

Nobel Prize in Economics — Part 5: Friedrich Hayek and the Legacy of the Austrian School in Light of Recent Nobel Laureates

by Max Farrington and Michael Hirsch — Updated Edition 2025–2026

Friedrich Hayek was born in Vienna on May 8, 1899, and received the Nobel Prize in Economic Sciences in 1974. From an early age he was considered a brilliant child, already able to read before he even began school.

In 1917, at the age of 18, he joined the army and served on the Italian front as an aerial observer. During bombardments he suffered damage to his left ear, which permanently affected his hearing. A year later he survived the 1918 influenza pandemic — a striking echo of the COVID-19 pandemic the world experienced more than a century later.

A Foundational Academic Career

After the war, Hayek set himself the goal of contributing to the creation of a better world through academic work. At the University of Vienna, he earned two doctorates — one in law in 1921 and another in political science in 1923.

His meeting with Ludwig von Mises proved decisive. Mises hired him to work on the economic aspects of the Treaty of Saint-Germain, and later helped him establish the Austrian Institute for Business Cycle Research in the late 1920s.

In 1931, Hayek joined the London School of Economics, where he was quickly recognized as one of the leading economic theorists in the world.

The Rivalry with Keynes and an Intellectual Legacy

During the 1930s, Hayek developed his famous intellectual rivalry with John Maynard Keynes. The two economists represented opposing visions of how to respond to economic crises.

Keynes advocated active government intervention in the economy, while Hayek believed that the state should intervene only in very exceptional circumstances.

Hayek belonged to the Austrian School of Economics, alongside thinkers such as Carl Menger and Ludwig von Mises. This school differs significantly from the Chicago School, associated with Milton Friedman.

Their disagreements were largely epistemological, meaning they differed in how they understood and analyzed economic phenomena.

A classic example is their interpretation of the Great Depression:

- The Chicago monetarists believed the Federal Reserve had not created enough money, thereby worsening the economic downturn.
- The Austrian economists, on the other hand, argued that excessive monetary expansion during the 1920s created distortions that eventually led to the crisis.

These two interpretations remain central to contemporary debates about monetary policy, particularly in the context of post-COVID inflation and the quantitative easing policies implemented by central banks.

Despite their disagreements, Hayek and Friedman collaborated in establishing the Mont Pelerin Society, an international organization of intellectuals dedicated to studying and promoting individual liberty and political freedom.

The society remains active today.

Recent Nobel Laureates: From Keynesian Debates to Innovation Economics

Our original series on Nobel laureates ended with Hayek. Since then, however, many economists have been recognized for work that either extends or challenges this intellectual legacy.

A brief overview of recent Nobel Prizes illustrates how the discipline continues to evolve.

In 2024, the Nobel Prize in Economics was awarded to Daron Acemoglu, Simon Johnson, and James Robinson for their research on how institutions develop and influence the prosperity of nations.

Their central argument is that institutional frameworks play a crucial role in economic development. Countries with inclusive political and economic institutions tend to achieve higher levels of prosperity, while extractive institutions, which concentrate power in the hands of a small elite, tend to hinder innovation and slow economic growth.

Their work also explores the relationship between technology and institutions, opening new research areas — particularly regarding the economic implications of artificial intelligence. Scholars are now asking whether technological revolutions benefit society as a whole or are captured by a small minority.

In 2025, the Nobel Prize in Economics was awarded to Philippe Aghion, along with Joel Mokyr and Peter Howitt, for their work on innovation-driven economic growth.

Aghion and Howitt were recognized for formalizing the concept of creative destruction, originally theorized by Joseph Schumpeter, providing a rigorous framework for understanding how innovation drives long-term economic dynamics.

In this model, innovation continually replaces obsolete technologies, sustaining economic growth over time.

Joel Mokyr was honored for identifying the historical and institutional conditions that enable sustainable growth through technological progress.

Philippe Aghion became the fifth French laureate of the Nobel Prize in Economics, following Jean Tirole in 2014 and Esther Duflo in 2019.

The award resonates particularly strongly today as artificial intelligence spreads throughout the economy. One of the central questions of our time is whether companies will be able to harness AI productively — and whether AI will sustain economic growth over the long term.

A Common Thread: Institutions, Freedom, and Growth

It is striking to observe the intellectual continuity connecting Hayek and the most recent Nobel laureates.

Hayek emphasized individual freedom and skepticism toward excessive government intervention as essential conditions for prosperity.

Acemoglu, Johnson, and Robinson empirically demonstrate that institutions protecting these freedoms are strongly correlated with national wealth.

And Aghion shows that innovation — which can flourish only within open and competitive institutional frameworks — is the engine of long-term economic growth.

More than a century after Hayek began his career in Vienna, the fundamental questions he raised remain at the heart of economic research:

- What is the proper role of the state in the economy?
 - Which institutions best promote freedom and prosperity?
 - How can societies generate wealth in a sustainable way?
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Conclusion

This concludes our EconoMag series on Nobel Prize laureates in economics.

Economists such as Hayek, Keynes, Friedman, Nash, Acemoglu, and Aghion have profoundly shaped not only economic theory but also public policy across the world.

And their influence is far from fading.

Join us for the next episode of EconoMag.

Vocabulary:

Friedrich Hayek – Friedrich Hayek

Austrian School – École autrichienne d'économie

Nobel Prize in Economic Sciences – Prix Nobel d'économie

Vienna – Vienne

Italian front – Front italien

Influenza pandemic – Pandémie de grippe

University of Vienna – Université de Vienne

Political science – Sciences politiques

Ludwig von Mises – Ludwig von Mises

Austrian Institute for Business Cycle Research – Institut autrichien pour la recherche sur les cycles économiques

London School of Economics (LSE) – London School of Economics (LSE)

Rivalry with Keynes – Rivalité avec Keynes

Government intervention – Intervention gouvernementale

Economic crises – Crises économiques

Carl Menger – Carl Menger

Chicago School – École de Chicago

Monetarists – Monétaristes

Monetary expansion – Expansion monétaire

Great Depression – Grande Dépression

Quantitative easing – Assouplissement quantitatif

Mont Pelerin Society – Société du Mont Pèlerin

Intellectual legacy – Héritage intellectuel

Institutions – Institutions

Economic development – Développement économique

Inclusive institutions – Institutions inclusives

Extractive institutions – Institutions extractives

Innovation-driven growth – Croissance basée sur l'innovation

Creative destruction – Destruction créatrice

Artificial intelligence (AI) – Intelligence artificielle (IA)

Freedom and prosperity – Liberté et prospérité