
Friedrich von Hayek

'I'd like to see a crash before I die'

Professor Friedrich von Hayek, guru and honorary world chairman of the Mont Pelerin Society, and a veteran member of the Fabian Society, was interviewed at his home in Freiburg am Breisgau, West Germany, by European economics editor Laurent Murawiec in December. Von Hayek sat in his study under a giant portrait of Sir Winston Churchill.

Von Hayek left his native Austria in the late 1920s for London, where he became a professor at the ultra-Fabian London School of Economics, where he remained until 1950. The former Austrian artillery officer then taught at the University of Chicago for more than a decade. In 1945, he had been one of the principal initiators of the Mont Pelerin Society, an organization which served as the "economic" think tank for Archduke Otto von Hapsburg's and Count Coudenhove-Kalergi's Pan-European Union, the central monarchist institution of the old continent.

Murawiec: Let us talk of your views of the international economic and financial situation. . . .

Von Hayek: Let me give a general warning. In my old age, I pay very little attention to current affairs. I am devoting my time to what is going to be a major book [*The Fatal Conceit*], which deals with what I regard as the task of economics: to demonstrate why socialism is wrong. My thesis is that socialism is not half right but totally wrong. And I believe that I can prove it. So I pay little attention to current events. The most I know is about England, which I consider as my home. [Professor von Hayek is a British subject.] I am still taking delight and interest in that country, but for the rest I know very little.

Murawiec: There is a danger of a global financial crash. Do you see dangers, or opportunities, in it?

Von Hayek: I must say that I rather expect that during my lifetime, a financial crash will be avoided by renewing inflation. I fear so. I would rather have, in the long run interests of the world, the financial crash now, and then a new beginning. But from the political angle, it is more likely that, at the last moment, governments will step in by providing a great deal more paper money until they postpone the crash,

perhaps for 10 or 20 years. So, shall I live through the crash? Not if it comes later. . . . I would rather have it come now, but of course. . . .

Murawiec: How should a crash be dealt with?

Von Hayek: You cannot avoid—you have to go through the crash, in order to stop inflation. Then you can hope, gradually, to approach a new equilibrium position, or rather, a growth that can be maintained without inflation. Any growth which cannot be maintained but by inflation is bound to lead to a crash sooner or later. We have now had 30 years of inflation and all this accumulated misdirection means that you cannot really stop inflation without causing a crash. It's going to be much worse than it need be because there is not only the effects of inflation in the advanced countries but also the incredible indebtedness of the countries at the margins of the world. Frankly, I don't want to look at it, it's so horrible!

Murawiec: There might well be an accident, and a chain-reaction. What ought to be done?

Von Hayek: I don't know to what extent the big banking institutions of the West can outlive a collapse of their debtors in the underdeveloped world, and the extent to which a great failure of—say Brazil, as an example, of half a dozen countries, Poland, half of Africa. . . . If they become clearly unable to pay, what will be the effect on the status of big Western banks, on countries like England, France, Germany. . . . I prefer not to look at it. We are faced with two closely interconnected phenomena. We've had 30 years of overinvestment in real terms—a kind of classical model of the business cycle. But we have in addition a financial overcommitment which exceeds anything ever seen in history. Everybody knows it and feels uncomfortable, but nobody wants to inquire into the details: they're afraid of what they will find.

Murawiec: You mean, a lot of capital ought to be destroyed?

Von Hayek: It has to be. But in fact it already no longer exists. It just pretends to exist.

Murawiec: With a collapse of that magnitude, certain currencies, certain institutions, certain countries, will have to bear the brunt of the crash you describe. . . .

Von Hayek: The important point is that Western institutions which would go bust will receive money from their central banks, very large amounts of money. So that the present financial crisis will be avoided by resuming inflation on a very large scale, simply by giving these bankrupt institutions the money they need to stay afloat.

Murawiec: If you had President Reagan and other heads of state in front of you in a room, what policy would you recommend to that captive audience?

Von Hayek: I would say: face the fact, get through it as soon as possible; the best you are going to achieve otherwise is a

10- or 20-year postponement of the crash and it will be worse then. In the interests of the world at large, *do it now*, go through it now.

Murawiec: What should we do with Third World nations?

Von Hayek: Nothing. Nothing. We should do nothing.

Murawiec: Brazil, for example. . . .

