

ARCHIVAL INSIGHTS INTO THE  
EVOLUTION OF ECONOMICS

# HAYEK: A COLLABORATIVE BIOGRAPHY

**Part XIII:  
'Fascism' and Liberalism  
in the (Austrian)  
Classical Tradition**

Edited by

*Robert Leeson*



# Archival Insights into the Evolution of Economics

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Robert Leeson  
Stanford University  
Stanford, CA, USA

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Robert Leeson  
Editor

# Hayek: A Collaborative Biography

Part XIII: 'Fascism' and Liberalism  
in the (Austrian) Classical Tradition

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# Chronology

1907/1909: Adolf Hitler relocates to Vienna and absorbs the prevailing anti-Semitism co-created by the proto-Nazi (and later card-carrying-Nazi) von Hayeks.

1914–1918: The ‘Great’ War between the dynasties.

1917–1918: The Romanovs, Habsburgs, and Hohenzollerns are overthrown.

1919: ‘Von’ Hayek and ‘von’ Mises became common criminals after Habsburg coats of arms and titles (‘von,’ ‘Archduke,’ ‘Count’ etc.) were abolished by the *Adelsaufhebungsgesetz*, the Law on the Abolition of Nobility. What ‘von Hayek dismissed as a ‘republic of peasants and workers’ imposed on Austrian nobles the status of ‘German Austrian citizens’ ‘equal before the law in all respects.’

1922: Benito Mussolini becomes Italy’s *Il Duce* following the ‘March on Rome,’ and Hitler tells a journalist: ‘Once I really am in power, my first and foremost task will be the annihilation of the Jews.’

1923: The British Fascisti is formed.

1923: General Erich Ludendorff and Corporal Hitler unsuccessfully launch a 'March on Berlin' as a prelude to a 'March on Vienna.' Newspapers report that 'Hitlerites stormed through the town and invaded first class restaurants and hotels in search of Jews and profiteers.'

1924: On the advice of the defeated Conservative Prime Minister, Stanley Baldwin, King George V invites Ramsay Macdonald (the illegitimate son of a farm labourer and a housemaid) to become the first Labour Prime Minister.

1925: In *Mein Kampf*, Hitler declares: 'At the beginning of the war, or even during the war, if 12,000 or 15,000 of these Jews who were corrupting the nation had been forced to submit to poison gas ... then the millions of sacrifices made at the front would not have been in vain.'

1926: In Portugal, the 'Military Dictatorship' seizes power.

1927: In *Liberalism in the Classical Tradition*, Mises praises 'Fascists,' 'Germans and Italians' including 'Ludendorff and Hitler': 'It cannot be denied that Fascism and similar movements aiming at the establishment of dictatorships are full of the best intentions and that their intervention has, for the moment, saved European civilization. The merit that Fascism has thereby won for itself will live on eternally in history.'

1929: In an apparent reference to *Liberalism in the Classical Tradition*, Hayek criticises British members of the Austrian School of Economics: Edwin 'Cannan by no means develops economic liberalism to its ultimate consequences with the same ruthless consistency as Mises.'

1929–1933: Mises and Hayek promote the deflation that facilitated Hitler's rise to power.

1931: Hayek is appointed to the Tooke Professorship of Economic Science and Statistics at the London School of Economics (LSE) on the back of a fraudulent claim to have predicted the Great Depression.

1932: In Portugal, António de Oliveira Salazar establishes the 'Fascist' *Estado Novo* ('New State').

1934: *The Last Knight of Liberalism* (Mises) becomes a card-carrying Ausro-Fascist and member of the official Fascist social club.

1936–1939: General Francisco Franco overthrows the Spanish Republic.

1940: Mises leaves neutral Switzerland for ‘Fascist’ Portugal, but his wife apparently persuades him to relocate to the United States.

1944: Hayek reinvents himself with *The Road to Serfdom* and recommends that Gibraltarians (some anti-Fascist refugees) be forced to live under Franco’s autarkic dictatorship in Spain.

1945: One of Hayek’s LSE colleagues detects in *The Road to Serfdom* a ‘thoroughly Hitlerian contempt for the democratic man’ which (in for-posthumous-general-consumption oral history interviews) Hayek accepts as a broadly correct interpretation.

1945: Mises begins his ‘second’ seminar (at New York University).

1946: Heinrich von Hayek is barred from university employment on de-Nazification grounds.

1947: The Mont Pelerin Society is formed.

1953: The democratically-elected Prime Minister of Iran is overthrown in a coup orchestrated by the CIA—the Shah establishes a White Terror police state.

1954: A CIA armed, funded, and trained a force invades Guatemala and the democratically elected President is forced to resign.

1954: General Alfredo Stroessner seizes control of Paraguay (the origins of ‘Operation Condor’).

1958: ‘Von’ Mises tells Ayn Rand: ‘You have the courage to tell the masses what no politician told them: you are inferior and all the improvements in your conditions which you simply take for granted you owe to the effort of men who are better than you.’

1960: In *The Constitution of Liberty* Hayek asserted that: ‘To do the bidding of others is for the employed the condition of achieving his purpose.’

1961: Rothbard proposes a strategy for the Sovietization of American universities.

1962: Mises declares: ‘The fact that the majority of our contemporaries, the masses of semi-barbarians led by self-styled intellectuals, entirely ignore everything that economics has brought forward, is the main political problem of our age.’

1962: Hayek sends his *Constitution of Liberty* to Portugal’s ‘Fascist’ dictator, Salazar, with an accompanying note stating that this ‘preliminary sketch of new constitutional principles’ may ‘assist’ Salazar ‘in his endeavour to design a constitution which is proof against the abuses of democracy.’

1964: The Brazilian military overthrows President João Goulart.

1965: In Indonesia, more than 500,000 Indonesian ‘impurities’ are liquidated. Hayek praised ‘el-Haj Mohammed’ Suharto and his Generals who were ‘mostly not what we would regard as military men. They are in many instances men coming from other professions who in the fight for independence have risen in rank and remained in the army to ward off communism.’

1965: The ‘Fascist’ post-war ‘Strategy of Tension’ is launched by the Alberto Pollio Institute at the Parco dei Principi hotel.

1967: A military Junta seizes power in Greece—the Regime of the Colonels (1967–1974).

1968: MPS member Enoch Powell makes his infamous ‘Rivers of Blood’ speech about immigrants and is sacked by Edward Heath from the Conservative Shadow Cabinet.

1970: The election of Salvador Allende as Socialist Party President of Chile leads Republican President Richard Nixon to pursue a ‘Strategy of Tension.’

1971: General Hugo Banzer seizes power in Bolivia.

1972: Monday Club ‘Halt Immigration Now!’ rally.

- 1973: A civil-military dictatorship seizes power in Uruguay (27 June).
- 1973: General Augusto Pinochet seizes power in Chile (11 September).
- 1974: The Carnation Revolution overthrows Portuguese Fascism, leading to decolonization and increased apprehension for the International Right (25 April).
- 1974: The first Koch-funded Austrian Revivalist meeting (June, South Royalton).
- 1974: Hayek is awarded the Nobel Prize for Economic Sciences (September/December).
- 1975: Margaret Thatcher deposes Heath as Conservative Party leader (11 February).
- 1975: The second Koch-funded Austrian Revivalist meeting (Hartford, June).
- 1975: Franco's death further intensifies the apprehensions of the International Right (20 November).
- 1975: The 'new' post-Mises Austrian Economics Seminar begins at NYU (17 December).
- 1976: Harold Wilson announces his resignation as British Labour Party Prime Minister (16 March).
- 1976: A military Junta headed by General Jorge Videla seizes power in Argentina (24 March).
- 1976: In *Free Nation*, the journal of the National Association for Freedom, Hayekians Robert Moss and Brian Crozier insist that Queen Elizabeth II should refuse to see Michael Foot and therefore prevent him becoming Prime Minister if he is elected leader of the Parliamentary Labour Party (25 March).
- 1976: Jeremy Thorpe is obliged to resign as leader of the Liberal Party (10 May).

1976: Pinochet launches a terrorist attack on Washington, killing Orlando Letelier and an American citizen, Ronni Moffitt (21 September).

1976: The third Koch-funded Austrian Revivalist meeting (Windsor Castle, September).

1977: Hayek praises the MPS ‘consistent doctrine’ and ‘international circles of communication.’

1977: Hayek plans to visit three Operation Condor countries (Brazil, Argentina, and Chile) plus Nicaragua (then owned by the Somoza dynasty, 1936–1979); adds post-‘Fascist’ Spain and Portugal to his itinerary; and dismisses Amnesty International’s documentary evidence about human rights abuses as the outpourings of a ‘bunch of leftists.’

1978: Thatcher declares she ‘very much’ wants to ‘bring back’ National Front voters ‘behind the Tory party’; and had ‘less objection to refugees such as Rhodesians, Poles, and Hungarians, since they could more easily be assimilated into British society.’

1979: Hayek sends Thatcher a telegram stating that her election victory was the ‘best’ possible birthday present he could have had.

1980: Hayek delivers ‘The Muddle of the Middle’ to the Monday Club Annual General Meeting (25 March).

1984: The donor class discover that the tax-evading Hayek was stealing from them (by double-dipping) but continue to fund him (April).

1984: Hayek embraces the transparent fraud that externalities were invented by a gun-runner for Stalin; and becomes Queen Elizabeth II’s ‘Companion of Honour’ (October).

1989–1991: Communism collapses and ‘free’ market ‘privitisation’ which later facilitates the rise of Vladimir Putin’s ‘Russia of the Oligarchs.’

1992: Rothbard denigrates the United Nations Framework Convention on Climate Change as a ‘few left-wing hysterics’—‘most real scientists have a very different view of such environmental questions.’

1993: Rothbard defends the first bombing of the World Trade Center and acts as a tax-exempt 'spotter' for al-Qaeda by suggesting other New York buildings to bomb.

1994: Rothbard defends Byron De La Beckwith, Jr. (the Klu Klux Klan assassin of voter registration activist, Medgar Evers, who was convicted because he was politically 'incorrect') and explains that 'the least' Austrian School economists and philosophers could do is 'accelerate the Climate of Hate in America, and hope for the best.'

# Part I

## Origins





# 1

## Introduction: 'How We Developed a Consistent Doctrine and Some International Circles of Communication'

Robert Leeson

### The 'Thing Taking Over': Climate Change

Outlining his deceitful 'rule,' Friedrich 'von' Hayek (1978) told Jack High that the

Intellectual movement is wholly in the right direction. But it will take another twenty years before they will have any influence on policy, and it's quite possible in the meantime that the politicians will destroy the world so thoroughly that there's no chance of the thing taking over. But I've *always* made it *my rule* [emphases added] not to be concerned with current politics, but to try to operate on public opinion. As far as the

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movement of intellectual opinion is concerned, it is now for the first time in my life moving in the right direction.<sup>1</sup>

The evidence suggests that he was a *party* political operative—he targeted cabinet ministers for Margaret Thatcher to sack (Leeson 2017). ‘Free’ market ‘scholarship’ was the vehicle through which he sought—and achieved—party political influence.

No other Nobel laureate has recruited the ‘worst inferior mediocrities’ to do his ‘bidding’:

Of course, scientists are pretty bad, but they’re not as bad as what I call the intellectual, a certain dealer in ideas, you know. They are really the worst part. But I think the man who’s learned a little science, the little general problems, lacks the humility the real scientist gradually acquires. The typical intellectual believes everything must be explainable, while the scientist knows that a great many things are not, in our present state of knowledge. The good scientist is essentially a humble person. (Hayek 1949, 1978)<sup>2</sup>

Bruce Caldwell (2010), the fifth official (and ‘definitive’) biographer, informed readers of *The Washington Post*: ‘Hayek himself disdained having his ideas attached to either party.’<sup>3</sup> This was part of the Mont Pelerin Society (MPS) ‘consistent doctrine’—Ralph Harris and Arthur Seldon informed the 1992 MPS meeting that Hayek ‘remained scrupulously aloof from politics.’<sup>4</sup> But at the 1984 MPS meeting, Hayek

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<sup>1</sup>Friedrich Hayek, interviewed by Jack High date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>2</sup>‘It seems to be true that it is on the whole the more active, intelligent, and original men among the intellectuals who most frequently incline toward socialism, while its opponents are often of an inferior calibre.’ Nobody ‘who is familiar with large numbers of university faculties (and from this point of view the majority of university teachers probably have to be classed as intellectuals rather than as experts) can remain oblivious to the fact that the most brilliant and successful teachers are today more likely than not to be socialists, while those who hold more conservative political views are as frequently mediocrities’ (Hayek 1949).

<sup>3</sup>‘Even though Hayek himself disdained having his ideas attached to either party, he nonetheless provided arguments about the dangers of the unbridled growth of government’ (Caldwell 2010).

<sup>4</sup>MPS Archives Box 101.

(1985, 8) stated: 'Of course each of us has a duty as a citizen of his particular country to take part in political programs.'

Policy advocates often co-align on multiple fronts: market failure deniers (and climate change deniers in particular) are often proponents of 'free' market 'liberty' for the financial sector. Hayek referred to the Greens as the new barbarians in our midst<sup>5</sup>; and informed a correspondent that had he been a younger man, he would have concentrated on exposing Greens, instead of focusing almost exclusively on exposing Reds.<sup>6</sup>

The Nazi penal code stated that the 'first condition for the new legal order must be that henceforth no Jew, Negroes, or other coloured people can be absorbed into the German blood' (cited by Gilbert 1964, 78). Hayek (5 March 1975)—whose obsession with his own *Ahnenpass* (ancestor passport) predated Hitler's—told the Liberty Fund's Neil McLeod that he didn't want non-whites to touch his money—his Chicago bank had 'gone negro' and he needed to find an alternative.<sup>7</sup> Caldwell's (2004, xi, 344, n. 16) *Hayek's Challenge* was funded by the John W. Pope Foundation and the Liberty Fund (who hosted a conference to discuss a preliminary draft of the volume). According to its 2013–2014 Annual Report, Duke University's Centre for the History of Political Economy (CHOPE) was 'founded in 2008 with a significant grant from the John W. Pope Foundation' (Caldwell 2014); and in fiscal year 2014–2015, CHOPE received \$175,000 from the Pope Foundation.<sup>8</sup>

According to its mission statement, 'The Pope Foundation supports organizations that work to advance free enterprise—the same system that allowed Variety Wholesalers to flourish—for future generations of Americans. To achieve those ends, the Pope Foundation supports a network of organizations in North Carolina that advocate for free markets, limited government, individual responsibility, and

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<sup>5</sup>Hayek Archives Box 154. Handwritten note.

<sup>6</sup>To William Ballou (7 October 1979). Hayek Archives Box 11.19. The context of these remarks is not entirely clear from the correspondence.

<sup>7</sup>Hayek (5 March 1975) to Neil McLeod at the Liberty Fund. Hayek Papers Box 34.17.

<sup>8</sup><https://jwpcf.org/grants/>.

government transparency.’ With regard to ‘Education support,’ the ‘Pope Foundation believes that Americans have a duty to teach the next generation about the blessings of liberty.’<sup>9</sup>

The Pope Foundation is the sixth largest contributor to what Robert Brulle (2014, 681, 687, Fig. 1) described as the ‘Climate Change Counter Movement’ (CCCM). Referring to private sector transparency, Brulle reported that ‘there is evidence of a trend toward concealing the sources of CCCM funding through the use of donor directed philanthropies.’ In December 2013, Whitney Ball, the president of the Donors Trust and Donors Capital Fund, ‘said the organisation had no say in deciding which projects would receive funding. However, Ball told the Guardian last February that Donors offered funders the assurance their money would never go to Greenpeace’ (Goldberg 2013). Instead, they are committed to ‘Building a Legacy of Liberty.’<sup>10</sup> Lawson Bader, Ball’s successor as president of both DonorsTrust and Donors Capital Fund, was formerly president of the Competitive Enterprise Institute and Vice President at the Mercatus Centre, George Mason University (GMU).<sup>11</sup> In recent years, DonorsTrust have received more than \$3.2 million from the ‘Knowledge and Progress Fund,’ which is chaired by Charles Koch (Bennett 2012).<sup>12</sup> In fiscal year 2014–2015, the Pope Foundation provided the Institute for Humane Studies (IHS) with \$655,000.<sup>13</sup>

According to *The New Yorker*, between 2007 and 2011 the Koch brothers

donated \$41.2 million to ninety tax-exempt organizations promoting the ultra-libertarian policies that the brothers favor—policies that are often highly advantageous to their corporate interests. In addition, during this same period they gave \$30.5 million to two hundred and twenty-one

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<sup>9</sup><http://jwvf.org/grants/focus-areas/education/>.

<sup>10</sup><http://www.donorstrust.org/>.

<sup>11</sup><http://www.donorstrust.org/news-notes/donorstrusts-new-ceo/>.

<sup>12</sup><http://www.forbes.com/sites/lauriebennett/2012/03/31/tracking-koch-money-and-americans-for-prosperity/#1d35731c1822>.

<sup>13</sup><https://jwvf.org/grants/>.

colleges and universities, often to fund academic programs advocating their worldview. Among the positions embraced by the Kochs are fewer government regulations on business, lower taxes, and skepticism about the causes and impact of climate change. (Mayer 2013)

In 1991, the Soviet Union collapsed and the anti-Pigouvian, Ronald Coase (who had been repeatedly nominated by Hayek) was awarded the Nobel Prize for Economic Sciences. But Pigouvians continued to exert influence: in 1992, the United Nations Framework Convention on Climate Change aimed to 'stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.' According to Murray Rothbard (1992)—Hayek's co-leader of the fourth generation Austrian School of Economics—this was the work of a 'few left-wing hysterics': 'most real scientists have a very different view of such environmental questions.'

In addition to organizing the 1974 Austrian School revivalist conference and teaching at GMU, Edwin Dolan played a major role in creating the 'free' market climate of opinion that drove post-communist reconstruction: 'State Finance Academy (Moscow, Russia, 1990–1991), Moscow State University (Moscow, Russia, 1992), American Institute of Business and Economics (Moscow, Russia, 1993–2001), National Bank of Kazakstan (Almaty, Kazakstan, staff training, 1996), Stockholm School of Economics (Riga, Latvia, 1999–2013), Central European University (Budapest, Hungary, 2002–2003), International Graduate School of Business (Zagreb, Croatia, 2003), American University in Bulgaria (Blagoevgrad, Bulgaria, 2004), University of Economics (Prague, Czech Republic, 2005–2008) and Tallinn Technical University School of Business (Tallinn, Estonia, 2008).'<sup>14</sup> In his Ludwig von Mises Institute F. A. Hayek Memorial Lecture on 'Environmental Economics: Theory and Practice,' Dolan (2014)—invoking two authorities—declared that 'three components of the Austrian paradigm lead naturally to policy prescriptions that envision a minimal role for government.' Dolan's first authority was Graham Dawson (2011, 19), who asserted

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<sup>14</sup><http://dolanecon.blogspot.com.au/p/about-ed-dolan.html>.

in the un-refereed *Libertarian Papers* that if, for example, Bangladesh disappears its former inhabitants can appeal to the courts for compensation: the ‘policy implication’ is that government has

no cause to intervene in market exchange where property rights have been allocated and legislative procedures exist that that make it possible for the victim to take legal action against the polluter ... The Austrian or libertarian policy must therefore be to privatise ‘climate change policy,’ repealing all existing climate change legislation ... There simply should not be a public policy towards ‘climate change.’ Instead, the courts should build up a body of common law and establish precedents to guide the actions of the users of fossil fuels.

Dolan’s second authority was Art Carden (2013, 30), who asserted in the *Quarterly Journal of Austrian Economics* that ‘Tradable permits and Pigovian taxes are market-like, but they still rest on a planner’s conceit that the optimal amount of a particular activity can be known.’ Carden is an Associate Professor of Economics at Samford University’s Brock School of Business and a Senior Research Fellow with the Institute for Faith, Work, and Economics which is devoted to ‘making a positive, sustainable difference in the world for the flourishing of all mankind and the glory of God!’ by offering a ‘refreshing biblical perspective about the importance of work and how it helps accomplish God’s plan for people and the planet.’<sup>15</sup>

Referring to the ‘very great achievement’ of Hayek’s (2007a [1941]) *The Pure Theory of Capital*, G.L.S. Shackle (1981, 253) insisted that a scholar ‘must be seized by faith.’ In cults, rules and morals are for ‘secondhand’ followers—not for ‘original’ leaders. Hayek (1978) objected to

rationalism telling people, ‘Don’t believe anything which cannot be explained to you.’<sup>16</sup>

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<sup>15</sup><https://tifwe.org/about/>.

<sup>16</sup>Friedrich Hayek interviewed by Leo Rosten 15 November 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

But personally, Hayek (1978) was a rationalist:

Quite frankly, at a very early stage when I tried [to get] people to explain to me what they meant by the word God, and nobody could, I lost access to the whole field. I still don't know what people mean by God. I am in a curious conflict because I have very strong positive feelings on the need of an 'un-understood' moral tradition, but all the factual assertions of religion, which are crude because they all believe in ghosts of some kind, have become completely unintelligible to me. I can never sympathize with it, still less explain it.

When Robert Chitester asked 'Do you get questions about religion? I would assume a lot of people confuse your interest in a moral structure with religion'; Hayek (1978) replied

Very rarely. It so happens that an Indian girl [Sudha Shenoy 1943–2006], who is trying to write a biography of myself, finally and very hesitantly came up with the question which was put to Faust: 'How do you hold it with religion?' [laughter] But that was rather an exceptional occasion. Generally people do not ask. I suppose you understand I practically never talk about it. I hate offending people on things which are very dear to them and which doesn't do any harm.

When Hayek fills

out the form I say 'Roman Catholic,' merely because this is the tradition in which I have grown up. I don't believe a word of it. [laughter]<sup>17</sup>

Presuppositionalist public stoning theocrats like Gary North (the Mises Institute Rothbard 'Medal of Freedom' holder) have been recruited to defend the 'spontaneous' order and the 'un-understood' 'moral tradition.'

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<sup>17</sup>Friedrich Hayek, interviewed by Robert Chitester date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

## The 'Thing Taking Over': 'Spontaneous' Order, Civilization and the Constitution of the United States

A legitimate noble title requires a legitimate royal source: a *fons honorum* (the 'fountainhead' or 'source of honor'). The 'Great' War was a 'great break' in 'von' Hayek's (1978) 'recollected history ... The economic decline' in Austria 'already was fairly *dreadful* [emphasis added]', as was 'cultural decline.'<sup>18</sup> It also broke the Habsburg nobility: coats of arms and titles ('von,' 'Archduke,' 'Count' etc.) were abolished on 3 April 1919 by the *Adelsaufhebungsgesetz*, the Law on the Abolition of Nobility. Violators face fines or six months jail.

The Habsburg-born, Austrian-educated Arthur Koestler (1950, 19) described the affected: 'Those who refused to admit that they had become *déclassé*, who clung to the empty shell of gentility, joined the Nazis and found comfort in blaming their fate on Versailles and the Jews. Many did not even have that consolation; they lived on pointlessly, like a great black swarm of tired winter flies crawling over the dim windows of Europe, members of a class displaced by history.' Friedrich 'von' Wieser (1983 [1926], xxxix) expressed similar sentiments: 'The inconceivability of the World War was followed by the inconceivability of inner decay ... How could this all have happened? Had life not lost all of its meaning?'

In 1918–1919, 'von' Hayek (1978) initially found the University of Vienna to be 'dreadful.' But then 'Wieser came back, and he became my teacher. He was a most impressive teacher, a very distinguished man whom I came to admire very much, I think it's the only instance where, as very young men do, I fell for a particular teacher. He was the great admired figure, sort of a grandfather figure of the two generations between us. He was a very kindly man who usually, I would say, floated high above the students as a sort of God ... he was for a

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<sup>18</sup>Friedrich Hayek, interviewed by Robert Chitester date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).



long time my ideal in the field, from whom I got my main general introduction to economics.'<sup>19</sup>

In tracing the development of 'extreme rationalism, or as I now call it, constructivism, from Descartes through Comte and positivism,' Hayek (1978) had planned a 'second volume, on the decline of reason, showing the effects, leading to totalitarianism and so on. I had all these ready when I had the practical purpose of explaining to the English intellectuals that they were completely mistaken in their interpretation of what the Nazi system meant, and that it was just another form of socialism. So I wrote up an advance sketch of what was then meant to be volume two of the large work on the abuse and decline of reason, which I never completed in that form, very largely because the next historical chapter would have had to deal with Hegel and Marx, and I couldn't stand then once more diving into that *dreadful* [emphasis added] stuff. [laughter]'<sup>20</sup>

Hayek (1978)—described by Shackle (1981, 234) as 'aristocratic in temper and origins'—told Chitester: 'The whole traditional concept of aristocracy, of which I have a certain conception—I have moved, to some extent, in aristocratic circles, and I like their style of life.'<sup>21</sup> Wieser (1983 [1926], 257, 363) described 'The Modern Plutocracy': 'The Law of Small Numbers found in the economy a field of application of equally great effect as it once had in the victory of arms. While the multitude of the weak was pressed down, out of the bourgeois middle class there arose to dizzying heights the elite of the capitalists, joining the rulers of earlier times and exceeding them still in wealth and finally even in social influence. The great economic rulers had won under *the slogan of liberty* [emphasis added], which opened for them the road to unchecked activity. They demanded ever more impetuously the green light for themselves, but the uninhibited unfolding of their energies

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<sup>19</sup>Friedrich Hayek, interviewed by Earlene Craver date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>20</sup>Friedrich Hayek interviewed by Robert Bork 4 November 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>21</sup>Friedrich Hayek, interviewed by Robert Chitester date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

meant coercion for all the weak who stepped into their way. Could the [classical] liberals still talk about freedom?’

Republics transform ‘subjects’ into ‘citizens’: in 1919, the status of

‘German Austrian citizens’ equal before the law in all respects was forcibly imposed on Austrian nobles. (Gusejnova 2012, 115)

The defining, dreadful trauma of ‘von’ Hayek’s (1978) life had been inflicted by what he dismissed as a ‘republic of peasants and workers.’<sup>22</sup> Hayek provided a ‘catchword’ or ‘slogan of liberty’: ‘There used to be a traditional conception of law, in which law was a general rule of individual conduct, equally applicable to all citizens.’<sup>23</sup> But being left ‘equal before the law in all respects’ left ‘von’ Hayek sympathetic to dictators.

Herman Finer (1945, ix, 210) detected in Hayek (his LSE colleague) a ‘thoroughly Hitlerian contempt for the democratic man.’ According to Hitler, ‘the Jewish doctrine of Marxism repudiates the aristocratic principle of nature’ (cited by Bullock 1962, 40). As ‘von’ Hayek (2007b [1944]) was writing *The Road to Serfdom*, the Austrian School philosopher, Erik ‘Ritter von’ Kuehnelt-Leddihn (alias Campbell 1978 [1943]), published *The Menace of the Herd*. Austrian School economists and philosophers openly embraced ‘natural aristocracy’ (Rockwell 1994, 19), monarchy, or anything but democracy (Hoppe 2001), and a ‘small, self-perpetuating oligarchy of the ablest and most interested’ (Rothbard 1994, 10). As the President of the Ludwig von Mises Institute put it,

democracy is a sham that should be opposed by all liberty-loving people. Voting and elections confer no legitimacy whatsoever on any government, and to the extent a democratic political process replaces outright war it should be seen as only slightly less horrific. (Deist 2017)

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<sup>22</sup>Friedrich Hayek, interviewed by Robert Chitester date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>23</sup>Friedrich Hayek, interviewed by James Buchanan 28 October 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

In *Liberalism: An Attempt to State the Principles and Proposals of Contemporary Liberalism in Britain*, Herbert Samuel (1902, 23) reflected: 'Now democracy has been substituted for aristocracy as the root principle of the constitution. Court influence and the grosser kinds of corruption have disappeared.' In 'many ways,' Mises was 'still attached to the old world: he had a color picture of the Emperor Franz Josef II hanging on the wall' of his three bedroom rent-controlled Manhattan apartment (Koether 2000, 5). Like 'von' Hayek, 'von' Mises generally referred to Otto the Hapsburg Pretender as 'His Majesty, Kaiser Otto' and 'Imperial Highness'—long after the prospect of a restoration of the Austrian monarchy had disappeared (Hülmann 2007, 818). Hayek (1978) described the gross corruption of the University of Vienna (see below).

Referring to nineteenth-century utilitarianism (which Pareto 'efficiency' sought to overturn), Hayek (1978) complained to James Buchanan:

The whole history of constitutionalism till then was a restraint on government, not by confining it to particular issues but by limiting the form in which government could interfere. The conception was still very large then that coercion could be used only in the enforcement of general rules which applied equally to all, and the government had no powers of discriminatory assistance or prevention of particular people. Now, the *dreadful* [emphasis added] thing about the forgetting of this is that it's, of course, no longer the will of the majority, or the opinion of the majority, I prefer to say, which determines what the government does, but the government is forced to satisfy all kinds of special interests in order to build up a majority. It's as a process. There's not a majority which agrees, but the problem of building up a majority by satisfying particular groups. So I feel that a modern kind of democracy, which I call unlimited democracy, is probably more subject to the influence of special interests than any former form of government was. Even a dictator can say no, but this kind of government cannot say no to any splinter group which it needs to be a majority.<sup>24</sup>

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<sup>24</sup>Friedrich Hayek, interviewed by James Buchanan 28 October 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

Using one of his dissembling words, ‘curious,’ Hayek (1978) told Chitester that ‘the curious thing is that in the countryside of southwest England, the class distinctions are very sharp, but they’re not resented. [laughter] They’re still accepted as part of the natural order.’<sup>25</sup> Hayek explained that it was deference—‘surrounding rules’—that he was referring to.

In this context, Hayek may have been influenced by the Fabian LSE political scientist, Graham Wallace (1858–1932), who published ‘Property Under Socialism (1889), *Human Nature in Politics* (1908), *Great Society* (1914), *Our Social Heritage* (1921), *The Art of Thought* (1926) and *Social Judgment* (1934)—all themes which he later explored. Wallace (1908, Introduction) emphasized the irrational in politics; and denigrated the

shallow dogmatism by which well-to-do people in the first half of Queen Victoria’s reign tried to convince working me that any change in the distribution of the good things in life was ‘scientifically impossible.’

From 1815 to 1870, the ‘laws of political economy’ stood ‘like gigantic stuffed policemen, on guard over rent and profit.’

Hayek (1978) dissented from Mises who was a ‘rationalist utilitarian, and I am not. He trusted the intelligent insight of people pursuing their known goals, rather disregarding the traditional element, the element of surrounding rules.’ Hayek objected to ‘contempt for traditional rules,’ because ‘it is traditional rules which secure *our* [emphasis added] freedom.’<sup>26</sup> ‘I don’t think the evolutionary aspect, which is very strongly in Menger, was preserved in the later members of the Austrian school. I must say till I came, really, in between there was very little of it.’<sup>27</sup>

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<sup>25</sup>Friedrich Hayek, interviewed by Robert Chitester date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>26</sup>Friedrich Hayek interviewed by Robert Bork 4 November 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>27</sup>Friedrich Hayek, interviewed by James Buchanan 28 October 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

Wallace (1908) also noted that in America, 'politicians have learnt more successfully than elsewhere the art of controlling other men's unconscious impulses from without.' On a *Road to Serfdom* book sales tour, Hayek (1978) got up

without the slightest idea of what I was going to say. But I began with a tone of profound conviction, not knowing how I would end the sentence, and it turned out that the American public is an exceedingly grateful and easy public ... I went through the United States for five weeks doing that stunt [laughter] everyday, more or less ... I didn't know in the end what I had said, but evidently it was a very successful lecture ... I think I ought to have added that what I did in America was a very corrupting experience. You become an actor, and I didn't know I had it in me. But given the opportunity to play with an audience, I began enjoying it. [laughter]<sup>28</sup>

Hayek (1978) told High, that 'there are certainly many ordering principles operating in forming society, and each is of its own kind.'<sup>29</sup> The *Washington Post* reported that Hayek 'is everything you want an 83-year-old Viennese conservative economist to be. Tall and rumped. A pearl stickpin in his tie. A watch chain across his vest, even though he wears a digital on his wrist. An accent which melds German Z's with British O's.' With 'lovely aristocratic ease,' he became a 'favorite of conservative economists from Irving Kristol to William Buckley.' While Hayek described the 'spontaneous formation of an order' as 'extremely complex structures' and the market as 'an exo-somatic sense organ,' the staff of the Heritage Foundation 'hover around him with a combination of delight and awe that makes them seem like small boys around a football hero' (Allen 1982).

Football hero and war hero. Shackle (1981, 234) described him as 'physically, morally and intellectually fearless.' In 'Claremont, California

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<sup>28</sup>Friedrich Hayek, interviewed by Robert Chitester date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>29</sup>Friedrich Hayek, interviewed by Jack High date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

Hosts Two Conferences,' High (1977) reported that Hayek had participated in the May 1977 'Economic Coordination Conference' and June 1977 'Carl Menger Conference.' High asked: 'I seem to recall you telling a story in Claremont. You presided over the retreat of some troops. You were a lieutenant and ran into quite an interesting-' Hayek (1978) interrupted: 'Well, it wasn't very interesting ... I had to attack a firing machine gun. In the night, by the time I had got to the machine gun, they had gone. But it was an unpleasant experience. [laughter]'<sup>30</sup> Was the teenage Hayek (1899–1992) a Lieutenant?

According to Erik Ritter von Kuehnelt-Leddihn (no date), during the 'Great' War, Hayek and Mises fought

to prevent the 'world from being made safe for democracy.'

According to Kurt Leube (2004), Hayek intentionally left high school early and was 'immediately drawn to the Italian front' where he 'fought for the monarchy, for the Empire.' Hayek also allegedly told Leube (2003, 12) in a taped interview that he 'never doubted that there are things in life worth fighting for and risking one's own life for.' Leube added that Hayek had been 'born into an aristocratic family that could not only lay claim to a long academic tradition but also to a long and dutiful service to the Empire ... Thus, consciously devoted to the vision and splendour of the Habsburg Empire he joined up in March 1917 ... he was anxious to be sent as an artillery sergeant cadet to the intensely embattled Italian front ... much to his dislike he missed by a few days the Battle of Caporetto in October/November 1917 that left many dead and wounded.'

A different impression emerges from Hayek's (1978) University of California Los Angeles oral history interviews:

I had decided to enter the diplomatic academy, but for a very peculiar reason. We all felt the war would go on indefinitely, and I wanted to get

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<sup>30</sup>Friedrich Hayek, interviewed by Jack High date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

out of the army, but I didn't want to be a coward. So I decided, in the end, to volunteer for the air force in order to prove that I wasn't a coward. But it gave me the opportunity to study for what I expected to be the entrance examination for the diplomatic academy, and if I had lived through six months as an air fighter, I thought I would be entitled to clear out. Now, all that collapsed because of the end of the war. In fact, I got as far as having my orders to join the flying school, which I never did in the end. And of course Hungary collapsed, the diplomatic academy disappeared, and the motivation, which had been really to get honorably out of the fighting, lapsed. [laughter]<sup>31</sup>

If Hayek didn't join the flying school this raises questions about not only about his flying stories but also the stories he told to a 'fascinated' Gerald Radnitzky about 'war experiences, especially that of parachuting' (Cubitt 2006, 91, n. 91).

His disciples refer to Hayek's 'wonderful love story' with his cousin whose cooking and conversation he could barely tolerate: Radnitzky suggested that it should be made into a movie (Cubitt 2006, 50, 106, 119, 211). Caldwell (2011) sketched the second part of his 'definitive' nuanced hagiography: there was a 'great deal of romance about the Soviet Union that turned out to be quite untrue but at the time was seen as a great goal ... The bloom was off the rose. So, he writes *The Road to Serfdom*, it comes out in 1944 as part of this [Abuse of Reason] project. 1947, we have the Mont Pelerin Society; and he leaves LSE in 1950. Goes for a semester to the U. of Arkansas. Why? Because they had very relaxed divorce laws in that state. That would make a good movie! Love story for Friedrich Hayek! Goes on to the U. of Chicago, where he is on the Committee for Social Thought. Not in the Economics Department. That's another one of those juicy stories that we wish we had more information about—exactly why the economics department declined to invite him when it was first being proposed in 1948 or so.'

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<sup>31</sup>Friedrich Hayek, interviewed by Earlene Craver date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

Hayek told his third appointed biographer, William Warren Bartley III: ‘There are only three things that sell books namely sex, money and violence. As to sex, well, I left my first wife for my first girlfriend. As to money, well, I never had any. And as to violence, let me tell you how I came to bayonet a man to death in World War One!’ (cited by Blundell 2014, 100). Hayek (1994, 153), who attempted to dictate his own biography to Bartley, reflected: ‘You have made me think about the past. I hesitate because it sounds a little like self-praise, but it isn’t, its self-discovery. In a sense I am fearless, physically, I mean. It’s not courage. It is just that I have never really been afraid. I noticed it in the war.’ Bartley asked: ‘You must have been fearless to go on those airplane expeditions in the Great War where you were acting as an artillery spotter’; to which Hayek replied: ‘Excitement, in a sense; but not a matter of fear. Once the Italians practically caught us. One in front, firing through the propeller. When they started firing, my pilot, a Czech, spiralled down. I unbelted myself, climbed on the rail. My pilot succeeded in correcting the spin just above the ground. It was exciting ... I lack nerves. I believe this is a thing I inherited from my mother.’<sup>32</sup>

Hayek’s (1978) ‘determination to become a scholar was certainly affected by the unsatisfied ambition of my father to become a university professor.’ His Privatdozent allowed him to ‘lecture but practically to earn no money. When I finally achieved it, what I got from student fees just served to pay my taxi, which I had to take once a week from my office to give a lecture at the university. That’s all I got from the university.’ When Earlene Craver asked about ‘roadblocks even in getting accepted as a Privatdozent,’ Hayek described the Viennese academic corruption that he ‘imported’ into the London School of Economics (LSE), and universities in Chicago, Salzburg, Freiburg and wherever else his recommendations held sway:

Oh, yes, of course. You were very much dependent on the sympathy, or otherwise, of the professor in charge. You had to find what was called a *Habilitations-Vater*, a man who would sponsor you. And if you didn’t

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<sup>32</sup>Some of the Bartley-labeled interviews were undertaken by others—this appears to be a biographical interview.



happen to agree with the professor in charge, and there were usually only two or three—in fact, even in a big subject like economics, there were only two or three professors—unless one of them liked you, well there was just no possibility.<sup>33</sup>

Buchanan asked about 'a piece that you wrote in *Encounter* [1975] maybe a decade ago, in which you talked about two kinds of mind.' Hayek (1978) replied:

Oh, it's a very old idea of mine which, as I explained at the beginning of that article, I never wrote up because it would sound so frightfully egotistic in speaking about myself—why I feel I think in a different manner. But then, of course, I found a good many instances of this in real life.

Hayek (1978) illustrated his 'frightfully egotistic' feeling by referring to four leaders of the Second and Third Generation Austrian School of Economics, Eugen Böhm Ritter von Bawerk (1851–1914), 'von' Wieser (1851–1926), Lionel Robbins (1898–1984) and Machlup (1902–1983):

The first observed instance of other people was the relation between Böhm-Bawerk and Friedrich, who were of these two types: the one, whom I call the 'master' of his subject, who had complete command of all his subject areas, and who can give you a prompt answer about what is the answer of current theory to this-and-this problem ... Then, later in life, I have known two types who are typical masters of the subject, and who, because they have the answer for everything ready, have not done as much original work as they would have been capable of. The one is Lionel Robbins; the other is Fritz Machlup. They both, to an extent, have command of the present state of economics which I could never claim to. But it's just because I don't remember what is the standard answer to a problem and have to think it out anew that occasionally I get an original idea.<sup>34</sup>

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<sup>33</sup>Friedrich Hayek, interviewed by Earlene Craver date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>34</sup>Friedrich Hayek, interviewed by James Buchanan 28 October 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

Referring to ‘the intellectuals, by which I don’t mean the original thinkers but what I once called the secondhand dealers in ideas,’ Hayek (1978) explained that he had ‘long been convinced that unless we *convince* [emphasis added] this class which makes public opinion, there’s no hope.’ Lionel Robbins, an unoriginal secondhand dealer, ‘might have written the textbook for this generation.’<sup>35</sup>

Lionel Robbins (2012 [1931]) and Machlup (1974) helped create the Austrian revival of the 1970s by being sufficiently ‘convinced’ to repeat Hayek’s fraud about having predicted the Great Depression—which provided the foundation of his 1974 Nobel Prize for Economic Sciences (Klausinger 2010, 227, 2012, 172, n. 10; Leeson 2018a).<sup>36</sup> In 1984, Hayek used his Nobel status to assert that externalities had been invented by a gunrunner for Stalin, A. C. Pigou (Leeson 2015a)—a fraud that had been first been aired in *The British Connection: Russia’s Manipulation of British Individuals and Institutions* by Donald McCormick, aka Richard Deacon (1979).

In his Inaugural University of London Professorial Lecture on ‘The Trend of Economic Thinking,’ Hayek (1933, 122, 124, 128) contrasted Pigou’s ‘social enthusiasm’ with the ‘wonder’ associated with the movement of ‘heavenly bodies ... today it is regarded almost as a sign of moral depravity if the economists finds anything to marvel at in his science; i.e. he finds an unsuspected order in things which arouses his wonder.’ The economy was a mysterious ‘organism’—but interventionist economists had focused on the ‘unsatisfactory aspects of economics life, rather than what was owed to the working of the system.’ As a result, ‘the non economist ... is always likely to feel injured if the economist implies that there are inter-relations between things which he does not see ... When we begin to understand their working, we discover again

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<sup>35</sup>Friedrich Hayek interviewed by Leo Rosten 15 November 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>36</sup>Referring to the 1929 American crash, Hansjörg Klausinger (2010, 227, 2012, 172, n. 10), the editor of *Business Cycles*, the seventh volume of Hayek’s *Collected Works*, confirmed: ‘there is no textual evidence for Hayek predicting it as a concrete event in time and place’: we lack ‘convincing evidence of a prediction that conformed to what [Lionel] Robbins [2012 (1931), 172–173] suggested in his foreword.’

and again that necessary functions are discharged by spontaneous institutions. If we try to run the system by deliberate regulation, we should have to invent such institutions, and yet at first we did not even understand them when we saw them.' To defend the 'spontaneous' order, Hayek created an institution, the Mont Pelerin Society (MPS, 1947–).

Hayek (1978) told Leo Rosten:

We can build up beautiful theories which would explain everything, if we could fit into the blanks of the formulae the specific information; but we never have all the specific information. Therefore, all we can explain is what I like to call 'pattern prediction.' You can predict what sort of pattern *will form itself* [emphasis added], but the specific manifestation of it depends on the number of specific data, which you can never completely ascertain. Therefore, in that intermediate field—intermediate between the fields where you can ascertain all the data and the fields where you can substitute probabilities for the data—you are very limited in your predictive capacities. This really leads to the fact, as one of my students once told me, that nearly everything I say about the methodology of economics amounts to a limitation of the possible knowledge. It's true; I admit it. I have come to the conclusion that we're in that field which someone has called organized complexity, as distinct from disorganized complexity.<sup>37</sup>

The MPS appeared to 'form itself' into a species of denationalized money—tenured Professorships at public universities for academically unqualified members, swapped for membership nominations: a 'free' market win–win for everyone except students and the taxpayer.

Buchanan—the 'George Mason Nobel Laureate'—asked about restricting the 'franchise' and the 'delusion of democracy: 'we've got ourselves into a situation where people who are direct recipients of government largesse, government transfers, are given the franchise; people who work directly for government are given the franchise; and we wouldn't question them not having it. Yet, to me, there's no more overt conflict

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<sup>37</sup>Friedrich Hayek interviewed by Leo Rosten 15 November 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

of interest than the franchise [given] to those groups. Do you agree with me?’ Hayek (1978) replied that he preferred the ‘Model Constitution’ (Hayek 1984 [1979], 382–405) that he had just sent in draft form to General Augusto Pinochet:

in a sense, the conception of democracy was an artifact which captured public opinion after it had been a speculation of the philosophers. Why shouldn’t—as a proper heading—the need for restoring the rule of law become an equally effective catchword, once people become aware of the essential arbitrariness of the present government.

Buchanan asked: ‘Well, how would you see this coming about, though? Would you see us somehow getting in a position where we call a new constitutional convention and then set up this second body with separate powers? Or how would you see this happening?’ Hayek (1978) replied that the spontaneous order would have to be reconstructed: ‘I think by several experiments in new amendments in the right direction, which gradually prove to be beneficial, but not enough, until people feel constrained to reconstruct the whole thing.’

Hayek told Buchanan that he sought to overthrow the Constitution of the United States and replace it by a single sentence written by a dictator-promoting European aristocrat:

After all, the one phrase in the American Constitution, or rather in the First Amendment, which I think most highly of is the phrase, ‘Congress shall make no law....’ Now, that’s unique, but unfortunately [it goes] only to a particular point. I think the phrase ought to read, ‘Congress should make no law authorizing government to take any discriminatory measures of coercion.’ I think this would make all the other rights unnecessary and create the sort of conditions which I want to see.<sup>38</sup>

George Mason (1725–1792) is regarded as the ‘father’ of the United States Bill of Rights. Hayek (1978) told Robert Bork:

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<sup>38</sup>Friedrich Hayek, interviewed by James Buchanan 28 October 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

I believe that, instead of having the Bill of Rights, you need a single clause saying that coercion can be exercised only according to and now following a definition of law which is of some language which of course explicates what I, in a brief phrase, call general rules. That would, in the first instance, make all special protected rights unnecessary, and it would include all. It excludes all discriminatory action on the part of government, and it would, of course, give the court guidance.

Bork provided an interpretative summary: 'what you're saying is that, at the same time, we're becoming more heavily regulated in our property rights, which are crucial, and these other freedoms will prove illusory if we lose our control of property rights.'<sup>39</sup>

In 1962, Hayek sent his *Constitution of Liberty* to Portugal's 'Fascist' dictator, António de Oliveira Salazar, with an accompanying note stating that this 'preliminary sketch of new constitutional principles' may 'assist' him 'in his endeavour to design a constitution which is proof against the abuses of democracy' (cited by Farrant et al. 2012; Robin 2015). But Hayek was completely indifferent to human rights abuses—dismissing Amnesty International's documentary evidence about Pinochet's torture-based Junta as the outpouring of a 'bunch of leftists' (cited by Farrant and McPhail 2017).

One of Hayek's (1978) 'two inventions in the economics field' was 'my proposal for a system of really limited democracy.'<sup>40</sup> Pierre Vidal Naquet's (1962) *Torture: Cancer of Democracy, France and Algeria, 1954–1962* described *unintended* consequences—torture limited French democracy; but the causal sequence could also be *promoted* to achieve *intended* consequences.

In 1973, Pinochet overthrew Chile's democratically elected government. Mises (1985 [1927], 48, 154) supported 'Fascists' because they proposed to make use of the 'same unscrupulous methods in the

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<sup>39</sup>Friedrich Hayek interviewed by Robert Bork 4 November 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>40</sup>Friedrich Hayek, interviewed by Jack High date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

struggle against the Third International as the latter employs against its opponents. The Third International seeks to exterminate its adversaries and their ideas in the same way that the hygienist strives to exterminate a pestilential bacillus; it considers itself in no way bound by the terms of any compact that it may conclude with opponents, and it deems any crime, any lie, and any calumny permissible in carrying on its struggle. The Fascists, at least in principle, profess the same intentions.’ Countries where the ‘knout and the prison-camp’ dominate could be ‘safely’ left ‘alone.’<sup>41</sup>

Hayek (1979, 202–203, n. 42) referred to human rights as a ‘trick’ perpetrated by Marxists:

In view of the latest trick of the Left to turn the old liberal tradition of human rights in the sense of limits to the powers both of government and of other persons over the individual into positive claims for particular benefits (like the ‘freedom from want’ invented by the greatest of modern demagogues) it should be stressed here that in a society of free men the goals of collective action can always only aim to provide opportunities for unknown people, means of which anyone can avail himself for his purposes, but no concrete national goals which anyone is obliged to serve.

In *Law, Legislation and Liberty: The Mirage of Social Justice*, Hayek (1976, 103) expressed sarcasm about human rights: to the

negative rights which are merely a complement of the rules protecting individual domains and which have been institutionalized in the charters of organization of governments, and to the positive rights of the citizens to participate in the direction of this organization, there have recently been added new positive ‘social and economic’ human rights for which an equal or even higher dignity is claimed!

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<sup>41</sup>‘Whether or not the Russian people are to discard the Soviet system is for them to settle among themselves. The land of the knout and the prison-camp no longer poses a threat to the world today. With all their will to war and destruction, the Russians are no longer capable seriously of imperiling the peace of Europe. One may therefore safely let them alone.’

The *Universal Declaration of Human Rights* (adopted by the General Assembly of the United Nations in 1948) proclaimed that 'disregard and contempt for human rights have resulted in barbarous acts which have outraged the conscience of mankind.' The Pinochet regime systematically violated the *Universal Declaration of Human Rights*:

- Everyone has the right to life, liberty and security of person (Article 3).
- No one shall be subjected to torture or to cruel, inhuman or degrading treatment or punishment (Article 5).
- No one shall be subjected to arbitrary arrest, detention or exile punishment (Article 9).
- Everyone has the right to leave any country, including his own, and to return to his country (Article 13.2).
- Everyone has the right to freedom of peaceful assembly and association (Article 20.1).
- Everyone has the right to take part in the government of his country, directly or through freely chosen representatives (Article 21.1).
- The will of the people shall be the basis of the authority of government; this will shall be expressed in periodic and genuine elections which shall be by universal and equal suffrage and shall be held by secret vote or by equivalent free voting procedures (Article 21.3).
- Everyone has the right to form and to join trade unions for the protection of his interests (Article 23.4).<sup>42</sup>

Hayek (1976, 103) complained that these are claims to particular benefits to which 'every' human being 'as such' is 'presumed to be entitled.' Yet, there was no indication as to who is obliged to provide those benefits nor is there any specification of the 'process' by which they are to be provided.

It is, of course, meaningless to describe them as claims on 'society' because 'society' cannot think, act, value, or 'treat' anybody in a particular way.

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<sup>42</sup><http://www.un.org/en/universal-declaration-human-rights/index.html>.

Meeting these claims would end the ‘spontaneous’ order:

If such claims are to be met, the spontaneous order which we call society must be replaced by a deliberately directed organization: the cosmos of the market would have to be replaced by a taxis whose members would have to do what they are instructed to do. They could not be allowed to use their knowledge for their own purposes but would have to carry out the plan which their rulers have designed to meet the needs to be satisfied.

To protect their ‘knowledge’ producer sovereignty, in 2014 Boko Haram seized 276 Nigerian pupils from the Government Girls Secondary School; the 2018 release of some was accompanied by a warning: ‘Don’t ever put your daughters in school again.’<sup>43</sup> *Liberalism in the Classical Tradition*—illegally signed ‘von Mises’ (1985 [1927], 115)—provided the foundations of the ‘spontaneous’ order: ‘There is, in fact, only one solution: the state, the government, the laws must not in any way concern themselves with schooling or education. Public funds must not be used for such purposes. The rearing and instruction of youth must be left entirely to parents and to private associations and institutions. It is better that a number of boys grow up without formal education than that they enjoy the benefit of schooling only to run the risk, once they have grown up, of being killed or maimed. A healthy illiterate is always better than a literate cripple.’

Internationally, the neo-feudal ‘spontaneous’ order culminated in the ‘Great’ War between the dynasties; it was replaced, first, by the League of Nations and then by the United Nations—which was committed not to the maintenance of intergenerational entitlement programs for ‘von’ Hayek and ‘von’ Mises but to the promotion of achieved status:

- Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing,

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<sup>43</sup>PBS Newshour 21 March 2018. <https://www.pbs.org/newshour/show/pbs-newshour-full-episode-march-21-2018>.



housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control (Article 25).

- Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be equally accessible to all on the basis of merit (Article 26.1).
- Education shall be directed to the full development of the human personality and to the strengthening of respect for human rights and fundamental freedoms (Article 26.2).

In 1975 and 1976, the United Nations Commission on Human Rights concluded that many Chileans had been imprisoned, tortured, disappeared, forced into exile, and executed under Pinochet's dictatorship. Hayek (1976, 103–104) complained about the 'new trend' which found its 'definite' embodiment only in the *Universal Declaration of Human Rights* which is 'admittedly an attempt to fuse the rights of the Western liberal tradition with the altogether different conception deriving from the Marxist Russian Revolution.' Democratic President Franklin Delano Roosevelt—the 'greatest of modern demagogues'—was responsible (Hayek 1979, 202–203, n. 42).

Simultaneously, Hayek (1978)—in defending the 'civilization' of Police State apartheid from the American 'fashion' of 'human rights'—blamed a later Democratic Party President:

You see, my problem with all this is the whole role of what I commonly call the intellectuals, which I have long ago defined as the secondhand dealers in ideas. For some reason or other, they are probably more subject to waves of fashion in ideas and more influential in the American sense than they are elsewhere. Certain main concerns can spread here with an incredible speed. Take the conception of human rights. I'm not sure whether it's an invention of the present [Carter] administration or whether it's of an older date, but I suppose if you told an eighteen year old that human rights is a new discovery he wouldn't believe it. He

would have thought the United States for 200 years has been committed to human rights, which of course would be absurd. The United States discovered human rights two years ago or five years ago. Suddenly it's the main object and leads to a degree of interference with the policy of other countries which, even if I sympathized with the general aim, I don't think it's in the least justified. People in South Africa have to deal with their own problems, and the idea that you can use external pressure to change people, who after all have built up a civilization of a kind, seems to me morally a very doubtful belief. But it's a dominating belief in the United States now.<sup>44</sup>

The Prime Minister (1966–1978) and then President (1978–1979) of apartheid South Africa was Balthazar Johannes Vorster (1915–1983), who had been interned during the Second World War as a Nazi (Leeson 2015b, Chapter 3).

Hayek (1978) complained that Austria is a 'country governed by the [labour] trade unions. At the present moment, nobody doubts that the president of the trade union association is the most powerful man in the country. I think it works because he happens to be personally an extremely reasonable man. But what will happen if they get a radical in that position I shudder to think.' In 1986, Hayek complained that the 'fuss' made by the 'foreign press' about the Austrian Presidential candidate, Kurt Waldheim, was 'foolish' (Cubitt 2006, 217). Waldheim's possible awareness of—if not involvement in—Nazi war crimes war made Austria an international pariah.

In 1986—inspired by Hayek—the British undertook the 'Big Bang' deregulation of the financial system. The 'free' market then delivered the first run on a British bank for 150 years: Northern Rock sought and received liquidity support from the Bank of England (14 September 2007) before being nationalized (22 February 2008). The Global Financial Crisis threatened to become another Great Depression.

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<sup>44</sup>Friedrich Hayek, interviewed by Robert Chitester date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

## The 'Thing Taking Over': 'Fascism' and the Austrian School 'United Front' with 'Neo-Nazis'

In 'The Future of Liberty Lets Not Give Into Evil,' Llewellyn Rockwell Jr. (1997, 92) stated that 'at the Mises Institute, we seek to create a seamless web between academia and popular culture, so as to influence the future in every possible way.' The Mises Institute Senior Fellow, Walter Block (2000, 40), described the Austrian School 'united front' with Neo-Nazis:

I once ran into some Neo-Nazis at a libertarian conference. Don't ask, they must have sneaked in under our supposedly united front umbrella. I was in a grandiose mood, thinking that I could convert anyone to libertarianism, and said to them, 'Look, we libertarians will give you a better deal than the liberals. We'll let you goosestep. You can exhibit the swastika on your own property. We'll let you march any way you wish on your own property. We'll let you sing Nazi songs. Any Jews that you get on a voluntary basis to go to a concentration camp, fine.'

Nazi 'ends' included world domination and the liquidation of the Jews. But according to Block, the 'problem with Nazism is not its ends, from the libertarian point of view, rather it is with their means. Namely, they engaged in coercion. But, the ends are as just as any others; namely, they do not involve invasions. If you like saluting and swastikas, and racist theories, that too is part and parcel of liberty.'

Also according to Block, 'Freedom includes the right to salute the Nazi flag, and to embrace doctrines that are personally obnoxious to me. Under the libertarian code, you should not be put in jail for doing that no matter how horrendous this may appear to some. I happen to be Jewish, and my grandmother is probably spinning in her grave as I write this because we lost many relatives in the Nazi concentration camps.'

Shackle's (1981) hagiographic chapter appeared in *Pioneers of Modern Economics in Britain*. Hayek (1992a [1963], 29–30) described his LSE colleagues, Cannan and Theodore Gregory, as Mises' 'kindred spirits.'

Before Hayek (1978) arrived in 1931, the LSE ‘was half-Austrian already. [laughter]’<sup>45</sup> What was the missing half?

According to Mises (1993 [1964], 36), Cannan (1861–1935) was ‘the *last* [emphasis added] in the long line of eminent British economists.’ The crucial distinction between *Edwin Cannan: Liberal Doyen* (Ebenstein 1997) and *Mises: The Last Knight of Liberalism* (Hülsmann 2007, 677, n. 149) is that only one was a card-carrying Fascist (and member of the official Fascist social club) and only one promoted Fascist violence to achieve Austrian School ends. According to Mises (1985 [1927], 47–48)—a business sector lobbyist: ‘The militaristic and nationalistic enemies of the Third International felt themselves cheated by liberalism’ because of the exclusion of ‘murder and assassination’ from the list of measures to be ‘resorted to in political struggles.’

According to Mises (1985 [1927], 49, 51), ‘It cannot be denied that Fascism and similar movements aiming at the establishment of dictatorships are full of the best intentions and that their intervention has, for the moment, saved European civilization. The merit that Fascism has thereby won for itself will live on eternally in history.’ A generation later, Hayek’s (1973, 3) *Law, Legislation and Liberty* asserted: ‘It can hardly be denied that, since this type of democracy has come to be accepted, we have been moving away from that ideal of individual liberty of which it had been regarded as the surest safeguard, and are now drifting towards a system which nobody wanted. Signs are not wanting, however, that unlimited democracy is riding for a fall and that it will go down, not with a bang, but with a whimper.’

According to Hayek (1973, 3), it is ‘already becoming clear that many of the expectations that have been raised can be met only by taking the powers out of the hands of democratic assemblies and entrusting them to the established coalitions of organized interests and their hired experts.’ A few weeks before the announcement of his Nobel Prize, Hayek told Seigen Tanaka (1974):

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<sup>45</sup>Friedrich Hayek, interviewed by Jack High date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

It may be said that effective and rational economic policies can be implemented only by a superior leader of the philosopher-statesman type under powerful autocracy. And I do not mean a communist-dictatorship but rather a powerful regime following democratic principles.

Hayek was obviously determined that Operation Condor dictators—who administered crony-based coalitions of organized interests with 'experts' hired from the business elite (Chapter 10, below)—would not feel 'cheated' just because they led blood-thirsty Juntas that fitted Mises' (1985 [1927]) definition of 'Fascism.' Moreover, in protecting 'property,' 'Fascists' protected the intellectual foundations (and the defining qualification) of liberty-promoters: 'experience of the working of the economic system which the administration of property gives' (Hayek 1997 [1949], 224).

