



EconoMag

The Show that demystifies Economics

Nobel Prize for Economics – part 5

Friedrich Hayek

by Max Farrington and Michael Hirsch

Friedrich Hayek was born in Vienna on May 8th 1899, and received the Nobel Prize for economic science in 1974. As a young child Hayek was considered brilliant as he could already read before he started attending school. In 1917, when he was 18 years old, he joined the artillery regiment of the army and served on the Italian front as an overhead spotter in an airplane. He suffered damage to his hearing in his left ear due to the shelling, and a year later he survived the flu pandemic of 1918.

After the war he decided to continue his life as an academic, and to avoid the occurrence of future wars he vowed to work towards the goal of creating a better world. At the University of Vienna, Hayek earned doctorates in 1921 and 1923 in both law and political science. But the most life-changing event for Hayek was his encounter with Ludwig von Mises, who hired him as a specialist for the Austrian government to work on the legal and economic details of the Treaty of Saint-Germain. With the help of Mises in the late 1920s, Hayek founded and served as director of the Austrian Institute for Business Cycle Research, and in 1931, he joined the London School of Economics and was quickly recognized as one of the leading economic theorists in the world.

During the 1930s, Hayek continued his work and it was at this time that the famous rivalry with John Maynard Keynes began, with their opposing views on how to fix Britain's economy. In 1938, after the German Anschluss, Hayek refused to go back to Germany and remained in Britain eventually becoming a British subject. He stayed in Britain until 1950 when he moved to the United States, and he also spent some of the following years in Germany.

Hayek's ideas were mainly oriented around the idea that the state should not intervene in the economy or only on very rare occasions. Friedman and Hayek met at the University of Chicago, where they quickly became good friends even though Friedman was very critical of Hayek's work, as while they both agreed on the final outcome, their methods of getting there were different. Hayek was a member of what we today call the Austrian school of economics along with individuals such as Carl Menger and Ludvig von Mises. Milton Friedman, on the other hand, was part of the Chicago school of economics.

The difference between the two schools of thought is epistemological; and the best example of this is the economic crisis. During the Great Depression, both schools agreed that the problem was the current monetary policy of the time. However, the Chicago school, the monetarists, believed that the Federal Reserve hadn't created *enough* money, whereas the

Austrian school believed that monetary creation during the 1920s was the cause of the distortions and that it would one day backfire. These two ideals are illustrated in depth in Milton Friedman's work titled "A Monetary History of the United States", and Murray Rothbard's "America's Great Depression".

As for Hayek, even though he disagreed with Friedman on some matters, they still worked together in the establishment of the Mont Pelerin Society, an international organization composed of intellectuals who work on their understanding of personal and political freedom. The society advocated positions close to libertarianism.

This ends our Economag topic on the portraits of a few Nobel Prize winners. There are many other Nobel laureates we might have talked about, and who deserve honorable mentions, such as Paul Krugman and Peter Diamond. However, we've seen some of the most famous economists such as Hayek, Friedman and Nash, who were all very influential throughout their careers, and they remain so even today.