Von Hayek: Nothing. They will have to crash. They will have to crash. Nothing special about Brazil. All of them will have to crash. I don't want, once again in my life, to predict a 1929 crash—you know I predicted the 1929 crash. . . .

Murawiec: What should be done, then?

Von Hayek: We'll have to realize that at the best, we may save the West. I am not even sure that this is possible. But it may be possible. But if you try to prevent the collapse of all the overblown overseas institutions, you're certain to be driven deeper into the mess. We in the West should continue with a policy of reducing inflation. We've been much too slow. I'm not blaming Mrs. Thatcher or Ronald Reagan. I'm sure that they did what was politically possible. Mrs. Thatcher is aware that we ought to have done it more quickly. But as she herself answers: I'm not almighty politically. I can only do what is politically possible. I don't know Reagan. But from people in his environment, I know there is the same attitude there. We ought to have been much faster in reducing inflation. But as I often say, you can stand 20 percent unemployment for six months, you cannot stand 10 percent unemployment for three years, and what Reagan has chosen is 10 percent unemployment for three years. That will probably prove politically intolerable.

Murawiec: Capital must be destroyed?

Von Hayek: Not destroyed—we must just recognize the amount of capital that has been wasted. It's an illusion to believe that it exists, except on paper.

Murawiec: Can you describe the shock you are calling forth?

Von Hayek: It's what has been avoided until now: a drastic stop of inflation for six months: it achieves stability, it is the basis for a new beginning. . . . wages have become too rigid, It's politically impossible to reduce wages. But I am absolutely convinced that you must stop any further rise for the time being and break the rigidity of the wage structure. . . . any sign of revival of the three major Western countries, U.S.A., U.K. and Germany, might prevent a further decline of activity and employment, if you can combine this with avoiding any revival of inflation in order to keep Western banks alive in spite of the losses made in Brazil, etcetera.

Murawiec: In order to cut inflation, what ought to be done?

Von Hayek: I don't know so much about technical matters, but I would not be surprised if people told me that nothing short of the bankruptcy of the Social Security system would

do it. . . . but this is not my area. You know how much of my field is to discuss the harm done by Keynesian monetary policies. The pure monetary side has been my preoccupation for the last 30 years.—I can talk about it with some competence.

Murawiec: Dr. Schacht's monetary policy was Keynesian too. . . .

Von Hayek: I ought to say something on behalf of Keynes personally—it's not Keynes but the Keynesians. Keynes did see the dangers of the policies he'd been advocating. He was already fighting against inflation. . . .

Murawiec: What of Dr. Schacht's policies?

Von Hayek: Schacht? His policies were only compatible with a totalitarian regime.

Murawiec: In one of your recent texts, you approvingly quote an author according to whom "political anarchy was the precondition for the take-off of capitalism." What kind of anarchy do you want now?

Von Hayek: The anarchy that [former Chancellor] Ludwig Ehrhard established in Germany when he lifted price controls. Abolish price and quantity controls.

Murawiec: What should become of the state itself?

Von Hayek: In the very long run, we should achieve what was called "separation of powers" at the beginning of the last century. It failed; it failed to establish a restriction of government power. . . . take away from governments the monopoly of issuing money and let people be in competition concerning the issue of money. It's a long-range aim. In the short run, there must be some return to freedom. . . . in a way Chile very nearly did it. . . .

Murawiec: Very nearly?

Von Hayek: It's a curious thing. Given what the term "anarchy" strictly means—it is dictatorial countries that are prepared to withdraw from the control of the economy. Chile is one place. It has been dictatorial in order to avoid interfering with economic matters.

Murawiec: So in other words, anarchy is a function of dictatorship?

Von Hayek: Er. . . . Not a function of dictatorship—let us say that a dictatorship may be allowed to get away with it! Otherwise, economic life in Switzerland—that's the only country which is anywhere near what we would wish the world to look like.

Murawiec: So your historical paradigm would be the Holy Roman Empire, or the Austro-Hungarian Empire?