The Mises Institute website has reproduced Alan Bullock and Maurice Shock's (1957 [1885], 207) *The Liberal Tradition from Fox to Keynes* which contains Joseph Chamberlain's complaint about those who sought to put 'aside' the 'great problem of our civilisation'—income and wealth inequality—by 'reference to the eternal laws of supply and demand, to the necessity of freedom of contract, and to the sanctity of every private right of property': 'phrases' which were the 'convenient cant of selfish wealth.' Hayek administered 'his' property—stolen from tax-exempt educational charities (Leeson 2017); in *Liberalism in the Classical Tradition* and elsewhere, Mises (1985 [1927], xvii, 165, 186) stole Frank A. Fetter's intellectual property—the concept of consumer sovereignty (Leeson 2015b, Chapter 7); and Pinochet 'supplemented his modest salary—never more than about \$40,000 a year as president—with foreign bank accounts holding millions of dollars' (O'Brien and Rohter 2014).

In the 1932 German elections, who else but Hitler could Hayek and Mises have supported (Leeson 2018b)? In 1934, Harold Soref—Hayek's fellow Reform Club member and fellow 'Deacon' McCormick promoter and later Conservative Monday Club M.P. (Ormskirk 1970–1974)—was a standard bearer at the British Union of Fascists Olympia rally. Five years previously—and the year after Cannan's (1928) deflation-promoting *An Economist's Protest*—Hayek (1995 [1929], 68)—while praising

Cannan's 'fanatical conceptual clarity' and his 'kinship' with Mises' 'crusade'—noted that he and the British-Austrians had failed to realise the necessary next step: 'Cannan by no means develops *economic* liberalism to its *ultimate* [emphases added] consequences with the same ruthless consistency as Mises.' According to Caldwell (1995, 70, n. 67), this was an apparent reference to *Liberalism in the Classical Tradition*, in which Mises (1985 [1927], 19, 51) stated:

The program of [Austrian] liberalism, therefore, if condensed into a single word, would have to read: *property* [Mises' emphasis] ... All the other demands of liberalism result from this fundamental demand ... The victory of Fascism in a number of countries is only an episode in the long series of struggles over the problem of property.

The 'Fascists' that Mises praised included 'Germans and Italians,' 'Ludendorff and Hitler.' Mises aspired to provide intellectual leadership:

The great danger threatening domestic policy from the side of Fascism lies in its *complete* faith in the decisive power of violence. In order to assure success, one must be imbued with the will to victory and always proceed violently. This is its highest principle ... The suppression of all opposition by sheer violence is a most unsuitable way to win adherents to one's cause. Resort to naked force—that is, without justification in terms of *intellectual arguments accepted by public opinion*—merely gains new friends for those whom one is thereby trying to combat. In a battle between force and an idea, the latter always prevails [emphases added].<sup>46</sup>

Hayek (1978)

just learned he [Mises] was usually right in his conclusions, but I was not completely satisfied with his argument. That, I think, followed me right

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<sup>46</sup>Mises (1985 [1927], 19) defined property as the 'private ownership of the means of production (for in regard to commodities ready for consumption, private ownership is a matter of course and is not disputed even by the socialists and communists).' Mises (2006 [1958], 37) later asserted that 'Under socialism, of course, the government is totalitarian, and there is nothing outside its sphere and its jurisdiction.'

through my life. I was always influenced by Mises's answers, but not fully satisfied by his arguments. It became very largely an attempt to improve the argument, which I realized led to correct conclusions. But the question of why it hadn't persuaded most other people became important to me; so I became anxious to put it in a more effective form.<sup>47</sup>

In the 'victorious' countries, the inhabitants of those countries defeated in the 'Great' War and the Third Reich-initiated Second World War have been vilified through crude national stereotypes. Referring to British tabloids (some owned by Rupert Murdoch), Thomas Matussek, the German Ambassador to London, expressed exasperation:

Somehow every time our two countries meet on the soccer pitch it's as if you're still fighting the war and all the old 'We Blitz you Fritz' headlines come up again.<sup>48</sup>

When Almen Alchian asked

Professor Hayek, can I use the name 'Fritz'? Where did that develop?

Hayek (1978) expressed sensitivity—for himself: 'My mother called me like that, and I dislike it particularly. [laughter] Of course, my friends in London picked it up, but it so happens that there are few Christian names which I like less than my own. [laughter] ... To me it reminds me too much of the Fritz, the Prussian emperor.'<sup>49</sup>

In September 1972, the Monday Club held a 'Halt Immigration Now!' public meeting which called for repatriation of non-white immigrants. In 1979, Hayek was invited to be 'Guest of Honour' at the Monday Club Annual General Meeting at the Carlton Club (Farrant and McPhail 2017). Hayek (17 October 1979) replied that he would

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<sup>47</sup>Friedrich Hayek, interviewed by Earlene Craver date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>48</sup>[http://news.bbc.co.uk/2/hi/uk\\_news/magazine/3104834.stm](http://news.bbc.co.uk/2/hi/uk_news/magazine/3104834.stm).

<sup>49</sup>Friedrich Hayek, interviewed by Armen Alchian 11 November 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

not wish to miss an opportunity of addressing the Monday Club and suggested the title ‘The Muddle of the Middle.’ Hayek (11 March 1980) then sent an advance copy of his talk to Mrs. Thatcher, adding—as if to illustrate his lack of ‘disdain’—the dates at which he could be contacted at the Reform Club (23–28 March 1980).<sup>50</sup> *The Times* (26 March 1980) published an extract from his Monday Club lecture the previous evening, which was almost identical to the letter from Hayek (5 March 1980) they had just published:

No inflation has yet been terminated without a ‘stabilization crisis.’<sup>51</sup>

The title of the Monday Club President (‘Marquess of Salisbury’) had been created by George III in 1789, the same year that Hayek’s paternal family ‘von’ had been created by Kaiser Josef II. Hayek’s (29 February 1980) only concern was whether to wear a dinner jacket, and whether the Secretary of the Monday Club would like a ‘cup of tea’ at the Reform Club, prior to dinner.<sup>52</sup> In terms of ascribed status, National Front members were not Hayek’s cup of tea; but in terms of attitudes to non-whites, Hayek (1978), Enoch Powell, and the National Front were kissing cousins:

I don’t have many strong dislikes. I admit that as a teacher—I have no racial prejudices in general—but there were certain types, and conspicuous among them the Near Eastern populations, which I still dislike because they are fundamentally dishonest. And I must say dishonesty is a thing I intensely dislike. It was a type which, in my childhood in Austria, was described as Levantine, typical of the people of the eastern Mediterranean. But I encountered it later, and I have a profound dislike for the typical Indian students at the London School of Economics, which I admit are all one type—Bengali moneylender sons. They are to me a detestable type, I admit, but not with any racial feeling.

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<sup>50</sup>Hayek Archives Box 101. <https://www.margaretthatcher.org/document/117159>.

<sup>51</sup><http://www.margaretthatcher.org/document/114503>.

<sup>52</sup>Hayek Archives Box 38.36.



I have found a little of the same amongst the Egyptians—basically a lack of honesty in them.<sup>53</sup>

When asked if a newly elected Conservative government would have a 'tough, new immigration policy,' Thatcher (30 January 1978) replied:

I have described what it is. How you describe what I say is a matter for you ... we do not talk about it [non-white immigration] perhaps as much as we should. In my view, that is one thing that is driving some people to the National Front. They do not agree with the objectives of the National Front, but they say that at least they are talking about some of the problems. Now, we are a big political party. If we do not want people to go to extremes, and I do not, we ourselves must talk about this problem and we must show that we are prepared to deal with it. We are a British nation with British characteristics. Every country can take some small minorities and in many ways they add to the richness and variety of this country. The moment the minority threatens to become a big one, people get frightened.

When asked 'So, some of the support that the National Front has been attracting in recent by-elections you would hope to bring back behind the Tory party?' Thatcher replied: 'Oh, very much back.'<sup>54</sup>

In July 1979, Home Secretary William Whitelaw told Thatcher that 'according to letters he had received, opinion favoured the accepting of more of the Vietnamese refugees.' Thatcher responded: 'all those who wrote letters in this sense should be invited to accept one into their homes.' But she had 'less objection to refugees such as Rhodesians, Poles and Hungarians, since they could more easily be assimilated into British society' (cited by Swaine 2009).

Post-1965, 'Fascists' promoted coordinated destabilization (the 'Strategy of Tension'; Chapters 7–9, below); and the stabilization crisis that Hayek and Mises promoted in post-1929 Germany

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<sup>53</sup>Friedrich Hayek, interviewed by Robert Chitester date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>54</sup><https://www.margaretthatcher.org/document/103485>.

(unemployment-inducing deflation) facilitated Hitler's rise to power (White 2008, Chapters 3 and 4, below). In 2001, the Conservative Party leader, Ian Duncan Smith, severed the Monday Club's links to the Party until it ceased to 'promulgate or discuss policies relating to race' (Watt 2001); he also indicated that no Conservative M.P. should contribute to *Right Now!*, a quarterly magazine (of which the 7th Lord Sudeley was a Patron), after an article in it referred to Nelson Mandela as a terrorist. In 'Monday Club still on Reich Track,' *The Times* (2 June 2006), in a report of the Monday Club's Annual General Meeting, quoted the Old Etonian Lord Sudeley, as stating: 'True though the fact may be that some races are superior to other ... Hitler did well to get everyone back to work' (Rifkind 2006). *The Times* also reported that Jacob Rees-Mogg, Conservative M.P. for North East Somerset, addressed the Annual Dinner of the Traditional Britain Group, which called for the mother of hate-crime-murdered teenager, Stephen Lawrence, and other non-whites to 'return to their natural homelands.' Rees-Mogg later regretted the association: 'I clearly didn't do enough work to look into what they [the TBG] believed in'—did Hayek ever distance himself from his card-carrying Nazi family, the Monday Club or Pinochet?<sup>55</sup>

'Von' Hayek (9 September 1939) informed the BBC that he had discovered a 'blemish' in their propaganda broadcast into Germany—someone with 'a very unpleasant voice': 'I am personally convinced that it actually was a Viennese Jew speaking.' 'Von' Hayek (15 October 1939) proposed the establishment of a Propaganda Commission: it was 'important, in view of the prejudices existing not only in Germany, not to have a person of Jewish race or descent on the commission' (Leeson 2015b, Chapter 2). Denied the opportunity of becoming a wartime propaganda operative, Hayek (2007a [1941]) published, first, *The Pure Theory of Capital* (which Lawrence White edited for Caldwell's *The Collected Writings of F.A. Hayek*) and then *The Road to Serfdom* (2007b [1944]).

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<sup>55</sup><http://www.bbc.com/news/uk-politics-23617555>.

*Just As I Am: The Autobiography of Billy Graham* (1999, Chapter 9) report that in 1949, a two-word directive from publisher William Randolph Hearst made him an instant celebrity: 'PUFF GRAHAM.' Richard Nixon's aide H. R. Haldeman (1994) first reported that Graham told Nixon that the nation's problem lies with 'satanic Jews' and the 'total Jewish domination of the media.' In May 1994, Graham responded: 'Those are not my words ... I have never talked publicly or privately about the Jewish people, including conversations with President Nixon, except in the most positive terms' (cited by Firestone 2002).

But *The Nixon Tapes, 1971–1972* captured Graham anti-Semitism: 'They're the ones putting out the pornographic stuff ... the Jewish stranglehold has got to be broken or the country's going down the drain.' Nixon appeared shocked: 'Do you believe that?' to which Graham replied: 'Yes sir.' Nixon exclaimed: 'Boy! I can never say it though, but I believe-' Graham cut him short: 'But if you're elected a second time, you might be able to do something' (cited by Brinkley and Nichter 2014, 360).

Abraham Rosenthal, the executive editor at *The New York Times*—who had 'passions, chief among them human rights'—argued 'strenuously for publication' of the Pentagon Papers: a '7,000-page secret government history of the Vietnam War, showed that every administration since World War II had enlarged America's involvement while hiding the true dimensions of the conflict' (McFadden 2006). Graham told Nixon: 'I go and I keep friends' with Jews like Rosenthal and 'people of that sort, you know. And all—I mean, not all the Jews, but a lot of the Jews are great friends of mine, they swarm around me and are friendly to me because they know that I'm friendly with Israel. But they don't know how I really feel about what they are doing to this country. And I have no power, no way to handle them, but I would stand up if under proper circumstances' (cited by Firestone 2002).

When Charlotte Cubitt (2006, 51, 146) asked Hayek 'whether he felt comfortable about Jewish people he replied that he did not like them very much, any more than he liked black people.' But in Duke University's *History of Political Economy*, the Jewish-born Ronald Hamowy (2002, 255) stated:

For those of us who knew Hayek, the charge that he was anti-Semitic can only seem perverse. Not only was he not anti-Semitic but in most regards he was in fact pro-Semitic.

Hamowy was Caldwell's choice to edit the tax-exempt *Definitive Edition of The Constitution of Liberty* in which Hayek's (2011 [1960]) motive for writing the book—to market to 'Fascist' dictators such as Salazar—was rectified through deletion (Farrant et al. 2012; Robin 2015). And Caldwell may have made one million dollars in a single month as a result of the 'puffing' of the tax-exempt *Definitive Edition* of Hayek's *Road to Serfdom* (2007b [1944]) by Murdoch's Mormon conspiracy theorist, Glenn Beck (Leeson 2015a).

## 'Consistent Doctrine'

When Thomas Hazlitt asked whether he was 'pleased' with the 'progress' of the MPS, Hayek (1992b [1977]) replied:

Oh yes. I mean its main purpose has been wholly achieved. I became very much aware that each of us was discovering the functioning of real freedom only in a very small field and accepting the conventional doctrines almost everywhere else. So I brought people together from different interests. Any time one of us said, 'Oh yes—but in the field of cartels you need government regulation,' someone else would say, 'Oh no! I've studied that.' That was how we developed a consistent doctrine and some international circles of communication.

Referring to 'the Hayek-Robbins line,' Brinley Thomas (1991, 390) recalled that at the interwar LSE, the 'ruling powers were passionate believers in freedom, and this included freedom to adjust the constraints within which freedom was exercised by nonfavourites. The main type of adjustment was the postponement of tenure. In my own case I did not receive tenure until, on the advice of Sir Alexander Carr-Saunders [LSE Director, 1937–1957], I moved from monetary theory to migration and economic growth.'

Maurice Dobb reflected that the LSE economics department was 'firmly regimented under the Robbins-Hayek banner' where academics were 'mouthing old platitudes about the blessings of a price mechanism and the beneficence of capitalist speculators' (Shenk 2013, 130–131). According to Nadim Shehadi (1991, 385–387), Hayek and Lionel Robbins 'tried to restrict the divulgence' of non-Austrian ideas: 'the LSE at the time was described as a court where the favourites were the ones who adhered to Neo-classical principles and the non-favourites were those who had affinities to Keynesian ideas. The former got promotion, the latter were weeded out gradually.'

Paul Einzig (1937, 204) reported that at the LSE, Robbins and his collaborators 'set up a cult of the Austrian economist, Professor Ludwig von Mises, with his fanatic belief in cutting down prices, and especially wages, as a remedy for all evil [in the Great Depression].' In his *Memoirs*, Hugh Dalton (1953, 115) concluded that Robbins, his LSE colleague, became an 'addict of the Mises-Hayek anti-Socialist theme': 'variety' tended to disappear, and the LSE began to teach a 'more uniform brand of right wing economics.' In 1932, Dalton wrote to a friend that the 'Robbins-Hayek tendency (and they have several echoes on the staff) is very retrograde' (cited by Pimlott 1985, 215). After a visit to Nazi Germany in spring 1933, Dalton noted that '*Geistige Gleichschaltung* [intellectual coordination] is the Nazi ideal in education. There is something of this to in the economics department of the school of economics' (cited by Durbin 1985, 103).

According to an academic fraud, the Koch-funded 'free' market was revived through financial fraud:

The chap who organized the conference, who shall remain nameless, owed the owner of the hotel some money, so the conference killed two birds with one stone ... I'm pleased to be working at the Mises Institute right now ... assuredly if we do not all hang together, we will hang separately. (Shenoy 2003)

David Koch told Brian Doherty (2007): 'If we're going to give a lot of money, we'll make darn sure they spend it in a way that goes along with our intent. And if they make a wrong turn and start doing things we don't agree with we withdraw funding. We do exert that kind of control.'

Tax-exempt tobacco and carbon lobby funds trickled down to Hayek's (1978) compliant cadre of 'secondhand dealers in opinion' who 'determine what people think in the long run. If you can persuade them, you ultimately reach the masses of the people.'<sup>56</sup> Beneficiaries include Shenoy (for her non-existent 'Order of Liberty' biography) and 'Dr.' Leube (to work on the apparently non-existent Böhm-Bawerk diaries).

The alleged benefits of trickle-down tax cuts failed to trickle-down to the wider community. *The Wall Street Journal's* Mary Anastasia O'Grady chaired a 2016 MPS session on how 'free' market principles 'might be applied in practice to current challenges to the free society, from ISIS to the War on Drugs.'<sup>57</sup> She returned with a new trickle-less 'consistent doctrine': 'But what you do when you do this [proposed 2017] tax cut and deploy capital in the market as you create wealth, you don't know how that wealth is going to be allocated in the market after that. You *have to* allow the market to do that. The messaging from Republicans *has to be* [emphases added] this is about making the country wealthier.'<sup>58</sup>

A century after a 'republic of peasants and workers' stripped 'von' Hayek (1978) and 'von' Mises of their intergenerational entitlements, their re-feudalization agenda appears to have entered a new phase.<sup>59</sup>

## 'Secondhand Dealers in Opinion'

According to the author of *Selling Hitler*, Murdoch 'ruled his Empire in a manner not dissimilar to that which Hitler employed to run the Third Reich' (Harris 1986, 258–263, 302, 307, 320, 322). And according to Harold Evans (2007), he was removed by Murdoch as editor of *The Times* because 'nothing less than unquestioning backing of Mrs. Thatcher would satisfy Rupert.'

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<sup>56</sup>Friedrich Hayek, interviewed by James Buchanan 28 October 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>57</sup><https://mps2016.org/mps-2016-program/>.

<sup>58</sup><http://www.foxnews.com/transcript/2017/12/02/debunking-democrat-myths-on-gop-tax-reform-plan.html>.

<sup>59</sup>Friedrich Hayek, interviewed by Robert Chitester date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

Murdoch purchased *The Wall Street Journal* in 2007—but if ownership is a necessary condition of control, it is not sufficient. Does Murdoch-funding come with Koch-like strings? The relationship between the *WSJ* editor, Paul Gigot, and op-ed page editor, Mark Lasswell, broke down during the 2016 Presidential election when 'Gigot blocked Lasswell from publishing op-eds critical of Trump's business practices and which raised questions about his alleged ties to Mafia figures ... There has been a shift, also, at the highest levels of the organization, as the paper's owner Rupert Murdoch went from Trump skeptic to ally over the course of the election' (Gray 2017).

In *The Wall Street Journal*, Charles Koch (2011) stated: 'Crony capitalism is much easier than competing in an open market. But it erodes our overall standard of living and stifles entrepreneurs by rewarding the politically favored rather than those who provide what consumers want.' After five years of studying undergraduate economics, Shenoy (1943–2006) was given a lower second class degree in economic history—below the conventional cut-off point for entry to graduate school. She presented a paper on Austrian capital theory at the 1975 Hartford revivalist meeting to which her commentator, Leland B. Yeager, commented:

'This paper is not worth any comment.' He just stood up, said it, and sat down. Stunned silence.

At the closing dinner, Shenoy

approached Hayek and asked if she could be his official biographer I heard Hayek reply to Sudha, 'yes, you may be my official biographer, but on one condition, and one condition only: namely, you must first become fluent in German.' Sudha accepted, but never even learned to count from *eins* to *zehn*. (Blundell 2014, 98–99)

Richard Fink had a

rabble-rousing background that bordered on juvenile delinquency. 'The first 18 years of my life, I would say that if there were trouble anywhere within a 5-square-mile radius of where I was, somehow I would be in the middle of it within a few minutes.'

As a teenage manual worker, Fink injured his back and ‘enrolled in an economics course without even knowing what economics was’; and at Rutgers University, he ‘quickly grew captivated by a libertarian-minded professor named Walter Grinder and his lectures on moral philosophy’ (cited by Wilson and Wenzl 2012). Grinder (2010 [1974])—who attended the 1975 Hartford conference (Armentano 2010, 9)—described Shenoy as the

brilliant young economist who is rapidly becoming ‘Vienna’s own Mrs. Robinson.’<sup>60</sup>

What criteria do ‘free’ market promoters use when writing job recommendations? The ‘politically favoured’ Shenoy obtained lifetime tenure not through ‘open market’ competition but through special interest pleading by Hayek and the National Tertiary Education Union (of which she was a voluntary member). She peppered Hayek with obsequious conference speeches and letters, such as:

spiritually and intellectually Vienna will always be our home: and we will always return to the charge against the forces of macro-darkness now threatening to overwhelm the world, carrying aloft the intellectual flag of Austria-Hungary ... we still love you: and we feel that by continued association with us, we may yet show you the light and truth of anarcho-Hayekianism ... And so, ladies and gentlemen, I give you two toasts to victory in the future, and to the best legacy of Vienna to the world, Professor Hayek [emphases in original] (23 July 1975).<sup>61</sup>

Having fled from the ‘Fascists’ who had ‘saved European civilisation,’ Mises (2009 [1940], 55)—in his mendacious *Memoirs* (which he denied having written)—provided his life-long motto:

*Tu ne cede malis sed contra audentior ito* (‘Do not give into evil, but proceed ever more boldly against it’).

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<sup>60</sup>In person and on video, Shenoy appeared to be imitating Joan Robinson’s upper-class mannerisms. Or was Grinder referring to the seductress in the 1967 film, *The Graduate*?

<sup>61</sup>Hayek Archives Box 26.28.



And in 'Interventionism,' Mises (2006 [1958], 39) described his quarry: intervention is the quest to 'interfere with market phenomena ... *when the government interferes with the market, it is more and more driven towards socialism* [Mises' emphasis].' From his three bedroomed rent-controlled Manhattan apartment, Mises used rent control to illustrate evil: 'If the government controls rents, one result is that people who would otherwise have moved from bigger apartments to smaller ones when their family conditions changed, will no longer do so ... One of the main reasons why many cities in the United States are in such great financial difficulty is that they have rent control and a resulting shortage of housing.'

In a *Critique of Interventionism*, Mises (2011 [1929], 13)—a paid aristocratic lobbyist for employer trade unions—complained:

He who timidly dares to doubt the justification of the restrictions on capitalists and entrepreneurs is scorned as a hireling of injurious special interests or, at best, is treated with silent contempt. Even in a discussion of the methods of interventionism, he who does not want to jeopardize his reputation and, above all, his career must be very careful. One can easily fall under the suspicion of serving 'capital.' Anyone using economic arguments cannot escape this suspicion.

It wasn't just 'Fascist' 'merit' that would 'live on eternally in history' Mises (1985 [1927], 49, 51); so too would 'free' market opposition to intervention. In his Introduction to a *Critique of Interventionism*, Grove City College's Hans Sennholz (2011, ix) emphasized:

We may grow in knowledge of truth, but its great principles are forever the same. The economic principles that Ludwig von Mises expounded in these six essays during the 1920s have endured the test of time, being as valid today as they were in the past. Surely, the names and places have changed, but the inescapable interdependence of market phenomena is the same today, during the 1970s, as it was during the 1920s, and as valid for present-day Americans as it was for the Germans of the Weimar Republic.

Having denigrated the 'evil seed' of Christianity (Leeson 2018d), Mises (2009 [1940], 55) described the 'great danger ... Evil consists precisely

in the fact that the masses are not intellectually enabled to choose the means leading to their desired objectives. That ready judgments can be foisted onto the people through the power of suggestion demonstrates that the people are not capable of making independent decisions.’ At Grove City College, Sennholz, a ‘Misean for Life’ *Luftwaffe* bomber pilot, taught students of ‘economic science’ that ‘A logically competent defense of a free society requires divinely revealed information; all other defenses fail’ (John Robbins 1992).

Rothbard (2007, 145) reported that Leonard Read—who had a ‘mystical streak’—would treat newcomers to his Foundation for Economic Education (FEE) with a one-hour monologue that began: ‘scientists tell me that if you could blow up an atom to the size of this room, and then step inside it, you would hear beautiful music.’ It is ‘widely whispered in the libertarian community’ that Read (1898–1983) ‘joined his friends,’ William Mullendore (1892–1983, President, Southern California Edison Company), James Ingebretson (1906–1999, Spiritual Mobilization), and Thaddeus Ashby (1924–2007, Assistant Editor of *Faith and Freedom*) in ‘acid explorations’ (Doherty 2007, 279–280; Rothbard 2007, Chapter 11; North 1971; McVicar 2017). According to Rothbard (1990b, 3), Luhnnow (President of the Volker Fund) was a devotee of Rousas John Rushdoony. Luhnnow (1895–1978) told staffers that in 1962 he had received ‘direct and specific communication from God’ and expected that Baldy Harper would also receive Divine communication (Doherty 2007).

For over a quarter-of-a-century (1946–1973), Mises was funded by Read’s FEE as their ‘*spiritus rector*’—literally: ‘*Führer*’ or ‘ruler’ (Hülsmann 2007, 884). Noting that it is ‘ideas and ideals that make us free,’ Read shared the ‘testimony of a dear friend, Norman Ream’ (1983), who, in ‘The Law That Makes Us Free,’ declared:

There is, indeed, a law which governs human freedom and that law is the moral and spiritual law ordained by God.

Mises (2006 [1958], 52–53) sarcastically noted that ‘For centuries there was the doctrine—maintained and accepted by everyone—that a king, an anointed king, was the messenger of God; he had more wisdom

than his subjects, and he had supernatural powers. This doctrine of the superiority of a paternal government, of the supernatural and superhuman powers of the hereditary kings gradually disappeared—or at least we thought so. But it came back again.' Mises was referring—not to Sennholz and Read but—to a 'book, published in our century, not in the Dark Ages,' by Werner Sombart, a German Historical School 'professor of economics,' which

simply says: 'The Führer, our Führer'—he means, of course, Hitler—'gets his orders directly from God, the Führer of the Universe.' I spoke of this hierarchy of the Führer earlier, and in this hierarchy, I mentioned Hitler as the 'Supreme Führer' ... But there is, according to Werner Sombart, a still higher Führer, God, the Führer of the universe. And God, he wrote, gives His orders directly to Hitler. Of course, Professor Sombart said very modestly: 'We do not know how God communicates with the Führer. But the fact cannot be denied.'

Mises had an antidote to the hierarchy associated with those with divinely revealed 'knowledge':

Is there a remedy against such happenings? I would say, yes, there is a remedy. And this remedy is the power of the citizens; they have to prevent the establishment of such an autocratic regime that arrogates to itself a higher wisdom than that of the average citizen. This is the fundamental difference between freedom and serfdom.

Peter Boettke's (2010, 60) only attempt to obtain academic credentials outside the 'free' market obliged him to repeat his freshman year by relocating to Grove City College: 'except for the intervention of the [basketball] coaching staff, I never would have been admitted.' According to *The Wall Street Journal*, after other academic failures, a 'friend' intervened and arranged for Boettke to receive lifetime income from the taxpayers of Virginia. Roughly '75%' of his GMU 'students have gone on to teach economics at the college or graduate level' (Evans 2010).

According to Boettke (2001, 198): 'Markets are like weeds. They are impossible to stamp out.' Using the analogy of an official licence issued by the Roman Catholic Church, Leonard Liggio (27 May 1985)

promised Buchanan that the ‘imprimatur of George Mason University’ will churn-out ‘crop after crop’ of invasive weeds, or hirelings (cited by Maclean 2017, 188).<sup>62</sup> According to Jane Mayer (2010, 2016), Liggio (who was employed by the Koch-funded, IHS, 1974–1998) wrote ‘National Socialist Political Strategy: Social Change in a Modern Industrial Society with an Authoritarian Tradition’ which described the Nazis’ successful creation of a youth movement as key to their capture of the state. Like the Nazis, libertarians, Liggio suggested, should organize university students to create ‘group identity.’ Do the taxpayers of Virginia wish their funds to be used by GMU to hire educators or cult recruiters?

Of the Koch-funded Austrian revival, John Blundell (2014, 102) reported: ‘We were all converts already. It was more a forming of a clan.’ Caldwell told *The Wall Street Journal* that Boettke ‘has done more for Austrian economics, I’d say, than any individual in the last decade’ (cited by Evans 2010). According to one of Boettke’s GMU Ph.D. graduates,

Pete often says ‘love Mises to pieces,’ by which he means never lose sight of why you entered the discipline in the first place. (Anthony Evans 2010, 79)

On his ‘Coordination Problem’ website, the Presuppositionalist Boettke (2014)—the President of Hayek’s MPS—obliges his GMU students to listen to his meandering soliloquies and to watch an ‘underpants’ video accompanied by a discussion about varieties of ‘masturbation.’ Historians of thought are as described as ‘gullible’—they play ‘ideological checkers’ while he plays ‘scholarly chess ... Yes, I know that sounds elitist, but scholarship requires certain abilities and temperament.’<sup>63</sup>

With respect to scholarship, Boettke tells his GMU students: ‘converse in that language, but he always stresses the need to keep the raw enthusiasm’ (Anthony Evans 2010, 79). Documents on the University

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<sup>62</sup>Liggio ‘foresaw “crop after crop” of advocates.’

<sup>63</sup><http://www.coordinationproblem.org/2014/06/robert-leeson-hayek-and-the-underpants-gnomes.html>.

of California San Francisco website led 'Corporate Corruption of Science' to conclude that Boettke (1960–) is on the tobacco industry's 'cash-for-comments' economists network: 'each op-ed now earned the economists \$3,000. Presentations made to conferences earned them \$5,000.'<sup>64</sup>

One of Hayek's sources was the transparent fraud, 'Deacon' McCormick, who derived some of his 'knowledge' from Monty Python's Flying Circus (Leeson 2018c, Chapter 7). Caldwell and Leonidas Montes (2014a, 28, 42; 2014b, 2015, 285, 296) derive their conclusions from Lucia Santa Cruz, who they describe as a 'reputed' and 'well-regarded Chilean historian who had studied at Oxford while her father was the Chilean Ambassador to the U.K. and who was a frequent and influential contributor to public debate.' But was Lucia Santa Cruz a disinterested scholar? According to the *Daily Telegraph*, when Prince Charles of England 'was forced to sit down and thumb his way through the pages of Burke's Peerage to find a suitable candidate' for marriage, Lucia Santa Cruz introduced 'him to the ways of love':

Pressure from above, and from public opinion, dictated that as heir to the throne he should secure a favourable marriage, meaning at that time either a foreign princess or the daughter of a senior British aristocrat. (Wilson 2013)

And according to Inter Press Services,

In an effort to justify the military coup and the use of torture, Pinochet's advisers got an article by right-wing historian Lucia Santa Cruz, a friend of England's Prince Charles, published in 'The Sunday Telegraph' in Britain. In her article, Santa Cruz maintained that her husband, Juan Luis Ossa, had been 'tortured during the Allende government (1970–73).' Santa Cruz' claims drew a heated reaction in Chile. The assistant director of investigations under the Allende administration, Carlos Toro, in whose

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<sup>64</sup><http://sciencecorruption.com/ATN166/01477.html>. Accessed 12 December 2017. It is not clear if Boettke's op-ed piece—if written—were actually published.

presence Ossa was interrogated after being arrested for carrying arms, said her husband was never tortured. 'It is infamy to try to seek comparisons with the human rights violations committed during the dictatorship,' said Toro. 'Torture was never committed under the government of Allende.'<sup>65</sup>

Invoking the authority of Lucia Santa Cruz, Caldwell and Montes (2014a, 28, 2014b, 2015, 285) begin their logic with a false premise: 'A good place to begin is to point out that Hayek and his work was virtually unknown in Chile in the 1970s.' From this falsehood, a priori 'free' market conclusions 'logically' follow (Leeson 2018b). So it is with Austrian time.

Mises ran a private seminar in Vienna, 1920–1934 (French 2013) and at New York University (NYU), 1945–1969. In his first report of the 'new' Austrian Economics Seminar (AES), Don Lavoie (1978a, 2, 8) noted:

While its method is distinguished primarily by complexity and purposiveness, the *content* [Lavoie's emphasis] of Austrian economics is primarily distinguished both by its radical subjectivism,' as [Ludwig] Lachmann puts it, and by its emphasis on the importance of time.

To Karen Vaughn's (2000, 43, n. 10) 'mind, the most fruitful product of the Austrian debates in the first decade of the revival' was Gerald O'Driscoll and Mario Rizzo's (1985) *The Economics of Time and Ignorance* which teased out 'the implications of real time and partial ignorance for otherwise rational beings operating in a world of scarcity.' Academic jobs and Ph.Ds are scarce: but in an Institute of Economic Affairs press release on privatisation, their employee (1970–1977), 'Dr Sudha Shenoy,' was listed as the authority to be contacted.<sup>66</sup> In 2001, near the end of her academic career, Shenoy was given an Austrian-examined Ph.D. And in 2000, Ebeling (1950–) was given a Ph.D. by Middlesex Polytechnic/University—seventeen years after he appeared to earn a living as an NYU 'Post Doctoral Fellow' (Leeson 2018d).

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<sup>65</sup><http://www.ipsnews.net/1999/02/rights-chile-prominent-academics-protest-distortion-of-history/>.

<sup>66</sup>MPS Archives Box 2.7.

In the 1990, Ebeling was, by his own account, a major player in the post-communist 'free' market reconstruction that facilitated the rise of Vladimir Putin's 'Russia of the Oligarchs' (Haiduk 2015). In 'Project Andrea,' Pinochet's agents manufactured a supply of nerve gas and—bottled in a Chanel No. 5 perfume atomizer—transported it to the United States on a Chilean airliner, for possible use in the 1976 Washington assassination of Orlando Letelier, a former Chilean Ambassador (Shribman 1981). In 2018, the British Foreign Secretary concluded that it was 'overwhelmingly likely' that it was Putin's 'decision, to steer the use of nerve gas in the British streets, European streets, for the first time since the Second World War.'<sup>67</sup>

According to his Heartland Institute policy 'expert' website, Ebeling is the

BB&T Distinguished Professor of Ethics and Free Enterprise Leadership at The Citadel. He conducts courses such as 'Leadership, Entrepreneurship, and Capitalist Ethics' as well as 'The Morality and Economics of Capitalist Society.'<sup>68</sup>

To 'build a world where states are weak and society is strong,' William J. Boyes (2015a) provided a 'free' market solution: 'Get Rid of Public Schools.' In his 'Murray N. Rothbard Memorial Lecture,' Boyes (2015b, 127, 130) reported that 'Murray said he rebelled against the state when he was 6':

I conducted a survey where I measured student attitudes towards free market ideas at various stages of their training. The result was: The more economics schooling they had, the less they liked the free market and the more they wanted government to solve issues ... Much of what is being taught in mainstream economics departments around the country these days is nonsense. Mises dismissed academic economists as a collection of charlatans—"The fact that the majority of our contemporaries, the

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<sup>67</sup><https://edition.cnn.com/2018/03/16/europe/uk-russia-nerve-agent-spy-attack-intl/index.html>.

<sup>68</sup><https://www.heartland.org/about-us/who-we-are/richard-ebeling>.

masses of semi-barbarians led by self-styled intellectuals, entirely ignore everything that economics has brought forward, is the main political problem of our age.’

Documents on the University of California San Francisco website led ‘Corporate Corruption of Science’ to conclude that Boyes (1947–) is on the tobacco industry’s ‘cash-for-comments’ economists network.<sup>69</sup>

Shackle (1981, 234) described Hayek as ‘the soul of scholarly generosity.’ In 1950, within weeks of arriving at the University of Chicago, Hayek pursued intellectual coordination by targeting academics for liquidation—Lawrence Klein (the recipient of the 1980 Nobel Prize for Economic Sciences) was one of those whose careers were adversely impacted (Leeson 2017). And in ‘What is to be Done’ Rothbard (2010 [1961]) promoted the Sovietization of American universities:

We are, in this sense, revolutionaries—for we are offering the public a radical change in their doctrinal views and we are offering it from a firm and consistent base of principle that we are trying to spread among the public ... How do we go about it? I think that here we can learn a great deal from Lenin and the Leninists—not too much, of course, because the Leninist goals are the opposite of ours—but particularly the idea that the Leninist party is the main, or indeed only, *moral principle* [emphasis added] ... we must, first and foremost, nourish and increase the hard core; we must, then, try to diffuse and advance principles and action as far as possible *in the direction of* [Rothbard’s emphasis], hardcore doctrines. To abandon the hard core is liquidationist; to abandon all hardcore leverage upon others is to remain sterile and ineffective. We must combine the two elements; we must, in short, nourish and develop a hard core, which will then permeate and exert leverage upon others.

In his September 1984 MPS closing address, Hayek stated that the Society should be concerned with ‘changing opinion ... Its intellectuals who have really created socialism ... who have spread socialism out of the best intentions.’ Hayek emphasized the

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<sup>69</sup><http://sciencecorruption.com/ATN166/01498.html>. Accessed 12 December 2017.



moral inheritance which is an explanation of the dominance of the western world, a moral inheritance which consists essentially in the belief in property, honesty and the family, all things which we could not and never have been able adequately to justify intellectually. We have to recognize that we owe our civilization to beliefs which I have sometimes have offended some people by calling 'superstitions' and which I now prefer to call 'symbolic truths' ... We must return to a world in which not only reason, but reason and morals, as equal partners, must govern our lives, where the truth of morals is simply one moral tradition, that of the Christian west, which has created morals in modern civilization. (cited by Leeson 2013, 197)

According to Mises (2006 [1958], 71)

The only method by which a 'full employment' situation can be brought about is by the maintenance of an unhampered labor market. This is valid for every kind of labor and for every kind of commodity.

Through unhampered fraudulent recommendations, Hayek (1978) constructed a full employment Welfare State—or lifetime incomes policy—for his academically unqualified disciples: 'That I cannot reach the public I am fully aware. I need these intermediaries.'<sup>70</sup> At the 1978 'new' AES, Rothbard 'emphasized that the Austrians' greatest needs are institutional: we require a journal, a Society of Austrian Economists, and a favorable graduate department' (cited by Lavoie 1978b, 6–7).

Rothbard (1973, 1990a), the Academic Vice President of the Ludwig von Mises Institute, declared that Mises was 'unbelievably sweet'; he had a 'mind of genius blended harmoniously with a personality of great sweetness and benevolence. Not once has any of us heard a harsh or bitter word escape from Mises' lips'; he was 'Un-failingly gentle and courteous.' With respect to Mises' reputation for 'abrasiveness,' Rothbard (1990a) claimed that 'never saw it.' Simultaneously, Rothbard (1990b) recalled that after a comment about monopoly theory, Mises called him

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<sup>70</sup>Friedrich Hayek, interviewed by Robert Chitester date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

a ‘Schmollerite. Although nobody else in the seminar realized it, that was the ultimate insult for an Austrian.’<sup>71</sup> Rothbard was simply lying to his students; who, presumably, had to repeat his lies and his ideology to pass his courses: at the University of Las Vegas, Nevada, ‘Austrians are at the top of their classes’ (Rothbard 1990b, 5).

In the ‘free’ market, how do students get to the ‘top of their classes?’ Initially, Mises gave ‘every student an A. When told he could not do that, he alternatively gave students As and Bs depending on their alphabetical placement. When told he could not do *that* [emphasis in original], he settled on a policy of giving an A to any student who wrote a paper for the course, regardless of its quality and a B to everyone else’ (Rothbard 1988 [1973], 106, n. 56). This allowed Wall Street brokers to obtain Ivy League academic qualifications as they slept throughout Mises’ NYU class (Doherty 2007, 212).

When Mises (1881–1973) died, the ‘dedicated scholar,’ Israel Kirzner (1930–), had a ‘position at New York University, but no colleagues to constitute a school’ (Vaughn 2000, 41). The IHS ‘plan’ was to ‘try to build a group of faculty and cadre of graduate students around the Economics Department at NYU ... Funds were raised for graduate student scholarships from not just Charles Koch but also others. The obvious candidates would be the Scaife, Olin, and Earhart Foundations’ (Blundell 2014, 103–104).

Lavoie (1978a, 2, 8) noted that after Mises’ regular NYU seminars in Austrian economics ended in 1969, it looked like the ‘last dying gasp of the Austrian school.’ Lachmann believed that when Hayek died he would become the ‘last living expositor of this once widely held point of view.’ But the 1970s ‘resurgence’ of Austrian economics had ‘exceeded the expectations of even the most optimistic among us ... The seeds have been planted for the flowering of a new approach to economics in our time.’

According to Ebeling (1978, 12), the ‘Austrian resurgence has in many ways been a spontaneous reaction to the unsatisfactory state of orthodox economics’—adding that the ‘revival has greatly benefited’

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<sup>71</sup>[https://mises.org/journals/aen/aen11\\_2\\_1.asp](https://mises.org/journals/aen/aen11_2_1.asp).

from IHS 'support.' And according to the Association of Private Enterprise Education's *Free Library*,

Austrian scholarship is a spontaneous order, and younger academics are constantly pushing the boundaries of what can be accomplished. They are demonstrating that it is possible for Austrian School economists to take a seat at the top table of the professional debate without compromising their message: it just takes the right attitude and a lot of work. We have provided evidence of the remarkable progress that has been made since the first revival and that will continue to be made. The academic wing of the Austrian School is flourishing, and the future of good economics is Austrian.

The authors, Anthony Evans and Vlad Tarko (2014), report that NYU, GMU and Auburn University 'offered the original Ph.D. programs where students could take Austrian courses and write a specialized thesis under the supervision of an Austrian professor'—but now: 'the options open to potential Austrians have increased and continue to grow.' Aside from GMU, there are Austrian economists on the faculty of 'about seven Ph.D.-granting institutions' in the US:

NYU (Israel Kirzner, Mario Rizzo, David Harper), the University of Missouri (Peter Klein), West Virginia University (Josh Hall, Jeff Lee, Roger Congleton, Andy Young), the University of Illinois (Isaac DiIanni), Mississippi State University (Claudia Williamson), the University of California, Santa Barbara (Ryan Oprea), and Texas Tech University (Adam Martin, Ben Powell, and Edward Stringham). Master's programs with Austrian faculty include those at San Jose State University (Colleen Haight, Matt Holian) and Western Carolina University (Ed Lopez, Steve Miller). Austrians have been visiting professors at prestigious schools such as London School of Economics (Peter Boettke, Bruce Caldwell, Roger Garrison), Chicago (Peter Leeson), NYU (Adam Martin, Claudia Williamson) and Duke (David Skarbek).

Evans and Tarko added: 'It is important to also consider Austrians teaching in business schools, such as Nicolai Foss (Copenhagen Business School) and Anthony Evans (ESCP Europe).' Documents on the University of California San Francisco website led 'Corporate

Corruption of Science’ to conclude that NYU’s Rizzo (1948-) and ex-GMU and current West Virginia University’s BB&T Professor of Economics, Congleton (1951-),<sup>72</sup> are on the tobacco industry’s ‘cash-for-comments’ economists network.<sup>73</sup>

Addressing a prominent member of the Mont Pelerin ‘other half,’ Friedman told Block (2006, 61, 65, 74, 77, 79): your ‘tone is that of a theologian examining scripture’ and not that of a ‘reasonable man’: ‘you are a fanatic who finds it absolutely impossible to understand the thinking of anybody other than himself. It is time to close our discussion.’ What educational merit does the taxpayer derive when public universities employ zealots—of the Left, Right, Theocratic, or any other variety? Fink (1951-) exclaimed: ‘I can’t figure out how they look at the data and not see the overwhelming benefits of the free market. I just don’t understand it’ (cited by Continetti 2011). As a GMU student, Boettke learnt to be ‘like Malcolm X, Austrian and proud. In your face with the Austrian economics ... as a kid I wasn’t intellectual, but as a basketball player I was competitive. Sennholz and Fink made these appeals that fed into my psyche: We’ll form this team and go out and beat ‘em’ (cited by Doherty 2007, 430). Boettke (2010, 62) ‘was completely enamored of Rich Fink, who, like myself, was from New Jersey. He possessed a tireless energy and a dynamic personality.’ By ‘drinking beer, playing pool and talking about economics and libertarianism,’ Boettke ‘became convinced that I could do Austrian economics for a living.’

Douglas Simpson’s (2011, Chapter 5, 290) *Looking for America: Rediscovering the Meaning of Freedom* contains a chapter on ‘The Road to Serfdom’ plus a standard ‘free’ market cliché: ‘once bureaucracy solves a problem, it will usually either deny the problem, or create another, in order to remain attached to the tax nipple.’ For most of his career, Fink has been a Koch Industry bureaucrat. In 1978—looking like he was ‘trying out for the Bee Gees,’ dressed in ‘checkered shirt and a bright blue tie’ and a for-Koch-purchased ‘snazzy suit’—Fink flew to Kansas to receive \$150,000 from ‘moneybags’:

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<sup>72</sup><http://sciencecorruption.com/ATN167/01712.html>. Accessed 12 December 2017.

<sup>73</sup>There is ‘no record’ of Rizzo ‘actively providing witness or op-ed services to the tobacco industry.’ <http://sciencecorruption.com/ATN182/01008.html>. Accessed 12 December 2017.

Years later, Fink asked Koch why. 'If a guy came up to me with a black polyester suit, white piping, dressed like that with a beard and hair down to his shoulders, I don't think I would probably meet with him, let alone give him the equivalent of about \$500,000 in inflation-adjusted dollars.' 'Why,' he asked, 'did you do that?' 'I like polyester,' Koch deadpanned. 'It's petroleum-based.' (Wilson and Wenzl 2012)

Is the 'free' market anything other than petroleum—and tobacco-based? In 'Hayek's Epistemic Liberalism,' the IHS 'Charles Koch Distinguished Alumnus' explained:

Economic actors in the private sector as well as the public sector face a *knowledge problem* [emphasis in original], and the *institutional framework* [emphasis added] in each respective arena of social interaction provides answers to what we can learn, how we will learn, and who will learn. (Boettke 2017)

Salerno (2002, 105) points out that 'Since human beings are not disembodied minds who instantly and costlessly absorb new knowledge, every scientific movement, if it is to flourish and advance, requires an institutional framework.' This was evidenced by the Volker Fund making it 'possible for Mises, Hayek, Rothbard, and dozens of others to develop and advance libertarian views and in the midst of an ideological climate implacably hostile to their ideas' (Raimondo 2000, 151).<sup>74</sup> The Volker Fund underwrote Mises's NYU seminar, provided Hayek's salary at the Committee on Social Thought at the University of Chicago (Vaughn 1994, 66), and gave Rothbard grants to write *Man, Economy, and State* (Salerno 2002, 112).

With his middle-class income from the taxpayers of Virginia, Boettke (2015)—the 'University Professor of Economics and Philosophy at George Mason University; the BB&T Professor for the Study of Capitalism, Vice President for Research, and Director of the

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<sup>74</sup>In early 1962, the organizational foundations of the tiny libertarian movement—such as they were—were shattered by the sudden and near-total collapse of the Volker Fund' (Raimondo 2000, 151).

F. A. Hayek Program for Advanced Study in Philosophy, Politics, and Economics at the Mercatus Center at GMU’—lives in a ‘different world than the 99%’ and ‘I’d like to make more money.’

## ‘International Circles of Communication’

In interwar Europe, democracies were overthrown by ‘Fascists’ (as defined by Mises) in Italy (1922–1943), Portugal (1926–1974), Germany (1933–1945), Austria (1934–1945), and Spain (1936/1939–1975).<sup>75</sup> In post-war Latin America, the military seized power in what became known as Operation Condor countries: Paraguay (1954), Brazil (1964), Bolivia (1971), Uruguay (1973), Chile (1973), and Argentina (1976).

Military coups also ended democracy in Iran (1953), Guatemala (1954), Indonesia (1965) and Greece (1967). In Indonesia, General Suharto seized power and in the ‘cleansing’ process that followed, more than 500,000 Indonesian ‘impurities’ were liquidated. According to Mark Aarons (2008, 81), a CIA report described the massacre as ‘one of the worst mass murders of the 20th century, along with the Soviet purges of the 1930s, the Nazi mass murders during the Second World War, and the Maoist bloodbath of the early 1950s.’ In 1967, Hayek praised ‘el-Haj Mohammed’ Suharto and his Generals who were ‘mostly not what we would regard as military men. They are in many instances men coming from other professions who in the fight for independence have risen in rank and remained in the army to ward off communism’ (cited by Farrant and McPhail 2014).<sup>76</sup>

Hayek’s MPS held regional meetings in Guatemala in 1973 and 1990, plus a full conference in 2006.<sup>77</sup> Referring to Guatemala, Jonathan Power (1981, 88, 113) reported that ‘anyone who speaks out or complains, much less organizes a formal opposition group, is

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<sup>75</sup>Fascism had a variety of nation-based names.

<sup>76</sup>Suharto was born with only one name; ‘el-Haj Mohammed’ was added later.

<sup>77</sup><https://www.montpelerin.org/past-meetings/>.

the target for assassination.' In 1977, a Nicaraguan Roman Catholic Bishop accused Anastasio Somoza's National Guard of 'humiliation and inhuman treatment ranging from torture to rape to summary executions.' In May 1976, Amnesty International sent a mission to Nicaragua—and within five years, 'half the people it interviewed have been found dead.'

In 1977, Hayek planned to visit three Operation Condor countries (Chile, Argentine, and Brazil) plus Nicaragua (which was then 'owned' by the Somoza dynasty, 1936–1979); but he ultimately visited only Chile, Argentina, and Brazil, plus post-'Fascist' Portugal and Spain (Caldwell and Montes 2014a, 20, n. 64, n. 66, 2014b, 2015, 278, n. 64, n. 66). In 'Dirty War' Argentina, about 30,000 'impurities' were made to disappear; while in Pinochet's Chile, 3197 were murdered, 20,000 were officially exiled and their passports marked with an 'L,' and about 180,000 fled into exile—about 2% of the population (Wright and Oñate 2005, 57; Montes 2015, 7).

Hayek (3 August 1978) indignantly wrote in the (London) *Times* that he had 'not been able to find a single person even in much maligned Chile who did not agree that personal freedom was much greater under Pinochet than it had been under Allende.'<sup>78</sup> And in Chile, Hayek (1981) stated that

democracy needs 'a good cleaning' by strong government.

Simultaneously, Shackle (1981, 261)—the University of Liverpool's Brunner Professor of Economic Science—described Hayek as 'one of the outstanding sculptors of this age's thought ... To be free is breath itself. But would life be a keen invigorating air if it did not release the poet's splendor of words and the painter's tide of color, and encourage the mathematician's web of gossamer entailment and even the business man's enterprise and ambition? Hayek as economists has perhaps been eclipsed by Hayek the apostle of freedom. On any reckoning he must be accorded by friend and foe his unquestioned place among the giants.'

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<sup>78</sup><https://www.margarethatcher.org/document/117136>.

Hayek and Hitler sought to create *irreversible* versions of the past. Hitler's method was to 'cleanse the nation of its enemies' (cited by Heiden 1944, 312); and the 'Model Constitution' that Hayek (2013 [1979], 483) sent to Pinochet 'would of course make all socialist measures for redistribution impossible'—and could, therefore, only be imposed when socialists were unable to effectively object. Hayek (1981) supported the kleptocrat Pinochet (1973–1990), the coordinator of the Argentine 'Dirty War' (1976–1981), General Jorge Rafael Videla, and other 'transitional' dictators:

When a government is broken, and there are no recognized rules, it is necessary to create rules to say what can be done and what cannot be done. In such circumstances it is practically inevitable for someone to have almost absolute powers. Absolute powers that they *should* [emphasis added] precisely use to avoid and limit any absolute power in the future. It may seem a contradiction that precisely I say this, as I plead for limiting government's powers in people's lives and maintain that many of our problems are born, just out of the excess of government. But, however, when I refer to this dictatorial power, I am only talking for a transitional period. As a means for establishing a stable democracy and liberty, free of impurities. Only in this way I can justify, advise it.

The slogan 'government is broken, and there are no recognized rules' underpinned the post-1965 Neo-Fascist 'Strategy of Tension' that justified democracy-ending military coups (Chapters 7–11, below).

## Volume Overview

### Origins

In *The Road to Serfdom*, Hayek (2007b [1944], v) protested:

When a professional student of social affairs writes a political book, his first duty is plainly to say so. This is a political book ... But, whatever the name, the essential point remains that all I shall have to say is derived from certain ultimate values. I hope I have adequately discharged in the



book itself a second and no less important duty: to make it clear beyond doubt what these ultimate values are on which the whole argument depends. There is, however, one thing I would like to add to this. Though this is a political book, I am as certain as anybody can be that the beliefs set out in it are not determined by my personal interests.

In for-posthumous-general-consumption oral history interviews, Hayek explained what these 'ultimate values' were: fraud. *The Road to Serfdom*, he explained, had been written for personal interests: to allow the 'old aristocracy' to resume their ascribed status and to drive the 'new aristocracy'—labour trade unionists and elected politicians—back down the road back to serfdom (Leeson 2015a, Chapter 3).

In *The Constitution of Liberty*, Hayek (2011 [1960], 71, 186) stated that 'Coercion is evil precisely because it thus eliminates an individual as a thinking and valuing person and makes him a bare tool in the achievement of the ends of another.' And simultaneously: 'To do the bidding of others is for the employed the condition of achieving his purpose'—which smacks of feudal ownership rather than the neoclassical optimisation that forms the basis of conflict-of-interest analysis of the separation of ownership from control.<sup>79</sup> To defend the 'spontaneous' order, the tax-exempt bagmen of the tobacco industry and the fossil fuel lobby instructed those who 'do their bidding' not to submit (and in one case, to withdraw) commissioned chapters for *Hayek a Collaborative Biography*. In consequence, the present author was obliged to write a brief history of the origins of the Austrian School of Economics and the role played in those origins by the parallel German Historical School of Economics (Leeson 2015c, Chapters 2 and 3).

In Chapter 2, Birsen Filip (a recent Ph.D. graduate) provides an informative interpretation of the German Historical School of Economics and the foundations and development of the Austrian School of Economics. Carl Menger—who appears to have been motivated to found an *Austrian* School of Economics by resentment at his

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<sup>79</sup>The 'principal agent problem' only became fully integrated into economic analysis after Hayek's (2011 [1960]) *Constitution of Liberty* had been published.

treatment by Austrian-excluding German Historical School promoters—claimed that they were responsible for delaying the development and progress of economic theory in Germany. However, Frederick C. Beiser (2011, 524) concluded that it was Menger and his Austrian School followers—not the German historians—who were responsible for delaying ‘the development of science’: ‘they wanted to return to the age of scholasticism, where abstractions and a priori constructions ruled, rather than the hard work of the empirical research.’

According to Mises (2003 [1969], 17), ‘Menger, Böhm-Bawerk, and Wieser looked with the utmost pessimism upon the political future of the Austrian Empire.’ Menger launched the *Methodenstreit* to ‘counter the destructive intellectual currents with which Prussian universities were poisoning the world.’ Mises projected his own suicidal tendencies onto ‘all sharp-sighted Austrians.’ And the tax-exempt *Collected Works of F. A. Hayek* (1992a [1934], 90) report that Menger was working on ‘wider and wider’ material but had to withdraw from academia because he was defeated by old age.

The archives tell a different story: according to Hayek, Menger, in his early sixties, fathered an illegitimate son, Karl Menger (1902–1985).<sup>80</sup> According to Eugen Maria Schulak and Herbert Unterkofle (2011, 32), the mother was a journalist, Hermine Andermann (1869–1924), who was 29 years his junior; according to J. Herbert Fürth, Karl’s mother was Menger’s Jewish housekeeper. Menger got his son legitimized by Imperial decree—but Karl never forgave his father for not marrying his mother.<sup>81</sup>

According to Schulak and Unterkofler (2011, 32), fathering an illegitimate child violated Viennese social conventions: in 1903, Carl was forced into early retirement and withdrawal from public life. Members of the Austrian School maintained the ‘*esprit de corps*’ posture that he had taken voluntary retirement for the sake of further studies: a

‘true Viennese secret’—which everyone in Vienna knew but did not talk about in public.

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<sup>80</sup>Hayek (2 February 1984) to William Johnson, Hayek Papers Box 29.38.

<sup>81</sup>Seminar notes (16 February 1993). J. Herbert Fürth Papers, Hoover Institution, Box 12.

Mises (1985 [1927]) aspired to be the intellectual *Führer* of a Nazi-Classical Liberal Pact—but 'went through the roof' when he saw who Hayek planned to invite to the Mont Pelerin Society—he was 'primarily concerned about the participation of Röpke, who is an outspoken interventionist. I think the same holds true for Brandt, Gideonse, and Eastman. All three of them are contributors to the purely socialist—even though decidedly anti-Soviet—*New Leader*' (cited by Hülsmann 2007, 865–866).

After both were safely dead, Buchanan (1992, 130) reported that at Mont Pelerin Society meetings there was 'too much deference accorded to Hayek, and especially to Ludwig von Mises who seemed to demand sycophancy.' In 1966, Harry Gideonse resigned as President of Brooklyn College because of

the demand by the Board of Higher Education for 'fealty.' 'Fealty is a medieval concept, and it describes the position of a medieval lord in his relation to his feudal serfs,' Dr. Gideonse said. 'Members of the Board of Higher Education are not medieval lords—and I am not inclined to become a serf.' (Waggoner 1985)

Max Eastman has assisted with the publication of Hayek's (1944) *The Road to Serfdom*; Karl Brandt was a Stanford University agricultural economist, and in 1934, Wilhelm Röpke had recruited Mises to the Geneva-based Graduate Institute of International Studies to become a visiting professor of international economic relations (his only genuine academic employment). In 1931, Röpke had been appointed to the 'Brauns Kommission,' a board of experts appointed by Heinrich Brüning's government to put forward proposals that might reduce the dramatic rise in unemployment that was driving the electorate into the arms of the anti-democratic extremes. The Commission's Report containing guidelines for an expansionary policy based on public works. In 'Before Hitler: The Expansionary Program of the Brauns Commission,' Antonio Magluio examines Hayek's interaction with the Brauns Commission (Chapter 3).

In Chapter 4, David Glassner examines Hayek's early writings on business cycle theory and the Great Depression in which he argued that

business cycle downturns including the steep downturn of 1929–1931 were caused by unsustainable elongations of the capital structure of the economy resulting from bank-financed investment in excess of voluntary saving. Because monetary expansion was the cause of the crisis, Hayek argued that monetary expansion was an inappropriate remedy to cure the deflation and high unemployment caused by the crisis. He, therefore, recommended allowing the Depression to take its course until the distortions that led to the downturn could be corrected by market forces.

Glassner points out that this view of the Depression was at odds with Hayek's own neutral money criterion which implied that prices should fall during expansions and rise during contractions so that nominal spending would remain more or less constant over the cycle. Although Hayek strongly favored allowing prices to fall in the expansion, he did not follow the logic of his own theory in favoring generally increasing prices during the contraction.

