paper, he recognized that the “empirical element” that Hayek was trying to describe was nothing more than his own alert Misesian entrepreneur. On this reading, the Misesian entrepreneur is the agent who learns of new opportunities and acts upon them; in a phrase, the Misesian entrepreneur is the driving force behind the Hayekian market process.\footnote{Kirzner offered this explanation at the NYU Colloquium in September 2013. Kirzner 1973, 1997 argues for the central role of the entrepreneur in market process theory. On the other hand, as Hansjoerg Klausinger pointed out to me in correspondence, the entrepreneur did not play a large role in Mises’ published work until later. Whether it may have been present in Mises’ mind is of course something we cannot know.}

There is a certain amount of textual support for Kirzner’s hypothesis. In “Economics and Knowledge” itself Hayek had said that a tendency toward equilibrium exists when “the expectations of the people and particularly of the entrepreneurs will become more and more correct” (Hayek [1937] 2014, p. 68). He talks about the role of the entrepreneur in his 1940 review of Oskar Lange’s paper on market socialism, and about the role of the \textit{arbitrageur} in “The Use of Knowledge in Society.” Perhaps Hayek did not realize it when he wrote and published the article, but Mises knew when he...
read it, that Hayek was simply describing the actions of the entrepreneur when he talked about “the empirical element” in economics.

It is certainly plausible both that Hayek thought in 1937 that he was correcting Mises, and that Mises on reading the article saw little contradiction between their views. But none of this explains Hayek’s surprising hesitancy to use the term “entrepreneur” in his later work when discussing the market process.

My own way of resolving that issue, which I present in a separate paper (Caldwell 2016), is to look at correspondence and at lectures that Hayek gave during the war to students, when LSE was evacuated to Peterhouse in Cambridge, and at four public lectures he gave at the University of Virginia in 1961, when he visited there on the invitation of Jim Buchanan (Hayek [1961] 2014). Hayek was hoping to develop a theory of the market process that was on all fours formally with the economic calculus. He did not have the mathematical prowess to do so, so instead he developed his verbal theory of complex phenomena (Hayek [1964] 2014). Anyway, I think that though Hayek respected Mises’ insights about the role of the entrepreneur, he was hoping that something more formal than that might be developed. It would await the theorists of the Santa Fe Institute to try to develop formally something comparable.

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