Von Hayek: Not the Austro-Hungarian Empire, which was too protectionist. The early Roman Empire perhaps, until the 2nd century A.D. On the purely monetary side I have never

doubted that my plan to abolish the monopoly of government issue of money was a matter for the future. But now I have come to the conclusion that it might not be necessary: it would be sufficient if banks opened accounts in terms of a "stable" unit undertaking to redeem them in whatever quantities of money are required to buy a certain list of raw materials. So what you stabilize is not the current amount of money, the institutions need not issue their own notes—they must have accounts in their own specific units which are defined as so much current money as is required to buy this list of raw materials. That way we will stop governments.

With money out of the control of governments, with a unit of account only in the form of deposit accounts, defined in a particular way, you will very soon find that under a different name some other institutions are doing the same, but with the same definition of the unit. All over the world you would get institutions all handling accounts in the same way, with simply the name differing, with the name of the particular bank.

Murawiec: So there would be a "Chase," a "Morgan," a "Lazard," a "Deutsche," a "Kreditanstalt," a "Danat," etc.? Now isn't that the financial structure fitting, as I mentioned, a federative political structure like the Holy Roman Empire or the Austro-Hungarian Empire?

Von Hayek: Yes. . . . in the case of Austria-Hungary, the central government had too much power. . . . In intent, the Holy Roman Empire was good, good.

Murawiec: Is the era of the nation-state at an end?

Von Hayek: It is already finished. We're in the era of the social state. Redistribution policies dominate everything, now that we've committed ourselves to what is called "social justice."

Murawiec: You mean inclusively, what Pope John Paul II wrote in his latest encyclical?

Von Hayek: Yes.

Murawiec: I guess you'd put that encyclical, *Laborem Exercens*, on the Index?

Von Hayek: On the Index, yes, on the Index. But curiously enough, there is a great understanding of my ideas in the Catholic Church: they realize how dangerous it is to follow the path pursued, for instance, by the South American bishops. I've become acquainted with Cardinal Koenig, an extremely intelligent man. Last May he organized a conference in Salzburg for the 100th anniversary of the death of Charles Darwin. A Cardinal of the Catholic Church! In the course of the discussion I spoke about cultural revolutions as distinct from biological revolutions. I argued that there has not been a national selection of religions. . . . religion is based on superstition. So our civilization is based on superstition. As a Catholic bishop he could not take that word so I spoke of the "symbolic truth." So he liked the word so much that he,

Cardinal Koenig, adopted it immediately! That's how I came to know Cardinal Koenig! His function is very interesting: relations with unbelievers. And he interprets his charge as including relations of the Church with science. . . . Koenig is a very distinguished man whom I respect greatly. I'm a complete unbeliever, a complete agnostic. I come from a Catholic family—I never formally left the Church, there was no use. But you know my father and my grandfather were Darwinian biologists—you can imagine!

Murawiec: Do you expect recession to go on for long?

Von Hayek: What we saw in the 1960s, an enormous, simultaneous growth of capital and income we will not see again in this century. . . . It will be much more modest. . . . there will be no return to full employment.

Murawiec: Should return to full employment be made through a post-industrial society?

Von Hayek: The shift to services is inevitable—how big will it be? It may be the case that a serious collapse of the Third World will slow down that shift. A collapse of the Third World will eliminate one of the competitive pressures which accelerated the shift from industry to services. If it turns out that they can not even maintain their present rates, it may slow down the change in the West.

Murawiec: What do you think of free-enterprise zones?

Von Hayek: They are one step in the right direction. But not a panacea. The financial and *sanierung* [cleansing] comes first.

Murawiec: Applying your methodology to the problem, "inefficient systems" based on the "money illusion" create a short-term ability to sustain artificial growth and therefore a multiplied population. A collapse of the money illusion would then affect three and a half billion people in the Third World.

Von Hayek: I don't have any comment to make on this. I have not thought it through, I have not thought through the implications for the actual population which already exists and has been called to life by offerings that will not continue. . . . There will be political and economic consequences; I just don't know how deep communist influence might go in the major countries like Mexico, Venezuela, Argentina—what form the reaction to a strong deterioration of the living standards will be.

Murawiec: Do you think that the population should be reduced?

Von Hayek: No, although for the moment it is a great dilemma. I do not believe that in the long run population growth creates impoverishment. . . . population increase does not lower living standards. What happens is that the poor increase their numbers faster than the rich. But it is not true that increases of population are really a danger from the standpoint of those already existing. On the contrary, in the long

run, increases of population, by increasing the opportunities of the division of labor, increase the world's capacity to maintain population.