Glassner's chapter explores the reasons for Hayek's reluctance to follow the logic of his own theory in his early policy recommendations. The key factors responsible for his early policy recommendations seem to be his attachment to the gold standard and the seeming necessity for countries to accept deflation to maintain convertibility and his hope or expectation that deflation would overwhelm the price rigidities that he believed were obstructing the price mechanism from speeding a recovery. By 1935, Hayek's attachment to the gold standard was starting to weaken, and in later years, he openly acknowledged that he had been mistaken not to favour policy measures, including monetary expansion, designed to stabilize total spending.

In 1944, in addition to publishing *The Road to Serfdom*, Hayek visited Gibraltar for the British Colonial Office to address post-war reconstruction issues. Othmar Spann—the 'Philosopher of Fascism' (Polanyi 1934, 1935) and the dominant influence over Hayek at the University of Vienna (Leeson 2017)—promoted the idea that the individual finds meaning by surrendering to the deified and mysterious State; while to promoters of the divine right of the 'free' market like Hayek (1974), the individual found meaning by surrendering to the 'known only to God' price mechanism (which mustn't be interfered with by subsi-

dising education or taxing carbon and tobacco).<sup>82</sup> As Chris Grocott (Chapter 5) explains, Hayek's proposals would have resulted in Gibraltarians (some anti-Fascist refugees) being forced to live under General Francisco Franco's autarkic dictatorship in Spain.

## Part 2: Revival

In the 1970s, Austrian economics experienced a resurgence in the English-speaking world, especially in America—the *Austrian Economics Newsletter* played an important role of communicating, diffusing, and developing Austrian ideas. The first ten *AEN* issues reveal *how* the Austrian revival took place; and what its *infrastructure and personalities* were. They also illustrate the *ideas and problems* that came to characterize the resurgence in Austrian economics: dynamics, process, expectation, time, entrepreneurship, (Knightian) uncertainty, knowledge, discovery, learning, equilibration and disequilibration, spontaneous order, subjectivism, Austrian methodology and praxeology, criticism of general equilibrium, price system as a conveyor of information, monetary policy, etc. In Chapter 6, Hiroyuki Okon examines the Austrian revival which—without Hayek's 1974 Nobel Prize plus funding from the IHS—may never have occurred.

The 'international circles' of the International Right includes 'free' market economists, public stoning theocrats, political operatives and coup-masters—Hayek was their acknowledged intellectual leader (Leeson 2018e). When Chitester asked the 'intellectual who is working theoretically and the one who essentially sells himself to the political process,' Hayek (1978) replied:

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<sup>82</sup>'But, as Vilfredo Pareto, one of the founders of this theory, clearly stated, its purpose cannot be 'to arrive at a numerical calculation of prices,' because, as he said, it would be "absurd" to assume that we could ascertain all the data. Indeed, the chief point was already seen by those remarkable anticipators of modern economics, the Spanish schoolmen of the sixteenth century, who emphasized that what they called *pretium mathematicum*, the mathematical price, depended on so many particular circumstances that it could never be known to man but was known only to God.'

Well, of course, there is a limit. You see, I'm very interested in politics; in fact, in a way I take part. I now am very much engaged in strengthening Mrs. Thatcher's back in her fight against the unions. But I would refuse to take any sort of political position or political responsibility. I write articles; I've even achieved recently the dignity of an article on the lead page of the London *Times* on that particular subject. I'm represented in England as the inspirer of Mrs. Thatcher, whom I've only met twice in my life on social occasions. I enjoy this, but on the principle that I will not ask, under any circumstances, what is politically possible now. I concentrate on what I think is right and should be done if you can convince the public. If you can't, well it's so much the worse, but that's not my affair.<sup>83</sup>

According to the MPS Statement of Aims: 'It aligns itself with no particular party.'<sup>84</sup> Yet of the 76 economic advisers on Reagan's 1980 campaign staff, 22 were Mont Pelerin Society members (Peterson 1996). Hayek (7 June 1980) suggested to the Hoover Institution Director, Glenn Campbell, that during his next trip he would like Reagan to be cross-examined before the press by the Hoover Institution economists including himself: this would have allow Reagan to 'show' his confidence and to demonstrate that he was taken seriously by economists. Hayek sought a specific role in winning the 1980 election: he wanted to tell the media his 'joke' that since Reagan was twelve years his junior, he was clearly 'good' for an unconstitutional third term.<sup>85</sup>

Cubitt (2006, 47–48) reported that Hayek was

active on the political scene in Germany too, despite having claimed that he never interfered in the affairs of any other country than his own. He told me he wanted to help Franz Josef Strauss, the then President of Bavaria, to become Chancellor of Germany by discrediting the Liberal Party .... Another politician he wished to further was Otto von Habsburg.

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<sup>83</sup>Friedrich Hayek, interviewed by Robert Chitester date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

<sup>84</sup><https://www.montpelerin.org/statement-of-aims/>.

<sup>85</sup>Hayek Papers Box 25.22.

After the defeat of Hitler, the International Right regrouped, both internationally and within Europe. On the European level, two eminent Catholics—Habsburg, claimant to the Imperial throne of Austro-Hungary and Opus Dei's candidate to rule over a united Catholic Europe, and future Franco minister and senior Opus Dei member, Alfredo Sánchez Bella—founded CEDI (*Centre Européen de Documentation et d'Information*—European Documentation and Information Centre), a Madrid-based think tank which aimed to unite European conservative and Catholic political organisations and break the diplomatic isolation of Franco's Spain. In 1952–1953, the Cercle Pinay was founded as a clandestine forum of European leaders who aimed to oppose the threat of communism and promote the vision of a Catholic and conservative Europe. In the 1960s, the Neo-Fascist 'Strategy of Tension' emerged. In Britain, various individuals associated with the Conservative Monday Club were associated with sustained efforts to undermine Harold Wilson's Labour Government (1974–1976), to discredit Liberal leader Jeremy Thorpe (1967–1976) and to have Conservative leader Edward Heath (1965–1975) replaced by someone of a 'more resolute approach.' In Chapter 7, David Teacher examines the role of (what was presented as) 'neutral academic data' on behalf of the 'International Right.'

By the mid-1970s, the Cercle Pinay had succeeded in creating an international contact network of groups working on anti-communist and counter-subversion propaganda. But despite such wide-ranging contacts, the various components of the Cercle network, brought together to defend the conservative cause, felt their vision of the world to be threatened as never before. Between 1974 and 1976, a paranoid feeling of apocalypse, of imminent Armageddon spread through the private clubs, the lobby rooms and the secret services throughout Europe: the Left was on the rise! In Germany, despite a barrage of smears and attack ads, Willy Brandt had triumphed in the 1972 elections; after his resignation in 1974, the new Chancellor Helmut Schmidt led the SPD towards a strong showing in the 1976 elections. In Britain, humiliated by the unions, the Conservative government fell, and Labour won the two 1974 elections. In France and in Belgium, the Left seemed well-placed to break the electoral monopoly of the conservatives. In the

Iberian Peninsula, the longstanding geopolitical stability was soon overturned: in Portugal, Marcelo Caetano's dictatorship crumbled before the left-wing soldiers of the Armed Forces Movement; in Spain, the Generalissimo died, and democratic elections were called. In Chapter 8, Teacher documents the efforts of the 'International Right' to defend apartheid and the Shah of Iran and to assist the election efforts of Strauss and Reagan.

Operation Condor was a Latin American organization—the relationship between Pinochet and the Italian Neo-Fascists also provides a fascinating and unique picture of Fascism's transnational and inter-temporal features. The influence of Fascism on Chilean nationalist movements and the link between Pinochet and Junio Valerio Borghese, who represented a myth for different Fascist generations, is illustrative. A further factor fostering the survival of the network was the logistic support provided by friendly regimes to the network's members. Former Nazi and Fascist militants wanted for war crimes as well as Italian Neo-Fascists seeking to avoid judicial prosecution in Italy were all welcomed by sympathetic regimes in Spain, Chile, and Argentina. The opportunity of finding a *safe refuge* in those countries also promoted regular exchanges between inter-war and post-war Fascists.

In Chapter 9, Galadriel Ravelli and Anna Cento Bull examine the dynamic and resilient transnational trajectories of Fascist militants and ideas. The collaboration between Pinochet and Italian Neo-Fascists was mutually beneficial—in 1975, they cooperated in the attempted murder of Bernardo Leighton in Rome. In 1976, thanks to the transnational links between Latin American Juntas, Fernandez Larios and Pinochet's agent Michael Townley obtained fake Paraguayan passports which they used to enter the US and assassinate Orlando Letelier.

Hayek is perceived as having contributed to the development of liberal thought, particularly his work on individual freedom, economic freedom, 'spontaneous' order, and limited state action. He also defended dictatorial regimes, provided that they were committed to achieving the conditions of a 'free' market economy at the expense of unlimited democracy. In Chapter 10, Birsan Filip examines Hayek's rationale for supporting certain types of dictatorial regimes, based largely on the views expressed in an interview published in the Argentinean weekly



magazine, SOMOS while on a one-week visit to Argentina in 1977. At that time, 'Dirty War' Argentina was ruled by the administration of army commander General Videla. Hayek defined 'the condition of freedom' as 'a state in which each can use his knowledge for his purposes' so as to achieve individual goals free from intervention or coercion on the part of an external authority. Hayek (1973, 56) defined the 'condition of freedom' as a 'state in which each can use his knowledge for his purposes' so as to achieve individual goals free from intervention or coercion on the part of an external authority. By defending the practice of relying on dictatorial regimes to achieve the conditions of a 'free' market economy, Hayek contradicted his own concept of freedom, which he defined as 'absence of coercion.'

In spite of his reputation as a defender of freedom, Hayek did *not* value human rights, claiming it to be a relatively recent concept derived from combining the 'old civil rights' with rights derived from Marxism. His conception of freedom is a minimal form of freedom, which serves as a very useful tool in promoting the superiority of the 'free' market economy. His concept of freedom includes economic freedom in the 'free' market (with negative freedom as components) while, at the same time, excluding positive freedom and ignoring ethical and moral values. It should, therefore, come as no surprise that Hayek accepted the invitation to visit Chile during Pinochet's dictatorship—or that he claimed 'personal freedom was much greater under Pinochet than it had been under Allende.'

In their efforts to preserve Hayek's reputation by providing justifications for his decision, Caldwell and Montes resort to providing incomplete information and concealing certain facts, while misrepresenting others. Furthermore, the discrepancies between the English and Spanish language versions of 'Friedrich Hayek and His Visits to Chile' (in terms of the information included and omitted) appear to have been strategic decisions based on the audiences being targeted—which suggests a deliberate and concerted effort to mislead their readers. They failed to fully enlighten their English- and Spanish-speaking readers about this 'controversial episode' in Hayek's life. In Chapter 11, Filip argues that demonstrates that they were overzealous in their defence of Hayek: they present him almost as a naïve and saintly figure—in the face of persuasive evidence to the contrary.

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# 2

## The German Historical School of Economics and the Foundations and Development of the Austrian School of Economics

Birsen Filip

### Introduction

The contributions made by the Austrian School of Economics (ASE) are widely known and well documented; less well-known, however, is the intriguing relationship between the ASE and the German Historical School of Economics (GHSE). Given that the ASE was originally founded on the basis of Carl Menger's (1841–1921) critiques of the supposed weaknesses and flaws of the GHSE, this chapter examines how criticisms of the fundamental principles of the GHSE—as expressed by ASE theorists—influenced the formation and development of the ASE's own fundamental principles. It seeks to gain a better understanding of the relationship between the ASE and the GHSE and the implications of the GHSE for the work of Austrian economists

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in the areas of political, social, and economic theory, with a particular focus on Friedrich August von Hayek (1899–1992).<sup>1</sup>

Hayek had a very negative view of the GHSE.<sup>2</sup> In ‘The Trend of Economic Thinking’ he claimed that ‘many of the bad ideas about economics then current in British society found their origins in the writings of the German historical school,’ which gained prominence in Germany in the 1840s, largely through the efforts of its theorists to make major changes to conventional approaches to economics (Caldwell 2006, 119). Despite Hayek’s negative opinions and its poor reputation among mainstream economists, there is a reason to believe that the ASE may *never* have actually come into existence were it not for the GHSE.

It should come as no surprise that the GHSE had a significant influence on the formation of different forms of social and economic thought, given that it was the leading school of economics in the second half of the nineteenth century and was able to attract and train a substantial number of international students and academics. In turn, many GHSE-trained economists significantly influenced their discipline after returning to practice in their home countries. Although the GHSE lost its status as the leading school of economic thought to American economists and institutions in the twentieth century (which claimed global dominance from that point forward), it still retained some degree of influence; and American economists continued to closely monitor developments in the discipline of economics in Germany until the 1950s. A careful study of the GHSE can, therefore, provide historians of economic thought with valuable insights into the role of the GHSE in the emergence of different schools of economics in the twentieth century.

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<sup>1</sup>Hayek’s interest in economics began with Menger’s *Principles of Economics*—he regularly referred to Menger’s writings in his own works.

<sup>2</sup>Hayek was not the only prominent scholar to hold a negative view of the GHSE. For example, in ‘Economic History and Economics,’ Robert M. Solow (1985) stated: ‘After all, no one would remember the old German Historical School if it were not for the famous *Methodenstreit*. Actually, no one remembers them anyway.’ Mises was also highly critical of the GHSE—condemning them ‘in McCarthyist tones—principally for its alleged socialism’ (Hodgson 2001, 91).

## GHSE: A Brief History

In the second half of the nineteenth century, Prussia's 'economic success was attributed to the qualities of its educational system' (Cardoso and Psalidopoulos 2016, xvii). The GHSE was then at its peak and Germany became the primary destination for international students and academics. Many American economists who played a significant role in the development of the discipline of economics in the twentieth century had been students and academics in Germany—in search of a better education and training under the GHSE: the German university was the 'international' model, enjoying qualitative and quantitative 'supremacy' over universities in the United States, Britain, and France. Students in 'post-bellum America' seeking advanced teaching in economics 'naturally' gravitated to Germany, since in England there was 'very little systematic' teaching of economics, and (unlike Germany) no graduate qualification. The French university system was 'then (and still is) firmly linked to a closed educational and cultural system.' Having thus been awarded doctorates in economics (that were unobtainable in the United States), many American students returned home to teach in a 'rapidly expanding university system,' and later contributed to the development of an American institutionalist economics which 'drew heavily' on German historicism (Tribe 2002, 2; see also Senn 1989, 263).

José Luís Cardoso and Michalis Psalidopoulos (2016, xviii) underlined the significant influence that the GHSE exercised in a number of European countries from 1850 to 1930, focusing on how it shaped academic life and the political and economic arenas (especially economic thought, monetary policies, international trade, and public policies). One reason for the success of the GHSE was that it provided 'an alternative to the existing classical doctrine on many fronts: on method, on the necessity of social reform and on the need of promoting economic growth and development.'

Prior to the emergence of the GHSE as the dominant school of economics, British classical economics exercised authority within the discipline.<sup>3</sup> Challenging British classical economics—largely on account

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<sup>3</sup>The GHSE was also critical of neo-classical economics and Marxian economics, which was still an emerging economic theory at the end of the nineteenth century.

of its support for the laissez-faire approach—was one of the original motives that led to the establishment of the GHSE. GHSE proponents argued that unrestricted free trade does not produce the best possible outcomes for society as a whole. As a result, they advocated collectivist economic policies that attempted to achieve social justice based on ethical values, supported protective trade measures and collectivism, while seeking to eliminate individualism and the laissez-faire approach associated with classical economics. They sought to eliminate the deductive method from economics in favour of the inductive method, and (utilizing the methodology of the natural sciences), they extreme empiricism (which involves a heavy reliance on historical and statistical data and information in economic modelling, research, and publications) which contrasts with the abstract and ahistorical character of classical economics.

It would be inaccurate to attribute the foundation and development of the GHSE entirely to its opposition to the fundamental principles of British classical economics. It was also influenced by a number of historical events in Europe, as well as the social and economic situation that prevailed in eighteenth and nineteenth centuries Germany. For example, GHSE theorists were strongly opposed to rationalism, the enlightenment movement, and the conquests of Napoléon. Furthermore, the rapid expansion of inequality, in terms of the distribution of income and property (attributable to rapid industrialization) also played an important role in shaping their goals and principles, as it motivated its theorists to focus on the study of national economics (*Nationalökonomie*).

*Nationalökonomie* aimed to achieve the ‘progress of popular wealth’ under the main principle of reaching the ‘highest perfection of the physical condition of sociable mankind’ (Tribe 1998, 173, 174); it ‘posited human needs and their satisfaction as the starting point of economic analysis’ (Caldwell 2004, 43). GHSE theorists advocated for the scientific treatment of public administration in order to achieve the highest perfection of its citizens with the hope of strengthening Germany as a nation; however, this approach necessitated the replacement of classical economics with some form of national economics (Roscher 1972 [1887], 441–447). As a result, they advocated for



trade barriers and the expansion of state intervention so as to facilitate the development of the national economy by improving national welfare. They further argued that interference on the part of a strong state authority was necessary to develop and improve the interests of the nation, so that Germany could catch up with the more advanced countries.

GHSE theorists chose not to restrict the role of the state so that 'order' could be maintained: whenever 'social aims can be attained only or most advantageously through' state 'action, that action is justified.' They sought a state role in cases where individuals were unable to achieve social ends through their own efforts. They defended state intervention and regulations designed to improve common and local interests, while rejecting competitive markets, which they argued created a form of coercion within a society based on the relative strength of competitors. Therefore, the state needed to 'enforce provisions for public health,' regulate 'production and transport,' 'protect weaker members of society,' 'guarantee the safety of earnings,' promote 'intellectual and aesthetic culture,' etc. (Ingram 1967, 203, 204). Given that they studied national economy and defended protectionist measures, collectivism, and state reforms, a number of its social, political, and economic ideas came to be associated with cameralism, which was a dominant doctrine in German principalities (*Kleinstaaten*) in the seventeenth and eighteenth centuries.<sup>4</sup> In fact, it was often regarded as the 'German and Austrian variety of mercantilism' (Spicer 1998, 151).

Cameralism accepts the state as an 'ethical institution' that can achieve 'positive social change' via reforms and protectionist measures (Caldwell 2004, 78). The origins of cameralism predate the publication of the seminal GHSE tracts (Spicer 1998, 150). It did not originate as an economic theory: the early cameralists came from many different disciplines and professions including writers, theorists, 'political scientists,' bureaucrats, administrators, 'chemists and foresters, mineralogists

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<sup>4</sup>Von Justi was accepted as one of the most important theorists of cameralism in the eighteenth century (Spicer 1998, 150; Wakefield 2009, 3). He argued that a 'republic or state is a unification of a multitude of people under a supreme power, for the ultimate purpose of their happiness' (Spicer 1998, 151).

and technologists.’ Andre Wakefield (2005, 317, 318; 2009, 2, 4, 138) distinguished between ‘academic cameralists and the more traditional voices of practical cameralism.’ Contrary to their practical counterparts, academic cameralists highly valued the approach of applying methods of the natural sciences to satisfying the needs of the *Kammer*; additionally, they believed that they could be more efficient in terms of achieving the needs of society relative to practical cameralists.<sup>5</sup> Academic cameralists attempted to ‘transform universities and scientific academies into instruments of the *Kammer*.’ Nevertheless, both academic and practical cameralists ended up producing ‘a body of literature that came to be known as the cameral sciences,’ which became accepted as ‘a blueprint for governance in early modern Germany.’

Cameralism played ‘a strategic role in the constitution of Prussian bureaucratic rule and, by extension in the modern bureaucratic state.’ In the eighteenth century, ‘the cameralistic sciences’ were not only expanded in ‘northern German Protestant universities,’ but also in ‘Protestant Vienna’ where the ‘first comprehensive textbooks originated.’ More precisely, the lectures and textbooks of Joseph von Sonnenfels and Johann Heinrich Gottlob von Justi played significant roles in the expansion of the cameralistic sciences in Germany and Austria. Sonnenfels’ 1765–1766 textbook, *Principles of Police, Commercial and Financial Science* and von Justi’s 1755 *Staatswirthschaft* contained the main work on ‘cameralistic sciences’ (Tribe 1998, 8, 55, 85).

According to von Justi, a ruler can attain ‘common happiness,’ or the ‘happiness of the state,’ by achieving external and domestic ‘security’ and economic prosperity for the nation. The state needs to ‘mobilize all available sources’ in order to achieve ‘welfare and happiness’ within the country. However, von Justi also emphasized that, in order to achieve

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<sup>5</sup>Cameralism originated from the term *Kammer*, which refers to ‘a physical space, a chamber where fiscal officials met to discuss the most secret affairs of the prince’ in the German principalities. ‘By the seventeenth century most German territories. Large and small, had developed *Kammer* to manage the intimate affairs of princes, dukes, kings, and emperors. By the second half of the seventeenth century, members of the *Kammer* began to be recognized as a distinct group. People start calling them cameralists.’ Academic cameralists argued that it was not necessary ‘to seek out riches in distant lands, because the key to wealth was right at home, in local fields, forests, mines and manufactories.’ Cameralism was ‘intimately and ineluctably tied to the sciences of nature’ (Wakefield 2005, 319; 2009, 17, 20).

their specific purposes or ends, rulers must establish a close relationship with the *Politzei*, a term derived from ‘the Greek polis, indicating that it denotes the good order of towns and civil constitutions.’<sup>6</sup> The state could use the *Politzei* to ‘review, control’ and manage the ‘human resources available to the state.’ However, even though cameralists supported the merging of individual interests with those of the state for the purpose of achieving material, intellectual and physical happiness, *Politzei* does not directly involve itself in interventions that target the choices and decisions that individuals make within their ‘households’ (Tribe 1998, 61, 63, 71, 72, 75).

The desire to achieve unity between the interests of individuals and those of the state led cameralists to attribute a positive role for the state in terms of planning and organizing the activities of the entire society. Cameralism required a strong state that is capable of planning and organizing the activities of the nation in order to achieve economic ‘prosperity’ and the ‘happiness of the subjects’ (Spicer 1998, 152). Christian Wolff (1679–1754), a well-known perfectionist who is recognized for his contributions to the development of cameralism, agreed that the achievement of happiness required constant state regulation in every area of life. Wolff envisioned a state that would determine all aspects of social and economic life, regardless of how miniscule they might be, so as to secure ‘material and intellectual thriving,’ including such details as education, the types of housing people would occupy, dress codes, which goods to import and export, ‘order and cleanliness in the streets,’ etc. (Tribe 1998, 31).

Cameralists supported constant regulation by an authoritarian state in every area of life, because they believed that the state and its citizens shared the single goal of achieving ‘common happiness’ (Caldwell 2004, 42; Wakefield 2009, 91). They did not regard ‘common happiness’ as an abstract concept; rather, they used it in a very specific sense to refer to a state that was ‘militarily strong’ and ‘morally virtuous,’ and could ensure domestic security and economic prosperity ‘towards which the activities of individuals must be systematically directed.’ They maintained

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<sup>6</sup>*Politzei* involves ‘a form of economic management’ and a ‘good organization of civil life’ (Tribe 1998, 63, 75).

that the achievement of 'common happiness' required the planning and organization of the activities of the nation, which necessitated strengthening the 'power of princes' 'over their states and subjects' so as to allow for the efficient use of natural resources and to 'more effectively promote the welfare of their subjects.' Therefore, a state under cameralism is 'systematically organized and administered in detail around a connected and coherent set of specific purposes or ends' (Spicer 1998, 151, 154). These purposes include 'the accumulation of precious metals,' the maintenance of external and domestic security, and investment in agricultural and industrial resources. According to von Justi, the state can facilitate the 'creation and acquisition' of wealth via the provision of health care and education, the 'promotion of marriages,' encouraging exportation, supporting the development of skills and knowledge, etc. (Tribe 1998, 61, 62, 71).

Cameralists supported a 'science of administration' to allow for all subjects to attain welfare and prosperity. The 'cameralists' faith in science was quite consistent, therefore, with their vision of the state as a purposive association.' In fact, cameralists believed in the existence of scientific knowledge and strongly supported the application of the methodology of the natural sciences to 'assist administrators in accomplishing the ends of the state.' In other words, based on the views of cameralists, the economic, and social policies of the state were shaped according to the methodology of natural science. Applying this methodology to achieving the ends of the state was supposed to result in the best use of natural sources and secure the development of the 'capacities and qualities' of individuals. That means the goals of achieving 'prosperity' and 'the happiness of the subjects' led cameralists to support central planning in order to regulate the economy and utilize the natural resources of the nation in the most efficient manner possible based on the methodology of science (Spicer 1998, 153, 155, 156).

Cameralistic teaching was first introduced in German universities at the end of the eighteenth century; subsequently, Karl Heinrich Rau (1792–1870) played a significant role in the development of cameralism at German universities in the nineteenth century. Rau argued that although Cameralism could not remain the same as it had been in the

previous century, it might be possible to ‘rejuvenate it.’ Thus, Rau’s *Lehrbuch der politischen Oekonomie*, which largely focused on ‘economic objects, rather than presents instruments of economic analysis,’ became the main textbook of cameralism in nineteenth century Germany (Tribe 1998, 116, 193; 2002, 5, 6).

Georg Friedrich Roscher (1817–1894), who founded the GHSE with the publication of his 1843 *Outline for Lectures of Political Economy*, attended Rau’s lectures. Keith Tribe (1998, 206) described Rau’s influence: the ‘descriptive features’ of Rau’s text made Roscher ‘adapt theoretical principles to historical circumstances.’ Roscher derived his views pertaining to the transformation of the ‘political economy into a historical science’ from cameralism; he supported the idea that the discipline of economics involves ‘governing people and evaluating their actions’ (Hacohen 2000, 463). Roscher not only derived some of the principles of the GHSE from cameralism, he also made a significant effort to ‘rejuvenate’ cameralism, which involved taking ‘aspects’ of political theory and history into consideration (Tribe 1998, 203, 206). Roscher was able to establish the ‘cameralists as German mercantilists’ and, in the decades that followed, scholars of the historical school ‘worked to refine and extend his thesis.’ Roscher essentially ‘trimmed cameralism to its bare economic essentials, discarding most of the extraneous garbage about technology, agriculture, forestry and the rest’ (Wakefield 2005, 313–314).

In the nineteenth century, Roscher played a major role in the formation of the historical approach to economics in Germany and the global development of the discipline of economics.<sup>7</sup> Roscher was not only known as the founder of the GHSE, he was also regarded as ‘the true founder of the discipline of applied economics’ because of his efforts to apply the ‘laws of economics’ to ‘agriculture,’ ‘trade,’ and other industries.<sup>8</sup> His historical approach to economics, as well as some of his other ideas, were also adopted in universities of ‘every civilized land’ and

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<sup>7</sup>According to Wakefield (2005, 314), however, there is no consensus that cameralism was actually the German mercantilism; it is also sometimes viewed as ‘a subset of German mercantilism.’

<sup>8</sup>Schmoller argued that Roscher was ‘the true founder of the historical school of German economics’ (Caldwell 2004, 51).

‘many American professors have been among pupils.’ Even *The New York Times* wrote that Roscher possessed ‘such a copious knowledge of the history of all nations, ancient and modern, as no other man of his specialty has brought to light’ (Senn 2005, 66, 76).

## The GHSE and the Debate Between the Historical and Philosophical Schools

Roscher’s *Outline for Lectures of Political Economy* (the founding manuscript of the GHSE) reveals that he was influenced by the works of prominent theorists associated with the historical school—including Friedrich Carl von Savigny (1779–1861), Karl Friedrich Eichhorn (1781–1854), Johann Friedrich Gößchen (1778–1837), and Leopold von Ranke (1795–1886) (Pearson 1999, 547). All four served as ‘professors from the law faculty at the newly founded University of Berlin’ and played major roles in the formation and development of the historical school (Beiser 2011, 214). They all concluded that the historical method is the ‘best and most decisive of methods,’ which ‘concerns itself with time, space and nationality’ (Roscher 1972 [1887], 35). Furthermore, the historical method also represents the foundation for gathering information about people’s behaviour and related economic issues.

It is generally agreed that the historical school was founded in opposition to the philosophical school and that its foundation was made official by the publication of the ‘first volume of the *Zeitschrift*’ in 1815 (Beiser 2011, 214). In 1814, an intellectual dispute arose between Anton Friedrich Justus Thibaut (1772–1840)—of the philosophical school—and Savigny—leader of the historical school—with regard to the introduction of a unified legal code for all German territories. The Thibaut–Savigny debate over codification marked one of the most important chapters in the development of German legal thought in the nineteenth century. Thibaut eventually published *Über die sogenannte historische und nichthistorische Rechtsschule* in 1838, in which he defended a unified legal code for all German states. This contrasts with the views previously expressed by Savigny in his 1814 *Of the Vocation of*

*Our Age for Legislation and Jurisprudence* and his 1815 *On the Purpose of the Journal for Historical Jurisprudence* where he provided a powerful critique of legal codification based upon his rejection of its rationalist aspects, and argued that codification represents an obstacle to the organic progress of laws. Savigny regarded codification as an artificial conception of a legal system.

Philosophical school theorists believed in ‘the powers of reason in history’; they supported the view that ‘each generation has the power to create its world anew.’ The historical school, on the other hand, accepted that human reason was limited and emphasized the importance of history in the development of each generation. The philosophical school also accepted ‘positive law as the arbitrary creation of legislative power’; whereas the historicists regarded it as ‘part of entire way of life of a nation, the necessary result of its *Volksgeist*.’ Another point of contention was that the philosophical school supported ‘atomistic anthropology,’ viewing the ‘individual as independent and self-sufficient.’ Meanwhile, historicists defended ‘communitarian anthropology,’ because the ‘individual drives its identity entirely from its place in society and history.’ In essence, the philosophical school believed that individuals are ‘self-sufficient,’ while the historical school believed that individuals needed to be ‘understood’ as part of the whole, or without being separated from the whole (Beiser 2011, 214, 215, 243, 244, 258). In other words, theorists from the historical school rejected individualism on the grounds that they did not believe that individuals are motivated by selfish goals and ends; they regarded the individual as primarily being part of their society and history.

Roscher discussed the differences between the historical and philosophical approaches in *Outline for Lectures of Political Economy* (as, elsewhere, did Savigny, Eichhorn, and Gößchen). He defined the methods and purposes of the GHSE in accordance with the historical approach in this book. However, Roscher was not the only economist who valued the historical approach to economics and the study of history as key sources of knowledge with regards to progress in social and economic matters. This could also be said of Gustav von Schmoller (1838–1917), a well-known GHSE theorist who had an ‘enormous, international influence’ (Hodgson 2001, 113). Schmoller (1967 [1844]) was widely

credited with pushing ‘Roscher’s historicism to extremes,’ arguing that economic, political and social life were connected as products of history in his book *The Mercantile System and Its Historical Significance*. Furthermore, Schmoller’s efforts to combine historical analysis with statistics in order to gain a better understanding of economic life were well known among specialists of the history of economic thought. In fact, his significant contributions to the discipline of economics are often compared to those made by the likes of Karl Marx, David Ricardo, and Friedrich List (Senn 1989, 207, 259). Bruno Hildebrand (1812–1878), Karl Knies (1821–1898), and Werner Sombart (1863–1941) were also among the well-known theorists of the GHSE who were influenced by the historical school of jurisprudence.<sup>9</sup>

## ASE: Origins

The ASE is well known for its opposition to welfare states and the central, rational planning of totalitarian regimes; its contributions to the development of liberal thought, and the role that its theorists played in the foundation and evolution of the Mont Pèlerin Society. However, the ASE and its theorists had nearly been forgotten: ‘it would not be until the 1970s that writers would attempt to summarise the contributions of Hayek concerning knowledge and of Ludwig von Mises regarding the nature of human action, thereby constructing a definite

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<sup>9</sup>List’s works have also been associated with historical economics (Tribe 2002, 1), which led him to him being regarded as among ‘the forerunners of the Historical School’ (Senn 2005, 186). However, he was neither an advocate of the historical tradition nor did he support the inductive approach. In reality, List’s views pertaining to the role of the state were primarily influenced by his personal observations while living in the United States between 1825 and 1832 as opposed to the situation that prevailed in Germany during this time. Tribe (2002, 7; 2007) confirms this notion, explaining that List’s criticisms of classical economics, including his views on Adam Smith, were not really related to the ‘German intellectual tradition’ or the ideas of German economists of the early nineteenth century; instead, he suggests that List’s criticisms appeared to be largely based on American economic debates. Hildebrand, an important GHSE promoter, was also critical of List’s views, arguing that his explanation of the ‘stages of economic development’ was primarily influenced by British history. This chapter does not discuss List’s contributions to the development of the discipline of economics because he was not a true theorist of the methodologies and ideals of the GHSE.



theoretical framework for the first time since Menger's original formulation' (Gloria-Palermo 1999, 78). Furthermore, Menger's *Principles of Economics* was not translated into 'English for almost 80 years' (Dingwall and Hoselitz 2007, 38).<sup>10</sup> George Stigler (1937, 229) noted that 'None of Menger's writings has been translated, and his magnum opus, *Grundsätze der Volkswirtschaftslehre* (2007 [1871]), has long been out of print.' As a result, Menger's works were rarely read in English-speaking countries despite the fact that *Principles of Economics* was accepted as the founding manuscript of the ASE. Nevertheless, 'historians of economic thought always give to him at least honorable mention as the man who, with [William Stanley] Jevons and [Léon] Walras, rediscovered and popularized the theory of subjective value.'

Aside from Menger and Hayek, a number of other well-known theorists also made important contributions to the development of the ASE including Eugen Ritter von Böhm-Bawerk (1851–1914), Friedrich von Wieser (1851–1926), Mises (1881–1973),<sup>11</sup> Joseph Schumpeter (1883–1950), Gottfried von Haberler (1900), Fritz Machlup (1902–1983), Ludwig Lachmann (1906–1990), and Israel Kirzner (1930–).<sup>12</sup> In particular, Böhm-Bawerk and Wieser played significant roles in the dissemination and promotion of his ideas during the early stages of the development of a distinctive 'Austrian' economics.

During the period that began with the Keynesian revolution and lasted until the 1970s, even Hayek was regarded as an ideologue whose ideas were not taken seriously by most economists despite his significant contributions to the development of liberalism and his instrumental role as a founding member and inaugural president of the Mont Pèlerin Society. It was not until after the decline of Keynesian economics in the 1970s that the ASE and its theorists gained prominence, and Hayek earned his reputation as a dominant figure in the discipline of

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<sup>10</sup>The fact that that Menger's *Grundsätze der Volkswirtschaftslehre* was not translated into English for almost 80 years has been called 'a mystery' (Dingwall and Hoselitz 2007, 38).

<sup>11</sup>'The circle of thinkers around Ludwig von Mises who did most to establish the characteristic methods and insights of the Austrian School' (Grassl and Smith 1986, viii).

<sup>12</sup>This chapter does not discuss the details of the important individual contributions that each of these theorists made to the development of the ASE.

economics. Hayek then became one of the most influential academics in the political, social and economic arenas, particularly after being awarded the Nobel Memorial Prize in Economics in 1974.

Hayek (2007, 12, 14, 36) argued that Menger served as an inspiration for both his pupils and the distinguished economists of the ASE: he had the 'satisfaction of seeing his great early work bearing the richest fruit, and to the end he retained an intense and never flagging enthusiasm for the chosen object of his study.' Hayek had a high opinion of Menger: a 'glance through the extensive footnotes in his *Grundsätze*, or the author's index which has been added to the present edition, will show how extraordinarily wide a knowledge he possessed of these German authors and also of the French and Italian writers, and how small a role the writers of the classical English school plays in comparison.' Furthermore, in the introduction to Menger's *Principles of Economics*, Hayek (2007, 12) emphasized the crucial and unique role that Menger played in the foundation of the ASE: there could be 'no doubt among competent historians' that if, during the last six decades, the Austrian School has occupied an 'almost unique position' in the development of 'economic science,' this was 'entirely due to the foundations laid' by Menger. The reputation of the School in the 'outside' world and the 'development of its system' at 'important points' were due to the efforts of his 'brilliant' followers, Böhm-Bawerk and von Wieser. But it would not 'unduly' detract from their merits to say that its 'fundamental' ideas belong 'fully and wholly' to Menger. If Menger had not 'found these principles' he might have remained 'comparatively unknown,' and might 'even have shared the fate of the many brilliant men who anticipated him and were forgotten.'

Almost certainly, Menger would for a 'long time have remained little known' outside the 'countries of the German tongue' (Hayek 2007, 12). Yet, despite the fact that Menger's *Principles* exerted 'great influence' on the development of economics, 'none of the reviewers in the German journals seem to have realised the nature of its main contribution' at the time of its publication (Hayek 2007, 21). Regardless, Menger 'gradually succeeded' in gaining 'considerable influence' in Austria after his promotion to the rank at the University of Vienna of professor extraordinarius in 1873 (Hayek 2007, 21, 22). Menger eventually 'began to

acquire' a 'considerable reputation as a teacher, and to attract to his lectures and seminars an increasing number of students, many of whom soon became economists of considerable reputation' (Hayek 2007, 22). However, while in Austria a 'definite school was forming, in Germany, even more than in other foreign countries, economists maintained a hostile attitude' towards Menger and the ASE (Hayek 2007, 22).

The ASE did not start out 'as a school'; rather, it was essentially Menger's reaction to the GHSE, as expressed in his *Principles* (Caldwell 2004, 126).<sup>13</sup> In *Principles*, 'Menger first stated the central propositions that were to form the theoretical core around which the economics of the Austrian School developed.' It eventually became the 'basic text of successive generations of Austrian students and scholars' (Dingwall and Hoselitz 2007, 37). Although Menger was highly critical of the GHSE in *Principles*, it actually appears to 'fit perfectly into the continuity of the German school and apparently does not comprise any analytical break with this tradition which has, for many years, been entrenched in a subjectivist perspective of demand' (Gloria-Palermo 1999, 17). It is not particularly surprising that Menger considered his work to be part of the German economic tradition, as 'in Austria the state of economics was clearly underdeveloped' in the mid-nineteenth century (Chaloupek 2016, 1). According to Hayek (2007, 15):

Among the influences to which Menger must have been subject during the formative period of his thought there is a complete absence of influence of Austrian economists, for the simple reason that, in the earlier part of the nineteenth century in Austria, there were practically no native economists. At the universities where Menger studied, political economy was taught as part of the law curriculum, mostly by economists imported from Germany.

According to Hayek (2007, 15), the Austrian universities where Menger studied in the early part of the nineteenth century were primarily staffed by Germans associated with the GHSE with very few home-grown

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<sup>13</sup>Menger's (2007 [1871]) *Principles of Economics* is 'not a work in empirical science at all but entirely a work of philosophy' (Haller 2004, 7).

theorists. He further claimed that Menger was not ‘really stimulated’ by his German teachers in economics. Menger, however, would not have agreed with Hayek’s assessment, as he was a student under Roscher and regarded his own work as being ‘firmly entrenched in the German economic tradition shaped by authors such as Hermann, Rau, Knies, Roscher, Schaffle and so on’ (Gloria-Palermo 1999, 17). This was also illustrated by Menger’s frequent citations of Rau, Knies and Roscher in *Principles of Economics*.

In *Principles of Economics*, Menger (2007 [1871] 43, 237, 257, 265, 270, 271, 273, 288, 290, 311) emphasized that he considered Roscher to be a true authority on the discipline of economics. In fact, the very first page of the book, which is regarded as the founding manuscript of the ASE, states that it is ‘dedicated by the author with respectful esteem to Dr. Wilhem Roscher, Royal Saxonian Councillor Professor of Political and Cameral Sciences at the University of Leipzig.’ *Principles of Economics* also makes references to Roscher’s *Grundriss zu Vorlesungen über die Staatswirthschaft* (1843), *Die Grundlagen der Nationalökonomie* (1861), and *Ansichten der Volkswirthschaft aus dem geschichtlichen Standpunkte* (1861), *System der Volkswirthschaft* (1857). Menger clearly had a high regard for Roscher’s views on a variety of issues including welfare, ‘the path of economic development to higher levels of well-being,’ ‘the nature and origin of money,’ the theory of value, history of different levels of civilization, ‘the money-character of a good,’ the nature of tradable goods, ‘the development of the theory of the good in Germany,’ ‘economic goods,’ ‘the scientific concept of commodity,’ etc.

Menger (2007 [1871], 262, 273, 293, 299) also referred to Knies’ writings when discussing ‘the money-character of the good,’ the principle of value, and the theory of the good. He specifically mentioned Knies’ ‘Die nationalökonomische Lehre vom Werth,’ *Zeitschrift für die gesammte Stattsissenschaft*, XI (1855), *Die politische Oekonomie vom Standpunkte der geschichtlichen Methode* (1853), and ‘Ueber die Geldentwerthung und die mit ihr in Verbindung gebrachten Erscheinungen,’ *Zeitschrift für die gesammte Stattsissenschaft*, XIV (1858). Knies’ work was ‘influential on the work of Carl Menger’ in spite of the fact that he was a staunch defender of applying the methodology of mathematically based statistics to economics and

acknowledged cultural practices and ethical values within economics (Bateman and Papadopoulos 2011, 23).

In addition to featuring prominently in Menger's *Principles of Economics*, Knies' views also held 'great merit' with a number of other theorists associated with the ASE.<sup>14</sup> In fact, Knies' focus on subjective utility ended up playing an important role in 'the emergence of the Marginalist Revolution'<sup>15</sup> as well as the formulation of the utility theory of neo-classical economics: Menger and the founders of the Austrian School 'drew from Knies' and other German economists' inchoate theoretical models,' and 'developed mechanisms' that would eventually lead to the 'mathematization of economics and conjecturally signalled the beginning of what was later to be called the Marginalist Revolution' (Bateman and Papadopoulos 2011, 20, 31). Thus,

we can locate Knies in a rather paradoxical position in the history of economic thought, where he appears to have influenced two diametrically opposed schools of thought that decided to express fervently the two streams of thought present in his work, each school from its own side; a conflict made possible by the fact that Knies himself saw these streams working together and so did not attempt a final and ultimate choice between the two in his own work. (Bateman and Papadopoulos 2011, 34)

In *Principles of Economics*, Menger (2007 [1871], 116, 307, 310) also cited Rau who worked on the development of cameralism at German universities in the nineteenth century and influenced Roscher's efforts to transform political economy. Menger read Rau's 1826 *Lehrbuch der*

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<sup>14</sup>Böhm-Bawerk, Wieser, Weber, E.R.A. Seligman, Richard T. Ely, and John Bates Clark were among Menger's well-known students at University of Heidelberg (Bateman and Papadopoulos 2011, 23; Tribe 2002, 8).

<sup>15</sup>'Marginal utility...states that under certain conditions of exchange (e.g. both parties know their best interests) the price of a product varies in direct proportion to need' (Beiser 2011, 523). Menger, Jevons, and Walras are known as the 'founders of the marginal revolution.' However, of these three theorists, Menger has been accepted as 'the least marginalist'—this relates to his lack of 'adequate mathematical training to handle marginalism properly' (Caldwell 2004, 30, 31). 'The German economist viewed use-value as a result of people's individual preferences for the satisfaction of human desires. This notion of use-value as a subjective conception reaches to the crux of neoclassical economics and Menger's theory' (Bateman and Papadopoulos 2011, 31).

*politischen Oekonomie* and made references to Rau's concept of good, 'abstract value of goods' and 'use value and exchange value' in his 1847 *Grundsätze der Volkswirtschaftslehre*.

It is not surprising that Rau, Knies, and Roscher are prominently cited in *Principles of Economics*, given that Menger originally regarded himself as part of the German tradition. His 'value theory' was not considered a 'radical break' from the GHSE, as a similar value theory was 'already present in the German historical school' (Hodgson 2001, 90). However, while there is no doubt that Menger was influenced by the GHSE, he did not agree with their positions on many issues. For example, he was opposed to Roscher's argument that the main mission of the discipline of economics was not to 'explain regularities which somehow emerge from the rational behaviour of individuals,' but 'to analyse the historical development of such "wholes" as nations, economic systems and classes, and to detect their historical laws of development: the social sciences are the theory of history' (Milford 1995, 39). Menger recognized the importance of historical studies in providing insights into understanding the general development of economic phenomena; at the same time, he maintained that historical studies could not enhance our understanding of individual decisions and behaviours.

Another point of contention between the GHSE and Menger was the nature of economic theory. Roscher and other GHSE theorists argued that 'economic theory does not have the scientific nature of natural science. Only a historical approach will enable empirical regularities to be absorbed into the theory.' Menger opposed this notion and argued that economic theory has 'the scientific nature of natural science' and that it has 'little in common with purely historico-institutional foundations' (Gloria-Palermo 1999, 18). While Menger accepted that historical analyses and studies played a role in economics, he maintained that this role was 'complementary to, not a substitute for, the development of theoretical principles' (Tribe 2002, 13). Contrary to the GHSE, Menger argued that 'the prime task of economic analysis was therefore the elaboration of theory and policy, not the simple accumulation of economic facts. Empirical knowledge could not be acquired through reflection, and theoretical knowledge did not result from empirical work. This was the core of Menger's argument: not a rejection of historical economics

per se, but a denial that “more” historical economics could lead to “better” theory.’

Roscher condemned ‘Menger’s work as an insufficient scientific performance’ (Giouras 1995, 118). Additionally, ‘Menger’s methodological critique of German historicism consequently prompted a violent response’ from Schmoller, leader of the younger GHSE (Tribe 2002, 12).<sup>16</sup> After reading *Principles of Economics*, Schmoller accused Menger of being a ‘follower of Ricardo’ and the British classical school, which is surprising given that Menger was openly critical of the British classical school (Caldwell 2004, 48, 49).<sup>17</sup> In fact, he aimed to ‘correct the errors of the classical economists’ (Herbener 1991, 34). Concerning classical economics, Menger stated:

Adam Smith and this school have neglected to reduce the complicated phenomena of human economy in general, and in particular of its social form, ‘national economy’ to the efforts of individual economies, as would be in accordance with the real state of affairs. They have neglected to teach us to understand them theoretically as the result of individual efforts. Their endeavors have been aimed, rather, and to be sure, subconsciously for the most part, at making us understand them theoretically from the point of view of the ‘national economy’ fiction. On the other hand, the historical school of German economists follows this erroneous conception consciously. (cited by Herbener 1991, 34)

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<sup>16</sup>The older German Historical School was ‘associated with the writing of Wilhelm Roscher, Knies and Bruno Hildebrand,’ whereas the Younger School was primarily associated with Schmoller (Tribe 2002, 1).

<sup>17</sup>Schmoller’s methodological views played a major role in the development of Alfred Marshall’s (1842–1924) methodology in economics. Marshall, who is accepted as the founder of the neo-classical school of economics, was able to use his advanced knowledge in mathematics to formalise economics in his well-known 1890 *Principles of Economics*, which became the leading textbook. Marshall was ‘fluent in German’ and, like many international academics and students of his time, ‘he went to Germany to study under the tutelage of members of the historical school.’ In fact, he was ‘in contact with several German economists, including Wilhelm Roscher’ (Hodgson 2001, 97). Contrary to the negative, disrespectful and derogative comments that Hayek and Mises directed at the GHSE, Marshall’s work conveyed a positive view of the GHSE. In the 1890s, Marshall praised the achievements of the GHSE, stating that ‘on the whole the most important economic work that has been done on the Continent in recent times is that of Germany’ (Senn 1989, 257).

Menger attempted to refute the harsh criticisms put forth by GHSE theorists, as well as their rejection of general, abstract, non-historical economic theory. Menger was ‘upset by the lack of understanding Roscher displayed when reviewing Menger’s contribution to economic theory’ after the publication of *Principles of Economics*. Menger then ‘turned from liking to disliking the historical economists’ because the historical school’s theorists ‘failed to appreciate his contribution to historicist theory’ (Alter 1990, 323). The rivalry that developed with the GHSE over *Principles of Economics* led Menger to play a major role in the ‘establishment of a distinctly ASE,’ which represented an alternative to ‘economic positivism and empiricism’ (Caldwell 2004, 29, 30, 48; Grassl and Smith 1986, 2). Following the publication of *Principles of Economics*, Menger’s (1985 [1883]) *Investigation into the Methods of the Social Sciences (Untersuchungen über die Methode der Socialwissenschaften und der politischen Ökonomie insbesondere)* was very critical of Roscher, Hildebrand, and Knies (Hacohen 2000, 463). Menger (1985 [1883], 27) used this book to accuse the GHSE of delaying the development of economic theory—describing GHSE methodology as ‘erroneous’: the ‘progress of a science is blocked because erroneous methodological principles prevail.’

## GHSE and ASE: Main Points of Contentions

The debate between the GHSE and the ASE originated from decades-long disagreements between Menger’s views and those of Roscher and Schmoller with regards to the methods, goals and issues of the discipline of economics. Schmoller was well-known as a major opponent of Menger’s views among theorists and other adherents of the ASE. His works influenced the intellectual development of Schumpeter, Sombart, Max Weber and Heinrich Herkner, among others. He had a significant influence on many American students and academics who went to Germany in search of higher training and education during the period when Schmoller’s influence ‘was at its peak’ (roughly, 1870–1910) (Senn 1989, 262). Despite his important contributions to the development of the GHSE and the discipline of economics in general, only a few of Schmoller’s works have been translated into English. However,



this did not significantly reduce the influence of Schmoller's ideas on the development of economics.

The methodological battle between Schmoller and Menger – which is often referred to as one of the ‘most important methodological debates in the history of economics’ - commenced when Menger (1985 [1883]) attacked Schmoller and the GHSE in *Investigations into the Method of the Social Sciences with Special Reference to Economics* (Senn 1989, 268). Some of the main disputes in the methodological battle involved: Schmoller's defence of the empirical and inductive method and Menger's defence of the abstract, theoretical, and deductive method; Schmoller's defence of methodological collectivism and his opposition to Menger's argument that human nature can be reduced to purely individual egoistic motivations; and Menger's opposition to Schmoller's support for the roles of ethical values in economic theory, and the nature of human knowledge. Commenting on Menger's second book, *Investigations into the Method of the Social Sciences with Special Reference to Economics*, Hayek (2007, 24) explained that: Menger had failed to arouse the German economists with his first book [*Principles of Economics*]. But he could not complain of neglect of his second [the *Untersuchungen über die Methode der Socialwissenschaften und der politischen Oekonomie insbesondere* (1883)]. The direct attack on what was the only approved doctrine attracted immediate attention and provoked, among other hostile reviews, a magisterial rebuke from Gustav Schmoller, the head of the school—a rebuke couched in a tone more than usually offensive.

The battle began in the Preface of *Investigations into the Method of the Social Sciences with Special Reference to Economics*, with Menger's statement that ‘Theoretical investigations in the field of political economy, particularly in Germany, have by no means progressed as yet to a true methodology of this science’ (Richter 1996, 583). Schmoller (1888 [1883], 287) responded by writing a review of Menger's book in a journal called *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft*:

Menger is absolutely incapable of understanding the fundamental causes and merits of the historical school because he lacks the authority to do so. The historical school represents a return to the scientific grasp of reality instead of vague abstractions lacking the desired connection to reality. (cited by Louzek 2011, 450)

In 1884, Menger replied to Schmoller's attack in *Irrthümer des Historismus in der deutschen Nationalökonomie* or *The Errors of Historicism in German Economics*. In this book—'which is written in form of 16 public letters to Gustav Schmoller in which Menger more or less repeats, with great rhetoric skills, his arguments' (Richter 1996, 585)—Menger wrote:

The future, I hope that not too distant future, will decide whether Schmoller finished me off with his methodological analysis or whether I finished off Schmoller... Yet one thing seems to be certain already today. May the methodologist Schmoller ever so stride across the sand of the river Spree [a Berlin river] in the future, shake his mane, raise his paw, yawn methodologically; only children and fools will in the future take his methodological gestures seriously... I for myself will be remunerated, for the little pains I took, by the knowledge of having done a good deed in the field of German economics in more than one respect.

As for Menger's response to the attacks Schmoller put forth in *The Errors of Historicism in German Economics*, Hayek (2007, 24) explained that Menger ('in the form of letters to a friend') 'ruthlessly demolished Schmoller's position. The pamphlet adds little in substance to the *Untersuchungen*. But it is the best instance of the extraordinary power and brilliance of expression which Menger could achieve when he was engaged, not on building up an academic and complicated argument, but on driving home the points of a straightforward debate.'

Hayek (2007, 24) also explained that the methodological battle between Menger and Schmoller displayed a 'degree of hostility not often equalled in scientific controversy.' The 'crowning offence' (from the Austrian perspective) was provided by Schmoller who, 'on the appearance of Menger's pamphlet, took the probably unprecedented step of announcing in his journal that, although he had received a copy of the book for review, he was unable to review it because he had immediately returned it to the author, and reprinting the insulting letter with which the returned copy had been accompanied. It is necessary to realize fully the passion which this controversy aroused, and what the break with the ruling school in Germany' (Hayek 2007, 24).

The methodological battle between Schmoller and Menger became abusive and derogatory. For example, Schmoller stated:

Menger only knew and confined himself to 'a corner of the large house of our science' and took it for 'the whole house' or 'the best and fanciest salon in the house.' (cited by Shionoya 2005, 16)

In response, Menger asserted that 'Schmoller's view is compared to that of a navy who wants to be regarded as an architect because he carried some stones and sand to the construction site' (cited by Shionoya 2005, 16). Meanwhile, Schmoller declared 'publicly' that members of the 'abstract' school were 'unfit' to fill teaching positions in German universities. According to Hayek (2007, 24), Menger's influence was 'quite sufficient' to guarantee a 'complete exclusion' of all 'adherents' to his 'doctrines' from academic positions in Germany. Schmoller and Menger 'relegated the other to such a lowly place in the total body of economics that they could not arrive at a reconciliation' (Shionoya 2005, 16).

In the end, the methodological battle did not result in Schmoller and Menger reconciling their views. Also, while neither side scored a clear victory, it could be argued that the methodological battle established and enhanced 'the reputation of the Austrian School' around the world (Hayek 2007, 24). Conversely, the fact that Menger failed to produce a decisive win and the GHSE was unable to 'reverse Menger's incursion,' seriously weakened the dominant role of the GHSE 'despite their overwhelming prominence in German academia at the time' (Hodgson 2001, 90).

After the methodological battle concluded, 'the problem of the adequate methods remained the dominating concern' in the writings of Menger and his followers (Hayek 2007, 24). Thus, while the methodological battle between Schmoller and Menger officially ended in 1884, it was later carried on by other scholars. For example, 'Max Weber and Werner Sombart—addressed at length the problems that had been unearthed in the *Methodenstreit*' (Hodgson 2001, 113). More than a century after the methodological battle between Menger and Schmoller

ended, mainstream economists have largely accepted Menger's views over those of Schmoller. Even after the methodological battle ended, Menger continued to dedicate a significant portion of his academic career to refuting a number of the GHSE's fundamental ideas and principles, including its defence of historicism, a strong authoritarian state, the inductive method, and the integration of ethical values into economic policies, as well as its rejection of general, abstract, non-historical economic theory.

## Methodological Collectivism vs. Methodological Individualism

The ASE placed a high value on the study of methodological issues and defended methodological individualism against methodological collectivism.<sup>18</sup> Methodological individualism proved to be very unpopular among German academics and theorists. Theorists and practitioners of the GHSE rejected methodological individualism because they associated it with the classical economics interpretation of self-interests, whereby individualistic and selfish behaviour constituted the basis of life.<sup>19</sup>

In *Outline for Lectures of Political Economy*, Roscher attacked methodological individualism on the basis that economic systems do not function according to the individualistic tradition. He sought 'a representation of the economic aspect of what peoples have thought,

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<sup>18</sup>Alter (1990, 328) claimed that methodological individualism was related to the 'Austrian interpretation of Leibniz's Monadology.' In other words, Austrians had 'an atomistic reinterpretation of the Leibnizian monad,' which 'made the integration of romantic-historicist and rationalist elements of thought possible' in their methodological individualism.

<sup>19</sup>There are different versions of methodological individualism within the disciplines of philosophy and economics. For example, the ASE and Classical economics have different version of the methodological individualism.

wanted and felt, what they have striven for and attained, why they have striven for it and why they have attained it' (Tribe 2002, 6). Roscher's efforts to understand individual aims and goals and apply the laws of economics to different areas of life led to the production of academic work that 'brought to an end an individualistic development in German economics which started in 1807 with the works of Hufeland' (Milford 1995, 29).<sup>20</sup> In other words, he replaced 'methodological individualism and subjective value theory by the link of methodological collectivism and subjective value theory' (Milford 1995, 39).

In formulating his arguments against methodological individualism, Roscher pointed out that society and its institutions are not outcomes of un-designed human actions or the pursuit of individual interests; rather, they emerge from the public spirit of the nation that aims to achieve collective good. For him, the ideal state was based on the reconciliation of 'self-interest and public spirit' (Milford 1995, 40). Similar to Roscher, Schmoller (1967 [1884]) rejected methodological individualism, arguing that even the most primitive tribes organized activities based on the common goals of the whole tribe and/or clan. Therefore, self-interest cannot be conclusively identified as the sole rationale for all human actions and decisions. Schmoller explained that individuals in the economic arena do not act as pure profit-maximizing agents; instead, they take both 'selfish and common' goals and ends into consideration when making a choice of action (Haller 2004, 14). However, even though Schmoller valued 'public spirit' over 'self-interest' on account of his belief that 'public spirit' essentially shapes societal order, he still attempted to achieve the unity of 'self-interest' and 'public spirit' (Milford 1995, 40). He argued that 'individuals were neither purely egotistical nor entirely co-operative. They were motivated by an 'infinite number' of mixed motives, involving both co-operative and egotistical elements.... The isolated individual was a fiction. The individual could not be understood without an appraisal of this historical and cultural context' (Hodgson 2001, 113).

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<sup>20</sup>'Hufeland's 1807 *Neue Grundlegung der Staatswirtschaftskunst* is one of the first attempts to link a theory of subjective evaluations and methodological individualism' (Milford 1995, 29).

The ASE opposed methodological collectivism, because its theorists associated it with the achievement of the collective good. Menger (1950, 47) was highly critical of the methodological collectivism advocated by the GHSE in *Principles of Economics*, where he described the methods of the GHSE as obstacles to the solution of economic problems. Despite being influenced by GHSE theorists early in his career, Menger was also very supportive of methodological individualism in *Principles of Economics*, to an extent that bordered on worship. He strongly believed that individual agent was ‘the fundamental unit of analysis’ (Hodgson 2001, 82). This is evidenced in his claim that ‘socio-economic phenomena were the conscious or un-designed result of the interaction of individual human wills. The attempt to show that socio-economic structures and institutions can and should be explained in terms of the interactions of individual human wills.’

When he wrote *Investigation Into the Methods of the Social Sciences*, Menger (1985 [1883]) sought to develop a new theory that could explain ‘the origin and change of institutions such as money or markets’ in a manner that would relate to methodological individualism and serve as an alternative to the methodological collectivism of the GHSE (Milford 1995, 43). However, Menger had already focused his efforts on the development of a unified price theory in the early chapters of *Principles of Economics* (2007 [1871]) based on his hypothesis that individuals try to achieve their aims in the best possible manner by spontaneously adjusting their behaviour. In *Investigation into the Methods of the Social Sciences*, he continued to adhere to his assumption that an individual’s spontaneous behaviour was the key element in explaining changes in economic phenomena. According to Menger and other ASE theorists, methodological individualism was not equivalent to hedonism or egoism, nor was it related to the maximization of pleasures and sensations in the hedonistic sense. Furthermore, Menger did not believe that individualism was related to classical homo economicus or the constant preoccupation with the egoistic pursuit of economic gains and interests.

Menger’s analysis of individual behaviour in the achievement of personal goals and material needs in the face of the changing social, political and economic circumstances played a fundamental role in building

the principles of economics. 'From this idea of subjective value, he proceeded to derive principles of action of an isolated individual, then the more complex principles; two-person exchange (based upon mutual benefit), the social division of labor, and finally, a consistent, unified theory of price' (Herbener 1991, 40). He placed a high value on methodological individualism on account of his confidence in its ability to analyze complex social and economic phenomena.<sup>21</sup>

Menger's version of methodological individualism actually assumes that the institutions of society are not outcomes of rational design intended to achieve the collective good; rather, he maintains that they are the results of un-intended and subjective human actions. In fact, his defense of methodological individualism, as expressed in *Problems of Economics and Sociology* (1963 [1883]), emphasized the importance of subjective factors in each individual choice of action. He further argued that the development of the institutions of society was the outcome of these subjective factors, as opposed to resulting from the maximization of pleasures and sensations in the hedonistic sense. Thus, he believed that explaining social phenomena in the social sciences requires the observation and analysis of individual behaviour.

Menger's defence of methodological individualism eventually led to the formation of a strong coalition of GHSE theorists who opposed this concept. However, Menger largely dismissed their opposition by associating their defence of the 'public spirit' with 'the realm of ethical phenomena,' or ethical orientation. Menger explained that focusing on the unification of individual agents with collective phenomena, as well as the merging of self-interest with the public spirit, led GHSE theorists to presuppose behavioural regularities, as well as the homogeneity of individuals' goals, ends, and choices of action, in order to achieve the aggregate well-being of society. In other words, by assuming behavioural regularities and the homogeneity of individuals' goals and ends, the GHSE aimed to improve the situations of weak and poor members of society. Although Menger was not opposed to improving the situations of those that are less well off, he was against methodological

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<sup>21</sup>Menger did not use the term 'methodological individualism' in his writings.

collectivism designed to achieve common goals or provide assistance via 'welfare programmes proposed by the German social reformers' (Haller 2004, 27, 31).

Menger, Hayek, and Mises had a high regard for methodological individualism, as did a number of other Austrian School economists. They also rejected any notion of individual actions being guided by the collective good, arguing that any requirements of conformity with common goals constituted a denial of individual freedom. Mises (1966, 165) believed that individuals within a society behave spontaneously with their own interests and ends in mind as opposed to being guided by some kind of superior authority compelling them to achieve the collective good. Hayek also shared this view, as he claimed that individuals spontaneously co-operate so as to achieve their ends. In fact, Mises and Hayek went so far as to describe efforts aimed at achieving collective goals and ends on the part of supporters of socialism and other forms of totalitarian regimes as the extinction of individual freedom.

In his arguments against the central, rational planning and design of the collectivist approach, Hayek (1976, 4) explained that the 'rules of conduct which prevail in a Great Society' are not designed to 'produce particular foreseen benefits for particular people, but are multi-purpose instruments develop as adaptation to certain kinds of environment because they help to deal with certain kinds of situation.' He also maintained that liberalism thus 'derives from the discovery of a self-generating or spontaneous order in social affairs, an order which made it possible to utilize the knowledge and skill of all members of society to a much greater extent than would be possible in any order created by central direction, and the consequent desire to make as full use of these powerful spontaneous ordering forces as possible' (Hayek 1967, 162). The 'institutions of freedom, like everything freedom has created, were not established because people foresaw the benefits they would bring'; rather, they were outcomes of spontaneous forces (Hayek 2011, 107). Hayek (2011, 94) argued that 'human reason can neither predict nor deliberately shape its own future' on account of the dispersed nature of human knowledge and the spontaneous forces of society.

Thus, Hayek largely concurred with Menger's views when he argued that people spontaneously pursue their own individual plans and



intentions within the particular dispersed knowledge that they possessed, while simultaneously bearing the consequences of their actions. That is to say, individuals will voluntarily co-ordinate their activities according to the constantly changing dynamics of society in order to achieve their individual goals and ends. As such, they need to frequently alter their choices of action as new situations and circumstances materialize. Hayek was convinced that granting individuals the freedom to choose, in terms of their own occupations, spending patterns, investments, and consumption of goods and services, would allow them to achieve satisfaction with respect to the goals and projects that they initiated. He further argued that this was the way in which the activities of millions of people could be organized in a manner that would lead to the realization the common goals and ends of society without having to resort to issuing and enforcing commands and orders based on some sort of public spirit.

Like Menger, Hayek (1994, 17, 66) defended methodological individualism, or the individualist subjectivist approach, against the collectivist approach on the basis of his belief that the 'individual' has to be 'the ultimate judge of his ends.' He also emphasized that individualism did not entail being egoistical or selfish. Hayek did not believe that individuals always acted as economic agents seeking to maximize their self-interests in every situation; rather, he argued that individualism is basically the 'respect for the individual man,' the 'recognition of his own views and tastes as supreme in his own sphere' (Hayek 1994, 17). Hayek also stressed the importance of individuals taking responsibility for their behaviour and the consequences of their own actions: attempting to attain collective goals will inevitably lead to a central authority ignoring the subjective goals and ends of individuals, as well as their specific situations and circumstances. He argued that achieving collective goals requires the central authority to coordinate the activities of millions of people by replacing individual will by the will of the superior power. Simultaneously, individuals have to obey the orders and commands of the state authority when deciding on their individual actions, as opposed to pursuing their own wills. Therefore, collectivist systems eliminate an individual's ability to operate as a free being that makes decisions according to his own thoughts, convictions, beliefs, interests, and will. Under such a system, freedom of choice loses its importance.

ASE theorists were strongly opposed to the view, widely held among GHSE theorists, that society and its institutions are deliberately planned and designed based on the public spirit of the nation, which aims to achieve the collective good. The ASE maintained that the various forms of collective, deliberative, and central control and planning that prevailed in Germany, Italy and Russia advanced the destruction of Western civilization and liberalism. According to its theorists, although each of those countries applied a different form of collectivism, all of them sought to organize society, particularly its wealth and resources, in a manner that would allow for the achievement of teleological goals and ends based on the methodological collectivism, without recognizing the particular goals and ends of individuals.

## The Deductive Method vs. The Inductive Method

Another important point of contention between ASE theorists and their GHSE counterparts was a debate on the inductive method versus the deductive method that apparently lasted for decades.<sup>22</sup> This was largely on account of a public methodological battle (*Methodenstreit*) between Schmoller's defence of the empirical and inductive method and Menger's defence of the abstract, theoretical, and deductive method. Schmoller promoted the inductive method and the historical and statistical study of economics. It follows that Menger's argument that economic theory was not therefore 'susceptible to inductive development was abusively denounced by Schmoller' (Tribe 2002, 2).

Similar to Schmoller, other GHSE theorists opposed 'the excessive reliance on the abstract-deductive method of reasoning and dogmatic application of conclusions to policy' on the part of theorists of 'political economy' (Cardoso and Psalidopoulos 2016, xviii). They defended empirical and inductive methodology, which is 'based on empiricism but its conclusions do not acquire absolute and inevitable validity. It can easily happen that a fact that contradicts the postulated general law will appear in the future. In that case, the theory in question

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<sup>22</sup>Roscher was critical of deductive methods of classical economics.

is refuted and should be replaced with a new, more credible theory' (Louzek 2011, 457).

The inductive method was completely opposed to the 'abstract, theoretical, and deductive method' supported by the ASE (Shionoya 2000, 11). 'The basic property of the abstract-deductive method is that its conclusions cannot be verified or falsified by experience. This stems from the fact that this method is based on the certain assumptions, which are set beforehand and that often need not correspond to experience' (Louzek 2011, 456). GHSE theorists argued that 'abstract deduction' treats 'man much more like a material than like a moral force' (Roscher 1972 [1887], 35). This is significant given the GHSE view that any approach to economics that treats man as though he has no 'relations with actual facts of real economic life and with no concern with the discussion of current affairs' is destined to fail (Cardoso and Psalidopoulos 2016, xix).

GHSE theorists also argued that the discipline of economics did not possess the scientific feature of the natural sciences. Furthermore, they believed that the historical approach could be used to absorb empirical regularities into the theory, which was the basis of their efforts to replace the abstract deductive method with historical induction. According to the GHSE, 'the economist should collect masses of inductive evidence from surveys and statistics before hazarding generalizations' (Beiser 2011, 522).

In his attempts to replace the abstract deductive method with historical induction, Roscher focused his efforts on the application of the methods of the natural sciences to the social sciences. However, he was very conscious of the fact that it would be difficult to attain 'true economic and social laws by inductive methods.' While Roscher argued that social sciences are both universal and empirical, as are the natural sciences, he also recognized that 'the natural sciences can apply inductive methods because nature shows uniformity.'<sup>23</sup> He was also aware of the fact that it is very difficult to obtain 'the observation of repeated

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<sup>23</sup>In his view, it is due to this epistemic situation that laws of historical development are the only kind of social knowledge that is strictly universal and empirical and he concludes that the social sciences are not sciences *sui generis* but the theory of history, and thus belong to history. Among the positive sciences one may distinguish between science and history only' (Milford 1995, 31).

instances' in the social sciences, which would 'rule out the application of inductive methods in the social sciences' (Milford 1995, 30, 38, 39). Nonetheless, Roscher maintained that the inductive method was necessary in order to have genuine scientific knowledge.

Roscher was cognisant of the fact that the social sciences deal with complex phenomena and that, unlike in the natural sciences, it was very uncommon to have repeated observations. This lack of repeated observations makes it much more difficult to uncover laws and rules relative to the natural sciences. In response, Roscher proposed a comparative study of economic life and broadening the empirical basis for observation. In other words, he believed that it would only be possible to discover historical laws in the social sciences by engaging in historical observation and comparing 'the economic development of all nations and peoples.' This approach would allow for the discovery of 'historical laws of development' by taking the 'political, cultural [including, customs, habits and traditions], linguistic and legal development' of all nations into consideration (Milford 1995, 39). Therefore, according to Roscher, scientific research should focus on historical examination aimed at discovering historical laws and principles of development.

Roscher justified the application of the inductive method to the social sciences by explaining that 'the theoretical social sciences are the theory of history' and claiming that, like the natural sciences, history is in fact a 'positive science.' He further added that, as a positive science, history aims at the 'discovery of strictly universal knowledge that is proved true, and his naturalistic account of the methodological principles of history explains that inductive methods make this possible' (Milford 1995, 38).

Roscher believed that, within the social sciences, it is the 'task of the historical craftsmen to provide an empirical basis, i.e. singular statements, from which the strictly universal or general statements can be inferred' (Milford 1995, 33). He proposed 'a wide-ranging historical and comparative study of economic systems' in order to 'identify the laws of development of economic life' (Tribe 2003, 173). Discovering laws and patterns of development leads social scientists to gather the 'data and facts, which are the raw material or the input from which science starts, and which constitute the empirical basis on which the

theoretical building is erected' (Milford 1995, 33). Consequently, it would be possible to discover laws and patterns of development based on the inductive method. On this basis, Roscher, along with a number of other GHSE economists, sought to apply 'the inductive method of reasoning from concrete historical data' to discover historical laws of evolution pertaining to nations (Senn 2005, 187). They accepted 'historical investigation' as 'fully scientific and, indeed the only legitimate way to study the evolution of society' (Caldwell 2004, 43). In the end, Roscher's attempts to apply the 'historical' method to the political economy resulted in 'applied economics' becoming an important aspect of the GHSE (Senn 2005, 76).<sup>24</sup>

The GHSE highly valued the historicist approach (historicism) and held the view that the theories, laws, and principles of development should be derived from historical study.<sup>25</sup> Meanwhile, ASE theorists argued against the practice of relying on history for the purpose of uncovering laws and principles of development. According to Menger (1985 [1883], 51), the 'theory of economy must in no case be confused with the historical sciences of economy.' Hayek (1967, 212) shared similar views with Menger on historicism in that he was opposed to applying the historical method to the social sciences, particularly economics, as was frequently done in Germany, primarily by Schmoller. Hayek explained that economists from the historical school held the belief that they could 'treat the existing economic order as merely a "historical phase" to be able to predict from the "laws of historical development" the emergence of a better future system.' He believed that placing such a high value on discovering historical patterns of development with regard to social phenomena led historicists to assume that identical situations and circumstances engendered identical outcomes in different periods of time and places.

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<sup>24</sup>Roscher (1972 [1887], 87) defined political economy as 'the science which has to do with the laws of the development of the economy of a nation, or with its economic national life.'

<sup>25</sup>According to the GHSE, historical change occurred in 'stages from village economy to city economy to territorial economy to national economy.' These dissimilar manners of organizing society are strongly related to the different types of relationships that exist between individuals, such as 'kinship,' 'sympathy,' 'love,' law, contract, etc. This form of 'stage theory was concerned with the evolution of institutions brought about by the interactions between ethics and economy, between spiritual-social and natural-technical factors' (Shionoya 2000, 28).

Menger supported the application of the deductive method within the social sciences, as did a number of other contributors to the ASE. Menger explains that the social sciences develop models which are 'often animated by very simple laws obtained by induction from observation or introspection. One such law is the law that individuals try to achieve their aims in the best possible manner' (Milford 1995, 47). He regarded the strong support for history as an explanatory variable for progress in social and economic matters on the part of GHSE economists as an indication of their rejection of the universal validity of laws. Menger, meanwhile, defended the notion that economics is based on the abstract concepts and assumptions. Like Menger, Hayek (1935, 12) also opposed the GHSE's defense of historicism:

To start here at the wrong end, to seek for regularities of complex phenomena which could never be observed twice under identical conditions, could not but lead to the conclusion that there were no general laws, no inherent necessities determined by the permanent nature of the constituting elements, and that the only task of economic science in particular was a description of historical change. It was only with this abandonment of the appropriate methods of procedure, well established in the classical period, that it began to be thought that there were no other laws of social life than those made by men, that all observed phenomena were only the product of social or legal institutions, merely 'historical categories' and not in any way arising out of the basic economic problems which humanity has to face.

Contrary to the views expressed by the GHSE on the inductive method, Menger believed that the 'scientist does not simply generalize from experience or limit himself to inductions made from observations, because experience never provides perfect illustrations of them' (Beiser 2011, 523). Menger (2007 [1871], 46–47) argued that it is possible to develop universal theoretical laws to explain complex economic phenomena by reducing the 'complex phenomena of human economic activity to the simplest elements that can still be subjected to accurate observation.' On this basis, he claimed that historicists did not value

abstraction from an empirical standpoint; instead, they valued long-term forecasting and attempted to find historical laws and principles of development. In fact, he suggested that rejecting the principle of empiricism is what led to the failure of GHSE efforts to apply strict universal laws to economics. Menger concluded that the inductive method, which is applied in the natural sciences to uncover the laws and principles of nature, represents a ‘logical problem closely connected with the question of whether the social sciences are theoretical sciences at all’ (Milford 1995, 45).

## Ethical Values and State Intervention

The GHSE rejected the classical *homo economicus* assumption of self-interest maximization as the primary motivation of human behaviour. Its theorists believed that placing a high value on individual self-interest maximization led classical economists to neglect the role of ethical values in motivating human behaviour. In fact, they regarded social and economic inequality and injustice as outcomes of the classical *homo economicus* of self-interest maximization, even going so far as to claim that classical economics was ‘responsible for many social evils in Britain, such as pauperism, poverty and inhuman working conditions’ (Cardoso and Psalidopoulos 2016, xvii).

Instead of the individual selfishness and egoism associated with classical economics, the GHSE chose to address the common needs of all social classes by taking an ‘ethical stance towards all things economic’ (Cardoso and Psalidopoulos 2016, xvii). They stressed that supporters of *homo economicus* valued the subjectivist view of justice without taking any consideration of the ethical judgements and values needed to achieve social welfare and national solidarity. They did not believe that the judgement of justice was an individual matter, or that it could be shaped according to individual tastes; rather, they thought that it was a social matter shaped according to ethical values. The GHSE maintained that factors such as a desire for equality, compassion for one’s fellow men, cultural practices, the public spirit or public interests, social

justice, and social welfare constituted examples (or parts) of ethical values.<sup>26</sup>

Contributors to the GHSE defended ethical values and motivations as leading factors in human interactions, as opposed to the purely individualistic and egoistic motivations advocated by classical *homo economicus*. They opposed the economic liberalism associated with classical economics aimed at achieving purely individualistic and egoistic. More precisely, they believed that economic liberalism was doomed to fail on account of the independence of economic ends from the positive active role of the state in achieving ethical goals. Instead, they argued that ethical judgements and ends needed to be objective and universally valid in order to achieve the common goals shared by all the members of society.

Schmoller believed that the 'strategic problems of economic life cannot be overcome unless people act, in virtue of their common ends, as members' of moral or ethical communities (Haller 2004, 15). He was also very concerned about social justice, regarding it as an important part of ethical values, as well as growing social and economic inequality, and the destructive outcomes associated with rapid industrialization and urbanization. He believed that interactions between human beings should be framed by ethical practices to the greatest extent possible. He also thought that 'economic institutions or organizations...are not only natural and technical but also spiritual and ethical' (Shionoya 2005, 22). Schmoller played a crucial role in integrating ethics into the historicist approach: the German Historical School 'generally' emphasized the importance of historical research in reconstructing economics, but it was von Schmoller, the leader of the younger German Historical School and of the *Verein für Sozialpolitik*, who 'explicitly' combined ethics and history. For Schmoller,

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<sup>26</sup>Despite their defence of social justice, they did not necessarily support socialism. According to the GHSE, 'socialism' was not the solution for the problems that prevailed in Germany at that time; in fact, they regarded it as a 'false remedy' (Caldwell 2004, 55). They viewed 'socialism as the factual and logical result of capitalism.' They also accepted socialism as 'the denial of individual freedom and private property' (Kobayasi 2000, 65).



ethics gave meaning and direction to historical research in economics. Ethics, the knowledge of a guide for action, must not only be based on a general, abstract principle of moral philosophy, but it must also be applicable to individual, concrete cases of social policy for designing institutions or organizations. In other words, ethics integrated the two separate roots of economics, i.e., philosophy and policy, and the integration was attempted from a historical perspective. (Shionoya 2005, 14)

Schmoller argued that the 'state can direct a just distribution of prosperity in order to alleviate the consequences of industrialization, with its increasing social differentiation and diverging rates of social development' (Nau 2000, 513). He primarily focused his attention on the role of the state in controlling the development of institutions to ensure a unified spirit of a people and achieve ethical outcomes within society. He maintained that the state could stimulate economic progress and promote distributive justice through the development of social institutions.<sup>27</sup> Furthermore, he attributed a central role to the institutions of the state in guiding and regulating social and economic activities based on the scientific treatment of public administration.

Schmoller defended the notion that state intervention would result in a 'strong and settled middle class, a society enriched by a network of organizations to foster self-determination and mutual understanding, a neutral bureaucracy above social and class interests, and the dual interests of state sovereignty' (Peuker 2001, 78).<sup>28</sup> According to Schmoller, the 'economic organization of a nation is not a natural product as was thought for a long time, but mainly a product of current ethical views about what is right and just in relation to different social classes. All progress in economic organization has been so far a triumph of ethical ideas and will continue to be so in the future' (cited by Shionoya 2005, 23).

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<sup>27</sup>Schmoller was very optimistic when it came to the achievement of distributive justice, as he believed that the future would bring improvements in terms of achieving distributive justice based on the progress of social institutions, which themselves are results of historical patterns and trends (Haller 2004, 11).

<sup>28</sup>Like Schmoller, Roscher attempted to achieve justice and harmonious relationships within society through a more equitable distribution of income via state intervention. Roscher's defence of justice sought 'the activation of "love" for the weaker members of society' so as to minimize the 'potential causes of a socialist revolution' (Giouras 1995, 111, 113).

The treatment of ethical values by the GHSE was one of the key points of contention with Menger and other ASE theorists. In *Principles of Economics*, Menger opposed the idea of accepting ethical values as an important part of the methodology of the social sciences, as advocated by the GHSE. He considered the GHSE's defense of ethical orientation to be a form of methodological collectivism. Menger objected to the integration of ethical values or orientation into theoretical aspects of economics on account of his belief that 'self-interest,' the 'public spirit,' and the common good belonged to 'different sides of social life.' However, this opposition did not translate into a complete rejection of any role for ethical values within society in general (Haller 2004, 23, 27). Instead, he regarded ethical values as a personal matter that should be attained through the decisions and actions of individuals, free from all forms of central planning or design.

Hayek's views on ethical values and goals corresponded to Menger's. In *The Road to Serfdom*, Hayek (1976, 108) devoted a great deal of time and effort to identifying early warning signs that could have been used to predict the eventual emergence of totalitarian regimes in Germany, Italy and Russia. In doing so, he determined that various forms of collective, rational, and conscious control in those countries were related to the achievement of positive welfare for their citizens, which was guided by a single 'common ethical code' or ethical value. Hayek argued that the multiple ends of millions of people cannot be organized according to a single 'common ethical code' adopted by the central planning authority. Although he recognized that ethical concern and moral obligation for the welfare of our family, associates, and friends represents an essential part of freedom that cannot be excluded from an open society, Hayek rejected the idea of instilling individuals with a sense of ethical and moral obligation for their respective communities through coercion on the part of a state authority. Furthermore, while Hayek did acknowledge that a lack of economic prosperity could be a sign of incapacity, he did not regard it as a social justice issue that needed to be resolved through a more equitable distribution of income via state intervention. As such, he opposed any state role in attempting to achieve welfare and social justice.

Hayek (2011, 376) argued that defenders of state intervention for the purpose of achieving welfare confused the lack of economic resources, equality, opportunities, fairness, welfare and justice, among other factors, with a lack of freedom. He was very concerned about the prospects of a state using its 'coercive powers' to 'insure that particular people get particular things.' This was apparent when he concluded that the achievement of a 'more even or more just distribution of goods' necessitates a 'kind of discrimination between, and an unequal treatment of, different people, which is irreconcilable with a free society.'

Mises shared similar views with Menger and Hayek on the subject of state imposed ethical values aimed at achieving collective goals within a society. Specifically, ethical values and economics had nothing to do with each other and that ethical values are opposed to economic values. He also argued that state intervention designed to achieve ethical ends requires a centrally-planned economy, a system that he strongly opposed in *Socialism* (1936). According to Mises (1966, 700–701, 858), a 'planned economy is no economy at all. It is just a system of groping about in the dark. There is no question of a rational choice of means for the best possible attainment of the ultimate ends sought. What is called conscious planning is precisely the elimination of conscious purposive action.' Mises maintained that the outcomes engendered by the interventionist state of a totalitarian regime generally worsened the situation that prevailed prior to intervention.

Menger and many other prominent ASE theorists argued that using ethical orientation for the purpose of achieving social justice and the common good, as advocated by the GHSE, was harmful for the progress of society. Menger, Mises and Hayek did not hold positive views of the GHSE's defense of a strong state authority to achieve better national outcomes. In fact, Hayek and Mises went so far as to accuse GHSE theorists of being the original sources of nationalist socialism in Nazi Germany. While it may be true that the theorists of the GHSE supported a strong state authority and advocated for positive state actions to reform social services and regulate the economy and social life in order to unify the nation, they did not promote the type of state authority that existed in Nazi Germany as claimed by Mises and Hayek. Nonetheless, it is likely that the GHSE's association with national

socialism, defence of the national economy, and reputation as an apologist for imperial Germany were among the the 'reasons that others, like the Austrians, were translated' into English whereas the works of Schmoller and other GHSE theorists were not (Senn 1989, 275).

## The Nature of Human Knowledge

Another key point of contention between the GHSE and the ASE relates to the nature of human knowledge. Theorists of the ASE argued that individuals possessed imperfect information and rejected the view that human beings could ever obtain true or perfect knowledge, which could be used to achieve rational forecasting and design within society. The premise that individuals possess imperfect information that is fragmented and dispersed, as accepted by the ASE, would suggest that people are uncertain about the consequences of their actions. Meanwhile, theorists from the GHSE attributed central importance to the power of true human knowledge in rationally designing the institutions of society so as to achieve public interests, social justice, and social welfare. On this basis, the GHSE defended increasing rationality for the purpose of achieving predictable order within society by applying the methods of the natural sciences to the political economy.

GHSE theorists were fully aware that the political economy dealt with complex phenomena, meaning that it is difficult to discover laws and rules within this discipline due to the impossibility of obtaining repeated observations, which is not the case in the natural sciences. Roscher sought to transform the political economy into a historical science and, as a result, he and other GHSE theorists supported the idea that history should be a science with its own methods and standards, leading them to justify the scientific status of history and the notion that the political economy is a historical science. According to them, history and the natural sciences are both 'positives sciences,' which would imply that their shared goal is to discover 'strictly universal knowledge that is proved true' (Milford 1995, 38). For this reason, economists from the GHSE assumed that it was possible to obtain universal and true knowledge in the social sciences, just like in the natural sciences.

Obtaining universal knowledge in the social sciences would make it possible to discover social laws and rules of development. GHSE theorists claimed that utilizing universal and true knowledge, as well as historical facts and developments, gave them the capability to distinguish between pertinent and non-pertinent 'data and facts,' which allowed them to choose pertinent 'data and facts and process them to theories by discovering regularities and similarities' (Milford 1995, 33). For instance, Roscher believed that historicists could gather the 'data and facts, which are the raw material or the input from which science starts, and which constitute the empirical basis on which the theoretical building is erected' (Milford 1995, 33). Once social laws and rules of development are discovered by working with previously gathered data and facts, it becomes possible to attain rational and predictable order within society.

Contrary to the views expressed by the GHSE, the ASE opposed the transformation of the political economy into a historical science, as well as attempts to justify the scientific status of history. Menger stressed that 'sound foundations' would not be realized in the field of economics by merely 'copying methods of the natural sciences' (Alter 1990, 332). He maintained that social theorists cannot derive the methods of the social sciences from the methods of the natural sciences because, in the case of the former, individuals make plans based on their thoughts, beliefs, desires, and interests, none of which can be measured and theorised through the methods of the natural sciences. Menger further contradicted GHSE theorists by arguing that individuals alter their behaviours, subjectively make decisions, and are uncertain about the consequences of their choices during the process of satisfying their needs and wants, which are based on existing scarcity<sup>29</sup> and do not rely on the methods of the natural sciences. Additionally, he stressed the importance of unintended and unanticipated outcomes of human

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<sup>29</sup>Hayek (2007, 18) argued that choice and scarcity are the main dilemmas of the discipline of economics and humanity in general; and that 'Menger was the first to base the distinction between free and economic goods on the idea of scarcity.' He also explained that even though all of 'Menger's analysis is grounded on the idea of scarcity,' he did not use the term 'scarcity'; instead, he used 'Insufficient quantity' or 'das ökonomische Mengenverhältnis.'

behaviour that are shaped by the emergence of unexpected and un-predicted circumstances.

Menger claimed that the limited nature of human knowledge, constant changes in the requirements and needs of human beings, and the unintended and unanticipated outcomes of human actions would lead all attempts to provide accurate predictions on the part of the historical school to fail. He defended the view that the methods of natural science cannot be applied to the social sciences for the purpose of discovering laws and patterns of development that can accurately predict the consequences of human actions, because none of the agents in the marketplace can possess all of the knowledge necessary to conduct an accurate forecast. On this basis, he suggested that the theorists of the GHSE were delusional in their support for the premise that it was possible to possess strictly scientific and universal knowledge; in fact, they ended up creating a type of knowledge that was no longer scientific, but administrative and bureaucratic. Menger concluded that the social sciences needed to develop their own methods on account of the fact that social life and institutions were outcomes of human social actions and interactions.

But Menger was not completely opposed to all applications of the methods of the natural sciences to economics: the 'method of economics could be the same as that of natural sciences, and that economists could construct general laws and conceptual models that go beyond inductive evidence' (Beiser 2011, 522). Still, Menger maintained that it was impossible to obtain accurate economic predictions and further argued that increasing rationalization based on the application of the methods of natural science to all areas of life engendered fragmentation, disorder, un-freedom, and inequality within society.

Menger (1985 [1883], 38, 43, 45) did not have a completely negative view of historical knowledge and economic statistics. He fully recognized that 'both the history and the theory of social phenomena, in general, provide us with a certain understanding of social and economic phenomena.' On this basis, he accepted that the GHSE made notable contributions in terms of explaining the roles of historical analysis and statistics in the development of both social phenomena and social institutions. In fact, he discussed the important role that history played in

demonstrating the significance of social phenomena in his *Investigations into the Method of the Social Sciences with Special Reference to Economics*. Still, Menger was concerned about the GHSE placing a higher value on 'history and statistics of economy' than the 'theoretical sciences.'

Menger (1985 [1883], 44, 48, 52, 55, 56) disagreed with the level of importance that the GHSE attributed to history and economic statistics in understanding concrete phenomena and, instead, advocated for a greater role for the theoretical sciences as an alternative. Historical 'knowledge' and 'historical understanding of phenomena' can 'never replace theoretical knowledge.' He further explained that the 'purpose of the theoretical sciences is understanding of the real world, knowledge of it extending beyond immediate experience, and control of it.' It becomes possible to gain knowledge about phenomena because theoretical sciences allow us to 'set the conditions of phenomenon which are within our control, and are able in such a way to produce the phenomenon itself.' He concluded that the GHSE's decision to apply historicism to 'theoretical economics' in order to understand 'economic phenomena' actually inhibited the progress of the discipline of economics in Germany. As a result, he rejected the view that history and statistics 'are the only sources of materials' (Ingram 1967, 235).

The nature of knowledge had a substantial role in Hayek's work on political philosophy and economics. Like Menger, Hayek often emphasized the importance of the dispersed and tacit nature of knowledge among agents and within society in general. He felt that because human intellectual capacity was so limited, a single person or group of individuals (i.e. social engineers or planners) could not possibly possess all knowledge about the various aspects of the economy, politics and social life; as a result, they would be unable to properly evaluate many of the miniscule details pertaining to social, political and economic life needed to accurately predict the consequences of a particular act. According to Hayek (1988, 76), understanding the limitations of human knowledge was the foundation of not only economics, but all other social disciplines as well. He claimed that the 'curious task of economics is to demonstrate to men how little they really know about what they imagine they can design.' Hayek (1983, 20–21) also stated that, our 'problem is that even if we have thought out a beautiful and possibly correct theory of the complex

phenomena with which we have to deal, we can never ascertain all the concrete specific data of a particular position, simply because we do not know all that which the acting people know.’ Furthermore, Hayek (2011, 163) maintained that since the efforts of individuals are ‘guided by their own views about prospects and chances, the results of the individual’s efforts are necessarily unpredictable.’ Therefore, Hayek (1988, 76–77) clearly rejected the GHSE’s defence of relying on true human knowledge to deliberately design and plan society:

To the naive mind that can conceive of order only as the product of deliberate arrangement, it may seem absurd that in complex conditions order, and adaptation to the unknown, can be achieved more effectively by decentralizing decisions, and that a division of authority will actually extend the possibility of overall order. Yet that decentralization actually leads to more information being taken into account. This is the main reason for rejecting the requirements of constructivist rationalism.

Recognizing the importance of the limited and dispersed nature of human knowledge allowed Hayek to critique totalitarian regimes and welfare states. In order to compare and explain the differences between centrally and deliberately planned (*taxis*) totalitarian regimes and a free market economy that is based on the spontaneous order (*kosmos*), he analyzed the role that knowledge played in these two distinct manners of coordinating activities.

Hayek (1964, 44) also disagreed with the GHSE’s defence of applying the methods of natural science to the social sciences—labelling it ‘scientism.’ He explained that central, deliberate planning required the gathering of vast amounts of information and the application of the methods of natural science to the social sciences. He further added that proponents of central, deliberate planning who defended the application of scientific methods in the social sciences sought to expand individual, rational, and conscious control and the power of reason. Hayek’s opposition to scientism played a significant role in his writings, particularly when he cautioned against expanding socialist forces in the United States and England based on his concerns about the practice of implementing central, deliberate planning in western liberal countries to achieve social welfare.



## Conclusion

In the second half of the nineteenth century, German universities played a significant role in the development of economics on an ‘international’ scale (Tribe 1998, 3). They were the primary destinations for American students seeking a ‘good graduate education’ in the 1880s and 1890s, the majority of whom studied and trained under Roscher and Schmoller (Senn 2005, 58). However, the First and Second World Wars had very detrimental impacts on the international standing of German universities—which lost their worldwide supremacy in the 1920s because of a decline in the high scholarly standards that had been established in the nineteenth century. Despite its status as the world’s leading school of economics during the second half of the nineteenth century, it is now generally accepted that within the contemporary mainstream, the GHSE has the ‘worst reputation’ of all the research programs in the history of economic thought. *This view has been largely shaped by Austrian School theorists.* Menger, who founded the ASE, was originally the main opponent of the GHSE, while Hayek, the most important Austrian economist of the twentieth century, followed in his footsteps.

Menger was originally a student of the GHSE when it was at its peak and that he considered himself to be part of the German tradition. This is demonstrated by the significant influence of the GHSE on his book *Principles of Economics*, as evidenced by his citation Rau, Roscher and Knies, three prominent GHSE theorists. This book, which is widely regarded as the founding ASE manuscript, does not contain any ‘analytical break’ with the GHSE. Furthermore, the fact that Menger dedicated his book to Roscher, whom he considered to be a true authority on the discipline of economics, is an indication that he wanted to be recognized as a theorist of the GHSE when he wrote *Principles of Economics*.

Menger was truly upset by the severe criticisms directed against him and his book by GHSE theorists and their labelling of him as an ‘Austrian’ economist. He attributed their hostility, particularly that of Roscher, to their lack of understanding and appreciation of the contributions he had made to economic theory and historicist theory in *Principles of Economics*. As a result, Menger went from having a high

opinion of the GHSE to having a low opinion of its theorists. The rivalry that developed with the GHSE over *Principles of Economics* eventually led Menger to play a major role in the establishment of a distinctly 'Austrian' approach. In his subsequent works after the publication of *Principles of Economics*, Menger was very critical of some of the views of prominent GHSE members, including Roscher, Hildebrand, and Knies. Menger argued that GHSE's defense of political economy as a historical science, their reliance on the power of perfect knowledge to conduct forecasts, and their integration of ethical and cultural analysis into economic theory to achieve the common good, had created a school with narrow views on economics and progress. He even went so far as to claim that the GHSE was responsible for delaying the development and progress of economic theory in Germany. However, Frederick C. Beiser (2011, 524) concluded that it was Menger and his Austrian School followers—not the German historians—who were responsible for delaying 'the development of science': 'they wanted to return to the age of scholasticism, where abstractions and a priori constructions ruled, rather than the hard work of the empirical research.'

Almost a century after its original publication, Menger's *Principles of Economics* was translated into English, leading to somewhat of a revival of his arguments and ideas. It is not entirely surprising that the ASE did not enjoy success in Europe or globally prior to the ascendancy of neoliberalism as the dominant school of economic thought, given that Austria's economy was considered underdeveloped in the mid-nineteenth century and it did not produce any well-known or influential scholars. It was not until the 1970s and 1980s, when free-market capitalism started to gain worldwide prominence, that the economic views and theories of Menger and his followers became popular—while the rival GHSE was largely forgotten.

Opposition to the GHSE on the part of Menger and his followers played a significant role in the foundation and development of the ASE. The manner by which the ASE came to be founded was unique compared to how economic programs of research and economic paradigms are typically established. New economic programs of research and economic paradigms are often the outcome of attempts by social scientists to find solutions for various political, social, and economic crises or

anomalies within society. If these anomalies persist for extended periods, they will eventually lead to a crisis followed by a concerted effort to find a new set of rules. But no such factor played a substantial role in the establishment of the Austrian School of Economics—its methods and fundamental principles were largely formulated as a reaction to the methods and principles of the GHSE.

Further research and study of the GHSE would help gain a better understanding of the anomalies, flaws, and contradictions that exist within the discipline of economics, particularly when considering its important role in the establishment and evolution of the ASE, as well as the key role it played in the development of key concepts like institutionalism, evolutionism, and communitarianism, and ordo-liberalism. More importantly, the GHSE's critiques of neoclassical economics, defence of protective trade measures, and integration of ethical values into the theoretical aspects of economics, which Hayek labelled 'bad ideas about economics,' have the potential to provide valuable insights and new horizons to assist with enhancing our comprehension of some of the contemporary problems associated with the modern exchange economy.

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# 3

## Before Hitler: The Expansionary Programme of the Brauns Commission

Antonio Magliulo

### Introduction

In 1931, Friedrich Hayek sent an article to Wilhelm Röpke, who at that time was the most authoritative member of the ‘Brauns Kommission,’ a board of experts appointed by Heinrich Brüning’s government to put forward proposals that might reduce the dramatic rise in unemployment. The Commission had just published a Report containing guidelines for an expansionary policy based on public works. The Report received many criticisms by the German press and Röpke engaged in an active public defence. Hayek’s article was critical, too. But, in the cover letter, Hayek (1975a, 12) wrote to his friend and colleague: ‘if the political situation is so serious that continuing unemployment would lead to a political revolution, please, do not publish my article.’

Röpke did not publish the article.

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The article, unpublished for decades, is now available in the German edition of Hayek's collected writings and we are going to examine its contents.<sup>1</sup>

Historians are still looking for the 'culprits' of the premature death of the Weimar Republic (1919–1933) and of the simultaneous and unexpected birth of the Third Reich (1933–1945). The main 'defendant' remains Brüning, head of government from March 1930 to May 1932, when unemployment dramatically went from less than 2 million to more than 6 million. Widespread misery and despair provided Adolf Hitler with a path to power.

Was Brüning unable to fight unemployment or was that altogether impossible? Were there alternatives to his austerity policy? And, if there were no alternatives, why was Hitler able to reduce unemployment by an expansionary policy just a few months later? What had changed in the meantime?

Historians have suggested two main responses. The first one, known in the literature as the Borchardt's thesis, is that, taking into consideration the structural problem of the country—namely the shortage of capital—international constraints and the fear of inflation shared by the German government, the political parties, and public opinion, there were no real alternatives to Brüning's austerity policy. The other answer, which we could label Kindleberger's thesis, is that there was possibly some leeway to manage an expansionary manoeuvre. Brüning could have adopted the proposal made by the Brauns Commission, which he himself had appointed in early 1931.

The aim of this chapter is to reassess, in the light of new primary and secondary sources, the reasons why Brüning decided to reject the proposals of the Brauns Commission, tenaciously persevering, until the end, in an austerity policy.

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<sup>1</sup>The evidence for 1931 is only indirect. On the one hand, Hayek refers to an article by Röpke that appeared in May 1931. On the other hand, the author identification of the typescript (not reproduced in the reprint) reads: "F. A. Hayek, Wien". Presumably, after September 1931 when he came to LSE, he would have identified himself as "F. A. Hayek, London". Moreover, in a letter to Mises, 9 December 1931, Hayek refers explicitly to his "unpublished discussion with Röpke" ("seinerzeitige unveröffentlichte Auseinandersetzung mit Röpke"). The letter in question is preserved in the Austrian State Archives. The source is: Österreichisches Staatsarchiv, Archiv der Republik, Akten Sonderarchiv Moskau/Fonds 623: Mises, box 6, folder 81. I wish to thank prof. Hansjoerg Klausinger for these precious information and other suggestions.



This chapter has three parts.

Section “[Business Cycle and Great Depression: Brüning’s Austerity Policy](#)” examines the stylized facts that characterize the business cycle in which the Great Depression is embedded. It is, we believe, virtually impossible to understand the reasons that led the German government to undertake a policy of austerity (and other countries to adopt different strategies) by disregarding the context of the business cycle of the 1920s and 1930s (that were marked first by the return to the gold standard and then by its abandonment).

Section “[The Brauns Commission: Hayek’s Criticism and Röpke’s Defence](#)” examines the expansionary programme put forward by the Brauns Commission in the spring of 1931. In particular, we will focus on Hayek’s criticism and Röpke’s defence.

Section “[Assessing the Alternative Proposals and Continuing the Austerity Policy](#)” examines how Brüning’s government, after considering the Brauns (and Lautenbach) Plans, decided to continue with their deflationary policy.<sup>2</sup>

## **Business Cycle and Great Depression: Brüning’s Austerity Policy**

The Great Depression of 1929 followed a business cycle stretching from 1924 to 1936, with a boom (1924–1929), a Great Depression (1929–1933), and a weak recovery (1934–1936).

Everything happened around gold: a ‘barbarous relic’ (according to Keynes, first, and then to Keynesian historians) or the backbone of a new economic order (according to Hayek and then to Neo-Austrians historians).

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<sup>2</sup>On this period there exists a huge literature. We will mention only some basic works. On the Republic of Weimar, see Eick (1963), Schulze (1987), and Lee (2010). On the Great Depression and the German economic policy during the 1930s, see Kindleberger (1986), Temin (1989), Eichengreen (1992), Rothbard (1963 [2000]), Borchardt (1991), Patch (1998), and Nicholls (1994). On the Brauns Commission, see Klausinger (1995, 1999, 2001).

As is well known, in the gold standard monetary system as applied until the First World War, the quantity of gold contained in every currency determined foreign exchange rates and domestic monetary circulation.<sup>3</sup> The countries adhering to the gold standard undertook to respect three fundamental rules.

*First:* to adhere to a regime of fixed exchange rates. Countries fixed exchange rate parity according to the gold content of their respective currencies. Exchange rates could oscillate within very restricted margins defined as 'gold points.'<sup>4</sup>

*Second:* to regulate the money supply in proportion to variations in gold reserves. To maintain fixed exchange rates, the central banks modified the quantity of money in circulation according to the flow of gold. In case of a lower flow of gold, due to an excessive trade deficit, they reduced the money supply by increasing the discount rate. The rise in the bank rate had a dual effect. Over the short term, it encouraged the inflow of foreign capital attracted by the possibility of discounting bills

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<sup>3</sup>For example, one pound sterling contained 113.0016 grains of gold, and one dollar contained 23.22 grains. On the international market, one pound was exchanged with 4.866 dollars: the exchange rate was thus equivalent to the ratio between the quantity of gold contained in the single currencies ( $113.0016/23.22=4.866$ ). Paper money could be converted into gold, but was greater than the existing gold reserves, meaning that banks would therefore be unable to convert all the paper money in circulation into gold. To guarantee gold convertibility, two systems were devised. The United Kingdom, from as early as the Bank Charter Act of 1844, placed a 'maximum limit' on the emission of banknotes not covered by gold. Other countries of continental Europe, including Germany and Italy, in addition to a 'maximum limit,' obliged their respective central banks to maintain a 'minimum reserve' of gold to cover the banknotes issued. In both cases, convertibility was guaranteed by an optimal relationship between gold reserves and monetary circulation. British legislation aimed at directly controlling the monetary aggregate (denominator), while continental European legislation aimed to regulate gold reserves (numerator). The minimum coefficient for obligatory reserves was placed at 40%.

<sup>4</sup>Before the war, as already said, one pound sterling was worth 4.866 dollars (4.87 for simplicity). The gold convertibility of the two currencies made an oscillation of the exchange rate possible within margins corresponding to the costs of transport of gold from New York to London (which at that time were three cents for every pound in gold). The exchange rate should have been able to vary between a minimum of 4.84 and a maximum of 4.90 dollars per pound. An American debtor would never have been willing to pay more than 4.90 dollars for a pound, since it would in fact have been possible to buy gold in New York, transport it to London for three cents and then sell it at the price of 4.87 dollars per pound. Similarly, a British creditor would never have been willing to receive less than 4.84 dollars for a pound, as a payment in gold could have been demanded.

of exchange and other paper titles on better terms. Over the long term, it triggered a deflationary process that improved the trade balance. This dual effect corrected the disequilibrium in the balance of payments and interrupted the outflow of gold (and vice versa in case of an inflow of gold due to a trade surplus).

*Third:* to maintain domestic prices flexible. The manoeuvre on the discount rate could be effective in restablising the external equilibrium and in maintaining fixed exchange rates only if domestic prices were flexible.

The first is the fundamental rule and the other two are almost subordinate. It is to achieve a regime of fixed exchange rates that it is necessary to regulate the money supply according to gold flows and to keep domestic prices flexible.<sup>5</sup>

And fixed exchange rates are so important because they ensure balanced and sustainable growth.<sup>6</sup>

Until the First World War, Britain retained a firm hold on world leadership. It was the world's workshop and its bank. With a constantly positive balance of payments, it accumulated gold and was able to make large loans to other countries.

The war subverted this ancient order. The United States started to challenge British leadership, the gold standard was suspended, gold flowed

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<sup>5</sup>In fact, if gold flows were neutralized by compensatory monetary manoeuvres, or if domestic prices were rigid, the economic system would slide into a double disequilibrium, both internal and external, which would eventually undermine the stability of exchange rates.

<sup>6</sup>Fixed exchange rates favour an international division of labour in conformity with the principle of comparative advantages and ensure the monetary stability (internal and external) that is indispensable for the formation of the savings needed to finance new investments. They preserve namely the two classic basic premises for economic growth: the division of labour and the accumulation of capital. A fixed or stable exchange rate indicates that an internal and external equilibrium has been achieved. If the exchange rate is fixed or stable, this means that any trade deficit—caused by domestic demand greater than national production, and namely by investments greater than domestic savings—is financed with a stable inflow of savings (capital) from abroad (and vice versa). Fluctuations in the exchange rate indicate instead the existence of a double disequilibrium, both internal and external. In particular, an outflow of gold indicates an excess of domestic demand over production (and of investments over savings) that is not financed by a stable inflow of foreign savings. Fixed exchange rates thus ensure balanced and sustainable growth and are guaranteed by a money supply proportional to gold reserves and by flexible domestic prices: three golden rules.

back towards the New World, and the Old World of the European continent was forced to print currency to finance its military costs.

In the interwar period, two millstones impeded the return to the desired pre-war order. Too much paper was circulating in the world, and not enough gold: it would not be easy to restabilize in every country the (minimum) ratio between gold reserves and the money supply, which before the war oscillated at around 40%. Furthermore, the Allied countries were trapped in a net of reciprocal credits, all (or almost all) had debts with America, and many demanded war reparations for the damages of war from Germany, the great loser.

Between 1919 and 1923, Keynes put forward the most radical proposals: to cancel the debts between the Allies, to impose only light sanctions on Germany, and to abandon the gold standard.

Keynes's proposals were rejected. The United States demanded the repayment of its loans (*pacta sunt servanda*), the Treaty of Versailles imposed severe war reparations on Germany, and the most authoritative economists and politicians pushed for a return to gold.

Another solution prevailed: the repayment of debts with the help of new loans, and the restoration of a more elastic gold standard, without gold in circulation, with the possibility of holding dollars and pounds as bank reserves as well, but with the same rules as the gold standard game.

The equalization of gold with the dollar and the pound gave America and Britain enormous power to print paper money as if it were gold. In reality, this was a relative power. The central banks of the other countries would have continued to hold dollars and pounds only for as long as they were certain of their gold convertibility. And, to preserve the gold convertibility of their currencies, America and Britain would have to respect the rules of the gold standard. They would not, therefore, be able to use monetary policy in a discretionary way.

In the summer of 1924, the Dawes Plan was launched. It is almost a symbol of the solution given to the problems emerging after the war: the United States granted a loan of 800 million Reichsmarks to Germany to soften the repayment of war reparations and to return to gold.

Germany adhered to the gold exchange standard in August 1924. Between 1925 and 1927, Britain, France, and Italy all returned to gold. Britain restored the previous parity with the dollar by revaluing the

depreciated pound. France stabilized the franc at market value, applying effectively a devaluation. Italy revalued the lira with respect to the dollar and the pound.

The two key countries in Europe were Great Britain and Germany. According to the rules of the game, Britain should have activated an internal deflationary process (reducing wages and prices) to compensate for an exchange rate that had become prohibitive for exporting companies. Germany should have used the foreign loans to restructure its domestic economy and to generate the trade surplus needed to procure the foreign currency that it needed to repay. But instead: Britain was unable to deflate due to the strong reaction of trade unions that opposed wage restrictions and Germany used the foreign loans to finance expenses that were also unproductive. In 1926, the British General Strike paralyzed the country. In 1927, the president of the Reichsbank, Hjalmar Schacht, openly denounced those Germany's public administrations that were using foreign funds to build 'stadiums, swimming pools, squares and reception salons, conference halls, hotels, planetary offices, airports, theatres, museums, etc.' (cited by Kindleberger 1986, 27).

The result was that consumption (public and private) increased in both Britain and Germany, with fewer exports than there would have resulted had the rules of play been applied.

Starting in 1924, Europe's economy entered a phase of economic expansion fed by an excess of demand over domestic production and by a consequent trade deficit financed by American loans (that had, of course, to be repaid).

In 1927, expectations of a corrective manoeuvre imposed by the rules of the game started to spread. Britain, which was losing gold, should have contracted its money supply. France, worried by the conditions of the British economy, could have asked for the conversion of the pounds in its possession into gold, thereby aggravating the debt situation of the Bank of England. Germany should have reduced its public spending. Finally, America, which was receiving inflows of gold, should have expanded the money supply. However, it would have been difficult for the American expansion to compensate for the European contraction, and quite probably the boom would have culminated, as at other times in the history of capitalism, in a healthy corrective crisis.

The first turning point came in 1927. The main central banks agreed on an expansionary policy. Britain failed to reduce the money supply (at least not to the extent it should have done); France did not convert its pounds into gold; and America expanded the money supply far more than it should have done (Eichengreen 1992, Chapter 7). On the New York stock exchange the speculative bubble grew: American savers, infected by irrational euphoria, continued to buy shares at ever higher prices, based on the simplistic forecast that prices would continue to rise even further. In just a few months, the value of shares doubled without such a performance being justified either by company balance sheets or market prospects.

During 1928, the Federal Reserve increased the discount rate, worried that the speculation on the stock exchange would divert savings from productive investments. However, the returns on the securities listed on the New York stock exchange remained higher than any other financial investment. Capital invested in Europe started to return to America. For Europe, and above all for Britain and Germany, the difficult prospect emerged of being forced to apply restrictive measures to drastically reduce foreign debt.

The second turning point came in the summer of 1929 when the Fed tightened its monetary policy. In October, the Wall Street bubble burst very noisily: the expectations of speculators and savers were reversed, and copious cut-price sales of securities began.

In the autumn of, the boom ended and the Great Depression started.

When the crisis struck, the two main protagonists of American economic policy were virtually at their debut. President Herbert Hoover had been in office since 4 March 1929, and the Fed, founded in 1913, found itself having to handle its first crisis under the gold standard regime (the previous one having occurred in 1921).

What should the countries adhering to the gold exchange standard have done, according to the rules of the game? They should have maintained fixed exchange rates, a money supply proportional to gold reserves, and flexible prices. During the recession there was a contraction of both prices and production, unemployment increased and the risk of a flight of capital emerged. To keep prices flexible (downwards),

governments should have safeguarded the freedom of firms to layoff workers and to reduce wages. To prevent the flight of capital and the consequent devaluation of exchange rates, the central banks should have raised the discount rate: more precisely, they should have granted credit at growing interest rates (the so-called Bagehot's rule). Decrease wages and increase the bank rate, therefore—this is the classic formula.

What instead did the countries adhering to the gold exchange standard do? It is difficult to say in only a few words. We can only advance an opinion that is not contradicted by historiography: sooner or later, and more or less voluntarily, the main countries breached the rules of the game.

The Fed, violating Bagehot's rule, cut the discount rate and injected cash into the economic system: the securities it owned doubled between October and November and increased by the same amount between November and December in 1929.<sup>7</sup> Instead of encouraging or permitting lower wages and prices, Hoover attempted to halt deflation: he launched a programme of public works; created the Federal Farm Board to buy up agricultural surpluses and to grant loans to farms at risk; promoted an action of moral suasion to persuade the large industrial groups not to reduce wages; and failed to veto the Smoot-Hawley Tariff Act. The 1929–1930 financial year closed with a budget surplus. The following year produced a conspicuous deficit (Robbins 1934 [1971], 69; Rothbard 1963 [2000], Chapters 9–12).

America implemented an expansionary economic policy to sustain domestic demand, aiming to halt the decline of prices and production. It violated the third rule of the game: instead of favouring the downwards flexibility of wages and prices, it applied a reflationary policy. A policy however that did not halt the crisis: in December 1930, the Bank of the United States failed, and the panic spread.

The crisis then hit Europe, above all Germany and Britain. In 1928, the withdrawal of American capital had already opened the painful likelihood of restrictive policies. Now this likelihood became reality.

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<sup>7</sup>Eichengreen (1992, 249) writes: 'In fact, the Fed did respond in the immediate aftermath of the Wall Street crash. Employing expansionary open market operations, it doubled its holdings of government securities between October and November.' See also Kindleberger (1986, Chapter 3).

Germany and Britain were forced to reduce domestic demand in order to reduce the trade deficit and halt the outflow of gold. Reducing demand meant lowering private consumption and public spending, namely with cuts to wages and subsidies. A restrictive policy, from the economic and social viewpoint, that tore Europe's political world apart.

In Germany, the coalition government presided by the Social Democrat Müller, opposed to reductions in public spending, collapsed (Kindleberger 1986, Chapter 7). In the meantime, the Young Plan (signed in the summer of 1929) reduced and prolonged reparation payments; but at the same time also prevented the German government from adopting policy measures that were dangerous for monetary stability.

In March 1930, a new government was formed in German, without the Social Democrats and guided by Brüning, the leader of the Centre Party. The new government prepared a policy of austerity and presented itself to the country in the September 1930 general election. The election saw the clamorous and unexpected success of Hitler's party, which increased its votes from 2.5 to 18.3%. Germany started to lose its gold reserves and the general uncertainty was augmented by the political pre-occupations generated by the Nazi victory.

The crisis unfolded in May 1931. The French, who opposed the proposed customs union between Germany and Austria, suddenly withdrew their deposits from the Credit-Anstalt. The collapse of the Austrian bank triggered a domino effect and accelerated the flight of capital from Germany and Britain.

Germany applied the classic formula. The Reichsbank increased the discount rate and excluded the possibility of devaluating the mark. On 5 June, the government approved the Second Emergency Decree, a package of measures intended to reduce the public deficit, and namely to compress domestic demand and the trade deficit.<sup>8</sup> Only a few weeks before, the Brauns Commission had delivered its Report proposing an expansionary programme.

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<sup>8</sup>The manoeuvre envisaged lower public spending and higher public revenues, with reductions of 6% in unemployment benefits and subsidies to companies in difficulty, of 4–18% in wages to public employees, and of 6% in war pensions. Taxes on sugar and petrol were increased, and an additional tax on incomes was introduced (Eichengreen 1992, 274–275).



The restrictive manoeuvre failed to halt the flight of capital. On 20 June 1931, President Hoover granted a moratorium of one year for all war debts, and above all for those of Germany. Germany however needed fresh loans from abroad, which it did not hesitate to request. On 15 July 1931, Germany's gold reserves sank beneath the safety threshold of 40%. Germany was virtually out of the gold exchange standard. The new Reichsbank president, Hans Luther, requested a massive foreign loan. The negotiations stretched on fruitlessly. In August, Germany took an extreme decision: to introduce exchange rate controls. Exchange rates remained fixed thanks to government control of the main items of the balance of payments. The first measure was the freezing of foreign deposits and this effectively excluded Germany from the possibility of obtaining further foreign loans (Kindleberger 1986, Chapter 8).

In the summer of 1931, the crisis also spread to Britain which applied the same restrictive policy as Germany, meeting the same difficulties. The National Government, led by the Labour leader Ramsay MacDonald, managed in only a few days to drastically reduce the public deficit and to obtain significant foreign loans. The country had however already been hit by a crisis of confidence and the outflow of capital continued. On 21 September 1931, the pound left the gold standard and it depreciated in comparison with the other main currencies. As *The Economist* proclaimed: 'The End of an Epoch' (Eichengreen 1992, Chapter 9).

In brief, during the first two years of the depression (October 1929–September 1931), the leading countries attempted several different exit strategies from the crisis. But sooner or later, and more or less voluntarily, all of them violated the rules of game. Hoover's America broke the third rule (flexible prices) in order to fight deflation. MacDonald's Britain directly broke the first and fundamental rule (fixed exchange rates) abandoning the gold standard and devaluing the pound. Finally, Brüning's Germany broke the second rule (free movement of capital) to maintain fixed exchange rates. Germany applied a restrictive and deflationary economic policy to reduce foreign debt and halt the outflow of reserves. The manoeuvre failed and the outflow continued. Germany did not, however, change the goals of its economic policy: fixed exchange rates and flexible prices, and namely deflation.

To respect the first rule violates the second; gold flows, in fact, no longer depended on free economic transactions, but were regulated centrally by a political authority.

## The Brauns Commission: Hayek's Criticism and Röpke's Defence

In January 1931, the so-called Brauns Commission was appointed by Brüning's government. The Commission was chaired by the former Minister of Labor Heinrich Brauns and included the Minister of the Empire, Dr. Bernhard Dernburg, Professor Hermann Dersch, Dr. Wilhelm Engler, President of the Labour Office of the Land Hessen, the Ministerial Director Hans Frick, Professor Eduard Heimann, Mrs. Antonie Hopmann Director of the Catholic Women Association, Professor Wilhelm Polligkeit, Professor Friedrich Zahn, President of the Statistical Office of the Land Bayern, plus Röpke (1931, 424).

Röpke was the most authoritative member and the main author of the Report delivered in the spring of 1931.

It was his participation in the Commission's works that facilitated his attempt to reach a synthesis between the two great and alternative explanations of cycle and crisis proposed by Hayek and Keynes at the beginning of the 1930s.

Hayek and Keynes had Wicksell as a common intellectual descent but, as notoriously stressed by Hicks (1967, 203–204), 'Wicksell plus Keynes said one thing, Wicksell plus Hayek said quite another.'<sup>9</sup>

Both Hayek and Keynes see the economy as basically structured into two interconnected circuits where firms produce consumer and capital goods, and households buy consumer goods and save the remaining income. If firms' investment (i.e. the production of capital goods) were equal to the households' saving, then the production of consumer goods would equal demand and the entire economic system would be in

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<sup>9</sup>See Haberler (1963) and Hagemann (ed.) (2002) on business cycle theories during the interwar period.

equilibrium. The key problem is how to balance saving and investment. Both, Hayek and Keynes, used the Wicksellian distinction between natural and market interest rates. The first is the (hypothetical) interest rate that balances saving and investment. The second is the actual interest rate charged by banks. A fall in the natural interest rate signals an increase in saving and therefore a higher household preference for future goods. If the banks were able to capture the signal, they should reduce the market interest rate stimulating the firms to make more investment and increase the production of future goods. The real problem is that banks are not able or do not want to conform their monetary policy to the movements of the natural interest rate.

Hayek and Keynes, moving from Wicksell, reached opposite conclusions.