The danger of population growth, I have shared myself, it was so dominant in the last 20 years. It took me some time to emancipate myself from it. I no longer believe that population growth as such is a danger, except where we finance it in places where the population will never be able to maintain itself, for instance, the Sahel. . . . We are subsidizing population growth that may cause local catastrophes. But where the population is growing as a result of productivity, that does not cause a danger.

Murawiec: The present youth movement—greens, peace movement, social movements of the last decade—share many ideas with you; they reject bigness, centralization, etc. They think of themselves as leftists. Do you think that with the proper steering, this movement can be usefully led?

Von Hayek: Yes, except that I do not know how long it will take. In the long run, yes. There is a much stronger support for libertarian ideas now than at any time that I could remember! Provided the politicians do not destroy the world in the next 15 years, with the next generation, there is hope in the U.S. and Western Europe.

Murawiec: What about Eastern Europe and Russia? Where do you find food for hope?

Von Hayek: In Hungary and in Poland I certainly find hope—if the Russians will allow it.

Murawiec: Once the movement sheds its left-wing colors, this libertarianism can then be used?

Von Hayek: Oh yes, certainly. The Mont Pelerin Society grew from 37 members, 37 years ago to 600 attendants at our world conference in Berlin recently. We make efforts to cut down the numbers. The Society has had offspring. It has child-societies. It is becoming a movement.

Murawiec: Do you think that the present German government will listen to the Mont Pelerin Society?

Von Hayek: Certainly, not as much as if Franz-Josef Strauss were the chancellor. He is completely on our side. It's funny, the man who is regarded as a fascist is in fact a thorough liberal!

Murawiec: Then if Archduke Otto von Hapsburg became emperor of Europe, what could happen?

Von Hayek: He is a very remarkable man. He has extraordinary factual knowledge. He speaks 13 languages fluently. . . .

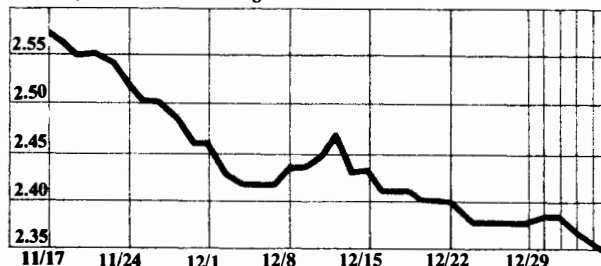
Murawiec: You speak often of the "tradition" with a big "T."

Von Hayek: Honesty, property, and family. Essentially Roman law and English common law.

Currency Rates

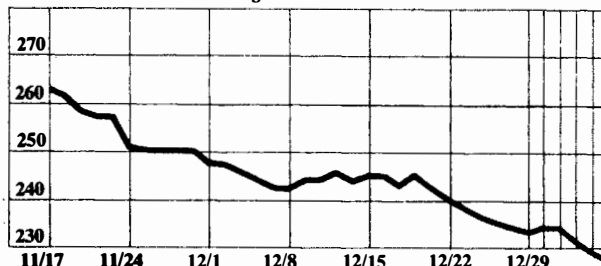
The dollar in deutschemarks

New York late afternoon fixing



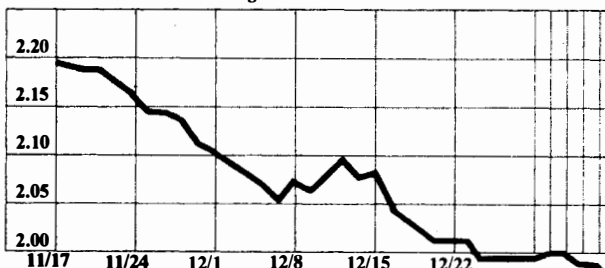
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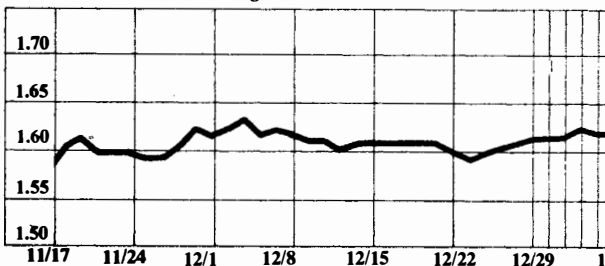
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



Could you