For Hayek (1931a, 1932), the origin of cycles and crises lies in financing too much investment (compared with the available saving) through the manipulation of credit. Banks, in the vain attempt to accelerate the pace of growth, artificially lower the market interest rate below the natural rate. The result is a distortion of the structure of production. Firms, attracted by the reduction of interest rates, increase the production of capital goods (investment) even if consumers' preferences are not changed. The economy enters into an expansive stage fuelled by an excess of total demand (of consumer and capital goods) on total supply and financed with foreign debt. For Hayek, the crisis of 1929 actually starts in 1927, during the boom, when the leading central banks, in order to fight a positive deflation coming from a general reduction of production costs, lower the market interest rates which financed unsustainable investment and consumption, and enlarged the foreign debt of key countries like England and Germany.

According to Hayek, one can prevent, but not cure, the crises with political remedies. The only way out to recover the economy is to wait and favour the liquidation of bad companies born or grow during the boom thanks to the easy money policy and the spontaneous readjustment of markets. In particular, entrepreneurs, looking at the change in relative wages and prices, should be free to transfer the inputs from the capital sector (afflicted by an excess of supply) to the consumer sector (suffering a shortage of supply). Any attempt to artificially stimulate

investment and consumption as well as any interference on the free movement of wages and prices would prolong the depression by delaying the recovery. The recovery will only start when, at the end of painful process of liquidation and readjustment, firms will spontaneously come back to make profitable investment utilizing household saving to produce new future goods. The best way out requires a do-nothing policy.

For Keynes (1930, 1931), on the contrary, the origin of cycles and crises lies in the volatility of investment compared with a stable and rising flow of saving. The risk is to have inactive (or abortive) saving, not used to finance investment, with a parallel shortage of total demand (consumption plus investment). The economy grows until the all-available saving is invested by firms; but it is easy to experience a drop in investment due to uncertainty, negative expectations, or bad monetary policy decisions.

The crisis of 1929, according to Keynes, really starts in 1929 when the Fed, at the climax of a prolonged boom, mistakenly decides to rise the interest rates causing a dramatic fall in investment and triggering a depression process fuelled by a shortage of investment and consumption. Therefore, the only way to recover is stimulate investment and/or consumption with an expansionary economic policy.

Röpke's synthesis, fully presented in a series of articles and books published during the 1930s, can be summed up as follows. The origin of cycles and crises always lies (as indicated by Hayek) in the excess of investment over saving that occurs during the boom through the manipulation of credit. However, one has to distinguish between normal and abnormal or prolonged crises. In the former, the recovery spontaneously occurs at the end of the liquidation and readjustment process (as described by Hayek). In the latter, the recovery does not occur spontaneously despite the fact that liquidation and readjustment process has run its course. Firms, due to continuing uncertainty and a lack of confidence, do not invest the available saving. The economy falls in a Keynesian depression characterized by an excess of saving over investment and in a parallel contraction of total demand which fuels a supplementary fall in prices. The primary (and useful) deflation is followed by a 'secondary (and negative) deflation' (or depression).

As Röpke (1936, 122; 1937, 216, italics in the original) writes:

The only adequate way of characterizing the secondary deflation is to point to the *contraction of the total demand* ... The inevitable primary depression may be followed by a *secondary* depression which it should be the first object of policy to avoid. It is indeed quite possible that in the unfavourable psychological climate of a depression (to which many other more or less fortuitous circumstances, political and other, may contribute), entrepreneurs' incentives may be weakened to such an extent that investments will sink below the level required to convert the continuing savings of the economy into investments and thereby into demand for goods (total investments < total savings).

The secondary deflation, according to Röpke, must be stopped by applying the usual Keynesian tools, that is, stimulating investment and/or consumption with an expansionary economic policy.<sup>10</sup>

The Brauns Commission represented the 'first breach in the wall of orthodoxy' (Röpke 1933b, 430).

The Commission issued two Reports and Röpke presented a deep analysis of their contents (as well as of the ensued debate) in a long essay published in October 1931. In what follows, we will refer to that essay.

In the First Report, the main proposals at the centre of the German political debate were examined. Those proposals were based on the idea that the depression was caused by a general overproduction compared to consumers purchasing capacity. Therefore, it was not possible to overcome the crisis and to create new jobs by increasing production. The right path to follow was to better redistribute the existing labour opportunities through a series of political measures, that is, reduction of working time, elimination of double salaries, extension of compulsory schooling, decrease of immigration, and increase of emigration.

The Commission considered only the first two proposals—and concluded that the positive effect on the employment would have been quite limited.

According to Röpke, the Report, as well as the German public debate, was dominated by a mistaken 'fear of production.'

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<sup>10</sup>On Röpke's secondary deflation see Haberler (1963, 58–61), Hudson (1985), Klausinger (1999), and Gregg (2010, Chapter 5). A similar case of secondary deflation was analysed by some Italian economists: see Magliulo (2012).

The Second Report of the Brauns Commission, issued in the spring of 1931 (before the approval of the Second Emergency Decree of 5 June 1931) grew out of the disappointment aroused by the first one—and Röpke claimed its paternity. The Report was entitled, not by chance, ‘The fight against unemployment creating new jobs.’

How to fight unemployment? It was necessary not just to reallocate existing labour opportunities but to create new jobs by overcoming the macroeconomic imbalance—and the ‘fear of production’—with appropriate economic policy measures. Even if in the Report (or in Röpke’s October 1931 survey) we cannot find the expression ‘secondary deflation or depression,’ *that* was the inspiring idea. Germany and the world were falling into a profound ‘secondary depression’ where entrepreneurs, paralyzed by uncertainty and lack of confidence, did not invest the available saving—which caused a continuous fall in total demand and a consequently drop in prices and production.

The Report, in order to break the evil spell, proposed a shock therapy: a plan of public investment financed by new foreign loans. To restart the engine of the national economy, this public investment consisted of a programme of public works for renovating the German road and electric infrastructure system. The plan should have been financed with part of the new foreign loans that the German government was then negotiating with international partners.

The Report raised a huge debate and lively controversy. Three main criticisms were advanced.

First, the crises can be prevented but not cured with economic policy measures. Moreover, Germany was too small to reverse the business cycle alone.

Second, foreign loans were one of the main causes of the German disaster. They had been used to finance unproductive government expenditure as well as consumer goods bought from abroad. The result had been an enormous public and external debt of Germany—and national crisis. The only path to recover was to encourage new national saving—combined with austerity policies.

Finally, public investment and related credit expansion were harmful. (This was Hayek’s criticism even if Röpke did not refer to him in his long 1931 survey).

When Hayek (1931b) sent Röpke his critical article he quoted an essay by Röpke published in May 1931. Therefore, Hayek's article must have been sent later on.

According to Hayek, public investments could not restart the German economy because they would delay and slow down the re-equilibrium process of the markets by impeding the free transfer of inputs from capital sectors (artificially developed) to consumer sectors (artificially underdeveloped). Moreover, they absorb (and destroy) saving that, at the end of the adaptation process, should be used by private entrepreneurs for financing productive and profitable investment. Public investment can only be used to temporarily increase employment. Therefore they can only be justified for 'political considerations,' as Hayek wrote to Röpke in the cover letter, namely to (temporary) reduce the unemployment that in the spring of 1931 was pushing Hitler to power. In the (now) published article, Hayek (1931b, 504; my translation) wrote:

Effective measures to accelerate the exit from the crisis are: to eliminate every obstacle to the adjustment, particularly of administered prices; to eradicate the demand for capital for consumptive purposes, both through government expenditure and through the excessive demand for capital by the sector of consumption goods, due to the artificially high level of consumption; to facilitate the influx of long-term foreign capital for industries, possibly by issuing state guarantees (these last shouldn't in any case substitute a sound profitability calculus on the investments to be financed). In no case, though, should implementing non-profitable investments be taken in consideration. On the contrary, the effect of such investments would be to slow down the recovery, by irrevocably fixing capital that would be required once the possibility arose to invest in profitable ventures, by delaying the renovation of industries through circulating capital and by disturbing the process of restoration of a new equilibrium in the price structure.

Later, in the early 1930s, Hayek addresses the related question of whether it is useful or necessary to expand credit to stop 'secondary deflation.' According to Röpke, the main cause of secondary deflation is a drop in total demand that triggers a cumulative process of contraction in production, employment, and prices. Therefore, it must be stopped with expansionary measures—for both economic and political considerations.

According to Hayek, the main determinants of secondary deflation are persistent rigidities in wages and prices. If all wages and prices were flexible, then prices of consumer goods (scarcer) would rise compared to prices of capital goods (excessive) triggering the adjustment process: inputs would transfer from the second to the first sector and the recovery would soon start. If instead wages and prices are sticky, then the imbalance remains—and the general price level will continue to fall. The expectation of further price declines drives the entrepreneurs to produce consumer goods to maintain more direct methods of production—thus postponing the implementation of the new investments that are necessary to start a robust recovery. However, the continuing fall in prices will finally force companies to cut wages too. In other words, the secondary deflation will finally break the rigidities of wages and prices from which it derives. Therefore, it is economically useful and should be stopped only for ‘political considerations.’ Hayek (1933 [1939], 176) remarks:

There can be little question that these rigidities tend to delay the process of adaptation and that this will cause a ‘secondary’ deflation which at first will intensify the depression but ultimately will help to overcome these rigidities.

Hence, according to Hayek, both public investment and secondary deflation counteractions can be justified only for political considerations.<sup>11</sup>

Röpke replied to the triple criticism in a long essay of October 1931.

First, it is true that crises can be prevented and not cured. But this is true only for normal or ordinary crises, not for abnormal business cycles and Great Depressions. In this case, an extraordinary public intervention is required—especially in Germany, the epicentre of the crisis. Röpke, as a liberal economist, rejects almost indignant the widespread do-nothing policy approach stating that something must be done in order to avoid the collapse of the economy. His cure is an expansionary policy to fight secondary deflation. More generally, starting from this experience, he tried to elaborate the principles of a new liberalism based on the distinction between public interventions ‘conformable’ and ‘non-conformable’ to the market order.

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<sup>11</sup>For more details, see Klausinger (2012) and Magliulo (2016).



Second, it is true that in the past foreign loans had been managed in a bad way—but it was still possible to change this policy. Germany, afflicted by a shortage of capital, needed foreign loans more than ever before. They could have been used both to finance the planned public work and to renegotiate the entire debt (by converting short-term loans into long-term loans).

Finally, it is true that public investments are basically unprofitable but they are indispensable to trigger the recovery. In fact, during a secondary depression, private entrepreneurs postpone any investment project, even when they can easily access credit. They are paralyzed by uncertainty and fear. Public investment stops the fall of total demand—thus breaking the vicious circle that fuels the secondary depression. They represent—to use Röpke's words—the 'initial ignition' (*Initialzündung*) of the recovery.

The related expansion of credit does not, according to Röpke, have an inflationary impact. On the contrary, it plays a compensatory role. The issue is not to tackle (like in the 1920s) a positive deflation coming from the drop of production costs. Now, the problem is to stop a negative (supplementary) deflation generated by the contraction of money supply due to capital flight (and by the fall of total demand). In this sense, it is still a 'neutral monetary policy.' After overcoming 'fear of production,' Germany needed to defeat 'fear of inflation' also.

Röpke (1931, 458; my translation) writes about public investment:

We won't conceal anything: the majority of the investments of the Brauns Plan are, at today's interest rate, unprofitable, notwithstanding the hard work of selection done by the commission in order to choose those investments that had an expected rate of return almost at market level. These investments, though, are the only means, today, to our primary goal: restart the economic cycle.

And about credit expansion Röpke (1931, 461) writes:

We already underlined that the primary goal of the Brauns plan is the expansion of internal credit. This has been understood by many. Nevertheless, the commission was spared from the accusation of inflationism: a fact that proves how diffused today the opinion is that

opposing deflation has nothing to do with fuelling inflation. (...) By that we don't mean that stabilizing the value of the currency and so the general price level should represent an end of the monetary and financial policy. Such a policy could even be negative if aimed at counteracting a general reduction of production costs, generated by technological and organizational advancements, with a financial expansion. To oppose such a 'deflation' with an expansion of credit would cause a pure inflation and all related consequences on the economic cycle. The credit expansion in the United States in the years 1925–1929 is a classic example of such dynamics. A deflation, as the present one, caused by an enormous contraction of credit volumes, should be judged differently. If we won't react to such a deflation we accept that the monetary part of the economy transmits to the entire economy a shock of primary importance. Therefore, today an anti-deflationary policy is a necessary element to carry out a policy of neutral money.

Hence (unlike Hayek), Röpke thinks that both public investment and secondary deflation counteractions can and must be justified also for economic considerations.

In the spring of 1931, the Brauns Commission delivered a Report (the second one) which depicts an expansionary policy of public investment aimed at stopping a phenomenon that Röpke (1933a, b) would have named secondary deflation. The main criticism (shared by Hayek too) is that the planned public works would have destroyed the little saving available and probably raise inflation without triggering recovery. The main reply (entrusted to Röpke) was that they were necessary to stop the deflationary spiral by restoring the trust and certainty of private entrepreneurs.

## Assessing the Alternative Proposals and Continuing the Austerity Policy

21 September 1931 marked the final turning point of the business cycle in which the Great Depression became embedded.

The crisis skipped across the Atlantic from Europe to America. The dollar remained the only currency convertible into gold, and it was

on the dollar that the attention of operators from the whole world focused: What would happen if bankers and savers lost confidence in the American economy and started to convert their dollars into gold? Uncertainty arose in American economic policy. Between August and November, the money supply collapsed: savers converted their deposits into banknotes and banknotes into gold. The money multiplier worked in the opposite direction, accentuating the decline in the money supply. According to Eichengreen (1992, 295), the Federal Reserve refused to carry out expansionary open market operations. On the contrary, according to Rothbard (1963 [2000], 261–262), it increased the money supply.<sup>12</sup> Hoover instituted a government agency to assist and salvage banks in difficulty. But this failed to compensate for the spontaneous contraction and the money supply was reduced. The Hoover administration continued to increase public spending but in the financial year 1932–1933, attempted to reduce the public deficit by increasing fiscal pressure still further.

Monetary and fiscal policies, therefore, were only partially active.

The uncertainty faded with Franklin D. Roosevelt, who took office as the President of the United States in March 1933. Monetary and fiscal policies became fully active. In April 1933, Roosevelt took the historical decision to suspend the gold convertibility of the dollar. At the same time, he implemented the ‘New Deal,’ aiming to stimulate domestic demand and to slow the fall in the general level of prices with production standards, farming subsidies, major public works, and unemployment benefits.

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<sup>12</sup>Eichengreen (1992, 295) writes: ‘In principle, the Fed could have used expansionary open market operations to prevent the decline in money supply. It refused to do so for fear of endangering the gold parity.’ On the contrary, Rothbard (1963 [2000], 261–262) points out: ‘From the end of September to the end of the year, bank reserves fell at an unprecedented rate, from \$2.36 billion to \$1.96 billion, a drop of \$400 million in three months. The Federal Reserve tried its best to continue its favourite nostrum of inflation—pumping \$268 million of new controlled reserves into the banking system (the main item: an increase of \$305 million in bills discounted). But the public, at home and abroad, was now calling the turn at last.’ And he goes on: ‘Actually, the Federal Reserve should have *deflated* instead of inflated, to bolster confidence in gold, and also to speed up the adjustments needed to end the depression’ (262–263).

After the collapse of the pound, America was no longer able to guarantee the gold convertibility of the dollar. At the same time, neither did it wish to abandon the reflationary policy undertaken by Hoover and intensified by Roosevelt. A trade-off emerged between exchange rate stability and reflation. Roosevelt resolved this by abandoning the gold standard of fixed exchange rates and devaluing the dollar. He slackened the external link to be able to apply fully expansionist policies. In the spring of 1933, America reached an anti-crisis strategy similar to that of Britain: devaluation and reflation.

In August 1931, Germany took the extreme decision to introduce exchange rate controls thus freezing foreign deposits. This measure excluded Germany from the possibility of obtaining further foreign loans.

While Brüning was distracted by political problems—Patch (1998, 201) writes:

a thoughtful discussion of alternatives to deflation began within the ministerial bureaucracy. In August 1931 an earnest student of writings of Keynes, Wilhelm Lautenbach of the economics ministry, formulated a plan to spend two to three billion marks for the construction of roads and railroads, to be financed jointly by the government and Reichsbank through some new form of ‘credit creation,’ a phrase that he soon changed to the more innocuous ‘short-term financing.’ Lautenbach argued that such a plan could not result in inflation while so many factors of production lay idle; it would accelerate the circulation of money so much that the Reichsbank could easily cover it by creating just RM 200–300 million in additional currency, and the Reich treasury would recoup much of the cost in the form of reduced jobless benefits and increased tax revenue. Lautenbach acknowledged, however, that his plan might well cause a loss of foreign exchange reserves, so the government must restrict imports. He also emphasized that lopsided deflation of the past eighteen months, when some wages and prices experienced free fall while others proved rigid, had so distorted relative prices that the marketplace no longer transmitted useful signals as to where capital and labor would best be employed. Public works must therefore be combined with rigorous measures to reduce wages bound by collective labor contracts and prices bound by cartel agreements.

Hence Lautenbach designed an alternative policy based on a policy mix with *public* investment financed by domestic credit and *private* deflation pursued through cartel-prices. He seemed to acquire the agreement of the Secretary of State Hans Schäffer who on 26 August stated that the ‘best economists’ now considered deflation harmful. However Hans Luther disagreed with him—he continued to believe that the process of deflation remained ‘healthy despite all its pain.’

On 16/17 September 1931, just two days before England announced its abandonment of the gold standard, a seminar with 16 distinguished economists took place at the List Society. The meeting, Patch (1998, 202) writes:

did not yield consensus on any alternative to the policy of the Reichsbank. Six participants supported Lautenbach’s plan (Colm, Heimann, Lautenbach, Neisser, Rittershausen, and Röpke), but the majority remained sceptical ... Walter Euchen judged that Lautenbach’s plan was very dangerous in an economy so closely bound to the world market as Germany’s; the campaign to lower ‘sticky’ wages and prices, which Lautenbach intended to link with public works, must be carried out first before risking any such experiment. Rudolf Hilferding emerged as the most vigorous defender of the Reichsbank ... Even the ‘Keynesian’ minority distinguished between two phases of the deflation, a necessary first phase, when economic recovery became possible but did not occur because of a collapse in investor confidence. If Germany had entered the second phase, they agreed, then the money supply should be expanded, but they offered no clear response to Luther’s queries as to how policy-makers could distinguish one phase from the other.

The meeting was closed by Luther who declared that

the participants agreed unanimously on two points: (1) that the German people’s fear of inflation made it impossible to announce any dramatic program to expand the money supply, so that the government must act secretly if it ever decided to implement Lautenbach’s plan; and (2) that the government must continue its campaign to lower wages bound by long-term collective labor contracts and prices bound by cartel agreements.

Patch (1998, 203) commented: ‘The Reichsbank president felt vindicated by the best brains in the country.’<sup>13</sup>

Therefore, in September 1931, Brüning’s government assessed and rejected an expansionary policy alternative to their deflationary one—and continued in its current strategy. On 8 December 1931, the government (in an attempt to gain competitiveness against Britain) approved the Fourth (and last) Emergency Decree imposing new decreases in wages. Unemployment, however, continued to spread, exceeding the alarm level of six million. In May 1932, Brüning was forced to resign, in his own words, ‘in the last hundred metres before the finish line.’ The international conference held in Lausanne in the June and July 1932 significantly reduced the amount of war reparations to be paid and suspended payments for three years (after which they never recommenced). At the end of 1932, the new chancellor, von Papen, attempted the policy of public works financed with domestic credit as previously proposed in the Lautenbach Plan. This was, however, only a timid attempt, with little effect on unemployment—it failed to halt the rise of the Nazis. On 30 January 1933, Hitler was appointed Reichskanzler, and he immediately embarked on a totally expansionary economic policy based on a programme of public works financed by domestic credit. With Hitler, the strategy against the crisis became controlled exchange rates and reflation (Kindleberger 1986, Chapter 7; Overy 1996; Tooze 2007).

Several countries in Europe, including France and Italy, still remained anchored to gold, and to a regime of fixed exchange rates. Britain followed a different strategy, and in the Ottawa Conference of July 1932 approved

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<sup>13</sup>About Röpke’s opinion on the Lautenbach Plan, we found in the literature several and different assessments. According to Kindleberger (1986, 171), ‘The Lautenbach plan was actively discussed in the Reichsbank in a meeting on 15 September 1931, and opposed by, among others, Salin, Hilferding, and Röpke.’ Nicholls (1994, 54–55) states: ‘Among those who expressed qualified support for the Lautenbach’s scheme were Eucken and Röpke ... The events of the summer had made hopes of a foreign loan remote, and Germany could not restart the world economy on her own. He made it clear he would much prefer an international action to a German one, but felt that something would have to be done to stop the disastrous process of contraction... he was clearly in favour of risking the Lautenbach scheme, even though he thought it should be carried out cautiously, step by step, to avoid damaging Germany’s standing abroad.’ Finally, Patch (1998, 202) writes, as we have seen, ‘Six participants supported Lautenbach’s plan (Colm, Heimann, Lautenbach, Neisser, Rittershausen, and Röpke).’ We still find a preference for foreign loans in Röpke (1933b, 441).

a system of preferential tariffs that encouraged trade with Commonwealth countries—Britain sought recovery through its overseas dominions.

During 1933, America, following Britain's example, devalued the dollar. Other countries, including Germany, Italy, and France, maintained a regime of fixed exchange rates. With the choice of fixed or flexible exchange rates, active policies were implemented universally.

In 1934, a weak recovery commenced today still enveloped by a halo of mystery. Was it truly a recovery? And was it due to the expansionary policies pursued in 1932 and 1933? In 1937, the world economy fell once again into another recession—the depression within the depression—that terminated only with the first forewarnings of war. In 1936, even the Gold Bloc collapsed, and all countries adopted a common strategy against the crisis: devaluation and reflation (Eichengreen 1992, Chapters 11–12).

Briefly, the business cycle stretching from 1924 to 1936 was characterized by three main phases: boom (1924–1929), Great Depression (1929–1933), and weak recovery (1934–1936). This cycle was however characterized by three crucial policy choices. The first was made in 1927, when the great central banks agreed on an expansionary monetary policy that prolonged the boom. The second was in the summer of 1929, when the Fed proceeded with a restrictive manoeuvre that was the prelude (or the cause?) of the Wall Street Crash. The last was yet again a decision of the Fed, which in the autumn of 1931, after the devaluation of the pound, implemented a partially expansionary monetary policy that failed to compensate for the spontaneous contraction of the money supply. The German government remained faithful to the spirit of the gold standard: fixed exchange rates and flexible prices.

In brief, in September 1931, Brüning's government assessed and rejected two alternative proposals of expansionary policies elaborated by their own experts: the so-called Brauns and Lautenbach Plans.

## Conclusions

In the first section, we reviewed the stylized facts of the business cycle in which the Great Depression is embedded, from the return to gold of Germany (August 1924) to its abandonment by Britain (September 1931).

Before the crisis, all countries adhering to the gold exchange standard committed themselves to respect three fundamental rules of game: fixed exchange rates, money supply connected to gold reserves, and flexible prices. During the crisis, the main countries infringed the rules: Britain broke the first rule (by abandoning gold and devaluating the pound sterling); the United States violates the third rule (contrasting the downward flexibility of domestic prices); while Germany tries to remain tenaciously anchored to the spirit of the gold standard: in order to maintain fixed exchange rates, the fundamental condition of a sustainable growth, it adopts a deflationary policy of austerity but it is forced to impede the free movement of capital.

In the second section, we saw how the Brauns Commission (in the spring of 1931, before the dramatic crisis of the summer) had elaborated an expansionary programme, based on public investment financed with new foreign loans, in order to stop the deflationary spiral. The main criticism (shared by Hayek) was that, on one hand, deflation was necessary to restore the (downward) flexibility of prices and, on the other hand, public investment would have wasted scarce available saving. The main defence (undertaken by Röpke) was that the supplementary/secondary deflation was destroying the confidence of private entrepreneurs who were unable to invest the available saving—public investment, even if unprofitable, would, therefore, have to be the ‘initial ignition’ to trigger economic recovery.

Finally, in the third section, we saw how, in August 1931, after the German financial crisis, a new expansionary programme—the Launtenbach Plan—was elaborated. The Plan depicted a policy mix with public investment financed by domestic (and not foreign) credit and private deflation. In September 1931, just a few days before the exit of Britain from the gold standard, leading members of Brüning’s administration discussed and rejected the Lautenbach Plan.

Now the time has come to propose an answer to our research question: why did Brüning’s government reject the expansionary programme of the Brauns Commission and preserve in its own austerity strategy?

Brüning’s government rejected any expansionary programme (included that which had been elaborated by the Brauns Commission) for economic and political reasons, namely to remain in the gold



exchange standard and to obtain the cancellation of reparation payments. On the one hand, the German authorities (government and central bank) were convinced that the appropriate policy for Germany—a country afflicted by a shortage of capital—was to remain anchored to the gold standard by reducing foreign debt and creating the necessary saving to finance new investment. The government (and the Reichsbank) believed that any expansionary programme was incompatible with the economic aim of ensuring the downward price flexibility (deflation) that was required to maintain fixed exchange rates. They were also convinced that their austerity policy would show to the world—and especially America—that they were a country engaged in a painful process of economic readjustment and that this would finally persuade the Allies to reduce or cancel the burden of reparation payments. Therefore, they believed that any expansionary programme of financing unproductive public works would have compromised the image of a parsimonious country engaged in a policy of economic rehabilitation.

The German authorities prepared and carefully discussed two expansionary programmes but finally decided to go ahead with the austerity strategy.

In the literature, we can find two main theses about the existing alternatives to the austerity policy.

According to Borchardt, there was no alternative. Brüning's government deliberately rejected the expansionary programmes convinced that they were in contrast with the twofold aim to remain inside the gold standard and to reduce or cancel the reparation payments.

According to Kindleberger, on the contrary, there were the alternatives represented by the Brauns and Launtenbach Plans.

The reconstruction offered in this chapter seems to confirm the Borchardt's thesis but, at the same time, it raises several questions concerning both Borchardt's and Kindleberger's theses. Were the expansionary programmes really alternatives to (or in contrast with) the austerity policy? Historians now agree that Brüning—in order to get approval of the Allies—underestimated the political consequences of the unemployment that fuelled the rise of Hitler. But we can now say that he also appeared to underestimate the economic consequences of

the prolonged deflation that deepened the depression. In the Brauns Plan, public investment played the crucial role of triggering the economic recovery (not just to provide social assistance to poor people). Like the Lauentanch Plan, public investment was combined with deflationary measures. Both plans aimed to maintain Germany inside the gold standard. The real alternative was chosen by Britain (September 1931) and later by America (April 1933). Did this austerity policy really deepen the depression? Or did it create the preconditions of the subsequent (weak) economic recovery? And, was the Nazi economic recovery of 1932–1938 a miracle or a myth? Was it a spontaneous recovery or was induced by the policy of public works initially advocated by the Brauns Commission? Historians are still searching for shared and convincing answers (Overy 1996; Tooze 2007).

The thesis of this research is that Brüning's government consciously took the decision to undertake an austerity policy—but maybe did not fully recognize that the expansionary programmes elaborated by its own experts were complementary and not alternatives to its own strategy.

The lesson of this story is that it is always important to try to reconcile economic reasoning and political reasoning.

All the protagonists of this story try to do so.

According to Brüning, the austerity policy would have allowed Germany to achieve both the economic objective (the way out of the economic crisis) and the political objective (cancelling reparation payments). He perhaps underestimated both the economic consequences of a prolonged deflation and the political consequences of a large unemployment.

Hayek saw a trade-off between the two reasons. The economic reason suggested a continuation of the deflationary policy. The political reason suggested to (temporarily) reduce the rising unemployment with a plan of public works. The ultraliberal Hayek justified an active economic policy to prevent the emergence of a totalitarian regime.

Finally, according to Röpke, the two reasons coincided. The expansionary programme depicted by the Brauns Commission was the appropriate policy to achieve the twofold aim of favouring the economic recovery and defending human rights. In the 1970s, Hayek himself changed his mind about the negative effects of a secondary deflation,

coming closer to Röpke. He wrote: ‘If I were today responsible for the monetary policy of a country I would certainly try to prevent a threatening actual deflation, that is, an absolute decrease of the stream of incomes, by all suitable means, and would announce that I intend to do so. This alone would probably be sufficient to prevent a degeneration of the recession into a long-lasting depression’ (Hayek 1975b, 26).<sup>14</sup>

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<sup>14</sup>On the controversial issue, if and how Hayek changed his mind during the Seventies about the phenomenon of secondary deflation, see Magliulo (2016).

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# 4

## Hayek, Deflation, Gold, and Nihilism

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Few economists ever experienced as rapid a rise to stardom as F.A. Hayek did after arriving in London in January 1931 to deliver a series of four lectures on the theory of industrial fluctuations at the London School of Economics (LSE). The Great Depression having started about 15 months earlier, British economists were desperately seeking new insights into the unfolding and deteriorating economic catastrophe. The subject on which Hayek was to expound was of more than academic interest; it was of the most urgent economic, political, and social, import.

Only 31 years old, Hayek, director of the Austrian Institute of Business Cycle Research, had never held an academic position.<sup>1</sup> He had

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The views expressed are those of the author and do not necessarily reflect the views of the Federal Trade Commission or the individual Commissioners.

<sup>1</sup>The position was secured for Hayek by his mentor, Ludwig von Mises, who was secretary of the Vienna Chamber of Commerce, one of the sponsoring institutions of the Institute.

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received his doctorate in law from the University of Vienna in 1924 but had written a doctoral thesis in economic theory under Friedrich von Wieser, a founding father of the Austrian School of Economics. Upon graduation, Hayek spent over a year in the United States doing extensive research on business cycles, establishing relationships with such leading American experts on business cycles as W. C. Mitchell and Warren Persons, while also undertaking an exhaustive study of the English literature on the monetary history of the eighteenth and nineteenth centuries and the, mostly British, monetary doctrines of that period.

Even without an academic position, Hayek's productivity upon returning to Vienna was impressive. Aside from writing a monthly digest of statistical reports, financial news, and analysis of business conditions for the Institute, Hayek published several important theoretical papers, gaining a reputation as a young economist of considerable promise. Moreover, Hayek's immersion in the English monetary literature and his sojourn in the United States gave him an excellent command of English, so that when, in the summer of 1930, he received an invitation from William Beveridge, Director of the LSE, at the suggestion of Lionel Robbins, who had been greatly impressed by Hayek's earlier papers especially Hayek ([1929] 1931), to deliver a series of lectures on business-cycle theory. A secure academic position for a young economist, even one as talented as Hayek, was then hard to come by in Austria or Germany. Perhaps sensing that the lectures if successful might result in the offer of a position at LSE, Hayek eagerly accepted the invitation, dropping his other research efforts in order to compose in English the four lectures he would have to present only a few months later (Howson 2011; Klausinger 2013).

Upon arriving in England in January 1931, Hayek actually went first to Cambridge to give a lecture, a condensed version of the four LSE lectures. Hayek was not feeling well when he came to Cambridge to face an unsympathetic, if not hostile, audience, and the lecture was not a success. However, despite, or perhaps because of, his inauspicious debut at Cambridge, Hayek's performance at LSE turned out to be an immediate sensation. In his *History of Economic Analysis*, Joseph Schumpeter (1954), who—although an Austrian with a background in economics similar to Hayek's who was neither his personal friend nor an ideologically ally—wrote that Hayek's theory

on being presented to the Anglo-American community of economists, met with a sweeping success that has never been equaled by any strictly theoretical book that failed to make amends for its rigors by including plans and policy recommendations or to make contact in other ways with its readers loves or hates. A strong critical reaction followed that, at first, but served to underline the success, and then the profession turned away to other leaders and interests.

The remarkable success of Hayek's lectures led Beveridge, quite on his own, to decide to offer Hayek a one-year visiting appointment at LSE, even though Beveridge was sympathetic to neither to Hayek's abstract theoretical approach nor to his non-interventionist policy prescriptions. Upon being informed by Beveridge of his desire to make Hayek an offer, Robbins was both shocked and delighted. Hayek accepted the visiting appointment, arriving back in London in time for 1931–1932 academic year. The visiting appointment led to the offer of a permanent position of the Tooke Chair in Economics and Statistics which Hayek accepted, remaining at the LSE until after the Second World War.

The four lectures provided a masterful survey of business-cycle theory from a Continental perspective unfamiliar to his British audience, including a lucid summary of the Austrian capital-theoretic approach to business-cycle theory and of the equilibrium price relationships necessary for economic stability, an explanation of how those equilibrium price relationships are disturbed by monetary disturbances giving rise to cyclical effects, and some comments on the appropriate policies for avoiding or minimizing such disturbances. The goal of monetary policy should be to set the money interest rate equal to the hypothetical equilibrium interest rate determined by strictly real factors. The only policy implication that Hayek could extract from this rarefied analysis was that monetary policy should aim not to stabilize the price level as recommended by such distinguished monetary theorists as Alfred Marshall and Knut Wicksell but to stabilize total spending or total money income.

This objective would be achieved, Hayek argued, only if injections of new money preserved the equilibrium relationship between savings and investment, investments being financed entirely by voluntary savings, not by money newly created for that purpose. Insofar as new investment



projects were financed by newly created money, the additional expenditure thereby financed would entail a deviation from the real equilibrium that would obtain in a barter economy or in one in which money had no distortionary effect. The interest rate corresponding to that real equilibrium was called by Hayek, following Wicksell, the natural (or equilibrium) rate of interest.

What Wicksell's analysis of the natural rate had missed was that, in a progressive economy with real investment financed out of voluntary saving, the increasing output of goods and services over time implies generally falling prices as the increasing productivity of factors of production allows output to be produced at progressively falling cost. A stable price level would require ongoing increases in the quantity of money to keep output prices from falling, the new money being used to finance additional investment over and above voluntary saving, thereby causing the economy to deviate from its equilibrium time path by inducing investment that would not otherwise have been undertaken.

But according to Hayek, Wicksell failed to see that, in a progressive economy with real investment financed by voluntary saving, the increasing output of goods and services over time implies generally falling prices as the increasing productivity of factors of production progressively reduces costs of production. A stable price level would require ongoing increases in the quantity of money, the new money going to finance additional investment over and above voluntary saving, thereby causing a deviation from the equilibrium time path of the economy.

Hayek's argument identified monetary expansion of any sort that moderated or reversed the natural tendency of prices to fall in a progressive expanding economy, as a disturbing and distorting impulse that causes business-cycle fluctuations. Although he did not offer a detailed account of the origins of the Great Depression in his lectures, Hayek's diagnosis of the causes of the Great Depression, made explicit in various other writings, was clear: monetary expansion by the Federal Reserve System during the 1920s, especially in 1927, to keep the United States price level stable and to moderate deflationary pressure on Britain, sterling having been overvalued at the pre-war dollar-sterling parity when gold convertibility was restored in March 1925, distorted relative prices and the capital structure. When distortions eventually become

unsustainable, unprofitable investment projects would be liquidated, thereby freeing up resources for redeployment in more productive activities. Why the Depression was continuing to deepen rather than recover more than a year after the downturn had started, was a different, and possibly even more perplexing, question.

Hayek's argument that it is not possible to attain the real equilibrium corresponding to that of a pure barter economy in a monetary economy unless all investment is financed out of savings with no money being created to finance investment depends on the assumption that money is non-interest-bearing and that the rate of inflation is not correctly foreseen. Such an economy, according to Hayek would have the property that the rate of deflation would equal the rate of increase in factor productivity. But if money does bear competitive interest and inflation is correctly foreseen, the economy can attain its real equilibrium at any correctly foreseen rate of inflation—provided that the rate of deflation is not greater than the real rate of interest (Glasner and Zimmerman 2014).<sup>2</sup>

Despite warning of the dangers of price-level stabilization as the goal of monetary policy, Hayek was reluctant to advance an alternative policy goal or criterion beyond the general maxim that policy should avoid any disturbing or distorting effect on the economic system. But translating this abstract precept into an operational policy is not an easy task.

So Hayek's assumption that the real equilibrium requires a rate of deflation equal to the rate of increase in factor productivity was unfounded, reflecting a failure to fully understand that when prices levels and rates of inflation are correctly anticipated the real equilibrium of the economy is independent of the price levels in different time periods and rates of inflation between time periods.<sup>3</sup>

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<sup>2</sup>The equilibrium of an economy with  $n$  real commodities corresponds a price vector consisting of  $n-1$  relative prices per time period. That equilibrium price vector is invariant to scalar multiplication over all time period but also to exponential multiplication representing the expected rate of inflation across time periods.

<sup>3</sup>Hayek (1934) actually understood the point in a different context noting in his reply to a review of *Prices and Production* by Hansen and Tout (1933) that a steady rate of monetary expansion would cease to have any effect on the capital structure of an economy once the public came to expect that rate of monetary expansion to persist over time, thereby anticipating by over 30 years Friedman's (1968) argument that the long-run Phillips Curve is vertical.

If inflation is correctly foreseen, nominal wages will rise commensurately with inflation and real wages with productivity increases, so that the increase in nominal money supplied by banks will not induce or finance investment beyond voluntary savings. Hayek's argument was based on a failure to work through the full implications of his equilibrium method. As Hayek (1937a) would later explain, disequilibrium is the result not of money creation by banks, but of mistaken expectations about the future, a point already made, but previously made, but less clearly articulated, by Hayek ([1928] 1984).

The simplest implementation of Hayek's objective would be to hold the quantity of money constant. But such a policy, as Hayek acknowledged, was beset with both practical and conceptual difficulties. Under a gold standard, which, as we shall see, Hayek favoured in the early 1930s, the relevant area within which to keep the quantity of money constant would be the entire world (or, more precisely, the set of countries linked to the gold standard). But national differences between the currency systems linked to the gold standard would make it virtually to coordinate those national systems to keep some aggregate measure of the quantity of money convertible into gold constant. Aside from that problem, Hayek also recognized that fluctuations in the demand to hold money (the reciprocal of the velocity of circulation) produce monetary disturbances analogous to variations in the quantity of money, so that the relevant policy objective was not a constant quantity of money, but a quantity of money that changed proportionately (inversely) with the demand to hold money (velocity of circulation).

Thus, Hayek's argument mistakenly identified monetary expansion of any sort that moderated or reversed what Hayek considered the natural tendency of prices to fall in a progressively expanding economy, as the disturbing and distorting impulse responsible for business-cycle fluctuations. Although he did not offer a detailed account of the origins of the Great Depression, Hayek's diagnosis of the causes of the Great Depression, made explicit in various other writings (e.g. Hayek 1934), was clear: monetary expansion by the Federal Reserve during the 1920s—especially in 1927—to keep the US price level from falling and to moderate deflationary pressure on Britain (sterling having been overvalued at the pre-war dollar-sterling parity

when Britain restored gold convertibility in March 1925) distorted relative prices and the capital structure. When distortions eventually become unsustainable, unprofitable investment projects would be liquidated, supposedly freeing those resources to be re-employed in more productive activities. Why the Depression continued to deepen rather than recover more than a year after the downturn had started, was another question, left largely unanswered except to cast blame on various government interventions obstructing free-market price adjustment.

Despite warning of the dangers of price-level-stabilization policies, Hayek was reluctant to advance an alternative policy goal or criterion beyond the general maxim that policy should avoid any disturbing or distorting effect—in particular, monetary expansion—on the economic system. But Hayek was unwilling or unable to translate this abstract precept into a definite policy norm.

The simplest implementation of Hayek's objective would be to hold the quantity of money constant. But that policy, as Hayek acknowledged, was beset with both practical and conceptual difficulties. Under a gold standard, which Hayek, at least until the early 1930s, still favoured, the relevant area within which to keep the quantity of money constant would be the entire world (or, more precisely, the set of countries linked to the gold standard). But national differences between the currencies on the gold standard made it virtually impossible to coordinate those national currencies to keep some aggregate measure of the quantity of money convertible into gold constant (Hayek 1937b). And Hayek also recognized that fluctuations in the demand to hold money (the reciprocal of the velocity of circulation) produce monetary disturbances analogous to variations in the quantity of money, so that the relevant policy objective was *not* to hold the quantity of money constant, but to change it proportionately (inversely) with the amount of money demand the public desires to hold (the velocity of circulation).

Hayek therefore suggested that the appropriate criterion for the neutrality of money might be to hold total spending (or alternatively total factor income) constant. With constant total spending, neither an increase nor a decrease in the amount of money the public desired to

hold would lead to disequilibrium. This was a compelling argument for constant total spending as the goal of policy, but Hayek was unwilling to adopt it as a practical guide for monetary policy.

In the final paragraph of his final LSE lecture, Hayek made his most explicit, though still equivocal, policy recommendation:

[T]he only practical maxim for monetary policy to be derived from our considerations is probably... that the simple fact of an increase of production and trade forms no justification for an expansion of credit, and that—save in an acute crisis—bankers need not be afraid to harm production by overcaution.... It is probably an illusion to suppose that we shall ever be able entirely to eliminate industrial fluctuations by means of monetary policy. The most we may hope for is that the growing information of the public may make it easier for central banks both to follow a cautious policy during the upward swing of the cycle, and so to mitigate the following depression, and to resist the well-meaning but dangerous proposals to fight depression by “a little inflation”.

Thus, Hayek concluded his series of lectures by implicitly rejecting his own idea of neutral money as a policy criterion, warning instead against the ‘well-meaning but dangerous proposals to fight depression by “a little inflation.”’ The only sensible interpretation of Hayek’s counsel of ‘resistance’ is an icy expression of indifference to falling nominal spending in a deep depression.

Lawrence White (2008) has defended Hayek against the charge that his policy advice in the depression was liquidationist, encouraging policymakers to take a ‘hands-off’ approach to the unfolding economic catastrophe. In making this argument, White relied on Hayek’s neutral-money concept as well as Hayek’s decades-later disavowals of his early pro-deflation policy advice. However, White omitted any mention of Hayek’s explicit rejection of neutral money as a policy norm at the conclusion of his LSE lectures. White also disputed the characterization of Hayek’s policy stance as ‘liquidationist,’ arguing that Hayek supported liquidation not for its own sake, but only as a means to reallocate resources from lower- to higher-valued uses. Although that is certainly a correct characterization of Hayek’s intent, White failed to

establish that any of the other liquidationists he mentions favoured liquidation as an end and not, like Hayek, as a means to improve resource allocation as an anti-depression strategy.

Hayek's policy stance in the early 1930s was characterized by David Laidler (1999) as a scepticism bordering on nihilism in opposing any monetary- or fiscal-policy responses to mitigate the suffering caused by the Depression. White's efforts at rehabilitation notwithstanding, Laidler's characterization seems to be on the mark. The perplexing and disturbing question raised by Hayek's policy stance in the early 1930s is why, given the availability of his neutral-money criterion as a justification for favouring at least a mildly inflationary (or reflationary) policy to promote economic recovery from the Depression, did Hayek remain, during the 1930s at any rate, implacably opposed to expansionary monetary policies? Hayek's later disavowals of his early position actually provide some insight into his reasoning in the early 1930s, but to understand the reasons for his advocating a policy inconsistent with his own theoretical understanding of the situation for which he was offering policy advice, it is necessary to understand the intellectual and doctrinal background that set the boundaries on the policies Hayek was prepared to entertain. I am going to argue that the ultimate source of that intellectual and doctrinal background was David Hume ([1752] 1987) and that Hume's influence was indirectly transmitted to Hayek by his mentor Ludwig von Mises.

My goal in the remainder of this chapter is to explain the internal conflicts that led to Hayek's self-contradictory and inconsistent policy advice, showing how certain received doctrines to which Hayek was intellectually committed were in tension with his own innovations in monetary theory. Thus the advice that Hayek was offering in 1931 and 1932 when the Great Depression was already at or near bottom reflected pre-existing policy commitments whose irreconcilability with his own theory were still unresolved. The policy advice Hayek was explicitly offering in 1931 and 1932 belie the idea, based on his neutral money criterion that he only later embraced as a policy guide, that Hayek was not encouraging a policy of passivity in the face of deflation and depression.

## Hayek's Lament for the Gold Standard

In February 1932, Hayek (1932 [1984]) published an article in German '*Der Schicksal der Goldwahrung*' (The Fate of the Gold Standard) occasioned by the decision of Great Britain during the financial crisis of the previous September to let the pound float rather than remain on the gold standard and tolerate further deflation. Britain having given birth to the gold standard in the early eighteenth century and promoted its widespread adoption as an international standard in the second half of the nineteenth century, its abandonment by Britain was, despite her diminished international position after the First World War, a profound shock to the international financial system and to the many and influential supporters of the gold standard. Whether the gold standard would survive as an international financial and monetary system, a contingency that had hardly been considered before Britain went off gold, suddenly became an open question, and Hayek, deeply disturbed by the suspension, doubted that the gold standard would survive. The bitter tone of Hayek's lament for the gold standard and his disdain for Britain's departure from gold are highlighted in his opening sentence:

There has been much talk about the breakdown of the gold standard, particularly in Britain where, to the astonishment of every foreign observer, the abandonment of the gold standard was very widely welcomed as a release from an irksome constraint.

As if a decline in real income of 10% in less than two years, and a near doubling of unemployment, which in 1929 was still over 8% after having been over 10% for most the 1920s was a mere annoyance, not a catastrophe. Hayek further argued that problems wrongly attributed to the gold standard were caused by the policy of price-level stabilization that various economists had urged the government and the monetary authorities to set as the goal of monetary policy rather than restore the pre-war gold standard as it used to operate under the rubric of the 'rules of the game.'

The stabilizationists, of whom Hayek so heartily disapproved were Irving Fisher, Gustav Cassel, Ralph Hawtrey, and, especially, J. M.

Keynes. Fisher and Keynes favoured stabilizing national price levels, with currency exchange rates fluctuating as needed to reflect local changes in the terms of trade between countries, while Cassel and Hawtrey favoured price-level stabilization in the context of a restored international gold standard with national central banks cooperating to manage their demands for gold to prevent the widespread and nearly simultaneous restoration of the gold standard from greatly increasing the demand for gold, driving up the real value of gold and thereby, causing a deflationary downturn in output and employment.

Failing to address, and perhaps oblivious to, the danger of an increasing monetary demand for gold as countries re-joined the gold standard, Hayek dismissed the idea of central-bank cooperation as an attempt to circumvent the 'rules of game' by which the pre-war gold standard had operated. Conceding that British prices were falling compared to prices in other gold-standard countries, Hayek nevertheless maintained that Britain was violating the rules of the game by not reducing its 'overall circulation.'

In diametric opposition to the basic concept of the gold standard, the gold which was draining away was constantly being compensated for by bank loans, so that the overall circulation was kept stable at a time when it would have had to diminish if a genuine gold standard had existed. (p. 122)

The statement is factually false inasmuch as the gold holdings of the Bank of England increased year over year in 1926 (convertibility having been restored in March 1925), 1927, and 1928 and, in 1929, fell to a level slightly below the 1926 but above the 1925 level. But the only essential requirement of a gold standard is that gold be convertible on demand into a fixed weight of gold, which clearly had been the case with the dollar/sterling exchange rate having been tightly fixed from 1925 to 1929.

Because Hayek's comments on the gold standard betray a quite comprehensive misunderstanding of how the gold standard worked, it will be worthwhile to explore the sources of that misunderstanding. The key sources, as I suggested above, were David Hume's ([1752] 1987) account of international monetary adjustment, the application of



Hume's account by the British Currency School and Ludwig von Mises's application of Currency School doctrine in developing his own theory of business cycles which Hayek used as the starting point for his own theory.

## Humean Misunderstandings of the Gold Standard<sup>4</sup>

Hayek's misunderstandings of the gold standard were not his own; they were largely derived from the quantity-theoretic tradition originating in David Hume's celebrated 1752 essay 'On the Balance of Trade.' Hume's essay was a brilliant refutation of the idea that countries could accumulate gold without limit, arguing that increased imports of gold would raise prices in the importing country thereby reducing the international competitiveness of their products and discouraging further imports of gold. The essay was a wonderful refutation of the economic fallacy underlying the eighteenth century Mercantilist ideology, but Hume's argument had two shortcomings of its own.

First, deeply hostile toward banks, which he regarded as inflationary engines of financial disorder, Hume assumed that payments for domestic and international exchanges were made using gold when in fact, even in the middle of the eighteenth century, trade was being carried domestically and internationally using credit instruments (banknotes, deposits, and bills of exchange) that largely obviated gold shipments to finance international trade. So the actual adjustment mechanism when Hume wrote was already considerably more sophisticated than the one Hume described. Second, Hume's argument presumed that the equilibration of prices was achieved by way of international gold shipments, with gold being shipped from countries with high prices to countries with low prices, which was not wrong, but in framing that argument, Hume mistakenly assumed that prices within any country fluctuated in

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<sup>4</sup>The argument in this section draws on previous discussions of the Hume and the Currency and Banking Schools in Glasner (1985, 1989, 2017).

proportion to the amount of gold ‘circulating’ in the country. But the assumption that differences between local price levels are integral to the international adjustment mechanism—hence the standard description of the Humean equilibrating mechanism as the price-specie-flow mechanism (PSFM)—is inconsistent with the operation of arbitrage which would prevent prices between any two locations from diverging by more than the cost of transportation between those two points. Hume’s naïve assumptions about the international adjustment mechanism were thus factually incorrect and theoretically flawed.

Despite its shortcomings, the Humean PSFM has long held an almost canonical status—Samuelson (1980) being an important exception—in the literature on international trade and finance. Because of that near-canonical status, many of Hume’s successors concluded that the appropriate way to fill in the theoretical gap in PSFM, under a mixed system of gold and privately created bank money convertible into gold, was to create institutional arrangements ensuring that the international adjustment mechanism would operate under a mixed-convertible-currency system in just the way that Hume described the operation of a pure gold system. The validity of this approach to filling in the theoretical gap in the Humean PSFM was the key point in dispute of the famous controversy between the Currency and Banking Schools in the middle of the nineteenth century.

Believing, like Hume, that banks are inherently predisposed to inflationary overissue, the Currency School argued that international monetary adjustment required the quantity of banknotes to be constrained to change by exactly as much as the amount of gold flowing into or out of the country, just as if all currency were gold: the Currency Principle. Their position, codified in Peel’s Bank Charter Act of 1844, superimposed a quantity rule upon Britain’s already operational gold standard in the form of a 100% marginal reserve requirement on the creation of banknotes beyond a £14-million unbacked fiduciary issue allowed to the Bank of England and a cap on the existing note issues of the country banks. Arguing that excess issues of convertible banknotes would be returned to the banks issuing them, the Banking School opposed the Bank Charter Act as an unnecessary and potentially destabilizing restraint on the ability of banks to respond to the public’s demand for liquidity.

Proving unworkable in practice, the rigid quantitative constraints of the Bank Charter had to be suspended periodically to avoid or alleviate financial crises. Nevertheless, the general idea that an inflow of gold into a country on the gold standard requires an increase in the quantity of bank money while an outflow of gold from a country on the gold standard requires a decrease in the quantity of bank money gained wide acceptance as a general—but non-binding—precept, one of the ‘rules of the game’ that the monetary authorities were supposed to follow under the gold standard.

The misunderstanding underlying this view of the gold standard is that the direction of causality runs from reserves to bank money (either banknotes or bank deposits) rather than the other way around. Under a gold standard, gold reserves are held because banks want, or are required, to hold reserves when creating banknotes or deposits. But the ability to make loans profitably depends on the existence of a demand to hold the banknotes or the deposits being created. Without such a demand, borrowing banknotes or deposits created by banks would be pointless.

The Humean analysis of the international adjustment mechanism characteristically began with the assumption of a negative shock to the quantity of gold in a single country followed by an immediate reduction in prices in that country alone, triggering an adjustment toward a new equilibrium in which prices in a country with a reduced gold stock increasing the competitiveness of its tradable products in international markets. Eventually, enough gold would be imported into the country with a reduced gold stock to raise prices back to the level elsewhere.

This version of the international adjustment mechanism is problematic for at least two reasons. First, because prices in the country with a reduced gold stock are constrained by prices elsewhere, the reduction in prices in the home market could not be proportional to the reduction in the local gold stock. The price effects of the reduction in the gold stock would be diffused over the entire world, not confined to the country in which gold had disappeared.

The second problem is less a mistake in economic logic than a misjudgement of which potential shocks are most likely to disturb international monetary equilibrium. The Humean analysis began with

a thought experiment in which 80% of Britain's gold stock somehow vanished into thin air. While understanding that such an event was of no practical concern, Hume and the Currency School, believing in the inherently inflationary tendencies of banks, were concerned about a different kind of supply shock: increasing amounts of banknotes raising prices in Britain compared to other countries, thereby causing an efflux of gold from Britain.

The implicit assumption of the Currency School was that strictly limiting the nominal quantity of money would eliminate the most likely source of monetary shocks, thereby allowing the automatic operation of PSFM to maintain international monetary equilibrium. While shifts in the terms of trade or differences in the rate of productivity growth could occasionally lead to trade imbalances, those imbalances would be gradually resolved if a redistribution of gold reserves led to corresponding changes in national money stocks and, as a result, in price levels. Balance-of-payments disequilibria were thus attributed either to monetary or political mismanagement, or to shifts in the terms of trade and differential rates of productivity growth.

With a few exceptions, the idea that, under the gold standard, fluctuations in the balance of payments and in the direction of gold flows were caused mainly by monetary factors was not well understood until the late 1960s and early 1970s when Harry Johnson and his colleagues and students began developing what came to be known as the monetary approach to the balance of payments. Johnson's key conceptual insight was to view the balance of payments as a mechanism by which a country could dispose of an excess supply of domestic money through a balance-of-payments deficit or satisfy an excess demand for money through a balance-of-payments surplus.

This perspective on the balance of payments implies that, at least as a first approximation—and a very good approximation for a small open economy—the quantity of money in any country tied to an international gold standard equals the quantity of money demanded in that country at the international price level implied by the gold standard. If the domestic monetary system supplies the amount of money demanded, the balance of payments will be in equilibrium with no gold flowing into (or out of) the country. However, if the domestic

monetary system supplies less than the amount of money demanded, the deficiency is supplied by way of an export surplus that induces a sufficient inflow of foreign exchange or gold to be converted into the domestic cash balances needed to satisfy the public's demand for cash. Of course, insofar as creating domestic cash increases the demand of domestic suppliers of cash and of the monetary authority for foreign exchange or for gold reserves, either for precautionary reasons or to satisfy legal reserve requirements, supplying additional domestic cash necessarily implies an increased demand to hold foreign exchange or gold reserves.

So the most basic maxim of the 'rules of the game:' that monetary authorities should respond to inflows (outflows) of gold by expanding (contracting) their domestic money stocks, and thereby raising (reducing) their domestic price levels, was completely backwards. An inflow of gold is not a sign that the quantity of money in the country receiving the inflow is too low, or that its price level is too, because the inflow of gold is the mechanism whereby the domestic money stock is brought into equality with the amount of money demanded. To say that an inflow of gold means that the monetary authority should increase the quantity of money makes no sense if the monetary authority is unable, except for a very short period, to control the quantity of money inside its borders. All that a persistent flow of gold into the country shows is that domestic monetary system is incapable or unwilling to supply the amount of money demanded without a gold inflow.

The relevant questions are thus (1) why the domestic monetary system is not supplying the amount of money demanded without the gold inflow, (2) whether the influx of gold reserves held by the monetary authority is providing a benefit greater than would have accrued in some other way than storing gold in the vaults of the national treasury or central bank, and (3) what consequences gold accumulation by the monetary authorities might have for the international value of gold, a question with implications not limited to the country accumulating gold but affecting all countries on the gold standard. Inflows or outflows of gold were not in and of themselves unambiguous indications of the necessity of a particular policy response.

A further implication of the monetary approach to the balance of payments is that the concept of sterilization which is said to occur

when a country accumulates gold, but, contrary to ‘the rules of the game,’ does not increase the quantity of domestic money accordingly is incoherent, presuming what is impossible, namely that it is within the power of the monetary authority to control the domestic stock money under a gold standard, a power no more within the hands of the monetary authority of a country than the power to control the tides is within the hands of its naval forces. The problem misidentified as sterilization is really not a failure to expand the domestic money stock, but an accumulation of gold or foreign exchange reserves that has potentially damaging effects on other countries, either by driving up the value of gold and imposing deflation on other countries or by depressing the real exchange rate of the country accumulating foreign exchange reserves, thereby subsidizing the country’s tradable-good sector, what Corden (1982) has called exchange-rate protection.

## Hayekian Fallacies About the Interwar Gold Standard

Following Hume, the Currency School, and his mentor von Mises, in attributing to the banking system in a country on the gold standard the power to raise local prices by overissue of banknotes or of deposits, Hayek blamed the inflationary tendencies that he perceived under the gold standard in the 1920s after Britain’s restoration of convertibility in 1925 at the pre-war parity to insufficient adherence to the ‘rules of the game,’ especially by the British and, after 1927, by the Americans. While criticizing the British decision to restore the pre-war parity, Hayek argued that, having chosen an overvalued parity, the British were obligated by rules of the gold standard to pursue a deflationary monetary policy to bring the British price level into equality with the international gold price level, rather than attempt to maintain the pre-war parity without deflation.

As indicated above, Hayek’s understanding of British policy was factually wrong; the British price level actually did fall after 1925 reflecting the gradual approach of the British price level to common international price level in terms of gold. The decline in British prices

was, to a first approximation, dictated not by British monetary policy, but by the prevailing dollar/sterling parity and the forces of arbitrage tending to equalize prices of all tradable commodities. What British monetary policy could control was the accumulation of British reserves of gold and other forms of foreign exchange. Contrary to Hayek's assertions, British gold reserves actually increased after the restoration of convertibility, in each year from 1926 to 1928 over the previous year. Here is how Hayek described the situation facing Britain after restoring the pre-war parity:

If the gold standard were to be permanently adhered to by Britain, the deflation would therefore have to continue until the British domestic price level had also reached an equilibrium with the rest of the world. The British, however, wanted less than anything to do this, and the new ideas of stabilizing prices and the economy as the aim of monetary policy were welcomed as justifying deviation from the orthodox rules of monetary policy.

What Hayek failed to understand is that the United States, with 40% of the world's gold reserves, could powerfully influence the value of gold by allowing a substantial outflow of gold to other countries. That is what the United States did in 1927–1928, thereby easing deflationary pressure on the international price level, reflected in a modest increase in the US price level even as the British price level continued to fall slightly, thereby reducing the extent of sterling overvaluation. As long as sterling was pegged to the dollar at the pre-war parity, the Bank of England had no power to control its internal price level. Any easing of deflationary pressure on Britain was possible only insofar as the Federal Reserve was willing to allow an efflux of gold to rise, if only slightly, the world price level in terms of gold. For price-level stabilization to occur, the United States had to take deliberate policy steps to achieve it. But what Hayek failed to acknowledge, though the point had been made explicitly by Keynes (1923) and Robertson (1922) and by Mises (1934 [1953]), that, given its huge share of the world's monetary gold reserves, the international value of gold was necessarily determined— one way or the other—by the policy choices of the Federal Reserve.

The orthodox rules of the gold standard invoked by Hayek, even if, for argument's sake, their existence is stipulated, could never have applied to a situation in which a single country had the power, by its own policy choices, to alter the real value of gold, a comparable concentration of the world's gold reserves in the hands of a single country never previously having existed. On the one hand, Hayek condemned Britain for choosing to restore pre-war dollar/sterling parity, because it required Britain to accept deflation, while on the other hand, he condemned the United States for using its control over the real value of gold to mitigate the deflationary effect of the pre-war dollar/sterling parity.

The attempt... to... avoid the inevitable fall in the [British] level of prices would not have been relatively successful for so long if it had not met with sympathetic co-operation and efforts along the same lines in the United States because of the supremacy there of the concept of stabilization. The... fall in cost which occurred in America should have led, if it had not been compensated for by an enormous expansion of credit, to a corresponding fall in prices. On the one hand, this fall in prices would not have harmed production in any way, since it would merely have resulted from the fall in costs, and on the other hand, it would have forced the ultimately unavoidable reduction in costs in Europe by absorbing Europe's gold. That such a fall in prices corresponding to the reduction in costs can take place without any detriment to production was clearly demonstrated by developments in the United States between 1925 and 1927, when there was a boom despite continuously falling prices.

Hayek correctly observes that, by stabilizing the value of gold, or even allowing it to fall slightly, the United States eased deflationary pressures on Britain, of which easing Hayek clearly expresses his disapproval. Hayek's premise is that, because American productivity was increasing so rapidly, it would have been possible for output prices in America to fall by as much as the increase in productivity, so that, with constant nominal income and spending, real output would have increased. Hayek then asserts that such a policy in the United States could have been replicated in Europe even if productivity was not rising as rapidly



in Europe as in the United States, without ‘harm[ing] production in any way, because it would have forced the ultimately unavoidable reduction in costs in Europe by absorbing Europe’s gold.’

Hayek’s assertion is noteworthy on two levels. First, he asserts that international prices of tradable good would be driven down to match the American costs of production, which are the lowest in the world owing to the fastest increases in productivity in the world. According to Hayek, prices in Europe would be driven down to match American prices by a deflation caused by the inflow of gold from the rest of the world to the United States associated with America’s export surplus. Hayek here betrays Humean confusion about how prices are determined under the gold standard, because the prices of tradables are equalized by arbitrage regardless of the direction of gold flows. But if all output prices are just high enough to cover only American costs with constant nominal incomes, then countries in which productivity is increasing less rapidly than in the United States would be able to cover their costs of production only if nominal income, and presumably nominal wages, were falling. Thus, the policy implicitly favoured by Hayek was one in which nominal income in every gold-standard country except the United States (where it would be stable) was falling, so that aggregate nominal income in all gold standard countries combined would be falling.

Moreover, even from the narrow perspective of ‘the orthodox rules of the gold standard,’ it made no sense for Hayek to argue that the adjustment to gold flows should be borne entirely by every country other than the one with fastest rate of productivity growth; Hayek was clearly arguing that the burden of adjustment to gold flows into the United States ought to be borne by cost deflation in countries losing gold rather than by the one country—the United States—gaining gold. Finally, it should be observed that Hayek clearly manifests the obliviousness of the Humean PSFM to the demand for money and the derived demand for gold, whose importance was not brought into explicit focus by economists, with a few notable exceptions like R. G. Hawtrey until the advent of the monetary approach to the balance of payments.

## Hayek and the Bank of France

In his lament for the gold standard, Hayek addressed charges that gold accumulation by the United States and the Bank of France between 1928 and 1931 had been responsible for Britain's economic difficulties and ultimately for her departure from the gold standard. His defence of the United States is rather straightforward, arguing that it would have been contrary to her own self-interest for the United States to adopt an even more inflationary policy than it had adopted in the 1920s just to ease deflationary pressures on Britain. There is no need to dwell on his defence of the United States, because the greater part of the gold accumulated after 1928 was by the Bank of France. The fault with the United States was mainly that, after easing monetary policy in 1927 and the first part of 1928, allowing an efflux of gold to accommodate the growing monetary demand for gold as countries were rejoining the gold standard, the Fed began tightening monetary policy later in 1928 and the efflux of gold was reversed just as the world monetary demand for gold, especially from France, was sharply increasing.

Here is what Hayek (1932 [1984]) wrote about the policy of the Bank of France:

The accusation that France systematically hoarded gold seems at first sight to be... correct. France did pursue an extremely cautious foreign policy after the franc stabilized at a level which considerably undervalued it with respect to its domestic purchasing power, and prevented an expansion of credit proportional to the amount of gold coming in. Nevertheless, France did not prevent her monetary circulation from increasing by the very same amount as that of the gold inflow – and this alone is necessary for the gold standard to function.

Hayek is again repeating a fundamental error by assuming that, having stabilized the franc in 1926 and restored gold convertibility in 1928, France could control the quantity of money in circulation or its price level. 'Prevent[ing] her monetary circulation from increasing by the very same amount as that of the gold inflow' was not an option; gold was flowing in precisely because that was the only means allowed to

them by the monetary policy followed by the Bank of France by the increase in the monetary circulation desired by the French public could be obtained. The franc having been pegged to the dollar in 1926 at \$0.0392/franc, the French monetary authorities had no control over the French price level; commodity arbitrage required commodity prices quoted in francs to equal commodity prices quoted in dollars given the fixed dollar/franc parity. The equalization was not perfect, because not all commodities enter into international trade and because there are differences between similar products sold in different countries that preclude full price equalization. But the divergence between national price levels under a gold standard was strictly limited.

Hayek's statement simply betrays a basic misunderstanding of what 'is necessary for the gold standard to function.' All that was necessary was to maintain the fixed parity between the dollar and the franc; operation of the gold standard did not require the Bank of France to achieve maintain any particular ratio between changes in the quantity of francs and changes the gold reserves of the Bank of France. That ratio was chosen at the discretion of the Bank of France not dictated by the requirements of the gold standard. Hayek seems to have made the unfounded assumption that the inflow of gold into France was somehow determined by real forces independent of French monetary conditions. But the reality was the opposite of Hayek's assumption. By preventing the quantity of money in France from increasing except through the importation of gold, the Bank of France effectively transformed any increase in the French demand for money into an equivalent increase in French (and, hence, the world's) demand for gold, thereby driving up the value of gold. That increase in the world demand for gold was the immediate source of the deflation that produced the Great Depression, a fact that seems to have escaped Hayek's (1935) grasp until 1935.

Hayek's systematic misunderstanding of how the gold standard operated, derived from his naïve acceptance of the Humean PSFM as it had been transmitted by way of the British Currency School and Ludwig von Mises, seems either to have blinded Hayek to the deflationary implications of the gold accumulation policy of the Bank of France, or to have welcomed those implications. His citation of both Cassel and Hawtrey in his paper on the gold standard would indicate that he had

at least been exposed to their arguments about the deflationary implications of gold accumulation by central banks even if, at least in 1932, he was dismissive of them. But the tenor of Hayek's 1932 [1984] defence of the gold standard and the radically deflationary policy of the Bank of France, suggests that, as late as 1932, Hayek was unwilling to recommend or support any policy to counter or reverse rapid deflation.<sup>5</sup>

## Hayek on Primary and Secondary Deflation

Further evidence of Hayek's insouciance about deflation is provided by Hansjorg Klausinger (2013) in his introduction to volume VII of Hayek's *Collected Works* containing his early writings (mostly from the 1920s and 1930s) about business-cycle theory. Klausinger discusses at some length Hayek's views about deflation and in particular the distinction between what Hayek and others called 'primary' and 'secondary' deflations. In Hayek's explanation of the downturn, a crisis or cyclical upper-turning point occurs when banks, having financed an artificial lengthening of the structure of the production, are unwilling to continue supplying the necessary financing for projects still in progress. Because the artificially lengthened structure of production cannot be sustained by voluntary savings, the withdrawal or substantial curtailment of bank financing leads to the failure or collapse of the business firms and expansion projects that had been dependent on a continued flow of financing to carry on. The amount of required financing exceeds what is forthcoming from voluntary savings so that it can only be maintained by progressively larger injections of funds financed by newly created bank credit. When banks reach the limits of their capacity to

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<sup>5</sup>J. L. Caton (2018) documents that in essay in the *Economist*, Hayek (1935) acknowledged that the demand of central banks for gold reserves was in fact a source of instability in the value of gold and that without some mechanism of international cooperation to limit the monetary demand for gold sufficiently to preserve a stable value of gold, restoring the widely abandoned gold standard could lead to renewed deflation. Thus, by 1935, Hayek seems to have accepted the Cassel-Hawtrey view that international cooperation was necessary to ensure that a gold standard would be consistent with international price stability, precisely the view that he had criticized so severely in his 1932 essay on the gold standard.

sustain the financing, and cut back their lending, borrowers cut off from bank financing are compelled to scale back or cease operations. The loss of financing requires the distress sale of unsold inventories and assets, triggering an immediate deflation. This initial liquidation process serves to free up capital and resources for redeployment in less 'capitalistic' modes of production.

The turning point is associated with collapsing asset prices and distress sales of inventories, which constitute the primary deflation. After the initial shock, the downward pressure on prices may dissipate, allowing a recovery to start on a solid footing. However, the collapse in asset prices and the distress sales of inventory might become cumulative; the initial contraction could feed on itself, extending beyond those firms that had undertaken capital expansion and been implicated in lengthening the capital structure of the economy. Largely independent of the disproportionalities that triggered the initial downturn, the contagion of business failures throughout the economy constitutes the secondary phase of deflation and depression. The secondary deflation serving little or no remedial purpose, Haberler and Röpke argued that monetary expansion to counteract it was both necessary and appropriate.

Despite conceding that there is a meaningful distinction between a primary and secondary deflation that might justify monetary expansion to counteract the latter, Hayek steadfastly opposed monetary expansion throughout the depths of the Great Depression. Moreover, as discussed above, his own neutral money criterion implied monetary expansion to stabilize nominal spending and income. The inconsistency between Hayek's use of the neutral money criterion as both an analytical tool and as a justification for deflation in periods of increasing output and employment and his disregard of the criterion when arguing for deflation when output and employment were decreasing is palpable.

Addressing Hayek's pro-deflationary stance in the 1930s, White (2008) has absolved Hayek from responsibility for the policy errors of the 1930s on the grounds that the Federal Reserve Board and the Hoover Administration had been influenced not by Hayek, but by a different strand of pro-deflationary thinking, further pointing out that Hayek's own theory of monetary policy, had he followed it consistently, would have led him to support monetary expansion during the 1930s to

prevent any decline in aggregate spending. White may well be correct in denying that Hayek's pro-deflation policy stance influenced policymakers, but Hayek's policy advice was what it was: consistently pro-deflation.

Why did Hayek offer policy advice so blatantly contradicted by his own neutral-money criterion? White suggests that Hayek viewed deflation as potentially beneficial if it would break the rigidities obstructing adjustments in relative prices. It was the lack of relative-price adjustments that, in Hayek's (1933 [1939], 175–176) view, caused the depression:

The analysis of the crisis shows that, once an excessive increase of the capital structure has proved insupportable and has led to a crisis, profitability of production can be restored only by considerable changes in relative prices, reductions of certain stocks, and transfers of the means of production to other uses. In connection with these changes, liquidations of firms in a purely financial sense of the word may be inevitable, and their postponement may possibly delay the process of liquidation in the first, more general sense; but this is a separate and special phenomenon which in recent discussions has been stressed rather excessively at the expense of the more fundamental changes in prices, stocks, etc.

Hayek (1933 [1939], 176) distinguishes between two possible interpretations of liquidation, noting that widespread financial bankruptcy is not necessary for liquidation in the economic sense.<sup>6</sup> Continuing with the following argument about rigidities, he wrote:

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<sup>6</sup>White uses this distinction to absolve Hayek from the charge that Hayek was a liquidationist, who was provided intellectual support for the liquidationist policies supposedly pursued by Andrew Mellon, Secretary of the Treasury. Following Eichengreen (1992), White suggests that insofar as the liquidationist position enjoyed any intellectual support, that support was derived from supporters of the real-bills doctrine in the Federal Reserve such as Adolph Miller, a former academic economist, and a member of the Fed Board of Governors. Eichengreen and White are quite probably correct in identifying the Fed as the source of liquidationist sentiment that was influencing administration and Fed policy. And White is also correct in noting that Hayek was an outspoken critic of the real-bills doctrine. However, disagreement about the real-bills doctrine does not establish any substantive difference between the liquidationist position of Miller and of his associates on the Fed and the liquidationist position espoused by Hayek in 1933. Presumably, Miller et al. were not unaware of the distinction between bankruptcy and liquidation in the economic sense; White provides no evidence that Miller et al. did not understand that distinction.

A theoretical problem of great importance which needs to be elucidated in this connection is the significance, for this process of liquidation, of the rigidity of prices and wages, which since the great war has undoubtedly become very considerable. There can be little question that these rigidities tend to delay the process of adaptation and that this will cause a “secondary” deflation which at first will intensify the depression but ultimately will help to overcome those rigidities.

The main problem in this connection, on which opinions are still diametrically opposed, are, firstly, whether this process of deflation is merely an evil which has to be combated, or whether it does not serve a necessary function in breaking these rigidities, and, secondly, whether the persistence of these deflationary tendencies proves that the fundamental maladjustment of prices still exists, or whether, once that process of deflation has gathered momentum, it may not continue long after it has served its initial function.

A couple of observations are relevant here. First, Hayek seems to be suggesting that the cause of the secondary deflation was the rigidity of prices and wages that presumably frustrated the rapid reabsorption of unemployed resources into new productive employment. That is certainly a possibility, but Hayek provided no theoretical argument that price and wage flexibility would ensure a rapid restoration of full employment. Indeed, as Hayek (1937b) later recognized, in a world with an incomplete set of markets, market forces do not, even in theory, necessarily move an economy towards an equilibrium state.

The intuitively appealing notion that a free-market system necessarily self-adjusts is an extrapolation from Marshallian partial-equilibrium analysis in which the disequilibrium of a single market is analysed under the assumption that all other markets remain in equilibrium. The assumption of approximate macroeconomic equilibrium is a necessary precondition for the partial-equilibrium analysis to show that a single (relatively small) market reverts to equilibrium after a disturbance. In the general case in which multiple markets are simultaneously disturbed from an initial equilibrium, it can't be shown that price adjustments based on excess demands in individual markets lead to the restoration of equilibrium. Thus, Hayek's assertion that the cause of secondary

deflation and the intensification of the depression was the rigidity of wages and prices was mere conjecture, as was his prediction that an intensification of the depression would help to overcome the rigidities.

Unable to demonstrate that deflation was not exacerbating economic conditions, Hayek justified tolerating further deflation, as White acknowledged, with the hope that it would break the ‘rigidities’ preventing the relative-price adjustments that he felt were necessary for recovery. Lacking a solid basis in economic theory, Hayek’s prediction that deflation would break rigidities in relative-price adjustment invites evaluation in ideological terms.<sup>7</sup> Conceding that monetary expansion might increase employment, Hayek may have been disturbed by the prospect that an expansionary monetary policy would be credited for having led to recovery, thereby increasing the chances that inflationary policies would be adopted under less extreme conditions. Hayek’s support for deflation appears in retrospect to have been a means to accomplish a political end—breaking politically imposed and supported rigidities in prices—rather than a dispassionate economic analysis.

## Deflation and Nihilism

My hypothesis that Hayek’s support for deflation reflected a political strategy rather than an unbiased assessment of the economic situation in the early 1930s is supported by Hayek’s own recollections four decades after the fact. As White pointed out, Hayek himself not only changed his views about deflation; he expressed regret for not having forcefully opposed deflation during the Great Depression. In 1975, in remarks at the American Enterprise Institute where his old friend Gottfried

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<sup>7</sup>However, I am not aware of any evidence that Hayek in 1933 understood the full implications of the argument of his 1937 paper acknowledging that there is no market mechanism for achieving equilibrium when, given the lack of a complete set of markets, independent plans are coordinated only insofar as economic agents share identical expectations. Unless there is a market mechanism by which expectations are reconciled—and Hayek acknowledged the lack of such a mechanism—price and wage flexibility does not ensure a tendency toward equilibrium. At most, Hayek conceded, there is an observed, but not theoretically established, empirical tendency towards equilibrium.



Haberler was a resident fellow, Hayek explicitly renounced his earlier position, as he had done previously (Hayek 1960)

I am the last to deny – or rather, I am today the last to deny – that, in these circumstances, monetary counteractions, deliberate attempts to maintain the money stream, are appropriate.

I probably ought to add a word of explanation: I have to admit that I took a different attitude forty years ago, at the beginning of the Great Depression. At that time I believed that a process of deflation of some short duration might break the rigidity of wages which I thought was incompatible with a functioning economy. Perhaps I should have even then understood that this possibility no longer existed.... I would no longer maintain, as I did in the early '30s, that for this reason, and for this reason only, a short period of deflation might be desirable. Today I believe that deflation has no recognizable function whatever, and that there is no justification for supporting or permitting a process of deflation. (Hayek 1975, p. 5)

Responding to Haberler's repetition of his old question about 'secondary deflation,' Hayek went on to elaborate:

The moment there is any sign that the total income stream may actually shrink, I should certainly not only try everything in my power to prevent it from dwindling, but I should announce beforehand that I would do so in the event the problem arose...

You ask whether I have changed my opinion about combating secondary deflation. I do not have to change my theoretical views. As I explained before, I have always thought that deflation had no economic function; but I did once believe, and no longer do, that it was desirable because it could break the growing rigidity of wage rates. Even at that time I regarded this view as a political consideration; I did not think that deflation improved the adjustment mechanism of the market. (Id., pp. 12–13)

I am not sure that Hayek's characterization of his early views is accurate. Although Hayek may indeed have believed that a short period of

deflation would be enough to break the rigidities that he found so troublesome, he never spoke out against deflation, even as late as 1933 more than two years the start of deflation at the end of 1929. But on the key point, Hayek was perfectly candid: ‘I regarded this view as a political consideration.’

Such a rationale, I am sorry to say, reminds me of Lenin’s famous saying that you can’t make an omelette without breaking eggs. In other words, to achieve a desired political outcome, Hayek was prepared to support policies that he had—or should have had—good reason to believe would increase the suffering of great numbers of people. I don’t accuse Hayek of malevolence, but the political and moral calculation that led him to such a conclusion is troubling, both morally and pragmatically. David Laidler (1999) described Hayek’s policy stance in the 1930s as extreme pessimism verging on nihilism. It is hard to argue that, in supporting deflation as a means to accomplish a political end, Hayek did not cross the line separating pessimism from nihilism.

## Conclusion

Hayek first achieved international celebrity as a young man in his early thirties. His ideas and values, largely inherited from the Viennese environment into which he was born, raised and educated, were still evolving. Hayek had begun studying economics holding the fashionably socialist views he had absorbed in his childhood. Even his instruction in economics at the University of Vienna under Friedrich von Wieser, one of the illustrious figures of the Austrian School, had not fundamentally changed his socialist leanings. It was only after his subsequent encounter with the ideas of Ludwig von Mises subjecting him to what he later called a kind of intellectual shock treatment that his economic and political worldview was fundamentally transformed.

Not one to just take ideas over from someone else, Hayek’s indebtedness and deference to Mises did not prevent him from working out the ideas that he had taken from Mises for himself. That was especially the case in the way Hayek in a long series of publications from the late 1920s to the early 1940s, built up his own theories of capital

and business cycles from the outlines that Mises had marked out in the. As Caldwell (2005) amply demonstrates, Hayek parted company from Mises on a variety of theoretical, philosophical issues over the course of his career, e.g., shifting from the extreme methodological apriorism of Mises to the falsificationism of Popper, from Mises's pure time-preference theory of interest to the Fisherian time-preference cum productivity theory of interest, and from the dogmatic laissez-faire liberalism and the intransigent opposition to all forms of the welfare state espoused by Mises in *Human Action* to the less strident statement of liberal principles combined with a measured acceptance of welfare-state programmes in *The Road to Serfdom* and *The Constitution of Liberty*.

But in the early 1930s as the Great Depression was spiralling downward, the intellectual journey of self-definition on which Hayek had embarked was still in its early stages, and much of what Hayek had to say was still largely an echo of what he had heard from Mises during their years together in Vienna. Gradually, the Misesian baggages—the adulation of the gold standard, the welcoming of deflation, the rejection of all forms of government regulation and of the welfare state in all its forms—were all discarded. Other early disciples of von Mises, like Haberler and Fritz Machlup, also eventually left their youthful Misesian orthodoxy behind after leaving Vienna. But in the early 1930s, Hayek was still reading from Mises's script. To what extent he succeeded in freeing himself from Mises's overbearing influence is perhaps a question that Hayek scholars will want to explore in the future.

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# 5

## On the Rock: Hayek's 1944 Proposals for the Gibraltar Economy

Chris Grocott

### Introduction: A Rare Piece of Consultancy

In *Hayek on Hayek*, Friedrich Hayek (1994, 82, 83) outlined ‘...a theory that all economists that serve in government are corrupted as a result of serving in government.’ In this way, Hayek defended his decision to avoid consultancy work for governments and, at the same time, distanced himself from economists such as Lionel Robbins and John Maynard Keynes. In 1944, despite his stated reluctance, Hayek nevertheless researched and wrote a report for the Government of Gibraltar and the Colonial Office in London addressing issues surrounding the post-war reconstruction of Gibraltar's economy. The report has received relatively little attention from scholars of Gibraltar. In addition, Hayek's attitude towards his work on the Rock, as it is known locally, was dismissive; he characterized it as being in large part an excuse for a holiday. Yet there are important insights into Hayek's political philosophy, and

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into the political economy of Britain and its empire in the 1940s, to be gained from investigating the report.

When examining Hayek's consultancy work on the economy of Gibraltar, there is a particularly interesting juxtaposition at play. Hayek (1962) sandwiched his work on the Rock into the intervening period between his having finished, in March 1944, *The Road to Serfdom* and prior to undertaking, in early 1945, a lecture tour of the United States to promote the ideas in the book. As a result, we can contrast Hayek's political philosophy as outlined in *The Road to Serfdom* with practical ideas laid down by Hayek for the Government of Gibraltar. I have discussed in more detail elsewhere the problems that are cast into sharp relief by this contrast (Grocott 2015). We will look again, albeit briefly, at the contradictory positions taken in Hayek's Gibraltar report when compared to the ideas contained in *The Road to Serfdom*. Broadly speaking, Hayek proposed to use market forces to relocate the civilian population of Gibraltar into Spain. But this proposal fails Hayek's own test as to the guarantee of individual liberty—the existence of a free market—because it would have placed Gibraltarians within an autarkic economy. In the present chapter, we go further and look at why the Colonial Office and Government of Gibraltar rejected Hayek's proposals (in essence they were locked into a policy of expanding the principles of the 1942 Beveridge Report to the colonies and restructuring colonial economies along Keynesian principles); and we see the unintended consequences of Hayek's report (the inauguration of massive state planning on the part of the Government of Gibraltar). Prior to tackling these three themes, some background on the situation Hayek found in Gibraltar in late 1944 is required.

## Background: The Evacuation of Gibraltar

In 1940, in response to the potential threat of Axis air raids (or worse still a full-scale invasion), Gibraltar's colonial authorities began the evacuation of the British colony's civilian population. Only men of working age were left on the Rock. Around 13,000 older men, women, and children were evacuated. Richer inhabitants were able to seek refuge in nearby Spain or in Tangier, in both of which wealthy Gibraltarian families held property.

However, the vast majority of the population was evacuated to camps in Northern Ireland, London, Jamaica, and Madeira.<sup>1</sup>

Almost immediately after making Gibraltar ready for war, the colonial authorities on the Rock and the colonial administration in London began to plan for the return of the evacuees during peacetime. This process started as early as 1940 but began in earnest in late 1943 on the back of the armistice with Italy and allied domination of the Mediterranean Sea and much of its coastline. On 16 December 1943 in a meeting held at the Colonial Office, located just off Downing Street in London, the then Governor of Gibraltar, Lieutenant General Sir Noel Mason-MacFarlane, and the Secretary of State for the Colonies, Oliver Stanley, agreed on the principles that should guide repatriation of Gibraltar's civilian population.<sup>2</sup> These principles included a commitment to prevent 'a situation in which any evacuees who wished to return to Gibraltar were prevented from doing so for lack of accommodation.'<sup>3</sup>

The commitment of both the Colonial Office and the Government of Gibraltar to ensure adequate housing provision for the Rock's returning population posed significant problems. Before the war, Gibraltar had been over-crowded and much of its housing stock comprised little better than slum dwellings.<sup>4</sup> The high cost of rents in Gibraltar, caused by a limited supply of accommodation on the Rock's two and a half square miles, had a knock-on effect in relation to standards of living. Moreover, maintaining a decent standard of living for Gibraltarians required consideration not only people's out-goings but also to their access to well-paid work.

The colonial authorities on the Rock, in their consideration of the post-war Gibraltar economy, turned to a report on living conditions

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<sup>1</sup>For a brief account of the evacuation of Gibraltar and its aftermath, see Grocott and Stockey (2012, 68–73); for a monographic length treatment, see Finlayson (1991).

<sup>2</sup>Throughout, the term 'Secretary of State for the Colonies' refers to the minister in London with responsibility for the Colonial Office. The term 'Colonial Secretary' refers to the officer locally responsible for Gibraltar's civil administration.

<sup>3</sup>Gibraltar Government Archive (hereafter GGA), Book Files, 0957-1200. 'Report on Repatriation and Welfare in Gibraltar.'

<sup>4</sup>For housing conditions before the war, see Constantine (2009, 332–337).



in Gibraltar commissioned in 1938 and completed by Gibraltar's then Medical Officer of Health, Major Reginald Anson Mansell. To supplement this, in 1943 the Secretary of State for the Colonies sent his labour advisor, Major Granville St. John Orde Brown to Gibraltar to report on labour conditions. Orde Brown, *en route* to West Africa, visited the Rock in the two weeks following 6 November 1943 and produced a report in sympathy with that of Mansell. Both reports emphasized the need for planning of post-war housing in Gibraltar and the implementation of social security policies. Orde Brown also stressed the need to extend trade union legislation to Gibraltar and for the colonial authorities, employers and organized labour to work together in relation to wages, and terms and conditions of employment.<sup>5</sup>

Orde Brown's report on housing, social security and labour reforms in Gibraltar was extremely thorough. Nevertheless, he conceded that the task facing the Government of Gibraltar was a substantial one. In the first instance, he recommended that a cost of living index be undertaken to help with the setting of wage levels by government departments and by the army, navy, and air force employers on the Rock. He then recommended a further in-depth report on the economy of Gibraltar be carried out. In June 1944, Gibraltar's colonial secretary pressed the Colonial Office to send someone to undertake this work:

what we want is more than a mere mathematical 'cost of living' formula i.e. more in the nature of a sociological and economic investigation which would tell us not only what it costs the people to live but the conditions under which they live, how these can be best improved and what is the future scope for employment.<sup>6</sup>

Despite the Colonial Secretary's pressing on the issue of an expert review of the economy, in the first instance, it was only the cost of living index that the Colonial Office wanted to commission. To this end, they wrote to

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<sup>5</sup>GGA Book File 0001-0300. 'Labour Conditions in Gibraltar, Report by Major Orde Brown.'

<sup>6</sup>GGA, Book File 0001-0300. 'Letter from Miles Clifford, Colonial Secretary, Gibraltar, to A. B. Acheson, Assistant Secretary, Colonial Office.' 20 June 1944.

Hayek, then based at Peterhouse College Cambridge, to which the London School of Economics had been evacuated during the war, and enquired if he could suggest a suitable doctoral student who could undertake such an index. Hayek responded that, as his doctoral students had all been conscripted, he could not. But, he was willing to do the work himself. The Government of Gibraltar seized upon this and proposed that Hayek do both the cost of living index and an investigation into the Gibraltar economy and its future challenges. Much to their delight, Hayek accepted.

## **Preliminary Reports: Cost of Living Index; Wages and Salary Report; and a Proposal for a Statistical Survey**

Hayek visited Gibraltar between 14 August and 27 September 1944. In that time, he produced the cost of living index which had originally been requested to complete and supplemented it with a report on wages and salaries. He then went on to produce a proposal for a statistical survey which proposed a system of measuring Gibraltar's population in the absence of a census (which should have taken place in 1941 but which could not be undertaken because of the evacuation). Finally, he produced 'Some Economic Problems of Gibraltar' in which he outlined practical proposals for reshaping the Gibraltar economy once the war was over. In this section, we explore the reception of the first three of these reports, before examining 'Some Economic Problems of Gibraltar' below.

Of Hayek's four reports, the cost of living index and the wages and salary report, being statistical in nature, were uncontroversial. As one official, Andrew Acheson, assistant undersecretary at the Colonial Office, put it in relation to the cost of living index, 'this enquiry was of course child's play to a man of Professor Hayek's capability and experience.'<sup>7</sup> Both reports were used extensively in relation to wages and salaries negotiations in 1945 and 1946.

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<sup>7</sup>The National Archive/Public Record Office (hereafter PRO), Colonial Office files (hereafter CO), 91/522/2. Minute by Andrew B. Acheson. 24 January 1945.

Hayek's third report was a proposal to undertake a statistical survey of Gibraltar's population.<sup>8</sup> He proposed that the colonial government should use existing sources of information, such as evacuation documents, registrations of civilian workers, local parish records of births and deaths, and Mansell's housing report in order to produce a survey of every Gibraltarian. This would include information on age, sex, and income as well as on with whom individuals had lived prior to the war, where they lived, and with whom they would like to live upon repatriation. Once the data was collected, Hayek proposed that it be input onto hole-punched cards which would be readable by a machine. The machine could then read the estimated 25,000 cards required and tabulate the results.

At first, the proposal to undertake a statistical survey was welcomed. The Government of Gibraltar forwarded the report to the Colonial Office and requested funds for the work to be undertaken.<sup>9</sup> In February 1945, the Governor pressed the request at a personal meeting held at the Colonial Office with Stanley and the Deputy Permanent Under-Secretary of State Sir Arthur James Dawe.<sup>10</sup> As a result, Stephen E. V. Luke, an official in the Colonial Office, sent Hayek's report to Kenneth Baxter, principal secretary in the Colonial Office endorsing the proposals outlined therein. But Hayek's proposal then hit a brick wall. Baxter sent the report to Dr. Rene Kuczynski, a notable expert on colonial population studies, the first reader of demography at the London School of Economics, and Chief Demographic Advisor to Stanley. Kuczynski turned out to be less than impressed.

Kuczynski was enormously well respected. As an indication of how essential he was to the Colonial Office's work, at the outbreak of war, despite Kuczynski having been born in Germany, the Colonial

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<sup>8</sup>This report can be found in PRO CO 91/522/2.

<sup>9</sup>PRO CO 91/522/2. 'Governor to the Secretary of State for the Colonies.' September 1944 [exact date not recorded, though Hayek submitted his report on 8 September, so the despatch must have been sent in the weeks that followed, and the report was received in the Colonial Office on 21 September 1944].

<sup>10</sup>PRO CO 91/522/1. 'Minute by Stephen Elliott Vyvyan Luke.' 2 February 1945.

Office vouched for him; otherwise he would have been interned (Ittmann 2013). At first, Kuczynski was relatively non-committal about Hayek's proposal.<sup>11</sup> He pointed out that the plan was complex and would only work if Hayek oversaw the operation himself. After further consideration, Kuczynski wrote a damning memorandum in relation to Hayek's proposals. Part of Hayek's reasoning in proposing a statistical survey was based around his belief that the 1931 census was inaccurate and that subsequent assessments of Gibraltar's population were, therefore, also incorrect. Perhaps taking umbrage at Hayek's implied criticism of the Gibraltar section of Kuczynski's (1937) *Colonial Population*, Kuczynski wrote a scathing attack undermining the principles upon which Hayek proposed his statistical survey.<sup>12</sup> Kuczynski finished the memorandum by conceding that the absence of birth and death ratios made the demographer's job somewhat harder when it came to estimating the population when using the data in the 1931 census. But even here, Kuczynski, witheringly noted that he could put the ratios together himself in his spare time 'over two weekends' and, in contrast to Hayek's elaborate and expensive scheme, at a cost of '£10' used to pay for clerical assistance.<sup>13</sup>

Faced with Kuczynski's memorandum, Luke wrote to Dawe withdrawing his support for Hayek's proposal.<sup>14</sup> Meanwhile, events had moved on in Gibraltar by mid-1944. There was increasing pressure upon the Government of Gibraltar from a local political body established to press for repatriation, the Association for the Advancement of Civil Rights (AACR). In short, the colonial authorities were now more worried about repatriating Gibraltarians than counting them. The Governor conceded that a census could wait until 1951, for when it was next scheduled.

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<sup>11</sup>PRO CO 91/522/1. 'Minute by Dr. Rene Kuczynski.' 26 February 1945.

<sup>12</sup>PRO CO 91/522/1. 'Minute by Dr. Rene Kuczynski.' 25 March 1945.

<sup>13</sup>Ibid.

<sup>14</sup>Ibid. 'Minute by S. E. V. Luke' and subsequent response by Government of Gibraltar. 4 April 1945.

## Some Economic Problems of Gibraltar

We have seen the lack of progress which Hayek's statistical survey encountered in the months after its first consideration in January 1945, followed subsequently by its rejection in April 1945. Now, we turn to 'Some Economic Problems of Gibraltar.' In this report, submitted in October of 1944, Hayek outlined the principles by which he felt the post-war Gibraltar economy should be organized. As we shall see, he first attempted to re-conceptualize the nature of the Gibraltar economy's relationship with the surrounding hinterland, the Campo de Gibraltar, and with the neighbouring city of La Línea. He then addressed specific proposals relating to housing policy, wage levels (both closely linked to a discussion of the cost of living), and education. Here, we explore Hayek's ideas in the report before, below, examining the reasons for their rejection and the contrast between them and the ideas laid down in *The Road to Serfdom*.

When Hayek visited Gibraltar in late 1944, he undertook extensive investigations into all aspects of life on the Rock. To better understand the conditions of the working class in Gibraltar he met with the AACR (which incorporated Gibraltar's largest trade union at that time, the Gibraltar Confederation of Labour). In order to understand the conditions in which Gibraltar's merchants traded, he met with a number of the Rock's entrepreneurial community. Hayek even visited Gibraltar's chemists to enquire as to whether or not there was an increase in condom use that might interfere with projections of population growth. (Gibraltar's population was over 90% Roman Catholic and such barriers to accurate demographic predictions were not, the Rock's pharmacists assured Hayek, in general or increasing use.) Hayek also drew upon birth and death statistics given to him by the Colonial Secretary; made use of the only copy of the 1931 census (which he was allowed to take back to England under pain of ensuring its return to the Government of Gibraltar via the Colonial Office); and, among other useful statistics and reports, Mansell's 1938 report on overcrowding and Orde Brown's report on labour conditions.

In 'Some Economic Problems of Gibraltar,' Hayek began by using his new-found knowledge of Gibraltar to conceptualize the Rock's economy differently to the way in which colonial officials had traditionally done

so. Hayek argued that when considering the economy of Gibraltar, policymakers should not restrict their thinking solely to the colony's territory. Instead, Hayek argued for consideration of a 'Greater Gibraltar' which incorporated not only the Rock, conceptualized as Gibraltar's urban commercial centre, but also the Campo de Gibraltar in neighbouring Spain, which Hayek saw as being a suburb of Gibraltar proper. By doing so, the problems caused by Gibraltar's confined space could be creatively considered in a wider space, while the intricacies of its labour market, which depended upon migrant Spanish labour crossing the frontier, could likewise be reconceptualized.

In contrast to Hayek's thinking, Mansell's 1938 report on overcrowding concentrated on only the colony of Gibraltar itself. Mansell argued that overcrowding in Gibraltar was caused by excessively high rents. Such rents made it impossible, so his logic followed, for families to afford accommodation containing more than one or two rooms. As a result of Mansell's report, and of pressure from the local Transport and General Workers' Union (which was the main pre-war political organization representing working class interests), the governor was persuaded to enact a Rent Restriction Ordinance on 1 January 1939. During the war, rents were further restricted in order to prevent war profiteering on the part of landlords. From 1 October 1940, rents were restricted to one-third of their 1 May 1940 price. Such restriction was met with approval by Orde Brown's 1944 report, and Orde Brown pressed for a housing expert to be sent to Gibraltar to look into the question of overcrowding.<sup>15</sup> To this end, Sir Findlater Stewart, Chairman of the British Home Defence Executive, which was responsible for co-ordinating matters on the home front between the army and various ministries, was sent to Gibraltar in February 1945 to report on housing on the Rock.

By conceiving of Gibraltar's economy as being a single economic unit comprising a city and suburb formation spanning the frontier, Hayek disagreed with Mansell and Orde Brown's analyses. Rather than high rents being the barrier to working-class Gibraltarians enjoying

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<sup>15</sup>PRO CO 888/3. Colonial Labour Advisory Committee Minutes, 1944–1946, pp. 9–10. 'Statement by Major Orde Brown to the Colonial Labour Advisory Committee.'

better living standards, Hayek argued that restricted rents allowed Gibraltarians to just about afford to live in Gibraltar when, otherwise, they would seek cheaper accommodation in Spain. For Hayek, therefore, the answer was obvious: abolish rent restriction, allow rents to rise via the free market, and let this market deliver Gibraltarians into Spain. In addition to enjoying lower rents in Spain, Hayek argued that Gibraltarians would be able to take advantage of a lower cost of everyday essentials, of opportunities for market gardening, and of being positioned to move around the local area undertaking work where it might present itself.

Hayek argued that his proposal had advantages other than those which would be accrued by Gibraltarians. The Government of Gibraltar would not be forced to provide a state-planned housing scheme, as it was planning to undertake, and the introduction of social security would be cheaper, with fewer Gibraltarians falling under the colonial government's jurisdiction. There would be opportunities for private business, as Hayek proposed that one be formed in conjunction with government to provide educational, social housing and health-care facilities in Spain which otherwise would be lost to Gibraltarians. And, Hayek argued, there would be military advantages; fewer civilians within the fortress would pose less of a drain upon the garrison's rations if the Rock were under siege.

Hayek's plan would only work if employers in Gibraltar (of which government departments employed just over 50% of the workforce) did not pay Gibraltarians preferential rates in comparison to Spanish workers, as they had heretofore. Skilled workers would remain in Gibraltar, able as they would be to afford higher rents, but unskilled workers would join Spaniards in commuting across the frontier. In keeping with this, and further to his proposals in relation to rent and to the Gibraltar workforce, Hayek also made specific reference to the admiralty. He argued that importing workers from Britain, and paying them a considerable bounty for working overseas, not only caused resentment in Gibraltar but also forced up the wages of Gibraltarians and Spaniards. Hayek argued that the Admiralty in Gibraltar was not providing enough educational opportunities for Gibraltarians to acquire the skills that would allow them to undertake the work done by imported British

workmen. This he characterized as 'exploitation'—a word which Hayek was at pains to point out he had chosen very deliberately. Hayek's report insisted that the Admiralty expand educational facilities in the dockyard with a view to eliminating the need to import British labour.

## The Reaction to Hayek's Proposals

While the report was received in late 1944, due to the receiving official in the Colonial Office taking sick-leave not long thereafter it was not until early 1945 that the report was filed and consulted properly. Having carved off the statistical survey proposal into another file, Andrew Acheson sat down to minute his reaction to 'Some Economic Problems of Gibraltar.' He opened positively, noting that the report was interesting and that something similar for Malta would be most welcome. Yet Acheson was left feeling uneasy about some of Hayek's more substantive proposals, 'the suggestion that wage levels which Professor Hayek himself admits are at present, as regards unskilled workers, insufficient to provide "a decent life or even an adequate diet" should be kept down to this level merely because that is the level which prevails in surrounding Spain seems *prima facie* to be open to very considerable criticism.'<sup>16</sup> In other words, while to Hayek it was clear why wages on the Rock should be in-keeping with those of the surrounding area (in order for the market to distribute housing use efficiently) to Acheson reducing the wages of already poor people seemed counter-intuitive. On this point, other officials such as Luke agreed with Acheson's rendering of the proposals. As we shall see below, the subject of wage levels was addressed as a result of Hayek's report but not in the manner which might be expected.

The reaction to Hayek's report in Gibraltar matched the mixed feelings expressed in London. Governor Eastwood noted that Hayek's report was excellent at helping to identify the 'peculiarities' of Gibraltar, 'but Professor Hayek's proposals for the limitation of the

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<sup>16</sup>PRO CO 91/522/1. 'Minute by Andrew B. Acheson.' 25 January 1945.



Gibraltar population by compelling the less wealthy members of the community to live in Spain would in my opinion be deeply and justifiably resented by Gibraltarians.<sup>17</sup> Objections along a similar line were raised both in Gibraltar and London. Eastwood made it clear that if British subjects were to be relocated anywhere it would be within the empire. Orde Brown characterized the proposals 'bloodless.' But at any rate, Hayek's proposal certainly was not going to be the plan followed: a repatriation committee, dedicated to the return and housing of all evacuees, had already been established; funds for further housing development were being sought from the Colonial Development Fund; and senior personnel, in the form of Sir Findlater Stewart, had been dispatched to Rock to work out a plan for state provision of post-war housing. In the face of this thrust towards government planning of the post-war economy, Hayek's proposals appeared outlandish and were rejected.

## The Broader Political Economy

Aside from the objections of colonial officials, against a reading of *The Road to Serfdom*, Hayek's proposals for the Gibraltar economy seem somewhat problematic. True enough, we can see much of the free market, of the reduction in state-directed economic activity, and of the educational reform that was contained in *The Road to Serfdom* in 'Some Economic Problems of Gibraltar.' But one detail remains puzzling, and that is the proposal to use market forces to relocate Gibraltarians into Spain. Clearly, Hayek prized economic liberty highly in *The Road to Serfdom*. Yet, his proposals would have resulted in Gibraltarians being forced to live in Spain, then under the dictatorship of General Francisco Franco. To Hayek's way of thinking, Spain's status as a dictatorship did not exclude its potential as a site of economic liberty. Nevertheless, since the inception of the Franco regime in 1939 and indeed until its near economic collapse in 1959, when free market policies were adopted,

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<sup>17</sup>PRO CO 91/522/1. Eastwood to Oliver Stanley. 26 April 1944.

Franco's Spain operated an autarkic economic system. Indeed, Franco denounced free market economics as being a tool of British informal imperialism (Preston 1993, 334).

Setting aside contradictions within Hayek's own work, there were broader issues of political economy which militated against the possible success of Hayek's report. By 1944, the Colonial Office was under pressure from political groups throughout the empire to implement social security reforms. In September, Oliver Stanley issued a circular to all governors entitled 'Social Security in the Colonial Territories.'<sup>18</sup> The circular tried to dampen down expectations; 'in some territories there has perhaps been a leaning towards a popular belief that social services on the lines of what may be a somewhat inaccurate picture of the Beveridge proposals can speedily be put into effect in the Colonies.'<sup>19</sup> But despite this caution, the circular was true to Beveridge's ideals and stated that colonial governments should look to ensure their subjects enjoyed 'freedom from want.'<sup>20</sup> The Colonial Office made its intentions clear, it saw government planning both by London and local governments as being essential to post-war economic policy.

The social security circular was clear that employers, government, and workers should act together to ensure the viability of schemes established in the empire. Far from allowing the free market in wages to operate, colonial government was moving strongly towards a social democratic relationship with representatives of capital and labour, and towards a planned economy. In May 1944, Orde Brown had attended the International Labour Organisation (ILO) conference in Philadelphia as a representative of the British government. In producing principles for post-war economic policy, this meeting produced a declaration which committed governments to adopting human rights as being central to social policy and within that accepting the need for international economic planning. Precisely in that spirit, Orde Brown pressed for a labour advisor to be appointed for Gibraltar to negotiate

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<sup>18</sup>GGA Book Files 0401-0440. Letter from Stanley to Eastwood. 29 September 1944.

<sup>19</sup>Ibid.

<sup>20</sup>Ibid.

between employers, labour, and the state.<sup>21</sup> It is in that light that we should see Orde Brown's strongly put objections to Hayek's proposals, seen above.

The commitment of the Colonial Office to the vision outlined in the Beveridge report was reflected in the attitudes of members of Colonial Office staff who read Hayek's report. For example, Hayek identified a number of very wealthy individuals on the Rock; as he put it 'remarkably high figures for a community of this size.'<sup>22</sup> Acheson, who, as we have seen, characterized the report as interesting, seized upon these figures and proposed that they would be a good basis for an income tax which could fund post-war social security and housing schemes. In other words, even those officials who expressed some sympathy for Hayek's ideas seemed to seize upon precisely the wrong course of action to implement them. Likewise, in Gibraltar, Mr. Hughes (the Labour and Welfare Officer, appointed in response to Orde Brown's post-ILO conference report on colonial labour policy) noted the figures on wealth and suggested that they indicated that a decent social security scheme was affordable.<sup>23</sup> As to the idea of keeping wages at the same rate as those in the Spanish hinterland, Hughes simply could not see his way round to Hayek's way of thinking. In a meeting at the Colonial Office, attended by, among others, Hughes and Orde Brown, Hughes argued that Gibraltarians had the right to expect wages suitable to the colony in which they resided and should not be forced to accept reduced wages simply because those were paid to Spanish workers across the frontier.<sup>24</sup> This form of imperial preference had almost a hint of Keynes in it.

All of this must have been incredibly frustrating for Hayek. He monitored the fall out of proceedings at Bretton Woods, which took place in July of 1944, from Gibraltar, and while Keynes' greatest proposals were not realized at the conference his ideas were nevertheless centre-stage.

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<sup>21</sup>PRO CO 888/3. Colonial Labour Advisory Committee, papers and minutes 1944–1946. 'Minute by Miss Fisher. 22 December 1945.'

<sup>22</sup>PRO, CO 91/522/2. 'Some Economic Problems of Gibraltar,' pp. 8–9.

<sup>23</sup>GGA Book Files 0401-0440. Note made by Mr. Hughes. 3 February 1945.

<sup>24</sup>Ibid.

Likewise, Beveridge's proposals on social security had been accepted not only by the Labour Party in the UK, who, of course, implemented the proposals after the 1945 election, but also by the Conservative Party too. At a global level, Hayek's libertarian ideas were distinctly unfashionable and in a great many places rejected. That Hayek cared much about this is obvious from *The Road to Serfdom*. And, of course, he was moved enough to set-up the Mont Pèlerin Society in 1947. But beyond these concerns, which would have operated at a somewhat existential level, Hayek's Gibraltar experiences served to hammer home how far away from his political economy Britain had moved. After all, *The Road to Serfdom* had its origins in Hayek's disagreement with the ideas of Beveridge (Caldwell 2007, 13–14)—yet here in Gibraltar, it was Britain's commitment to the Beveridge Report that had played a substantial role in sinking Hayek's proposals. Likewise, state planning abounded in Gibraltar to the extent that Hayek's report was considered controversial enough to be suppressed. Even a personal meeting with Dawe at the Colonial Office did not allow Hayek to persuade positively the Colonial Office of his ideas. In this context, it seems no surprise that Hayek began to plan his departure from Britain. As readers will have seen in volume five of this *Hayek a Collaborative Biography* series, in 1945 Hayek played a central role in the politicking that established the Chicago School of Economics which, later in life, provided him with support for his ideas (Van Horn 2015). Even if the School did not provide an academic home for him, getting to the United States was clearly now a priority.

## Epilogue: Unintended Consequences

Hayek's comments on the Admiralty and its education policy were largely ignored. Principally this was because the Colonial Office was concerned that passing the comments on might cause offence to the Admiralty, and because, indeed, once in receipt of the report the Admiralty itself was so offended. Dawe recognized that it would be difficult to publish the report without altering the passages relating to the Admiralty being removed and without the more controversial parts of

the report being toned down. To this end, he met with Hayek at the Colonial Office in June of 1945 and asked if he was prepared to make any amendments to the report. Buoyed by the success of his trip to the United States, Hayek replied that he was not prepared to alter the document. Because of the Admiralty's umbrage, and Hayek's refusal to make amendments, the report was neither shown to unofficial (i.e. Gibraltarian) members of the Governor's Executive Council, nor was it published. The results of this outcome were somewhat unintended.

In early May 1945, Eastwood wrote to the Colonial Office outlining that the AACR were pressing for an increase in the wages offered by the colonial government, the military, and the Admiralty. Local employers had agreed to raise wages too, providing that government did so first. However, the various service departments were slow at responding, and by the end of the month a strike loomed. Eastwood reported, 'the general disappointment at the failure of Professor Hayek's visit to produce any concrete advantages for workers and the non publication of his report...will result in the accusation that we do nothing but bring in experts who fail to solve our problems.'<sup>25</sup> By the end of June 1945, Eastwood was faced with a general strike. Pressing the governor for action on wages, the AACR reported that Hayek had 'expressed his opinion to a deputation from that body that the wages paid in 1939 "were barely enough for a miserable living".'<sup>26</sup>

Eastwood prefaced his note on the AACR's reporting of Hayek's comments with the word 'allegedly.'<sup>27</sup> Naturally, he had no way of verifying the claim. Nevertheless, it seems likely that Hayek did express himself as being aware of the problems of making a living on the Rock. After all, his cost of living index demonstrated that since 1939, the cost of living in Gibraltar had increased by over 70%. What Hayek did not do was inform the AACR of what his proposals to relieve Gibraltarian's poverty were. With both the Colonial Office and the Government of Gibraltar

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<sup>25</sup>PRO CO 91/522/3. 'Letter from the Governor of Gibraltar to the Secretary of State for the Colonies.' 24 May 1945.

<sup>26</sup>PRO CO 91/522/3. 'Letter from the Governor of Gibraltar to the Secretary of State for the Colonies.' 30 June 1945.

<sup>27</sup>Ibid.

unwilling to publish the report, the AACR assumed that the report was suppressed because it recommended healthy wage increases and comprehensive housing and social security arrangements. As a result, the AACR pressed for these thinking that the Gibraltar government was already in possession of recommendations to affect them. By the end of the year, workers enjoyed pay rises of 65%, and comprehensive post-war housing policies designed to accommodate all returning Gibraltarians on the Rock itself were underway. A confluence of events had, therefore, conspired to achieve the very opposite of Hayek's proposals.

## Conclusion

Hayek's 1944 reports on the Gibraltar economy offer us some food for thought not only about Hayek himself, but also the broader world of the 1940s. The events surrounding Hayek's Gibraltar reports indicate clearly why he felt that a move to the United States would be beneficial. It was not only that the British political economy was becoming more inclined towards the ideas of people such as Keynes and Beveridge, but also that on a day-to-day basis these ideas were confronting Hayek's thinking and, in the Gibraltar case, practical recommendations for economic organization. The officials who interacted with Hayek's reports simply were not able to see matters of economic organization from Hayek's perspective, committed as they were to planning post-war economies. Finally, as we have seen, worse still for Hayek, his refusal to modify the report led to the Government of Gibraltar being forced to implement policies that were the complete opposite of his recommendations.

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# Part II

Revival





# 6

## The Austrian Revival

Hiroyuki Okon

### The Austrian Economics Newsletter

It was much more difficult to communicate ideas and establish networks before the Internet, www, e-mail, and PC. In orthodox academic circles, published journals and formal conferences played a major role in the communication and exchange of ideas—and were even more important for the development of ‘unorthodox’ schools of economics. In the 1970s, Austrian economics experienced a resurgence in the English-speaking world, especially in America—the *Austrian Economics Newsletter (AEN)* played an important role of communicating, diffusing, and developing Austrian ideas. *AEN* began publication in fall 1977, as an independent project sponsored by the Center for Libertarian

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Studies (CLS): it was planned to be published three times per year; its purpose was to function as a research and communications device.<sup>1</sup>

In the first issue of *AEN*, its editor, Gary Short (1977), stated that for a number of years there have been ‘only a few scholars’ actively writing in the Austrian tradition. However, there has recently been ‘quite a resurgence of scholarly interest’ in Austrian economics. Much of this interest has been stimulated by those who studied in ‘von Mises’s advanced seminar’ at New York University (NYU). Short provided evidence of this resurgence:

- This summer (1977) over 25 scholars spent three months undertaking research in the Austrian tradition at the Institute for Humane Studies (HIS) with grants provided by the Liberty Fund. Most of the participants were graduate students or recent Ph.Ds;
- In the previous four years (1973–1977) there have been ‘twelve major’ conferences on Austrian economics and additional conferences are being scheduled for the future;
- The Austrian Economics Seminar is now in its third year of monthly meeting at NYU. The ‘express purpose’ of this seminar is to encourage scholars interested in the Austrian approach to present working papers for ‘comments and criticism.’ This academic environment has proved helpful in stimulating young scholars to integrate their independent research results with that of their colleagues;
- An ‘impressive series of lectures by Austrian economists was held at the University of Chicago this past year, a program to be expanded by the Cato Institute to other universities’;

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<sup>1</sup>*AEN* can be accessed via the Mises Institute’s website ([www.mises.org](http://www.mises.org)). It is still being published; but after Vol. 4, No. 1, no issue contains the volume number—only the publication season and the year. This chapter is confined to a review of the first ten issues: Vol. 1, No. 1 (1977) through Vol. 4, No. 1 (1982). The first reason for this limitation is simple: this chapter is an inquiry into the state of Austrian economics in the 1970s. Second, the first ten issues were published by the CLS. (After Vol. 4, No. 1, the *AEN* has been published by the Ludwig von Mises Institute.) Third, the format and by implication, the function of the *AEN* changed after Vol. 4, No. 1: its initial role of ‘communication devise’ among Austrian economists seems have lessened because of the development and diffusion of PC, the internet and e-mail.

- Austrians were currently doing graduate work at a number of major universities (including UCLA, Harvard, Virginia, Chicago, and NYU);
- In recent years, several new Austrian works had been published. The newly established *Studies in Economic Theory* series ‘promises to republish all of the Austrian works now put-of-print, and will provide a valuable outlet for publishing new contributions by contemporary Austrian theorists.’

With this resurgence, Short (1977) concluded that

the future offers great opportunities for Austrians. Several insights, long of interest to Austrians, are at present being discussed by the economic profession. For example, Sir John Hicks’ recent work has focused on the unique role of time in economics. Alex Leijonhufvud has incorporated Austrian ideas on the importance of relative price changes in his analysis of inflation. G.L.S. Shackle’s writings on time, uncertainty and knowledge have generated much work on radical subjectivism and market process. In addition, the work of James Buchanan on subjective cost poses a major challenge to the current emphasis on the measurement of costs. Finally, with F.A. Hayek’s recent Nobel Prize, Austrian ideas are again being noticed.

Unfortunately, many individuals concerned with Austrian economics are not aware of the rapid growth of interest in these ideas. Many of these individuals have been working in isolation with little knowledge of the resurgence. Because those involved in this field are so widely scattered and because there exists at present no formal means to keep them informed of Austrian activities, the *Austrian Economics Newsletter* should be of value. Thus the *Newsletter* will be directed first and primarily at those individuals engaged in on-going work in Austrian Economics.

To say that the Austrian economics seminar was ‘restarted’ is incorrect because the characteristic of the new seminar seems completely different from the former seminar conducted by Mises. According to Karen Vaughn (1994, 66–67, 93), at his NYU seminar, Mises was ‘more the professor instructing the faithful students who treated him

with corresponding reverence.’ During most of the years of the NYU seminar, Austrian economics ‘seemed to stand for opposition to Keynesian economics and interventionist policy coupled with a steadfast belief in the superiority of free markets for economic prosperity and individual freedom.’ These were the issues that ‘increasingly occupied Mises’s thought during the interwar period in Austria and Switzerland, and these were the issues that were central to Mises’s life in America.’ Not surprisingly, they were also the issues that brought students to study with him at NYU. Also not surprisingly, Mises’s NYU seminar became ‘more a focal point for conservative and libertarian thought during the 1950s and 1960s than a training ground for contemporary economists.’

Thus Mises’s NYU seminar ‘served less as a locus for active scholarly debate about economic theory than as a forum for Mises to impart his wisdom to a respectful audience.’ Few of its participants engaged Mises in ‘serious challenges’ to his economics. In contrast, the ‘new’ Austrian Economics Seminar became the place in which the economics of the Austrian School—that is, that of Mises—was ‘critically discussed’ and attempts were made at ‘improvements and advancements.’<sup>2</sup>

## Who Was Involved?

Was the Austrian revival created by ‘spontaneous forces’ or ‘rational planning’? The result of human action or ‘the result of human design’?<sup>3</sup> The *AEN* provides insights through, for example, ‘Scholars Engaged in Writing & Research’ (1977) introducing the activities of Richard Ebeling, John Egger, Roger Garrison, Henry Hazlitt, Naomi Moldofski, David Ramsey Steel, Lawrence H. White, and Albert Zlabinger. Other very active scholars involved in the Austrian revival were Hayek, Vaughn, G.G. Short, Israel Kirzner, Murray Rothbard, Ludwig Lachmann, Dominic T. Armentano, Richard Fink,

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<sup>2</sup>For a slightly different evaluation of the Mises’s NYU seminar, see Greaves (1981).

<sup>3</sup>In his recent account of the revival of Austrian economics, Salerno (2002) points out not only the necessity of design but also the significance of correct design for the economic truth.

Don C. Lavoie, Jack High, John Kunze, Walter Block, Joseph T. Salerno, Mario Rizzo, Gerald O'Driscoll, Jr., Stephan C. Littlechild, Duncan W. Reekie, Susan G. Cole, Robert Bradley, Jr., Matthew Krogdahl, Tyler Cowen, Thomas C. Taylor Jr., Leland B. Yeager, Walter E. Grinder, Frank Arnold, Mark Brady, Mark Manasco, Stephan B. Boehm, James. A. Dorn, and Barry Brownstein.

## Exchanges of Ideas: Conferences, Symposium and Sessions on Austrian Economics

As Vaughn (1994, 114, n. 3) points out, it would be 'difficult to overestimate the importance of conferences on Austrian economics in the early days of the revival.'<sup>4</sup> This is because 'without some means of bringing otherwise isolated scholars together into an intellectual community, very little conversation could have taken place and little progress made.'

There were three major conferences on Austrian economics, all IHS-sponsored (Ebeling 1978, 12). The first Austrian Economics Conference was held in South Royalton, Vermont in June 1974 (Ebeling 1974).<sup>5</sup>

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<sup>4</sup>According to Vaughn (1994, 103, n. 15) the term 'Austrian Revival' was 'first used by Vivian Walsh at a meeting of the Atlantic Economic Association in 1977 during a session on Carl Menger' to refer to the 'increasing interest in Menger and his followers by the economics profession in general, and not the growing body of work in the field by those who were sympathetic to the Austrian tradition.' However, Ebeling (1975), in his interview with Hayek, had already used the term 'Austrian revival.'

<sup>5</sup>According to Peter Boettke (1995), 'George Pearson, who had graduated from Grove City College and was then working with Institute for Humane Studies, initiated the idea to bring together the three leading active scholars in Austrian economics—Israel Kirzner, Ludwig Lachmann, and Murray Rothbard—to present a series of lectures to young faculty and graduate students who had expressed an interest in Austrian economics to the Institute.' Participants in the South Royalton Conference are as follows: Kirzner, Lachmann, Lavoie, O'Driscoll, Garrison, Ebeling, Armentano, Moss, Rizzo, Rothbard, Sabrin, Salerno, Block, Blundell, Hutt, Martin Andrews, Arthur Carol, Elizabeth Clayton, Edward C. Facey, John Gibbens, Bowman N. Hall, Hazlitt, Ronald Heiner, David Henderson, High, Randall Holcombe, Donald L. Hooks, Robert T. Jerome, Jr., M. Bruce Johnson, Davis E. Keeler, Anthony T. Lee, John R. Lemon, John Metcalf, Gary North, Svetozar Pejovich, Mark Peterson, William H. Peterson, Alfred J. Schmidt, Milton M. Shapiro, Mike Sharp, Sudha Shenoy, William Stewart, George W. Trivoli, Vaughn, Harry Watson, Maury Wolff, and Henry Young. Milton Friedman, who then resided in Vermont,

The enthusiasm of young students and professors who attended that first conference led to the second Austrian Economics Symposium, held in Hartford in June 1975.<sup>6</sup> (Also in 1975, 24–28 August, at Hillsdale College, a special regional meeting of the Mont Pelerin Society was held, where papers evaluated Hayek's contributions and the significance of his work).<sup>7</sup> The third Austrian Economics Symposium was held at Windsor Castle, England, in August 1976.<sup>8</sup> In contrast, with the second Hartford Symposium, the Windsor Conference focused on the *advancement* of Austrian economics. And for this reason, participation was very restricted to a small number of qualified scholars.

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attended the opening-night dinner, and, when asked comments about Hutt's and Rothbard's talks on Mises, said 'there was no such things as Austrian economics, only good economics and bad economics.' The proceedings of the South Royalton Conference were published (Dolan 1976).

<sup>6</sup>The proceedings of the Hartford Symposium were not published (but see Ebeling 1975). The Papers presented were: 'Carl Menger and the Founding of the Austrian School of Economics' (Blundell); 'Hayek and Keynes: A Retrospective Assessment' (O'Driscoll); 'Information and Unemployment in the Trade Cycle' (Egger); 'Reflections on Misesian Time Preference' (Garrison); 'The International Adjustment Process: An Austrian View' (Salerno); 'From Laissez Fair to Zwangswirtschaft: The Dynamics of Intervention' (Hagel); 'The Austrian Theory of the Business Cycle: Reflections on Socio-Economic Effects' (Grinder); 'Competition and Monopoly Theory: Some Austrian Perspectives' (Armentasno); 'Three Critiques of Bureaucracy: Mises, Weber and the Counter Culture' (North); 'The Austrian Theory of the Marginal Use' (McCullogh); 'The English Disease: An Austrian Analysis' (Sudha Shenoy); 'The Optimum Degree of Competition' (Rizzo); 'On the Axiomatic Bases of Austrian Economics' (Carol); 'Adam Smith and the Subjective Theory of Value' (Campbell); 'A Deontological Theory of the Origin and Valuation of Property Rights' (Dolan). According to Lavoie (1978b, 6), Block, in his letter to conference director, Armentano (presented at the January 1977 AES), criticized the Hartford Symposium because 'it suffered from trying to combine three kinds of conferences into one: (1) an introductory conference for those as yet unfamiliar with Austrian economics, (2) an advanced seminar for those with a solid understanding of major Austrian economists, and (3) a confrontation conference for debate with non-Austrians.'

<sup>7</sup>The papers presented were published (Machlup 1976).

<sup>8</sup>To each paper presented at the Windsor Castle Symposium, there were two written comments. However, these comments were not included in the published proceeding (Spadaro 1978). Among the papers presented, O'Driscoll's (1977) 'Spontaneous Order and the Coordination of Economic Activities' was published in *Journal of Libertarian Studies* before the publication of the proceedings. And Rothbard's 'Austrian Definitions of the Supply of Money,' Rizzo's 'Praxeology and Econometrics: A Critique of Positive Economics,' Lachmann's 'An Austrian Stock-Taking: Unsettled Questions and Tentative Answers,' and Spadaro's 'Toward A Program of Research and Development for Austrian Economics' were presented at the second academic year of the new AES at NYU.

High's (1977) 'Claremont, California Hosts Two Conferences' reports on two 1977 conferences: on 'Carl Menger' (May) and 'Economic Coordination' (June).<sup>9</sup> 'The NYU Conference—Austrian Perspectives on Contemporary Economic Theory' provides a detailed report of the 'most successful' conference on 'Issues in Economic Theory: An Evaluation of Current Austrian Perspectives' (7–8 January 1978), which NYU's Rizzo directed (Short and Short 1978).<sup>10</sup> Among the 150 attendees were the 'editors of three leading economic journals: *Economic Inquiry*, *Journal of Economic Literature*, and *Southern Economic Journal*.' Those who presented papers included Hicks, Harold Demsetz, and Harvey Leibenstein.<sup>11</sup>

The majority of the papers at the 'Methodology Conference Held at University of Delaware' (20–23 November 1977) considered either the Austrian contribution to the methodology of economics, the debate on the growth of knowledge literature or both (Kunze 1978).<sup>12</sup> Bradley's (1978) 'Symposium on Theory and Method in the Social Sciences Held in Milwaukee' states: 'Since the Austrian method importantly and unfashionably departs from mathematical expression and statistical

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<sup>9</sup>The papers presented at the conference included 'Was Carl Menger a Neoclassical Economist?' (O'Driscoll), 'Carl Menger and William Stanley Jevons: A Comparison of their Theories of Exchange' (Moss) and 'Time and Uncertainty in the Economics of Carl Menger' (Cole). Zlabinger presented an abridged English translation of Carl Menger's 'Geld' at the conference.

<sup>10</sup>The proceedings of the conference were published (Rizzo 1979). Arnold's (1980) review of this volume by appeared in *AEN*.

<sup>11</sup>According to Rizzo's (1979, ix) Preface, Shackle was also invited to present a paper, but could not attend due to personal reasons. However, his paper 'Imagination, Formalism, and Choice' was included in the proceedings: 'No conference on Austrian economics would be complete without his participation in some form.' Littlechild's paper 'Comment: Radical Subjectivism or Radical Subversion?' was also published in the volume because, also according to Rizzo, 'it clearly presents one Austrian perspective on Shackle's work.'

<sup>12</sup>The papers presented at the conference were: 'On the Origin on Methodological Differences among Economists and the Resolution of Resulting Conflicts over Method' (Bostaph); 'Positivism and Praxeology: An Essay on the Philosophy of Economics' (Bradley); 'Equilibrium and Optimality: A Methodological Investigation' (Rizzo); "'False" Theorems or "Mistaken" Choice in the Study of Human Action' (David M. Levy), 'Toward a Theory of Legal Naturalism' (Randy E. Barnett); 'The "Rand-Polanyi Synthesis" and its Methodological Relevance to Economic Theory' (Frederic B. Jennings Jr.); 'Methodological Individualism: An Appreciation and Clarification' (Craig Bolton); 'On the Application of the Growth of Knowledge Theories to the Social Sciences' (G. Short); 'Incommensurability and Demarcation' (John T. Sanders); 'Group Theory and the Economic Approach to Politics: A Methodological Critique' (David Osterfeld).

evaluation of economic theory, much scholarly activity has gone into examining and popularizing such a position.’<sup>13</sup>

In the 1970s, inflation and concomitant unemployment had been the most significant and urgent problem to be explained and solved. Cowen’s (1979) ‘Rutgers Conference on Inflation’ described the Austrian perspectives on this issue.

There were sessions on entrepreneurship in the 1978 annual meetings of the American Economic Association and the Southern Economic Association (‘Two Meetings Stress Entrepreneurship’ 1978, 14). Although Cole’s (1979) ‘Atlantic Economic Association Highlights Carl Menger’ is not a conference report, it summarized the papers in the 1979 special issue of *Atlantic Economic Journal* on ‘Carl Menger and Austrian School’ (papers presented at the 1977 meeting of Atlantic Economic Society).<sup>14</sup> Manasco’s (1982) ‘The A.E.A. Session’ is a review article of the session of the 1980 meetings devoted to ‘Recent Development in Economic Theory: Austrian Economics.’<sup>15</sup> By the late 1970s, the presence of Austrian economists had clearly become increasingly recognized in the profession.

Reports such as ‘Subjectivism Conference Held in Birmingham, England’ (1978), ‘Menger Society Holds Conference on Hayek’ (1979), Blundell’s (1979) ‘London Conference Held by Carl Menger Society,’ and ‘Methodological Individualism Colloquium Held at Sheffield University’ (1979) reveals that the resurgence of Austrian economics in the 1970s

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<sup>13</sup>The conference discussed seven previously published seminal essays: ‘The Science of Human Action’ (Mises); ‘Common-Sense and Scientific Interpretation of Human Action’ (Alfred Schutz); ‘Ideal Types and Historical Explanation’ (J.W.N. Watkins); ‘The Theory of Complex Phenomena’ and ‘Cosmos and Taxis’ (Hayek); ‘Developmentalism: A Critical Analysis’ (Robert A. Nisbet); and ‘Social Science and the Problem of Value’ (W.H. Werkmeister). Commentators were Bostaph, Kirzner, Hayek, Garrison and Maurice Natanson.

<sup>14</sup>The contributors to this issue were Bostaph, Moss, Kirzner, Walsh, Lachmann, Vaughn, Wagner and Harvey Nelson Gram.

<sup>15</sup>The meetings were held in Denver, Colorado (4–7 September). At the session on Austrian economics, the following papers were presented: ‘What is Austrian Economics?’ (Rizzo and O’Driscoll); ‘Intertemporal Coordination in Macro-economic Theory’ (Garrison); and ‘Micro-foundations of the Moderate Quantity Theory’ (J. Huston McCulloch). According to Vaughn (1994), ‘It is undoubtedly true that some of the discussion generated at that session led O’Driscoll and Rizzo [1985] to revise and expand their paper into book form.’



was not confined to the United States. And as Lavoie (1979b, 11) highlights, with these many conferences, a number of young enthusiasts of modern (sometimes radical) subjectivism were discovered. The Austrian revival means nothing other than the revival of Austrian subjectivism in economics.

According to Vaughn (1994, 120), ‘increasingly visible’ at Austrian conferences, serving as an ‘eminent presence,’ was the ‘intriguing figure’ of Friedrich Hayek, a man ‘presumed to have lost interest in economics’ but whose ‘post-revival noneconomics publications nevertheless had an important impact on how the Austrian paradigm came to be conceptualized.’ Hayek attended almost every conferences and symposiums on Austrian economics held in the 1970s. At the 1975 Hartford Symposium, Hayek commentated on one of the paper presented. On the last day, Ebeling (1975) interviewed Hayek and Kirzner. Responding to Ebeling’s question ‘do you feel that this Austrian revival is a sound one?’ Hayek replied: ‘Yes, it’s certainly sound; it’s very promising—maybe very important. You ask me why—I mean—you never know why the truth is ultimately recognized, but to me it seems that’s what happened.’

Hayek participated in the May 1977 ‘Economic Coordination Conference’ and June 1977 ‘Carl Menger Conference’ (High 1977); he was a guest lecturer at the 1977 instructional seminar on Austrian economics at Mills College (Fink 1977); he spoke on *The Denationalization of Money* at the May 1977 meeting of the Austrian Economics Seminar; and was one of the commentators at the 1978 ‘Symposium on Theory and Method in the Social Sciences.’ The younger generation must have been greatly influenced and encouraged by meeting with and listening to Hayek than by just reading his works.

## Succession of the Tradition: The ‘New’ Austrian Economics Seminar

The most interesting and probably the most important *AEN* articles are Lavoie’s reports on ‘Austrian Economics Seminar’: ‘Part I: 1975–76,’ (1978a), ‘Part II: 1976–77’ (1978b), ‘Part II: 1977–78’ (1979a) and ‘Part IV: 1978–79’ (1979b). Lavoie’s reports serve not just as records of

the monthly meeting at NYU—they also provide a brilliant survey of the each presented paper. The intense seminar discussions reveal what the most debated problems among Austrian economists.

In his first report, Lavoie (1978a, 2) described the ‘efforts of Professor Walter Block who circulated a letter to some prominent exponents of the modern Austrian school living in the New York City area’—Grinder, Kirzner, Lachmann, Rothbard and Louis Spadaro—suggesting the formation of a ‘monthly’ seminar and outlining a ‘possible format.’ The AES was planned as an advanced seminar ‘extending the frontier’ of Austrian economics, and as a ‘vehicle for the criticism and improvement of new Austrian contributions.’

As Lavoie (1978a, 2) writes: it has been the ‘actual two-hour discussions’ among the ‘leading luminaries of Austrian economics that have proved invaluable.’ In the new post-Mises AES, for the ‘first time,’ two of the ‘most prominent’ American students of Mises—Rothbard and Kirzner—engaged in ‘controversial discussions’ with such ‘perceptive’ Austrian economists as Lachmann, Grinder and others. Through these controversial discussions, the ‘many points’ of contention among the different participants were brought into ‘sharper focus and the various strands and tendencies of Austrian economics were more clearly identified.’ It was in the AES that the Austrian ‘spectrum was revealed and the line of disagreement drawn.’

Two extreme poles of thought emerged in the AES.<sup>16</sup> The one pole was ‘nihilistic’ extreme, which was occupied by ‘Lachmannia,’ which insists on discarding ‘equilibrium analysis simply because we are never in equilibrium, stressing the diversity of expectation and seeing the market as including both equilibrating and disequilibrating forces.’ The other extreme pole is ‘Ricardianism,’ which ‘seems to ignore disequilibrating elements, stressing the market process whereby plans are made more convergent with each other.’ Much of the ‘argumentative history of the AES’ could be ‘analyzed as a gradual recognition of these two

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<sup>16</sup>However, Lavoie (1978b) noted that ‘while the modern Austrian school can be usefully analyzed with the theoretical tool of this ‘nihilist-Ricardian’ spectrum, it is also true that this framework, like any such theoretical tool, must to some extent simplify its subject-matter.’

poles of thought, and the clarification or resolution of points of dispute between them' (Lavoie 1978a, 2).

Without the newly-formed AES, it seems doubtful that the Austrian School could have become as it is now: it was as important as Mises's private seminar in Vienna (1920–1934).<sup>17</sup> On 17 December 1975—six years after Mises's final NYU seminar (1945–1969)—the first meeting of the new AES was held at NYU—it discussed Salerno's 'The Modern Monetary Theory of the Balance of Payments: A Subjectivist Critique.' Other seminars followed once a month. Those who presented papers include White (who was then a Harvard undergraduate), Grinder and Murray Sabrin. Robert Nozick's (1977) now-famous paper 'On Austrian Methodology' was also presented at the fifth meeting (April 1976). The first year ended with Lavoie's 'Shackle: A Critical Sampling' (May 1976).

The second academic year began with controversy between Rothbard and Kirzner over the problem of empirically defining the money supply (October 1976) and ended with Hayek speaking about the idea of competitive currencies in his *The Denationalization of Money* (May 1977). During this second year's seminar, 'the controversial nature of the often pioneering insights emerges on an individual level, issue by issue, and moment and moment' (Lavoie 1978b). The dozen or so AES participants recognized wide diversity, if not serious conflicts.

The AES in the third academic year—in contrast to the previous two years—seminars highlighted the diversity among Austrian economists, and thus illustrates its distinctive characters. It started with Ebeling's 'Some Reflections on the "New" Monetary Theory of Clower and Leijonhufvud' (September 1977); four subsequent seminars discussed Austrian monetary theory; and the last seminar discussed Kirzner's 'Entrepreneurship, Entitlement and Economic Justice.' Lavoie (1979a) concluded his report by re-confirming that in general, by its 'insistence on radical subjectivism,' and its 'focus on the market process rather than the final equilibrium state (and on the consequent importance of time in economics),' the Austrian school of economics brings attention to many facets of economic phenomena which are often 'missed' in contemporary theory.

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<sup>17</sup>For Mises's Vienna seminar, see Boehm (1984).

The discussions of the fourth academic year (September 1978–May 1979) centred on Austrian critiques of neoclassical equilibrium economics. According to Lavoie (1979b), both White’s ‘Entrepreneurial Price Adjustment’ (December 1978) and High’s ‘Disequilibrium Economics: Survey and Analysis’ (March 1979) ‘leave the impression that the analysis of equilibrating processes offers a promising intellectual entrepreneurial opportunity for Austrian economists.’ Kirzner’s ‘Alertness, Luck, and Entrepreneurial Profit’ in the November seminar can be understood as exploiting this opportunity. However, while Kirzner proposes ‘going beyond’ general equilibrium theory with the theory of entrepreneurial equilibrating process, Lachmann, at the last seminar (May 1979) of this academic year, suggests that Austrians should ‘reject’ it along with radical subjectivism. Lavoie (1979b) closed his fourth and final report on an optimistic note: this AES academic year included some of the ‘best contributions to Austrian scholarship in contemporary economics and bodes well for the influence of the Austrian challenge to neoclassical theory in the 1980s.’

Austrian economics rejects positivism—that is, the belief that the correctness of economic analysis should be demonstrated by empirical tests. Instead, the method of Austrian economics is deduction that spins out the meaning of economic concepts through the formation of mental experiments. In order for this method to be effective, strongly critical discussion is indispensable. Since, as Lavoie (1978a, 8) points out, the assumptions of such experiments are often ‘either implicit or not yet clear and must be brought out by critical discussion, by specifying alternative assumptions and deducing their various implications.’

## **Institutional Supports for the Austrian Revival**

According to Lavoie’s (1978b, 6–7) report, Rothbard ‘emphasized’ that the Austrians’ ‘greatest needs are institutional: we require a journal, a Society of Austrian Economists, and a favorable graduate department.’ Salerno (2002, 105) points out that ‘Since human beings are not disembodied minds who instantly and costlessly absorb

new knowledge, every scientific movement, if it is to flourish and advance, requires an institutional framework.’ This was evidenced by the Volker Fund making it ‘possible for Mises, Hayek, Rothbard, and dozens of others to develop and advance libertarian views and in the midst of an ideological climate implacably hostile to their ideas’ (Raimondo 2000, 151).<sup>18</sup> The Volker Fund underwrote Mises’s NYU seminar, provided Hayek’s salary at the Committee on Social Thought at the University of Chicago (Vaugh 1994, 66), and gave Rothbard grants to write *Man, Economy, and State* (Salerno 2002, 112). Institutional foundation played a very important role in the revival of Austrian economics.

The *AEN* was sponsored by the CLS in New York.<sup>19</sup> According to the Center’s *Journal of Libertarian Studies*, the CLS is ‘dedicated to continuing the long and rich tradition of libertarian ideas, ideals, and thinkers.’<sup>20</sup> According to ‘Recent and Upcoming Publications’ (1977), CLS also published a series of *Occasional Papers* under Ebeling’s editorship which include White’s *The Methodology of the Austrian School* (March 1977), Rothbard’s *Toward a Reconstruction of Utility and Welfare Economics* (September 1977), Mises’s *The Clash of Group Interests* (Fall 1977), and Ebeling’s *Austrian Economics: An Annotated Bibliography* (Spring 1978).

Ebeling’s (1978) ‘IHS Sponsorship of Austrian Economics’ emphasized the significance of this institution for the Austrian revival: they sponsored the 1974 South Royalton Conference, the 1975 Hartford Symposium, the 1976 Windsor Castle Symposium, the 1977 Methodology Symposium and the 1978 NYU conference; and also hosted a series of instructional seminars which were intended to provide

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<sup>18</sup>However, as Raimondo (2000, 151) writes: ‘In early 1962, the organizational foundations of the tiny libertarian movement—such as they were—were shattered by the sudden and near-total collapse of the Volker Fund.’

<sup>19</sup>[www.libertarianstudies.org](http://www.libertarianstudies.org).

<sup>20</sup>It began publication under Rothbard’s editorship in 1977. At that time (in which there were no such journals as *Review of Austrian Economics* or *Quarterly Journal of Austrian Economics*), *Journal of Libertarian Studies* provided the only place in which papers on Austrian economics could be published.

intensive and extensive introduction of Austrian economics for graduate students and young professors with little previous exposure to Austrian ideas. Through these instructional seminars, potential young Austrian students and scholars were discovered, who then conveyed the Austrian tradition to the next generation.

The IHS's role was not confined to its sponsorship of conferences and seminars.<sup>21</sup> According to Ebeling's (1977) 'Studies in Economic Theory,' under IHS sponsorship, Sheed Andrews and McMeel has begun a 'new book series' entitled 'Studies in Economic Theory.' Under the editorship of Laurence Moss, this series included Rothbard's (1975 [1963]) *America's Great Depression*, Kirzner's (1976 [1960]) *The Economic Point of View*, and Mises's (1978 [1962]) *Ultimate Foundation of Economic Science*; plus the proceedings of the South Royalton conference (Dolan 1976), the Windsor Castle Symposium (Spadaro 1978), and the Southern Economics Association's Symposium on the Economics of Ludwig von Mises (Moss 1976).

The very short column 'Cato Institute Promotes Austrian Economics in Printing and Lectures' (1977) reveals the importance of another institution for the revival of Austrian Economics: the Cato Institute is 'becoming actively involved in promoting Austrian economics' by expanding and improving the 'Studies in Economic Theory' series and expanding the Austrian lecture series at the University of Chicago.<sup>22</sup> Without these great institutional supports from the CLS, the IHS, and the Cato Institute, the Austrian revival might have been short-lived.<sup>23</sup>

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<sup>21</sup>The IHS was founded in Menlo Park, California in 1961 by F.A. Harper, a former economics professor at Cornell University. According to Salerno (2002, 112), the IHS 'had succeeded the defunct Volker Fund as the main institutional promoter of hard-core Austrian economic theory and libertarian political economy.' In 1985, the IHS moved to Fairfax, Virginia, and became associated with George Mason University. For more history and activities of the IHS, go to [www.theihs.org](http://www.theihs.org).

<sup>22</sup>The Cato Institute was founded in 1977 by Edward H. Crane and Charles G. Koch in San Francisco. For its history and activities, go to [www.cato.org](http://www.cato.org).

<sup>23</sup>For the detail of how the institutional framework influenced or 'biased' the process of the modern revival of Austrian economics, see Salerno (2002).

## Alternative Teachings: The Austrian Economics Programme at Various Universities

The most impressive evidence of the revival is the establishment of Austrian economics programmes at various universities. Lavoie's (1977) 'Austrian Economics at New York University' reports that Kirzner had established the formal NYU Austrian programme. The educational value of this programme, Lavoie states, increased with Lachmann appointment as a Visiting Professor and Rizzo appointment as a Post-Doctoral Fellow.

High's presence in 1976 also benefited the NYU programme. 'Austria Economics Program at New York University' (1978) noted that the programme was further strengthened by O'Driscoll's addition in fall 1978; and according to 'NYU Update' (1979), Littlechild joined a Visiting Professor. 'Program in Austrian Economics' (1983) reports that 'It is safe to say that at no other university today can one find a more illustrious collection of Austrian scholars in residence than at New York University.' The faculty at that time included Lachmann, Kirzner, Rizzo, White, Fritz Machlup, and Richard N. Langlois.<sup>24</sup>

'Austrian Economics at Rutgers University' (1978) announced that in fall 1978, Rutgers University at Newark, New Jersey, has initiated a 'very promising undergraduate program in Austrian economics'; the faculty included Fink, Salerno, and Block.<sup>25</sup> The undergraduate programme in Austrian economics was also established at George Mason University for the 1980–1981 year with Fink and Vaughn on the faculty ('Briefs' 1980).<sup>26</sup> According to 'Notes' (1978), the Department of Economics at the University of Colorado sponsored the lecture series 'The Austrian School of Economics: An Alternative to the Neoclassical

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<sup>24</sup>According to the article, they all (except Machlup) 'regularly attend the weekly colloquium: the heart of N.Y.U.'s program in Austrian economics.'

<sup>25</sup>Out of the programme 'the Center for the Study of Market Processes' was born in 1978. The programme was relocated to GMU in 1980.

<sup>26</sup>High and Lavoie were also full-time faculty members.

and Marxist Paradigms' (October 1977 and March 1978). Lecturer included Lachmann, Kirzner, O'Driscoll, Steven Swiff, and Richard E. Wagner.

## Intellectual Developments: Interviews and Essays

The first ten *AEN* issues include interviews with Lachmann (1978), Machlup (1980) and Shackle (1983a).<sup>27</sup> The interviewers asked them about their personal background and career in their early days as an economist, their views on Austrian economics, and their opinion about current economic problems. When asked 'What type of problems do you think Austrians will have to tackle and what are the important issues that could enable the Austrians to gain the initiative in the field of ideas?' Lachmann (1978) concurred with Hick's (1976) 'Some Questions of Time in Economics': the most important problems are 'problems of market structure and certain problems of the effect of technical progress on the capital structure and on the economic structure as a whole.' Since Austrians stress the market process as the central economic process they should also take 'some interest' in the way in which the market functions in the various parts of the system. There is a difference between asset and commodity markets—and in some markets, expectations are more important than in others. The 'problem' of the forward markets—which 'has been thrown at us by certain prominent neoclassical figures'—should also be further investigated.

Hicks had also been trying to deal with 'questions of technical progress in an economy in which most capital goods are durable and where the effects of technical progress only begin to show themselves gradually and only at first in some sectors of the system but not in others.' This, Lachmann (1978) thought, might lead to 'some revision of the

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<sup>27</sup>Lachmann was then near the end of his three year appointment as Visiting Professor of Economics at NYU (after which he returned to South Africa). Ebeling (1982) again interviewed Lachmann when he visited at NYU in early 1980.



Austrian trade cycle theory, the subject on which I have become somewhat skeptical.’ Wicksell’s ‘insistence that the trade cycle has something to do with the uneven rate of technical progress in different parts of the system’ remained a fundamentally sound insight. Lachmann hoped that Austrian economists will ‘find a way to incorporate such views in the Austrian trade cycle theory. As it stands, of course, there is no reference whatever to technical progress. But it is surely clear that in the real world it does matter.’

Lachmann (1978) also thought that Austrians needed to ‘tackle’ a ‘critical examination of certain concepts that are used by other economists.’ James Tobin believed that there was a ‘good deal of excess capacity at the moment in the American economy. Now, how exactly would one go about measuring that?’ Economists with an ‘interest in capital problems’ should also take an interest in the American economy.

Machlup (who wrote his doctoral dissertation under Mises and was one of the regular members of Mises’s private seminar in Vienna), was interviewed about Mises’s a priori deductive methodology, the characteristics of Austrian economics, and the cause of ‘stagflation.’ Machlup (1980, 9) gently criticized Mises’s position: ‘Well, deductive is fine, a priori is something else.’ You could ‘deduce things from statements whether they are a priori or a posteriori.’ Mises ‘gave us his views on his a priori ideas’—and they were ‘criticized by Kaufmann, Schutz and others.’ But it isn’t ‘really necessary’ to criticize these terms, because even in an entirely empirical science, you could ‘construe an abstract, internally consistent system of propositions.’ You can call ‘any model *a priori*’ because you can ‘build’ the model, according to ‘your own specifications.’ A model can ‘never be shown to be *a posteriori*; the builder can be influenced by what he has experienced but these experiences cannot contradict or falsify the model.’ A model can ‘serve all sorts of purposes; you can say you understand the world better if you have a model, and the model will be a priori in that sense.’ Your model may ‘contradict practically every experience that you have and yet it may be helpful in explaining observed phenomena.’ So economists don’t have to take the aprioristic position of Mises ‘so seriously as he himself has done.’

Machlup (1980, 10–11) highlighted six distinguishing characteristics of Austrian economics in the 1920s:

- methodological individualism;
- methodological subjectivism;
- marginalism;
- individual tastes and preferences;
- opportunity costs; and
- the time structure of consumption and production.

When asked to what extent do you think these points still ‘distinguish the Austrians from other economists today,’ Machlup replied that methodological individualism and subjectivism were the ‘most important.’ Marginalism was internationally accepted: ‘no one is an Austrian just because he is a marginalist.’ It was clear that individual tastes and preferences are basic to utility and to demand: ‘Hence, this would not be enough to make you an Austrian.’ Likewise, opportunity cost is ‘so widely accepted, even in benefit-and-costs analysis.’ In contrast, the time structure of production is ‘not so widely accepted, and may be a mark of Austrian economics.’ But the one distinguishing characteristic of Austrians is their methodological position: individualism and subjectivism. Here you could ‘actually see differences, let’s say, from the Chicago School, which does not sufficiently stress this approach, or, at least, they do not know the extent to which they are subjectivists and methodological individualist.’

The interview with Shackle (1983a)—who was introduced as an ‘often controversial figure within Austrian economics’—leaves a somewhat mysterious impression.<sup>28</sup> And the interviewer, Ebeling, didn’t ask any questions specifically concerning ‘Austrian economics.’ However, what attracts attention is Shackle’s (1983a, 6) comment on the equilibrating tendency of Kirznerian entrepreneurial market process that is characterized by increasing entrepreneurial confidence:

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<sup>28</sup>For example, the following exchanges of pressing questions and nihilistic answers:

SHACKLE: Those economists who are going to give advice, or who are going to be advisors either to government or to business, should have their training based in economic history, and they only need as much theory as you find up to the second year textbook.

Yes, well, I think that I would say that they may have confidence, but it will have to survive some terrible shocks. I mean, there will always be shocks and things that really upset all calculations. I can't really quite believe in the idea of steady improvement, you know. After all, some of these men, they're very clever entrepreneurs, are not all working together, they're trying to undermine each other's positions, they're working against each other and trying to outdo each other.

Shackle's reply and, in a sense, the whole interview with him were followed up by his note 'Professor Kirzner on Entrepreneurship' (which is attached to the interview). While being not sure that what Kirzner calls alertness is the heart of the matter, Shackle (1983b, 8) insists that the 'true entrepreneur, Professor Kirzner is saying in effect, is the man whose thoughts can encounter knowledge that nobody knew existed.'

Including Shackle's note, ten essays or notes (some of which are very short) were published in the first ten *AEN* issues. In his 'On the Theory of Costs,' Ebeling (1977) surveys the development of the subjectivist notion of costs from Friedrich von Wieser through 'L.S.E. Cost Theory' to Shackle and Brian Loasby.<sup>29</sup> In 'Comments on Shackle's Notion of Opportunity Costs,' White (1978) corrects Ebeling's misunderstandings. In what must be one of the earliest post-war Austrian re-examinations of the economic calculation debate, David Ramsey Steele ('Lange's Theory of Socialism After Forty Years' 1978) criticized Oskar

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INTERVIEWER: How would you respond to the rebuttal that, aren't you, in a sense, suggesting that economics become historicism. General theory may exist, at a very simple or fundamental level, e.g., the concept of marginal utility, but, beyond that, all we ever have is the historical record and what was historically relevant in the past may not be for our period.

SHACKLE: No, it may not. And it won't be. Well, it's a very nihilistic position and I realize that.

INTERVIEWER: In a sense, what you're suggesting is that a very large proportion of what has been built up in over two hundred years in economics as a discipline needs to be set aside, that it throws into question the very notion of what most economists view as what is required of economics to be a science?

SHACKLE: I've been saying for almost forty years that economics isn't a science, and we ought not call it a science.

<sup>29</sup>This article is reprinted in Littlechild (1990).

Lange's theory of 'Simulated-Market' socialism.<sup>30</sup> As Mises recognized, accounting is the major facet of monetary calculation and market process: Taylor ('Accounting and Austrian Economics' 1980) endeavoured to reconcile Austrian economics with accounting.

In 'The Stockholm School of Economics: An Annotated Bibliography,' Ebeling (1981) sought to stimulate the study of the Swedes as the Austrians' 'intellectual cousins':

Of all the interwar school of thought, the Stockholm School was the one closest to the Austrians in approach and interest. The Swedes, like the Austrians, were concerned with the microeconomic underpinnings of macroeconomic phenomena, i.e., the individual human plans whose interactions generated the aggregate results. And, again similar to the Austrians, they wished to move beyond the traditional 'comparative static' method and study dynamic process, i.e., 'period analysis' and the 'cumulative process.'

Not only did Ebeling provide an excellent survey of the development of Stockholm economics, he also made an informative comparison between Austrian and Swede economics in terms of analytical notions of periods, process and production. In his 'A Note on Leijonhufvud's "The Wicksell Connection",' Cowen (1981) analysed Leijonhufvud's (1981, Chapter 7) thesis that the theory of interest rate mechanism (whose origins are in Wicksell's savings-investment approach) was the centre of confusion in modern Keynesian and Monetarist macroeconomics.<sup>31</sup>

Along with the view of a market as process, the central tenet of Austrian economists is that a market economy is essentially a monetary economy. Salerno's (1978) 'Monetary Approach to the Balance of Payments: New and Old' outlines the fundamental insight and policy conclusions that the 'balance of payments is, in its essence, a monetary

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<sup>30</sup>Steele was introduced in 'Scholars Engaged in Writing & Research' (1977) as 'putting the final touches on his book, *The Impossibility of Communism*, which considers Mises's economic calculation argument in the context of the Marxian idea of socialism.'

<sup>31</sup>Leijonhufvud (1981, Chapter 7), 'The Wicksell Connection: Variations on a Theme,' in *Information and Coordination: Essays in Macroeconomic Theory*. When Cowen wrote his article, the book had not yet been published.

phenomenon’—the mechanism operates smoothly and automatically equilibrates the balance of payments.

In Lavoie’s (1978a, b; 1979a, b) reports on the new AES, there seemed exist two contrasting attitudes toward the equilibrating tendency of market process in the Austrian school: one is that of ‘Lachmannia,’ which is very sceptical about the equilibration, the other is that of ‘Ricardianism’ or ‘Kirznerian,’ which insists on the existence of that tendency. With ‘Spontaneous Order and the Coordination of Economic Activities’ (presented at the 1976 Windsor Castle Symposium), O’Driscoll brought these contrasting views about equilibrating force of market process into open controversy. In ‘The Austrian School and Spontaneous Order: Comment on O’Driscoll,’ White (1979a) reflected on a ‘controversy sparked by Professor Lachmann’s thought which has arisen in Austrian circle over the question of general equilibration’; which led to the debate between White (1979b) and Lachmann (1979) ‘On the Recent Controversy Concerning Equilibration.’<sup>32</sup>

## Evaluation and Criticism: Book Reviews

Books reviewed in the *AEN* can be classified in three general groups: those by Austrian economists (Mises, Hayek, Kirzner, Lachmann, O’Driscoll, Littlechild, and Frank A. Fetter); by fellow travelers (Buchanan, Loasby, Shackle, William H. Hutt and Duncan Reekie); and by others (Hicks, Malte Faber, and Hans-Georg Graf).<sup>33</sup> The Rizzo-edited proceeding of the 1978 NYU conference was also

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<sup>32</sup>Reacting to Lachmann’s comment that ‘Without an auctioneer, what happens in each market as well as the movement of relative prices depends on the actual sequence of events, the temporal order of market process’ and ‘the market process assumes different forms in different markets,’ White declared that ‘It is now clear that he is not prepared to make any such general affirmation [of spontaneous order].’ Lachmann rejoined that ‘by pretending to see ‘spontaneous order’ everywhere, we are playing right into the hands of our opponents who merely have to point to obvious instances of malcoordination to win debating points.’

<sup>33</sup>Eight book are reviewed in the 1980 ‘Special Book Review Issue’ (Vol. 2, No. 3). See Appendix B, above: ‘Book Reviews.’

reviewed. These book reviews are of interest in two related senses. First, since the reviewers are Austrian economists or fellow travellers, we know how they evaluated the works by ‘colleagues’ or ‘friends’ in this revival period.<sup>34</sup> However, it seems that some reviewers used the opportunity to further criticise their opponents. White (1980), for example, in his review of Lachmann’s (1978) *Capital and Its Structure*, seemed intent only to continue his criticism of Lachmann’s denial of spontaneous order.

Second, two of the twenty-three books reviewed—O’Driscoll’s (1977) *Economics as a Coordination Problem* and Hutt’s (1979) *The Keynesian Episode*—had two different reviewers. While it itself might be thought as healthy state of Austrian economics, on the one hand, it also suggests the existence of divergent opinions.

## Austrian Economics in the 1970s

The first ten *AEN* issues reveal *how* the Austrian revival took place; and what its *infrastructure and personalities* were. They also illustrate the *ideas and problems* that came to characterize the resurgence in Austrian economics: dynamics, process, expectation, time, entrepreneurship, (Knightian) uncertainty, knowledge, discovery, learning, equilibration and disequilibration, spontaneous order, subjectivism, Austrian methodology and praxeology, criticism of general equilibrium, price system as a conveyor of information, monetary policy, etc.

What can be said about Austrian economics in the 1970s? What was the essence of the

Austrian revival? A suggestive answer may have been given by Kirzner (2000): ‘Austrian economics is *an evolving tradition* [emphasis added].’

Tradition means a statement, belief, or custom that has been handed down from generation to generation. In principle, it might be kept by an individual; however, practice and handing down of tradition is certainly

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<sup>34</sup>For example, Loasby’s (1976) *Choice, Complexity and Ignorance* and Lachmann’s (1978) *Capital and Its Structure* were reviewed by White (1980), and Kirzner’s (1979) *Perception, Opportunity, and Profit* was reviewed by High.

done most effectively by the groups who share it. The Austrian revival means the emergence of the network of people who consciously committed to a tradition in economics called 'Austrian economics.' Although what characterizes the Austrian tradition the most is subjectivism, it is impossible (or unnecessary) to describe a tradition in an unambiguous way.

This indeterminacy produces a possibility for change, growth, development, and evolution of the tradition. The Austrian revival can be seen as trying to strengthen the inner consistency of Austrian theory, developing it further or in a new direction, and applying it to new field of research. Without doubt, the *AEN* is one of the most important historical documents of the Austrian revival in the 1970s.

## Appendix A

*The Editorial Staffs of the Austrian Economics Newsletter; Vol. 1, No. 1–Vol. 4, No. 1*

*Editor Managing Editor Editorial Board Staff*

Vol. 1, No. 1 (1977), Vol. 1, No. 2 (1978), Vol. 1, No. 3 (1978):

G.G. Short, Kunze, Block, Ebeling, Fink, Lavoie, Salerno

Vol. 2, No. 1 (1979), Vol. 2, No. 2 (1979), Vol. 2, No. 3 (1980): Lavoie,

Kunze, Block, Ebeling, Fink, O'Driscoll, Rizzo, Salerno, G.G. Short

Vol. 3, No. 1 (1980): Lavoie, Cowen, Block, Ebeling, Fink, Kunze,

O'Driscoll, Rizzo, Salerno, G.G. Short, Josh Zissman (Staff

Coordinator), Thomas Ballou, Kathy Curtis, Daniel Klein

Randall Kroszner, John McNeil, Chris Sciabara

Vol. 3, No. 2 (1981): Lavoie, Cowen, Block, Ebeling, Fink, Kunze,

O'Driscoll, Rizzo, Salerno, G.G. Short, Alan Aho, Fernando Alvarez,

Don Boudreaux, Sharon Gifford, Sanford Ikeda, Mark Joffe, Steve

Mariotti, Sciabara, Zissman

Vol. 3, No. 3 (1982): Lavoie, Cowen, Block, Ebeling, Alvarez,

Boudreaux, Fink, Kunze, O'Driscoll, Rizzo, Salerno, G.G. Short,

Gifford, Ikeda, Roger Koppl, Zissman

Vol. 4, No. 1 (1983): Boudreaux, Ikeda (Co-editors), White, Langlois

(Advisor), Koppl, Esteban Thomsen

## Appendix B

*Subject Index of the first ten issues of the Austrian Economics Newsletter:  
Vol. 1, No. 1–Vol. 4, No. 1*

### Interviews

- Lachmann, L. 1978. An Interview with Ludwig Lachmann. Vol. 1, No. 3. Conducted by Ebeling and G.G. Short (18 November)
- Machlup, F. 1980. An Interview with Professor Fritz Machlup. Vol. 3, No. 1. Conducted by Ebeling and Salerno.
- Shackle, G.L.S. 1983a. An Interview with G.L.S. Shackle. Vol. 4, No. 1. Conducted by Ebeling (Fall 1981).

### Short Essays

- Cowen, T. 1981. A Note on Leijonhufvud's 'The Wicksell Connection.' Vol. 3, No. 2: 12.
- Ebeling, R.M. 1977. On the Theory of Costs. Vol. 1, No. 1.
- Ebeling, R.M. 1981. The Stockholm School of Economics: An Annotated Bibliography. Vol. 3, No. 2.
- Lachmann, L.M. 1979. On the Recent Controversy Concerning Equilibrium. Vol. 2, No. 2.
- Salerno, J.T. 1978. Monetary Approach to the Balance of Payments: New and Old. Vol. 1, No. 2.
- Shackle, G.L.S. 1983b. Professor Kirzner on Entrepreneurship. Vol. 4, No. 1: 8.
- Steele, D.R. 1978. Lange's Theory of Socialism After Forty Years. Vol. 1, No. 3.
- Taylor, T.C. 1980. Accounting and Austrian Economics. Vol. 3, No. 1.
- White, L.H. 1978. Comments on Shackle's Notion of Opportunity Costs. Vol. 1, No. 2: 10.



- White, L.H. 1979a. The Austrian School and Spontaneous Order: Comment on O'Driscoll. Vol. 2, No. 1: 6–7.
- White, L.H. 1979b. On the Recent Controversy Concerning Equilibration. Vol. 2, No. 2: 6.

## Conferences, Seminars and Session Reports

1977

- Cato Institute Promotes Austrian Economics in Printing and Lectures. 1977. Vol. 1, No. 1.
- Ebeling, R.M. 1977. Studies in Economic Theory. Vol. 1, No.1.
- Fink, R. 1977. Conference Generates Interest in Austrian Economics, Instructional Conference at Mills College, June 1977. Vol 1, No. 1: 2.
- High, J. 1977. Claremont, California Hosts Two Conferences. Vol. 1, No. 1: 6–7.
- Lavoie, D.C. 1977. Austrian Economics at New York University. Vol. 1, No. 1.
- Recent and Upcoming Publications. 1977. Vol. 1, No. 1: 7.
- Scholars Engaged in Writing & Research. 1977. Vol. 1, No. 1.
- Short, G.G. 1977. AEN Begins Publication. Vol. 1, No. 1: 1.

1978

- Austria Economics Program at New York University. 1978. Vol. 1, No. 3.
- Austrian Economics at Rutgers University. 1978. Vol. 1, No. 3.
- Ebeling, R.M. 1978. IHS Sponsorship of Austrian Economics. Vol. 1, No. 2: 12.
- Kunze, J. 1978. Methodology Conference Held at University of Delaware. Vol. 1, No. 2.
- Lavoie, D.C. 1978a. Austrian Economics Seminar, Part I: 1975–76. Vol. 1, No. 2.
- Lavoie, D.C. 1978b. Austrian Economics Seminar, Part II: 1976–77. Vol. 1, No. 3.
- Notes. 1978. Vol. 1, No. 2.

Short, G.G. and E.D. Short. 1978. The NYU Conference—Austrian Perspectives on Contemporary Economic Theory. Vol. 1, No. 2. Subjectivism Conference Held in Birmingham, England. 1978. Vol. 1, No. 3, p. 3.  
Two Meetings Stress Entrepreneurship. 1978. Vol. 1, No. 3, p. 14.

1979

Blundell, J. 1979. London Conference Held by Carl Menger Society. Vol. 2, No. 2.  
Bradley, R. 1979. Symposium on Theory and Method in the Social Sciences Held in Milwaukee. Vol. 2, No. 1.  
Cole, S.G. 1979. Atlantic Economic Association Highlights Carl Menger. Vol. 2, No. 1.  
Cowen, T. 1979. The Rutgers Conference on Inflation. Vol. 2, No. 2.  
High, J. 1977. Claremont, California Hosts Two Conferences. Vol. 1, No. 1: 6–7.  
High, J. and L.H. White. 1979. Two Panels Stress Entrepreneurship. Vol. 2, No. 1.  
Lavoie, D.C. 1979a. Austrian Economics Seminar, Part III: 1977–78. Vol. 2, No. 1.  
Lavoie, D.C. 1979b. Austrian Economics Seminar, Part IV: 1978–79. Vol. 2, No. 2.  
Menger Society Holds Conference on Hayek. 1979. Vol. 2, No. 1.  
Methodological Individualism Colloquium Held at Sheffield University. 1979. Vol. 2, No. 2.  
NYU Update. 1979. Vol. 2, No. 2.

1980

Briefs. 1980. Vol. 3, No. 1.

1982

Manasco, M. 1982. The A.E.A. Session. Vol. 3, No. 3.

1983

Program in Austrian Economics. 1983. Spring Vol. 4, No. 1.

## Book Reviews

- Buchanan, J.M. 1979. *Cost and Choice* and J.M. Buchanan, J.M. and Thirlby, G.F. 1973. (Eds.) *LSE Essays on Cost*: Brady (1980) Vol. 2, No. 3.
- Faber, M. 1979. *Introduction to Modern Austrian Capital Theory*: Garrison (1980) Vol. 2, No. 3.
- Fetter, F.A. 1977. *Capital, Interest, and Rent*: Kirzner (1980) Vol. 2, No. 3.
- Graf, H.-G. 1978. 'Muster-Voraussagen' und 'Erklärungen des Prinzips' bei F.A. von Hayek: *Eine Methodologische Analyse*: Boehm (1982) Vol. 3, No. 3.
- Grathoff, R. 1978. (Ed.) *The Theory of Social Action: The Correspondence of Alfred Schutz and Talcott Parsons*: Lachmann (1982) Vol. 3, No. 3.
- Hayek, F.A. 1979. *A Tiger by the Tail*: Bradley (1982) Vol. 3, No. 3.
- Hayek, F.A. 1979. *Unemployment and Monetary Policy*: Dorn (1982) Vol. 3, No. 3.
- Hicks, J.R. 1979. *Causality in Economics*: Garrison (1980) Vol. 3, No. 1.
- Hutt, W.H. 1979. *The Keynesian Episode*: Egger (1982) Vol. 3, No. 3; and Yeager (1982) Vol. 3, No. 3.
- Kirzner, I.M. 1979. *Perception, Opportunity, and Profit*: High (1980) Vol. 2, No. 3.
- Lachmann, L.M. 1977. *Capital, Expectations, and the Market Process*: Egger (1980) Vol. 2, No. 3.
- Lachmann, L.M. 1978. *Capital and Its Structure*: White (1980) Vol. 2, No. 3.
- Littlechild, S.C. 1978. *The Fallacy of the Mixed Economy*: G.G. Short (1978) Vol. 1, No. 3.
- Loasby, B.J. 1976. *Choice, Complexity and Ignorance*: White (1977) Vol. 1, No.1.
- Mises, L. 1978. *On the Manipulation of Money and Credit* and Mises, L. 1977. *Notes and Recollections and Critique of Interventionism*: Ebeling (1978) Vol. 1, No. 3.
- Mises, L. 1978. *The Ultimate Foundation of Economic Science*: Krogdahl (1979) Vol. 2, No. 1.

- O'Driscoll, G.P. 1977. *Economics as a Coordination Problem*: Jeffrey Rogers Hummel (1978) Vol. 1, No. 2; Ebeling (1978) Vol. 1, No. 2
- Reekie, W.D. 1979. *Industry, Prices and Markets*: Littlechild (1980) Vol. 2, No. 3.
- Rizzo, M. 1979. (Ed.) *Time, Uncertainty, and Disequilibrium*: Arnold (1980) Vol. 2, No. 3: 8–9.
- Shackle, G.L.S. 1979. *Imagination and the Nature of Choice*: Buchanan (1980) Vol. 3, No. 1.

## Obituaries

- Oskar Morgenstern (1902–1977). Vol. 1, No. 1
- B.R. Shenoy (1905–1978). Vol. 1, No. 3
- Machlup (1902–1983). Vol. 4, No. 1.

## Appendix C

### *The 'New' Austrian Economics Seminar, 1975–1979*

#### i. 1975–1976

1. 17 December 1975: Salerno 'The Modern Monetary Theory of the Balance of Payments: A Subjectivist Critique'
2. 14 January 1976: The Dallas AEA session on the economics of F. A. Hayek; Sabrin 'A Theoretical and Empirical Analysis of the Spatial Diffusion of Inflation'
3. 17 February 1976: Grinder 'An Investigation into the Problem of Misinvestment and Capital Distortion Concerning Subsidization of Research and Development'
4. 9 March 1976: White 'Entrepreneurship, Imagination, and the Question of Equilibration'

5. 6 April 1976: Nozick 'On Austrian Methodology'
6. 11 May 1976: Lavoie 'Shackle: A Critical Sampling'

ii. 1976–1977

7. October 1976: Rothbard 'Austrian Definitions of the Supply of Money' Comments: Kirzner
8. November 1976: Rizzo 'Praxeology and Econometrics: A Critique of Positive Economics'
9. December 1976: Lachmann 'An Austrian Stock-Taking: Unsettled Questions and Tentative Answers'
10. January 1977: Harry Johnson 'Revolution and Counter Revolution in Economics' (discussed without the author's presence); Spadaro 'Toward A Program of Research and Development for Austrian Economics'; Block's Two Letters
11. February 1977: Ebeling 'A Critique of Hick's "The Hayek Story"'
12. March 1977: Block 'The Cluster of Errors' and 'Austrian Monopoly Theory—Once Again'
13. April 1977: High's UCLA PhD. dissertation  
10 May 1977: Hayek *The Denationalization of Money*.

iii. 1977–1978

14. September 1977: Ebeling 'Some Reflections on the "New" Monetary Theory of Clower and Leijonhufvud'
15. ?
16. October 1977: Garrison 'The Neoclassical-Austrian Paradox: A Study of the History of the Wicksellian Idea'
17. November 1977: Block 'Fractional Reserve Banking Reconsidered' and 'The DMVP-MVP Controversy: A Note'
18. December 1977: Eugenie Short 'An Analysis of the Productive Nature of Money'
19. January 1978: Hummel 'Problems with Austrian Business Cycle Theory'

20. February 1978: Kunze 'Methods of Understanding Simple and Complex Phenomena'
21. March 1978: Arnold 'Some Discussion of Selected Aspects of the Pure Time-Preference Theory of Interest'
22. April 1978: J. Stuart Wood 'Divergent Expectations as a Cause of Non-Equilibrium Changes of Stock Prices'
23. May 1978: Kirzner 'Entrepreneurship, Entitlement and Economic Justice'

iv. 1978–1979

24. September 1978: Brian Summers 'The Division of Knowledge' and 'The Limit of Knowledge'
25. October 1978: O'Driscoll 'The Time Preference Theory of Interest Rate Determination'
26. November 1978: Kirzner 'Alertness, Luck, and Entrepreneurial Profit'
27. December 1978: White 'Entrepreneurial Price Adjustment'
28. January 1979: Rizzo 'Knight's Theory of Uncertainty: A Reconsideration'
29. February 1979: Yeager 'Pareto Optimality in Policy Espousal'
30. March 1979: 'High "Disequilibrium Economics: Survey and Analysis'
31. April 1979: Buchanan?
32. May 1979: Lachmann 'Equilibrium and the Market Process'

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*IHS-sponsored volumes: 'Studies in Economic Theory'*

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# 7

## 'Neutral Academic Data' and the International Right

David Teacher

### The Cold War and the International Right

After the end of the Second World War, the International Right regrouped, both internationally and within Europe. On the European level, two eminent Catholics—Archduke Otto von Habsburg, claimant to the Imperial throne of Austro-Hungary and Opus Dei's candidate to rule over a united Catholic Europe, and future Franco minister and senior Opus Dei member Alfredo Sánchez Bella<sup>1</sup>—founded CEDI (*Centre Européen de Documentation et d'Information*—European Documentation and Information Centre), a Madrid-based think tank which aimed to (i) unite European conservative and

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<sup>1</sup><https://www.cia.gov/library/readingroom/docs/CIA-RDP82-00457R000800160001-9.pdf>. Alfredo Sánchez Bella's two brothers, Florencio and Ismael, were also high-ranking members of Opus Dei.

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Catholic political organizations and (ii) break the diplomatic isolation of Franco's Spain following the United Nation's rejection of Spanish membership (June 1945), the UN General Assembly's condemnation of the regime (February 1946) and its resolution calling for the withdrawal of ambassadors from Spain (December 1946). CEDI grew rapidly; by the early 1960s, it had sections in eleven European countries. Habsburg was also Vice-President of the Paneuropean Union (PEU), the oldest movement for European union founded in 1923 by Comte Richard Coudenhove Kalergi whose death in 1972 cleared the way for Habsburg to become President of both CEDI and the PEU.

Internationally, Dr. Joseph Retinger's European Movement (EM) was the main component in the CIA's campaign to infiltrate and control the wave of political sentiment favourable to European Union in the immediate post-war period. The conduit for CIA funding of the EM (£380,000, 1949–1953) and the European Youth Campaign (EYC, £1,340,000, 1951–1959) was the American Committee on a United Europe (ACUE), launched in 1949 specifically to support EM's creation.

Four top figures from the American intelligence community were ACUE officers: Bill Donovan (ACUE Chairman), a former Director of the CIA's wartime predecessor, the Office of Strategic Services (OSS); Major-General Walter Bedell Smith, US Ambassador in Moscow (1946–1948) and CIA Director (1950–1953); Allen Dulles (ACUE Vice-Chairman), Bedell Smith's successor as CIA Director (1953–1961); Thomas Braden (ACUE Executive Director), head of the CIA's International Organisations Division (IOD), responsible for setting up CIA front groups.

Under Braden, the CIA's IOD also created another front organization, the Congress for Cultural Freedom (CCF), which aimed to bring together Western intellectuals in the anti-communist cause. The CCF—launched in dramatic circumstances; on the day of its foundation at a West Berlin conference (24–25 June 1950), North Korea invaded its southern neighbour—ran several news features services, e.g. Forum Information Services in English, *Preuves-Informations* in French and *El Mundo en Español* in Spanish. The CCF also published a range of literary magazines, e.g. *Encounter* and *Survey* in Britain, *Quadrant* in

Australia, *Cuadernos* in Argentina and *Cadernos Brasileiros* in Brazil. In 1965, the CCF launched the career of the man who would become undoubtedly the most prominent pro-Western propagandist throughout the 1970s and 1980s—Brian Crozier.

Alongside the EM and the CCF, which functioned as mass political and cultural fronts, Retinger and the CIA created a third forum which was far more secretive and more influential—the Bilderberg Group. On 25 September 1952, a small group of eminent dignitaries met with the aim of creating the new forum which first convened in the De Bilderberg Hotel in Oosterbeek near the Dutch town of Arnhem in 1954; the guests included

- Prince Bernhard of the Netherlands (Queen Juliana's husband)
- Antoine Pinay (French Prime Minister, 1952–1953)
- Guy Mollet (French Prime Minister, 1956–1957)
- Alcide De Gasperi (Italian Prime Minister, 1945–1953, founder of *Democrazia Cristiana*, DC)
- Paul Van Zeeland (pre-war Belgian Prime Minister; Foreign Minister, 1949–1954)
- Bedell Smith

Bilderberg co-founder Pinay also sought to ensure confidential Franco-German policy coordination by creating a sister group to the Bilderberg Group—the Cercle Pinay. The Cercle was founded in 1952–1953 as a clandestine forum of European leaders who aimed to oppose the threat of communism and promote the vision of a Catholic and conservative Europe. Shrouded in secrecy, it connected statesmen such as Pinay, Konrad Adenauer (West German Christian Democratic Union Chancellor, 1949–1963), his coalition partner Franz-Josef Strauss of the Bavarian Christian Social Union party, Strauss' mentor and future CSU member of the European Parliament Habsburg, Giulio Andreotti (Italian Christian Democrat Prime Minister 1972–1973, 1976–1979, 1989–1992), Italian industrialist Carlo Pesenti of Italcementi, Alfredo Sánchez Bella (Spanish Minister for Information and Tourism, 1969–1973), American oil baron David Rockefeller, Henry Kissinger (United States National Security Advisor, 1969–1976) and Richard

Nixon (United States Republican President, 1969–1974), plus top figures from the American and European intelligence services.<sup>2</sup>

Following the rise of student counter-culture in the 1960s, the Cercle focused on domestic subversion, using its network of media assets and intelligence operatives to attack left-leaning politicians such as Harold Wilson (British Labour Prime Minister, 1964–1970 and 1974–1976), Willy Brandt (West German Social Democrat Chancellor, 1969–1974), Jimmy Carter (United States Democrat President, 1977–1981) and François Mitterrand (French Socialist President, 1981–1995), and to promote their favoured candidates: Giscard d'Estaing (French Independent Republican/Republican President, 1974–1981), Margaret Thatcher (British Conservative Prime Minister, 1979–1990), Ronald Reagan (United States Republican President, 1981–1989) and Strauss (West German CDU/CSU Presidential candidate, 1980).

Throughout the 1960s and 1970s, the Cercle worked with the South African intelligence services BOSS and DMI to defend the apartheid regime as well as the dictatorships in General Francisco Franco's Spain and António de Oliveira Salazar/Marcelo Caetano's Portugal. After the electoral victory of the Right (1979–1980), the Cercle and the private intelligence agency, the 6I, targeted Western peace campaigners and the new Soviet regime under Mikhail Gorbachev. Meanwhile, Habsburg played a key part in the fall of the Iron Curtain and then ensured the integration of Eastern Europe into the European Union.

This chapter explores the relationship between the Cercle Pinay, the ISC and their contacts within a wide variety of 'private sector' groups, each of which was active in its own country:

#### In America

- American Security Council (ASC)
- Institute for American Strategy (IAS)
- National Strategy Information Center (NSIC)

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<sup>2</sup><https://www.cia.gov/library/readingroom/docs/LOC-HAK-268-2-27-3.pdf>, minutes (declassified in 2017) of a July 1969 Cercle meeting attended by Rockefeller, Kissinger, Pinay, Violet, Pesenti, Andreotti and Habsburg amongst others.

- Heritage Foundation (founded in 1973 to 'formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense')
- US Committee for the ISC (USCISC)

#### In the United Kingdom

- Conservative Party Monday Club
- Foreign Affairs Circle (FAC)
- Foreign Affairs Publishing Company (FAPC)
- Institute for the Study of Conflict (ISC)
- Society for Individual Freedom (SIF)
- Unison Committee for Action (British citizens' militia)
- National Association for Freedom (NAFF)
- Shield (private counter-subversion advice to Thatcher)
- Foreign Affairs Research Institute (FARI)
- Institute for European Defence and Strategic Studies (IEDSS)
- Coalition for Peace through Security (CPS)

#### In Belgium

- *Académie Européenne des Sciences Politiques* (AESP, operational centre for the Cercle throughout the 1970s)
- CEPIC (a hard-Right fraction of the Christian Social Party, PSC)
- MAUE (Action Movement for European Union, the Belgian PEU section)

#### In France

- *Centre d'Etudes du Monde Moderne* (CEMM)

#### In Germany/Switzerland

- Frankfurt Study Group on Political Communication (FSG)
- International Study Group for Politics (ISP, based in Switzerland)

## In Holland

- Interdoc (International Documentation and Information Centre)

## In Italy

- Alberto Pollio Institute (which organized the 1965 conference which marked the ideological birth of the 'strategy of tension,' a series of terrorist attacks designed to shift the political centre of gravity to the Right)
- *Avanguardia Nazionale* (AN, Italian neo-fascist group founded by Stefano Delle Chiaie in 1959 with funding from prominent industrialist and banker Carlo Pesenti, a future Cercle backer)

## In Spain

- Habsburg's CEDI
- Franco's Movimiento Nacional
- *Alianza Popular* (AP, post-Franco conservative coalition founded by Fraga)

## In Portugal

- *Aginter Presse* (European neo-fascist terrorist network)

## Internationally

- World Anti-Communist League (WACL)
- Anti-Bolshevik Block of Nations (ABN)
- European Freedom Council (EFC)
- GI (Crozier's 'private sector' intelligence agency, founded in 1977)

The Cercle was also intimately connected to a variety of State intelligence and security services and disinformation units in America, Britain, France, Belgium, Germany, Holland, Italy, Spain, Portugal, Greece, Taiwan and South Africa.

The crucial individuals include  
France

- Maître Jean-Eugène Violet (Pinay's right-hand man and political ally,<sup>3</sup> main coordinator of the Cercle and a Vatican/SDECE intelligence asset since the 1950s)
- Father Yves-Marc Dubois, (Violet's inseparable companion, unofficial member of the Pontifical Delegation to the UN, believed by the SDECE to be the head of the Vatican secret service, Cercle Pinay)
- Georges Albertini (Secretariat of the Vichy Prime Minister, former lieutenant of the pro-Nazi collaborator, Marcel Déat, SDECE intelligence asset, Cercle Pinay, 6I)

Germany

- Karl Friedrich Grau (FSG, ISP, German PEU section, *Deutschland-Stiftung* Vice-President, AESP)
- Count Hans Huyn (foreign policy spokesman for Strauss and the Bavarian CSU, *Deutschland-Stiftung*, CEDI, AESP, Cercle Pinay, 6I founding member)
- Hans Josef Horchem (Hamburg Director of the German security service *Bundesamt für Verfassungsschutz*, 6I)

Britain

- Brian Crozier (FWF, ISC, Interdoc, Cercle Pinay, NAFF, FARI, Shield, 6I head)
- Robert Moss (ISC, *Economist* and *Daily Telegraph* journalist, NAFF Director, first editor of its bulletin, *The Free Nation*, Thatcher speechwriter)
- Julian Amery (Monday Club Conservative MP, SOE, MI6, CCF International Steering Committee, EM, FARI, later Cercle Pinay Chairman)

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<sup>3</sup><https://archive.org/details/EL028L196211042021PFPdfmasterocr>.

- Sir Frederic Bennett (Conservative MP, longstanding Bilderberg member, SIF, Unison, FARI President)
- Sir Stephen Hastings (Monday Club Conservative MP, MI6, NAFF, initiator of Thatcher's private counter-subversion group Shield, Cercle Pinay)
- Airey Neave (MI6, Conservative MP, Tory Action with Young, Thatcher's 1975 leadership campaign manager and then Shadow Minister for Northern Ireland, FARI, assassinated 1979)
- Sir John Biggs-Davidson (Monday Club Chairman, Conservative MP, PEU Central Council, NAFF, FARI, AESP Life Member, Neave's deputy as junior opposition spokesman for Northern Ireland)
- Winston Churchill (Monday Club Conservative MP, NAFF 'informal action committee,' FARI, Thatcher's junior opposition spokesman for Defence)
- Geoffrey Stewart-Smith (Monday Club Conservative MP, founder of FAC and FAPC, *Financial Times* columnist, FARI Director)
- George Kennedy Young (MI6 Deputy Chief and coup-master, SIF, Monday Club, founder of Unison, Tory Action with Neave)

## Belgium

- Florimond Damman (Belgian linkman, PEU, CEDI, WACL, MAUE, founder of the AESP, Violet's main deputy in the Cercle Pinay)
- Paul Vankerkhoven (lifelong intimate of Damman, founder of Belgian section of WACL, CEDI, CEPIC, AESP, Cercle Pinay)
- Jacques Jonet (AESP, MAUE, Belgian Cercle convenor)
- Nicolas de Kerchove (Bilderberg, CEDI, CEPIC, Cercle Pinay, MAUE)
- Baron Benoît de Bonvoisin ('the Black Baron,' patron of Belgian fascism, key international linkman for the far-right, CEPIC, MAUE, Cercle Pinay)

## Italy

- Ivan Matteo Lombardo (former Italian minister, speaker at the 1965 conference at the Alberto Pollio Institute, early WACL member, EFC, AESP)



- Carlo Pesenti (Italian industrialist and financier, active with Violet within hardline Catholic groups since the 1950s, main backer of the Cercle Pinay and the AESP)
- General Giovanni De Lorenzo (Head of SIFAR secret service, Commandant of the Carabinieri, Chief of the Army General Staff, far-right monarchist MP, major figure in the Italian strategy of tension)
- Junio Valerio Borghese ('the Black Prince,' prominent neo-fascist Italian politician, founded the Fronte Nazionale in 1968, co-planned the 1970 neo-fascist coup, the Golpe Borghese or Operation Tora Tora, subsequently fled to Franco's Spain)
- Stefano Delle Chiaie (Europe's most notorious neo-fascist terrorist, key actor in the Italian strategy of tension, undertook the 1975 attempted assassination in Rome of Bernard Leighton and his wife, two of Pinochet's prominent opponents)

#### United States

- William Casey (OSS, NSIC co-founder in 1962, Reagan's 1980 Campaign Manager and CIA Director 1981–1987, co-founder with Anthony Fisher of the Manhattan Institute for Policy Research, Cercle Pinay)
- Frank Barnett (NSIC co-founder and President since 1962)
- Richard Mellon Scaife (major shareholder in Gulf Oil, financial backer of the NSIC, FWF, and ISC)
- Edwin Feulner (Heritage Foundation President 1977–2013, Cercle Pinay)
- James Jesus Angleton (OSS, legendary CIA head of Counterintelligence 1954–1974, and thereafter through his Security and Intelligence Fund, Inc. a powerful opponent of restriction of the CIA)
- Theodore 'Ted' Shackley (veteran CIA covert operative 1951–1979, latterly in charge of all CIA black ops, in 1979 founding President of Research Associates International Ltd, a Washington-based 'risk assessment consultancy,' Cercle Pinay, registered The Atlantic Cercle, Inc. in 1994)

- Donald 'Jamie' Jameson (CIA Directorate of Operations 1951–1973, American Cercle convenor from 1977 on, Vice-President of Shackley's Research Associates International Ltd 1980–1987)
- Lieutenant-General Vernon 'Dick' Walters (Deputy Director of Central Intelligence 1972–1976, 6I founding member 1977, Reagan's Ambassador at Large from 1981 on, Ambassador to the UN 1985–1989, Ambassador to West Germany 1989–1991)
- General Richard 'Dick' Stilwell (Chief of the Far East Division of the CIA 1949–1952, Reagan's Deputy Under-Secretary of Defense for Policy 1981–1985, joined the ASC and the 6I shortly after his appointment)
- General Daniel O. Graham (CIA Deputy Director 1973–1974, Defense Intelligence Agency Director 1974–1976, ASC, founding Vice-Chairman of the United States Council for World Freedom (USCWF, the American branch of WACL), founding President of the pro-Star Wars group High Frontier)
- Brigadier-General Robert C. Richardson III (USAF nuclear weapons development 1961–1967, ASC, Director and Secretary-Treasurer of Angleton's Security and Intelligence Fund, Inc. from 1977 on, founding Vice-President of the pro-Star Wars group High Frontier)
- Major-General John Singlaub (OSS, CIA 1948–1952, special operations in Vietnam from 1964 on, Chairman of the ASC's action arm, founding Chairman of the USCWF 1981, central figure in the 1984–1987 Iran-Contra scandal)

## The Bonnemaïson Forum and Interdoc

In 1955, the Bilderberg Group met to discuss 'Communist influence in the West, European Communist parties and political, ideological and economic ripostes to the Red Menace' (González-Mata 1979, 26). European intelligence services also sponsored attempts at Franco-German-Dutch rapprochement with the aim of strengthening anti-communism. SDECE Colonel Antoine Bonnemaïson was responsible for coordinating all psy-ops work through the cover of an SDECE front group. From 1955, Bonnemaïson was organizing secretary for a

series of informal meetings, held alternately in France and in Germany, which brought together top intelligence veterans from France, Germany, and Holland. In 1959, he invited Crozier, then Editor of the *Economist Foreign Report*, to attend the European gathering as the first Briton:

The blend of 'delegates' was basically the same in all three [national] groups: intelligence, both civil and military; leading academics; non-academic political or economic specialists; one or two trusted politicians; leaders of industry; trade union leaders; and clerics of various denominations... these meetings... were very productive in terms of facts, background, analysis and intelligent discussion. (Crozier 1993, 32–33)

The Dutch delegation at the meeting was led by two top figures from the Dutch security service, the *Binnenlandse Veiligheidsdienst* (BVD)—its first Director (1946–1961) Louis Einthoven and BVD training head Cornelis Christiaan 'Cees' Van den Heuvel. In February 1959, Van den Heuvel led a study group to America to visit the Society for the Investigation of Human Ecology, a CIA front group founded in 1955 which changed name in 1961 to become the Human Ecology Fund, 'human ecology' being at the time the official euphemism for psychological warfare and deprogramming. Both American organizations were funding conduits for the CIA's MK-ULTRA programme of research into mind control and brainwashing (Marks 1979, Chapter 9). In 1960, while still in the BVD, Van den Heuvel was the founding Director of the BVD front group, the *Stichting voor Onderzoek van Ecologische Vraagstukken* (SOEV, Foundation for the Investigation of Ecological Problems), which in 1965 morphed into the *Oost-West Instituut* (East-West Institute).

In the early 1960s, Van den Heuvel and the SOEV were instrumental in setting up an organization to coordinate anti-communist psychological warfare strategy between the Dutch BVD and the German intelligence service, the *Bundesnachrichtendienst* (BND). The organization, called Interdoc, was formally incorporated in The Hague in February 1963 with Van den Heuvel as its Director, and Einthoven and two SOEV members as Dutch co-founders. Initial funds were provided by

Royal Dutch Shell, which later funded the ISC and other MI6 front groups such as the Ariel Foundation (Bloch and Fitzgerald 1983). The most eminent administrator of Royal Dutch Shell was Prince Bernhard of the Netherlands, also President of the Bilderberg Group (1954–1976) until his resignation as a result of the Lockheed bribes scandal. The main funding for Interdoc was, however, provided by the BND.

Besides its Dutch base and German funding, the British intelligence community also offered considerable high-level support for Interdoc even before its creation. Crozier (1993, 46) ‘was involved from the start’; amongst the other British founding members were two senior intelligence officials: Charles H. ‘Dick’ Ellis (MI6 and later of the Australian Security Intelligence Organisation, ASIO) and ‘an ex-MI5 man’ whom Crozier declines to identify.

Ellis first encountered Interdoc in 1962 at one of the last of Bonnemaison’s *colloques*. When Interdoc was founded, Ellis wrote to Sir William Stevenson (1984, 253), his former boss in the wartime United States/United Kingdom liaison group in New York, the British Security Coordination (BSC), to inform him that he had been recommended to a new organization by Sir Stuart Menzies, the MI6 Chief who had founded several of the European stay-behind units called *Gladio*:

the Foreign Office ... are now wondering if it was a good thing to kick me out [of MI6]... as several of us are now doing privately what they have never succeeded in doing - getting an ‘action group’ going. We are keeping it ‘private and confidential,’ as publicity could kill it.

Interdoc’s other link to British Intelligence, the ‘ex-MI5 man’ not named by Crozier, was Walter Bell. During the war, Bell-like Ellis had served under Stevenson at the BSC in New York before returning to Britain in 1942 to act as the London liaison officer between MI6 and the OSS. In 1949, Bell joined MI5 and worked as an advisor to various Commonwealth governments and as personal assistant to MI5 chief, Roger Hollis. Following his retirement from MI5 in 1967, Bell raised funds for Interdoc from British sources (Dorril and Ramsay 1990, 6–7). British help for Interdoc came from, amongst others, two anti-union outfits sponsored by industry, Common Cause (CC) and the Economic League (EL).

Interdoc's Italian founding member also had intelligence connections. Professor Luigi Gedda was a well-known figure of the Catholic Right in Italy and one of the CIA's main agents in their massive intervention in the 1948 elections which banished the spectre of a communist victory and installed DC in power. Part of Gedda's role was to set up a national network of 20,000 anti-communist groups, the *Comitati Civici*. Funded by the CIA and supported by the Vatican, the *Comitati* each had its own intelligence department and a radio transmitter, and played a key part in ensuring DC's victory:

according to the American Embassy and the CIA representative in Rome, they undertook 'psychological warfare' and were considered by the Embassy to be the most important anti-communist group, which the Embassy felt justified a subsidy of US\$500,000 from the State Department to the CIA. (Van Doorslaer and Verhoeven 1987, 143; Laurent 1978, 41 *et seq*; Willems 1991, 77; Willan 1991, 33)

After 1948, Gedda had powerful political connections within the ruling DC: his leadership of *Azione Cattolica* and his intimate friendship with Pope Pius XII, to whom he was medical advisor, gave him high-level access to the Vatican—which he used to help Retinger. In May 1950, Gedda arranged an audience with Pope Pius XII for Retinger, who hoped to win Vatican support for the cause of European Union. The meeting was also attended by the Vatican's Substitute Secretary of State, Monsignor Montini, the future Pope Paul VI. Despite a very positive meeting, objections from the Archbishop of Canterbury, Dr. Fisher, caused the plan to fail. Nonetheless, Gedda later gave Retinger (1972, 236–237) a 'good deal of help in Italy.'

## **IRD, the American 'Military-Industrial Complex' and the ISC**

The British had first recognized the need for post-war media manipulation to check the threat of communism throughout the colonies and at home. Unlike the CIA's anti-communist programme which

concentrated on the creation of mass movements like the EM and CCF, the British Foreign Office decided to counter Stalin's ideological offensive by setting up a covert propaganda unit, the Information Research Department (IRD, 1948–1977). IRD became the biggest department in the Foreign Office with 400 staff; its network of 'press agencies' which distributed both attributable research papers and unattributable briefings served as the model for one of the CIA's most important clandestine media manipulation operations.

In 1965, the CIA's IOD decided to use its intellectual front group, the CCF, to create a new propaganda outlet—a press agency called Forum World Features (FWF)—which at its peak supplied over 150 newspapers worldwide. It was run—from its launch in 1966 until its exposure in 1974—by Crozier, who had left the *Economist* in 1964. Initially, FWF was controlled by two CIA officers, CCF President Michael Josselson, and FWF auditor 'Charles Johnson.' The legal and financial infrastructure for FWF was provided by one of the CIA's 'quiet channels,' millionaire John Hay Whitney, a wartime member of the OSS, former US Ambassador to Britain (1957–1961, during Crozier's time at the *Economist Foreign Report*) and future publisher of the *International Herald Tribune*. J.H. Whitney registered FWF under his own name as a Delaware corporation with offices in London (Saunders 1999, 261, 311–312). CIA funding for FWF was channelled through Kern House Enterprises, a publishing firm run by J.H. Whitney. For a while, wrangles between Crozier and the CCF continued about FWF's independence from the CCF; Crozier eventually ensured complete separation of FWF from the CCF and direct control via a CIA case officer he calls 'Ray Walters.' Walters brought in an office manager, Cecil Eprile, and FWF began operating on 1 January 1966.

Crozier was away for much of that year, researching a biography of Franco, but his insistence on a complete separation of FWF from the CCF was vindicated soon after his return. In March 1967, the American magazine *Ramparts* exposed covert CIA funding of a series of organizations. This revelation was compounded by an article by Braden (head of the CCF's parent body, the CIA's IOD), which linked the CCF to the CIA. Despite the attention devoted to the CCF, FWF prospered and by the early 1970s had become one of the CIA's main covert propaganda outlets.

In 1968, Crozier's FWF operation expanded in response to student revolts and a major change in intelligence and security service tasking: subversion from the New Left. IRD asked Crozier to prepare a briefing paper on the New Left which was circulated in 1969 under the title *The New Apostles of Violence*; a condensed version was marketed by FWF and placed with the *Washington Post* and the *London Times*. For IRD, Crozier (1993, 85–86) then expanded his paper 'on the basis of a vast supply of classified documents' into a book entitled *The Future of Communist Power* which 'incorporated, with slight amendments, the paper on political violence I had prepared for IRD.' However, it was clear that the problem of subversion required a more expansive response:

In this increasingly threatening situation, I saw a serious gap. Existing institutes or research centres (or 'think tanks' as the Americans called them), however worthy, were either too academic, or too neutral, or too heavily concentrated on hardware strategy... they failed to take account of the more dangerous Soviet strategy of take-overs by *non-military* means, such as subversion and terrorism... The need, as I saw it, was for a research centre which would produce studies on the ever-widening range of groups and forces bringing violence, chaos and disruption into our societies, but always in the context of Soviet strategy. My first thought was to make use of the existing facilities of Forum World Features.

In 1968, Crozier set up a low-key features service within FWF called the Current Affairs Research Services Centre (CARSC) which published a series of monthly monographs on conflict, the first one appearing in December 1969: 'the Agency had permitted me to produce the first five Conflict Studies under CARSC as a commercial imprint' (Crozier 1993, 88). However it was clear that a new outlet was necessary to meet the challenge, and so the sixth Conflict Study went out in January 1970 under the name of Crozier's new venture, the Institute for the Study of Conflict (ISC). Several of FWF's research staff and the FWF library were absorbed into the ISC; FWF then paid the ISC £2000 for use of the library it had once owned. Oil companies also provided seed capital: Royal Dutch Shell (£5000 a year for three years) and British Petroleum

(£4000 for two years); both donations were organized by ISC Council member Sir Robert Thompson (Crozier 1993, 90).

However, the real money came in from a different source—the American ‘military-industrial complex’. In 1966, while in Madrid researching his biography of Franco, Crozier had met one of the future main backers of the UK counter-subversion lobby: Frank Rockwell Barnett, who since 1962 had been running the National Strategy Information Center (NSIC). Barnett was an experienced Cold War propagandist, having previously served as Program Director of the Institute for American Strategy (IAS, 1958–1962).

Barnett’s colleagues in the IAS were its Administrative Director, Air Force Major-General Edward Lansdale, and Colonel William Kintner. Lansdale had been a CIA advisor to French counter-insurgency operations in Vietnam in 1953, then served as Head of the Saigon Military Mission (1954–1957), a period which spanned the disastrous defeat of French forces at Điện Biên Phủ, the July 1954 Geneva Accords (which ended the First Indochina War and partitioned Vietnam), and the rigging of the October 1955 referendum in the South which installed the Catholic strongman Ngô Đình Diệm as President of the Republic of Vietnam. Returning to the United States in 1957, Lansdale then worked as Assistant Secretary of Defense for Special Operations, coordinating the CIA’s Operation Mongoose (to overthrow Fidel Castro) until his official retirement in 1963, before returning to serve in the American Embassy in Saigon (1965–1968).

As for his IAS colleague, Kintner had worked as a Department of Defense planning officer and liaison to the CIA for 11 years before retiring from the US military in 1961 to become Professor of Political Science at the University of Pennsylvania where he ran the Foreign Policy Research Institute, a career interrupted by service as American Ambassador to Thailand (1973–1975) during the height of the Vietnam War.

The IAS had its origins in the American Security Council (ASC), founded in 1955 by General Robert Wood, pre-Pearl Harbor Chairman of the isolationist America First Committee, together with ex-FBI man John M. Fisher who became ASC Executive Secretary and later ASC Board Chairman. From 1955 to 1961, the ASC organized a series of annual ‘Military-Industrial Conferences’; the IAS was founded as the



response of the Military-Industrial Conference of 1958 to a National Security Council (NSC) Directive the same year recommending that 'the military be used to reinforce the Cold War effort.'

The IAS became the vehicle for the NSC's propaganda campaign and ran into controversy in 1961 for its political indoctrination of the military and its use of active-service military personnel for its foreign policy propaganda in civilian forums. The influence of the ASC and IAS over the American political process became so great that outgoing Republican President Dwight Eisenhower gave a specific public warning in his farewell speech (January 1961):

In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist. We must never let the weight of this combination endanger our liberties or democratic processes. We should take nothing for granted.

Further details of IAS activities were published in the *Bulletin of the Atomic Scientists* (March 1961), and the IAS was denounced directly to newly-elected Democrat President John F. Kennedy by Senate Foreign Relations Committee chairman Senator William J. Fulbright in his *Memorandum on Propaganda Activities of Military Personnel Directed at the Public* (August 1961).

No doubt due to the uncomfortably high profile acquired by the IAS, Barnett left the Institute in 1962 to found the NSIC together with wartime OSS veteran William Casey, Reagan's future campaign manager and his first CIA Director (1981–1987). The new group rapidly expanded its network of influence, particularly focusing on the university system: 'As a founding Director of the National Strategy Information Center, I supported the establishment of chairs and professorships in national security on 200 campuses throughout the United States' (Casey 1981).

During their 1966 meeting, Barnett invited Crozier to visit the United States once his Franco research was over, a trip Crozier made in 1968. Following further contact, Barnett's NSIC ensured substantial

backing for Crozier's ISC when it was set up (1969–1970). Barnett arranged a meeting with Dan McMichael, who administered the trust funds of the Scaife family, major shareholders in Gulf Oil and who sat on the NSIC's Advisory Council until at least 1985.

Barnett persuaded the NSIC's benefactor, Richard Mellon Scaife, to provide US\$100,000 a year for the ISC in addition to taking over the FWF subsidies from Whitney: 'From that moment, the ISC took off' (Crozier 1993, 90). Between 1973 and 1981, Scaife donated some US\$6 million to the NSIC; from 1973 to 1979, he gave over US\$1 million to the ISC. Apart from a guaranteed regular purchase of each issue of the Conflict Studies, thus ensuring the ISC's profitability, the NSIC also provided the salary for one ISC researcher and paid the printing and publicity costs for the ISC's annual publication, the *Annual of Power and Conflict*.

IRD also contributed to the setting-up of the ISC. When seeking initial funding, Crozier (January 1970) wrote to Sir Peter Wilkinson, a senior veteran of the wartime Special Operations Executive (SOE), later IRD head and Coordinator for Security and Intelligence in the Cabinet Office. Wilkinson arranged for a retired Major-General, Fergus A.H. Ling, to act as a fundraiser for the ISC in military circles; Ling was the ISC's Financial Director before becoming its Defence Services Consultant.

This early assistance for the ISC by a former head of IRD was only the beginning; almost all the key ISC staff were former MI6, IRD, CCF or FWF personnel. Patrick 'Paddy' Honey, a Vietnam expert and Crozier's former colleague on the *Economist Foreign Report*, wrote for both IRD and the ISC. Tom Little, another *Economist* journalist, was a central figure in an IRD front, the Arab News Agency. David Lynn Price first worked for IRD before moving to FWF and then the ISC. Peter Janke, the ISC's senior research officer and specialist on Southern Africa, had previously worked for IRD. Iain Hamilton, a former Editor of the *Spectator*, was like Crozier was fully aware of the CIA's role in supporting FWF and the ISC.

Two senior MI6 officers also wrote for the ISC: Kenneth Benton (MI6, 1937–1968) and Nigel Clive (MI6, 1941–1969). Before joining the ISC, Benton served in Italy and Spain (under Kim Philby) before becoming MI6 Head of Recruitment (1956–1962), head of station in

Peru and Brazil, and Deputy Director for Latin America. Clive served in Greece, Israel and Iraq before being appointed head of the MI6 Special Political Action section created to reproduce in Egypt the success of the 1953 MI6/CIA coup against Iranian Prime Minister Mossadegh. Clive worked closely with the head of MI6 Middle Eastern operations, George Kennedy Young, in planning the invasion of the Suez Canal Zone following its nationalization by Egyptian President Gamal Abdel Nasser in July 1956. Clive then served as MI6 head of station in Tunisia and Algeria before returning to London to become head of IRD (1966–1969) and then Advisor to the Secretary-General of the OECD (1970–1980), during which time he wrote *Conflict Studies* for the ISC, and (from 1982) acted as the ISC's editorial consultant.

Michael Goodwin, the ISC Administrative Director, had been involved with the CCF since 1951 when he was a founding Honorary Secretary of the British Society for Cultural Freedom. Goodwin then worked for IRD (1952–1956) as editor of the Bellman Books series for Ampersand, IRD's publishing outlet (Saunders 1999, 107–111).

Another important staff member of the ISC who would become Crozier's inseparable partner throughout the 1970s and 1980s was Robert Moss, like Crozier born in Australia. A central figure in the ISC and many later Crozier ventures, Moss would follow Crozier's precedent in becoming Editor of the *Economist Foreign Report* from 1974 to 1980 and would serve as one of the CIA's main disinformation assets, notably in the campaign to destabilize Chile's Salvador Allende in 1973. In the 1980s, Moss wrote two notorious disinformation novels, *The Spike* and *Monimbo*, together with former *Newsweek* star journalist Arnaud de Borchgrave. Both novels were heavily influenced by the veteran CIA Counter-Intelligence chief, James Jesus Angleton. Cleveland Cram, author of the CIA's mostly classified assessment of Angleton, underscored the close links between the three men.

De Borchgrave, soon-to-be editor of the new *Washington Times*, and Moss were friends and admirers of Angleton, whose conspiracy theories were consistent with their own.<sup>4</sup>

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<sup>4</sup><https://www.cia.gov/library/center-for-the-study-of-intelligence/kent-csi/vol38no5/html/v38i5a15p.htm>.

The ISC Council also had intelligence connections, including senior officials from MI5 and the military intelligence community. ISC Chairman Leonard Schapiro had been a war-time member of MI5 and an advisor to MI6's Young when Young as Director of Requirements (1953–1956) was reorganizing MI6's chaotic information collation and analysis methods (Toczek 1991, 29). In the 1970s, Schapiro held the Chair of Soviet Studies at the London School of Economics and was later a foreign policy advisor to Thatcher. Vice-Admiral Sir Louis Le Bailly, the Director-General of Intelligence at the Ministry of Defence (1972–1975) and a member of MI5's recruitment panel, served on the ISC Council, as did Sir Edward Peck, former Chairman of the Joint Intelligence Committee (1968–1970) and thereafter UK Permanent Representative to the NATO North Atlantic Council until 1975.

The ISC Council also included several influential military figures: one was Brigadier W. F. K. Thompson, a powerful voice in the British press as military correspondent of the *Daily Telegraph* (1959–1976). Another was Air Vice-Marshal Stewart Menaul, a former Commandant of the Joint Services Staff College who served as Director General of the influential think tank, the Royal United Services Institute, from 1968 to 1976—a critical timespan in British politics. Besides joining the ISC Council, Menaul also provided the ISC with their first registered address in the premises of the RUSI. A third senior military figure was General Sir Harry Tuzo, General Officer Commanding Northern Ireland (1971–1973) and Deputy Supreme Allied Commander, Europe (1976–1978). Two leading counter-insurgency experts also sat on the ISC Council: Sir Robert Thompson and Major-General Sir Richard Clutterbuck. Thompson was a key figure in the British Army's campaign during the Malayan Emergency of the late 1950s, serving as Deputy Secretary of Defence for Malaya in 1957 and Permanent Secretary for Defence (1959–1961). From 1961 to 1965, the year in which he received his knighthood, Thompson was the main architect of early American counter-insurgency strategy in Vietnam as Head of the British Advisory Mission. Thompson's books on his experiences of counter-insurgency in Malaya and in Vietnam were published by FWF. Clutterbuck, another old Malaya hand, was Senior Army Instructor at the Royal College

of Defence Studies when he joined the ISC Council; he would later become a leading theoretician of counter-revolutionary warfare.

The ISC also developed excellent relations with four industry-sponsored anti-union groups: EL, CC, Aims of Industry (AOI) and the Industrial Research and Information Service (IRIS). In 1970, as the ISC was being established, Crozier edited the anti-communist anthology *We Will Bury You*, published by CC. Alongside Neil Elles (CC) and John Dettmer (EL), the authors included Ellis (Interdoc) and two founding ISC members, Crozier and Brigadier Thompson (Interdoc Chairman from 1971). Elles, Dettmer and Crozier all sat on Interdoc's Consultative Council from 1969 on (Ramsay and Dorril 1986, 3, 40–41). This early joint venture was the first in a series of collaborative efforts throughout the 1970s and 1980s; AOI and IRIS, in particular, worked with the ISC during their counter-subversion campaigns.

Through these extensive contacts with the British security establishment and captains of industry, the ISC gained a unique role as an unofficial (deniable) but powerful propaganda tool, which could put over the intelligence community's views to the press under the guise of a 'neutral' academic research body. It could also take over some of the networking with private bodies that IRD had recently abandoned. According to Crozier (1993, 102–104), by the end of the 1960s, IRD had 'decided to sever all relations with two major continental networks with which I had been associated. One was the Hague-based Interdoc group. The other was admittedly more controversial. This was a private but highly effective French group controlled by a friend of mine, the late Georges Albertini... In return for all information and the contacts he gave me, I made sure that he received the IRD output, of which he made good use... There was no question of restoring these official contacts, however, once they had been broken. In any case, Interdoc's value had decreased sharply after the advent of Willy Brandt as [Socialist] Chancellor of the Federal Republic of Germany in September 1969. As for Albertini, whom I met frequently in Paris or London, I made sure both that he received IRD material likely to be useful to him, and that I made good use of his own information and influence.'

Albertini, one of the mainstays of post-war French anti-communism, had a controversial past: a former right-hand man of the pro-Nazi

collaborator Marcel Déat during the Occupation, he worked in the Secretariat of the Vichy Prime Minister Pierre Laval. After being jailed for two years for collaboration, during which time he shared a cell with banker Hippolyte Worms, Albertini became an ardent Gaullist, helped by his schooltime days with Georges Pompidou. Through his contacts in politics and his work as a political advisor to the Worms banking and business consortium, Albertini set up 'a huge network of informants and helpers,' working as an 'Honourable Correspondent' (intelligence asset) for the SDECE and as an unofficial advisor to both Pompidou and later Jacques Chirac. Albertini was a longstanding associate of Pinay: both had attended a series of conferences on Soviet political warfare (1960–1961) organized by Suzanne Labin, future mainstay of WACL's French section (Laurent 1978, 302–303, n107).

Albertini's influence was useful to Crozier, particularly after the June 1969 Presidential election when Albertini's old schoolmate and Bilderberg member, Pompidou, replaced Général de Gaulle. Albertini's Centre d'Archives et de Documentation politique et sociale also produced the fortnightly magazine *Est et Ouest*, 'the most authoritative publication in the French language on the problems of Communism' in Crozier's view (1993, 103), and one of the major channels for anti-Socialist propaganda in France in the mid-1970s. Albertini would also become closely involved in the Cercle, publishing the ISC's output in French, attending Cercle meetings and later playing a significant part in Crozier's private intelligence service, the 6I. However, Albertini's connection to Pompidou could not stave off one disaster—the severing in 1970 of Jean Violet's longstanding links with the SDECE following Pompidou's appointment of Alexandre Comte de Marenches as SDECE director. Forced out into the cold, Violet would have to turn to the private sector to support the Cercle Pinay.

## The Cercle Pinay and the AESP

At the same time as IRD and FWF were organizing the new London-based ISC under Crozier, Violet was working to provide a new logistical basis for the Cercle Pinay and for the Catholic conservative alliance of

Pinay, Habsburg, Strauss and Sánchez Bella. The man entrusted with this crucial support role was Florimond Damman—a key Belgian linkman representing, together with a few close friends, the Belgian end of almost all the international right-wing networks (PEU, CEDI, and WACL). Damman had been a close associate of Habsburg since at least 1962, when Damman served as Secretary of the Belgian PEU section, *Action pour l'Europe Nouvelle et l'Expansion Atlantique* (AENA), before rising to become Chairman of the International Events Committee on the PEU Central Council (1966) alongside PEU Vice-Presidents Habsburg and Conservative MP and Monday Clubber Sir John Biggs-Davison, Vittorio Pons (Brussels-based PEU International Secretary and former Counsellor at the EEC), and Pons's deputy and close associate of Damman, Belgian Baron Bernard de Marcken de Merken.

Damman's chairmanship of the PEU International Events Committee reflected his ceaseless energy in networking amongst the European Right—he died of apoplexy at the height of his powers in 1979. One particular form this dynamism took early on was the organization of banquets, Charlemagne Grand Dinners as Damman called them, to bring together representatives and personalities from the fragmented Paneuropean movements. Starting in the early 1960s, these dinners were organized in Brussels or Aachen by Damman and the Belgian PEU section. Together with CEDI Belgium, the AENA hosted a March 1963 Charlemagne Grand Dinner to welcome Franco's Information Minister Manuel Fraga Iribarne. Damman's renamed *Conseil Belge pour l'Union Paneuropéenne* held the IX Charlemagne Grand Dinner in Brussels (January 1966) in the presence of 'His Imperial and Royal Highness Archduke Otto von Habsburg.' By 1969, the Belgian PEU group had again changed its name to become the *Mouvement d'Action pour l'Union Européenne* (MAUE), but was still run by Damman who liaised with the Habsburg-Sánchez Bella group in CEDI (Dumont 1983, 174–179).

CEDI's Belgian section was run by Damman's close associate Paul Vankerkhoven, who served on CEDI's International Council and also acted as Damman's Vice-President within MAUE. Both developed a series of right-wing groups, the earliest being the Belgian section of the *Ligue Internationale de la Liberté* (LIL), founded by Vankerkhoven

(1966), soon to be the Belgian chapter of WACL. In April 1969, Vankerkhoven also set up a select right-wing club, the *Cercle des Nations*, which became a frequent meeting place for members of the PEU, CEDI, and WACL (Gijssels 1991, 224 *et seq.*, 89). In April 1970, for example, Damman and Vankerkhoven organized a *Cercle des Nations* reception in honour of the Greek military junta (1967–1974). Another collaborative venture for Damman and Vankerkhoven was the joint organization of the 1970 Brussels Congress of the Anti-Bolshevik Block of Nations (ABN)—an anti-communist group of mainly Ukrainian exiles financed by the CIA and BND, strongly supported by Strauss' CSU; its headquarters were in Munich. The ABN would work closely with WACL and would spawn a Western European offshoot, the European Freedom Council (EFC) (Dumont 1983; Laurent 1978, 297–298).

Of greatest interest for the Cercle was another club, set up by Damman in January 1969—the *Académie Européenne des Sciences Politiques* (AESP). Damman was AESP Secretary-for-life; Vankerkhoven served as a member of the AESP organizing core, the Permanent Delegation. The AESP continued the tradition of organizing the Charlemagne Grand Dinners and acted as a right-wing clearing house, as Damman described in his note 229:

Everywhere in Europe, there are people who share our ideology and who are unable to contribute to it because they are, and above all, they feel, isolated. The same applies to the small, restricted and regional groups which are jealous of their independence and their individuality, and we have to allow them that. We should not impose a line of conduct on them, we should suggest certain initiatives to them, but also find a way of bringing together their leaders on an individual basis, setting up permanent liaison between them without giving them the impression that they are linked, consult them for certain missions and make them believe that they have taken the initiative in giving us their approval. (Péan 1984, 76)

Besides bringing together the fragmented forces of national right-wing groups, another intention behind the fledgling AESP was to absorb the other transnational European right-wing movements, particularly CEDI



and the PEU, the latter being based in Brussels since 1965. While these two organizations continued to exist, the AESP acted as a forum for a meeting of minds between fractions within both international groups. This goal of integrating the movements working for European Union was in part due to a latent power struggle between political positions and personalities in European federalism.

Within the PEU-AESP complex, the struggle was one which opposed PEU founder and 'dove' Comte Coudenhove Kalergi with CEDI founder and 'hawk' Habsburg. The AESP's creation (1969) may have been initially intended as a means of stripping the PEU of its more influential members and sidelining Coudenhove Kalergi—a move rendered unnecessary by his death (27 July 1972) which cleared the way for Habsburg to become President of all three organizations—the PEU, CEDI, and the AESP. In 1969, however, it seems that Coudenhove Kalergi could not be ousted immediately—his prestige could do much to gain acceptance for the new Academy, and so it was decided to at least start up the AESP with Coudenhove Kalergi as Honorary President.

Before the latent power struggle had been resolved, Damman had considered setting up another group to replace the AESP if Coudenhove Kalergi would not give way to Habsburg. Damman had already started the groundwork for a new group, CREC, to be run by Damman and a new ally, Ralf Guérin-Sérac, leader of *Aginter Presse*, the Lisbon-based revolutionary neo-fascist group founded in 1966.

*Aginter Presse* worked under the cover of a press agency, but in reality was a coordination centre for destabilization. In close cooperation with Salazar's secret service, PIDE, one section of *Aginter Presse* ran a parallel intelligence service with links to the CIA, the German BND, the Spanish DGS, the South African BOSS and the Greek KYP. Another section of *Aginter Presse* organized the recruitment of terrorists for bomb attacks and assassinations. A third group dealt with psychological operations, and *Aginter Presse*'s fourth section, *Ordre et Tradition*, was an international neo-fascist contact network with a clandestine paramilitary wing, the *Organisation Armée contre le Communisme International*. One of *Aginter Presse*'s most important contacts at the time was Europe's most notorious neo-fascist terrorist, Stefano Delle Chiaie of

*Avanguardia Nazionale* (AN), a key actor in the *stragi* which rocked Italy throughout the 1970s.

It is possible that Guérin-Sérac saw CREC as an opportunity to provide *Aginter Presse's* *Ordre et Tradition* with links to top conservative politicians, a bridge between the revolutionary neo-fascist underground and 'respectable' public figures, while at the same time pursuing the strategy of tension that *Aginter Presse* had developed. After an initial contact (late 1968), Guérin-Sérac came to Brussels (January 1969) as Damman's guest to develop contacts amongst the elite conservative circles Damman frequented.

Damman started by inviting Guérin-Sérac to the AESP's XII Charlemagne Grand Dinner (27 January 1969), just four months before the Milan bomb blast that launched the Italian strategy of tension. Amongst the guests were Habsburg and serving Belgian Christian Democrat Prime Minister Gaston Eyskens; one of Guérin-Sérac's dinner companions at table G was the Belgian neo-fascist Emile Lecerf, later to become notorious in connection with rumours of a planned coup in 1973 and the strategy of tension in Belgium (1982–1985).

Guérin-Sérac soon became involved in the AESP's internal power struggle. In a letter to Damman on *Ordre et Tradition*-headed paper, Guérin-Sérac (26 March 1969) described the power struggle between Coudenhove Kalergi and Habsburg three months after the AESP's creation (*Le Vif/L'Express* 19/5/1989). By summer 1969, Guérin-Sérac and Damman had concluded an 'agreement in principle' to found the new group, CREC, which would try to reconcile two conflicting positions: the traditional Right, anti-communist but not anti-parliamentarian, and the revolutionary extreme Right, represented by *Aginter Presse*. Guérin-Sérac and Damman then met at least twice more, as detailed in a progress report written by Guérin-Sérac (19 May 1969) and sent out by *Aginter Presse* to their correspondents (Dumont 1983; *Le Vif/L'Express* 19/5/1989).

In this report, Guérin-Sérac refers to the 'chaotic and revolutionary situation' in Italy, a climate stoked by *Aginter Presse's* Italian correspondents, centred around the AN group under Delle Chiaie's leadership. One month after Guérin-Sérac wrote to Damman about CREC, the Italian neo-fascists working with *Aginter Presse* carried out

the bomb attack that announced the beginning of the strategy of tension in Italy. The bomb that exploded in the Fiat Pavilion at the Milan Fair (25 April 1969) wounded 20 people; by the end of this first year of terror tactics, 149 bomb attacks would occur, as compared to 50 between 1964 and 1968.

Whether Damman knew of Guérin-Sérac's terrorist connections or not is uncertain, but it is clear that *Aginter Presse's* neo-fascist terrorists were in contact with conservatives throughout Europe, as Guérin-Sérac explained:

Our troop consists of two types of men: i) officers who joined us after the fighting in Indo-China or Algeria, and even some who signed on with us after the battle for Korea; ii) intellectuals who, during the same period, turned their attention to the study of the techniques of Marxist subversion... having created study groups, they shared their experience to try and expose the techniques of Marxist subversion and develop a counter-strategy. Throughout this period, we had systematically forged close ties with like-minded groups that were being set up in Italy, Belgium, Germany, Spain or in Portugal with the aim of forming the nucleus of a truly European league to resist Marxism'. (Christie 1984, 28–29)

In a 1974 interview, *Aginter Presse's* other Italian representative, Guido Giannettini, alluded to the contacts between *Ordre et Tradition* and groups like the AESP and specifically mentioned one of the main contacts for the Academy and for *Aginter Presse*, Strauss' CSU:

I passed my information on to some friends in certain milieux of the international Right. They passed me theirs... the practical form for this exchange was private bulletins which circulated amongst certain European groups of the Centre-Right... such as, for example, the Bavarian CSU party, the French 'geopolitical groups' [Cercle Pinay], and other groups in Belgium [LIL/MAUE/AESP], Switzerland [ISP], and almost every country in Europe. (*L'Espresso* 24/03/1974, cited by Péan 1984, 83).

Despite Guérin-Sérac's interest in the new group, CREC never got beyond the planning stage. Nonetheless, journalist Serge Dumont

(1983) who infiltrated the AESP at that time, states that contacts between Damman and Guérin-Sérac continued until April 1974 when *Aginter Presse's* Lisbon offices were occupied by left-wing soldiers during the Portuguese revolution, blowing the operation's press agency cover.

There was, however, one person who would not forget Guérin-Sérac's insurrectionary message—his table companion at Damman's Charlemagne Grand Dinner (January 1969), Belgian neo-fascist, Lecerf. In 1973, the names of Lecerf and several eminent members of Damman's Academy were included in a Gendarmerie report on plans for a coup d'état in Belgium.

Although the CREC project came to nothing, Damman soon overcame the internal struggle within the AESP and expanded its activities. At a symposium organized by Habsburg (May 1969), Damman met Violet (Péan 1984, 65). By October, Violet was looking for a group that could provide an operational framework for the Cercle Pinay, and thought of Damman and his AESP. Violet (21 October 1969) wrote to Damman saying that he would like to meet him, having been 'mandated by President Pinay to carry out a study of European perspectives after the German elections' that is, Brandt's September election victory.

The meeting took place one week later (28 October). Violet was accompanied by two of his contacts: Marcel Collet (who had just retired as a director of Euratom) and the PEU International Secretary-General, Pons (who was certain to receive a favourable reception from Damman). Over lunch, Violet, Damman, Collet and Pons agreed on a new role for the AESP: to act as a forum linking the PEU and CEDI (under Habsburg and Sánchez Bella) to the Bilderberg Group and Cercle Pinay (represented by Pinay and Violet). The revamped Academy would be run by Damman, directed from behind the scenes by Violet and his trio of associates Father Dubois, Collet and François Vallet, an industrialist in pharmaceuticals. Violet announced that he would go to Pöcking, Habsburg's seat just outside Munich, to confer with the Archduke and Strauss about financing the AESP.

Within eight months of the Academy's relaunch, the process of inter-linking was already well underway, as a membership list (dated 21 June 1970) testifies (reproduced in Péan 1984). The honorary figurehead of

the AESP was the PEU founder Coudenhove Kalergi, but the position was only symbolic: on all future AESP documents, Habsburg's name is first on the list of names, whereas Coudenhove Kalergi's name appears only in third place under the letter C. The PEU/CEDI axis was represented by Habsburg, Sánchez Bella, and Pons; the Cercle Pinay by Pinay, Violet, Father Dubois and Collet.

The AESP's operational core, the Permanent Delegation, brought together the Belgian sections of the PEU, CEDI, and WACL—Damman and de Marcken represented the PEU Central Council and MAUE; Vankerkhoven was Secretary of both the Belgian LIL chapter within WACL and the Belgian section of CEDI. CEDI's Belgian section was also represented within the AESP by its President, the Chevalier Marcel de Roover, a veteran anti-communist who had played a major part in the early post-war creation of two private anti-communist intelligence services linked to the Belgian section of NATO stay-behind forces, *Gladio*. From the late 1950s, de Roover had represented Belgium in various anti-communist networks that later became formalized within WACL. He was also one of the earliest Belgians to frequent CEDI: appointed CEDI International Treasurer in 1960, he founded its Belgian section in 1961, serving as its President until his death in 1971. Vankerkhoven then took over Belgian representation within WACL and CEDI, being appointed Secretary-General of CEDI and moving its Belgian office into his *Cercle des Nations*.

The most prominent Belgian AESP members in 1970 were Gaston Eyskens, the serving Belgian Prime Minister (1968–1973), and his immediate predecessor as Prime Minister (1966–1968), Paul Vanden Boeynants of the *Parti Social Chrétien* (PSC). VdB, as he is known, first entered politics at age 29 in the ranks of Retinger's EM. Before being elected to Parliament, he was one of the five Belgian representatives at the second conference of the Union of European Federalists (UEF), the most powerful group within the EM, held in Rome in November 1948 shortly after massive intervention by the CIA to ward off an electoral victory by the Socialist-Communist Popular Democratic Front in the April 1948 elections.

Through the UEF, VdB made a valuable contact—the UEF Treasurer, the Belgian banker Baron Pierre de Bonvoisin, who in 1952 was one of

the founding members of the Bilderberg Group with Pinay. When VdB was Belgian Defence Minister (1972–1979), he showed his gratitude to de Bonvoisin by appointing his son, Benoît, as his political advisor. Benoît de Bonvoisin, nicknamed ‘the Black Baron’, was at the time the most notorious patron of Belgian fascism and a key international linkman for the far-right. Perhaps because of his controversial connections, Benoît de Bonvoisin did not figure on any formal AESP or MAUE membership lists until after Damman’s death (1979), however, attending CEDI and AESP events from 1976.

The same lack of early formal membership of the AESP or MAUE applied to another of VdB’s trusted advisors, Nicolas de Kerchove d’Ousselghem, a close associate of Damman, Vankerkhoven and later de Bonvoisin. An early and particularly significant contact for de Kerchove came in March 1964 when the young lecturer at the Belgian School of Political and Social Sciences of the Catholic University of Louvain—not yet 30 years old—was invited to attend the 1964 Bilderberg conference in Williamsburg, Virginia, devoted to discussions of the Atlantic Alliance. The name following his own on the list of participants was Kissinger; others with links to the Cercle attending the conference included Pinay, Rockefeller and Sir Frederic Bennett. The Bilderberg Group was not the only elite grouping the young de Kerchove frequented; as a protégé of de Roover, de Kerchove accompanied him to the 1966 XV CEDI Congress, where he was a speaker and was invited to join CEDI’s International Council for their private reception with Franco in the El Pardo palace during the Congress.

The following year, de Kerchove joined VdB’s Cabinet during the latter’s first tenure as Prime Minister (1966–1968). By 1971, de Kerchove was already one of Damman’s contacts, noted as being unable to attend an October 1971 AESP Study Group meeting. After VdB was appointed Defence Minister in 1972, de Kerchove became his Chef de Cabinet with particular responsibility for political liaison with NATO headquarters in Brussels. That year, as well as returning to Federal government, VdB reinforced his political influence within his party, the PSC, by forming around him a hard-right fraction, CEPIC. De Kerchove sat on CEPIC’s National Bureau and chaired CEPIC’s Defence Committee, Vankerkhoven chaired CEPIC’s International

Relations Committee, de Bonvoisin was CEPIC Treasurer, and a fourth prominent member of CEPIC's National Bureau was de Marcken. De Kerchove and Vankerhoven also ensured Belgian representation within CEDI after de Roover's death (1971); by 1972, both men sat on CEDI's International Council and ran its Belgian section. As personal advisors to Vanden Boeynants, de Kerchove and de Bonvoisin later became VdB's communications channel to PIO, a controversial Army counter-subversion unit founded in 1974, run by Major Jean-Marie Bougerol and ultimately controlled by de Bonvoisin.

From the outset, Bougerol used his contacts with the extreme right for PIO operations. As part of his counter-subversion work, Bougerol gave lectures to reserve officers, many of whom were recruited as PIO agents. One of the reserve officers' clubs at which Bougerol lectured was the Brabant Reserve Officers' Club (BROC), which in 1975 was given the task of bolstering the patriotism of other reserve officers' clubs. BROC's members included not only AESP/CEPIC member Baron Bernard de Marcken de Merken but also Colonel Paul Detrembleur, who helped set up the DSD, PIO's parent unit, and who later headed the Belgian military intelligence service SDRA (1981–1984) at the height of the Belgian strategy of tension (1982–1985). BROC also included the Belgian Delle Chiaie—Paul Latinus, a protégé of de Bonvoisin. A former leader of the *Front de la Jeunesse* financed by de Bonvoisin, Latinus later emerged as commander of the neo-fascist parallel intelligence service, Westland New Post (WNP), a key component in Belgian parapolitics in the 1980s. Bougerol's contacts with the extreme right also extended to de Bonvoisin's other protégé, veteran neo-fascist putschist, and NEM editor Emile Lecerf; Bougerol also gave lectures on subversion to the NEM Clubs.

De Bonvoisin had already provided PIO with much of its logistics structure and played an ever-increasing part in the running of PIO in the late 1970s. PIO's civilian offices were located in the same building which housed CEPIC, the political ginger group run by VdB and de Bonvoisin; de Bonvoisin's company *Société de Promotion et de Distribution Générales* (PDG) was also housed at the same address and ensured the printing of the PIO press review *Infoprep*. From 1976, PDG

contributed more than a million Belgian francs a year to PIO; by early 1980 the editorial team producing PIO's *Inforep* consisted of Lecerf and Jacques Van den Bemden, drawn from the other PDG beneficiary, the neo-Nazi magazine NEM. The PIO/PDG operation was finally blown in May 1981 when the CEPIC/MAUE/PDG/PIO building was raided as a result of a Sûreté (security service) report about de Bonvoisin's patronage of neo-fascist groups. It quickly became apparent that PIO's files had been transferred wholesale to PDG.

After Damman's death (1979), de Kerchove and de Bonvoisin joined Vankerhoven on the MAUE Board (1980); all three attended Cercle meetings in the early to mid-1980s. Both de Bonvoisin and de Kerchove also figured prominently in the investigations of the Brabant Wallon killings, the unresolved series of supermarket attacks in which 28 people died (1982–1985). De Bonvoisin allegedly funded neo-fascist groups linked to the killings while de Kerchove was Chef de Cabinet to Justice Minister Jean Gol whose insistence on pursuing an implausible criminal motive for the attacks sidetracked the first of the six ultimately fruitless official inquiries.

To return to the AESP in 1970, alongside the international leadership of the PEU and CEDI and their Belgian affiliates, the newly founded Academy also included three top members of *Europa-Union Deutschland*, the German PEU section, the most influential of the PEU's national delegations. The first was Karl Friedrich Grau, the Federal Secretary of the German PEU section (1967–1975), one of Damman's major partners in the early 1970s. Damman's private diary reveals at least 25 meetings with Grau from 1969 to 1973, as well as joint plans to set up a certain 'Collège de Coordination' in Cologne with Grau as President (Roth and Ender 1987, 73).

In 1966, Grau had been one of the founding Board Members and later Vice-President of the *Deutschland-Stiftung* (Germany Foundation), a political trust based in Munich which brought together many prominent German right-wing politicians under the prestige of its honorary President, former Chancellor Adenauer, and that of its frequent guest, Habsburg. The Foundation published the journal *Deutschland-Magazin* and awarded the Konrad Adenauer Prize, an event given Oscar-like coverage by the German conservative press.



Alongside Grau's more overt positions within the PEU and the *Deutschland-Stiftung*, the aptly named Mr Gray was the most significant covert operator within the CDU, acting as a bag-man for illegal election fund contributions from industry and various foundations for both the CDU and for its Bavarian sister party, Strauss' CSU. Grau soon became notorious for the ruthless tactics he used to support the conservative cause; he ran several smear and disinformation campaigns for the CDU/CSU through a network of anti-communist propaganda groups which he controlled. The earliest known outlet in his extensive network was the *Studiengesellschaft für staatspolitische Öffentlichkeitsarbeit* (Study Group on Political Communication, here called the Frankfurt Study Group or FSG), created in 1958 by Grau.

Throughout the 1970s, Grau's FSG was a key source of German anti-communist propaganda via its private newsletter entitled *intern informationen*, an existing bulletin that the Study Group took over in 1971. Although the FSG produced the bulletin, the legal publication address was that of a Swiss affiliate—putting Grau and the newsletter's contributors out of the reach of German law, and for good reason: the bulletin, which included contributions from BND officers, regularly published defamatory articles about Centre-Left politicians, focusing shortly after its creation on the SPD challenge from Brandt in the November 1972 elections. As one of the founding members put it in an interview with Swiss television, 'the Swiss branch was set up to ensure that the left-wing German government [under Brandt] can't touch us.' Grau gave a similar explanation during a meeting with militants of the neo-fascist NPD party in December 1973: 'We have compiled lists of Socialists, Reds and trades unionists. To be certain that only authorised people can get at them, we have deposited them in a vault in Switzerland' (*Die unheimlichen Patrioten* 1979, 431).

Grau's Swiss affiliate, the *Internationale Studiengesellschaft für Politik* (ISP, International Study Group for Politics), was founded in Interlaken in 1971 and was funded by a grant of 10% of the FSG's income. From 1972, the ISP acted as a major German-language outlet for anti-Soviet and anti-Left propaganda, in many ways similar to Crozier's ISC. The ISP held conferences on Soviet subversion of Western society with participants and speakers coming from the military, the police, and

the intelligence and security services of Switzerland, Germany and other European countries; typical titles of speeches included 'Is the Bolchevisation of Europe inevitable?' and 'The threat of German reunification—under the hammer and sickle!' Considerable support for the ISP was given by Habsburg and the AESP: the Austrian Archduke gave speeches and contributed articles to the FSG (from 1965), and several other German or Swiss AESP members worked as speakers for the ISP in the mid-1970s.

Alongside Grau, another German who joined the AESP in 1970 was Hans-Joachim von Merkatz, a senior CDU politician first elected to the Bundestag in 1949 as a member of the small *Deutsche Partei* (German Party). Merkatz served in the Cabinet (alongside Strauss) as Minister for Senate Affairs (1955–1961), and simultaneously as Justice Minister (1956–1957); during his ministerial office, he also represented Germany in the Council of Europe (CoE) Parliamentary Assembly (1951–1957). He switched party allegiance to the CDU in 1960 and served a second simultaneous mandate (1960–1961) as Minister for Expellees, Refugees and War Victims (the approximately 12 million ethnic Germans expelled by 1950 from the Central and Eastern European countries behind the Iron Curtain were a notable factor in post-war German politics). Leaving national politics in 1962, Merkatz served as German representative on the Executive Council of UNESCO (1964–1968) and in the CoE Parliamentary Assembly (1964–1969).

More significant than Merkatz's political career was his role in Paneuropean politics. In 1967, he replaced Coudenhove Kalergi as President of the German PEU section, serving on the PEU Central Council as Vice-President. This succession was the first victory for the Habsburg fraction of the PEU to which Merkatz belonged; he had been a member of Habsburg's CEDI since at least 1959. One of the most senior figures in CEDI, Merkatz served as its International President (1964) and later as a Vice-President, attending CEDI congresses until at least 1976. A Member of the Honorary Presidium of the *Deutschland-Stiftung* (from 1966), he also served on the Boards of several other organizations within the Cercle Pinay complex.

The third German member of the AESP in 1970 was Brussels-based EEC official, Rudolf Dumont du Voitel, a Board member of the

German PEU section. Dumont du Voitel was involved in the running of the AESP as a member of the core group, the Permanent Delegation; he also gave the AESP access to the European Community and the media, thanks to his position as Director of Radio, Television, and Film in the EEC's General Directorate for Press and Information from 1968 until his retirement in 1973.

Franco's government was well represented in the AESP in 1970. CEDI co-founder and senior Opus Dei member Sánchez Bella was one of the AESP's founding members; he had just taken over as Franco's Minister for Information and Tourism (1969–1973), a period during which he dramatically intensified censorship of the press, notably closing down the daily newspaper *Madrid* (November 1971). Sánchez Bella would remain a regular participant at Cercle meetings until at least the mid-1980s. A further Spanish AESP member was Sánchez Bella's immediate predecessor as Minister for Information and Tourism (1962–1969), Manuel Fraga Iribarne, an associate of Damman since 1963 and a contact of Crozier (1993, 72–74) from 1965. Long networked with the European Right, Fraga became a key partner in the Cercle complex and the leading Spanish conservative politician in the post-Franco era.

In the 1970 AESP membership list, André Voisin is credited as an advisor in the French Prime Minister's Private Office. Voisin also had other connections not mentioned by the AESP: he was one of Retinger's earliest collaborators and Vice-President of the EM, providing the AESP with a channel for contacts between the PEU and the EM. Voisin was also one of the founding members of the Bilderberg Group alongside Pinay and Pierre de Bonvoisin, having attended the original September 1952 meeting.

An Italian member of the AESP in 1970 is of particular note: Ivan Matteo Lombardo, a textile industrialist and director of several American companies in Italy, who had been one of the most prominent Italian politicians in the immediate post-war period, serving first (1945–1946) as Under-Secretary for Industry and Commerce under Parri and de Gasperi's first coalition and then (1947) as the Italian Ambassador Extraordinary who negotiated post-war reparations with the American government.

The same year, as Secretary-General of the Socialist Party, Lombardo worked with future Italian President (1964–1971), Giuseppe Saragat, to oppose a Socialist-Communist electoral alliance, leaving the Socialist Party to form the right-wing PSLI (later PSDI). He subsequently served (1948–1950) as Minister for Industry and Commerce in de Gasperi's fifth government elected in April 1948 after massive intervention by the CIA, before changing briefs (1950–1951) to become Minister for Foreign Trade in de Gasperi's sixth Cabinet (Laurent 1978, 302). In 1951–1952, he was the Italian representative at the Paris Conference which launched the European Defence Community (May 1952); Prime Minister Pinay signed for France, but the French National Assembly rejected ratification (August 1954).

Lombardo was a frequent participant at early conferences on the defence of Europe against Soviet subversion: in December 1960, he served with Pinay and Albertini on the Sponsors' Committee of the 'First International Conference on Soviet Political Warfare' organized by the veteran anti-communist activist, Suzanne Labin, future head of the French chapter of WACL. Labin and Lombardo were among the earliest members of WACL following its foundation (1966) and first conference (October 1967). The December 1967 first issue of *Damoclès*, the journal of the Belgian section of the *Ligue Internationale de la Liberté*, notes: 'The International League For Freedom, directed by Mme Suzanne Labin and Mr Yvan [sic] Matteo Lombardo, is currently composed of a French section, an Italian section, and a Belgian section,' the latter run by its Secretary-General Paul Vankerhoven; these three national LIL sections formed part of the official WACL Chapters in their respective countries.

Lombardo had previously attended the Seoul 1962 conference of the Asian Peoples' Anti-Communist League, forerunner of WACL; he was President of the Italian section of WACL in the 1960s and 1970s. In 1967, he was one of the founding Chairmen (and later President) of the EFC; Labin chaired the EFC Information Committee. The EFC shared its offices in Zeppeinstrasse 67 in Munich with the ABN exile group, and the two organizations held joint international congresses.

Lombardo was also active internationally within the Atlantic Treaty Association, of which he was Vice-President and (from 1959)

President; in 1955, he was the founding President of its Italian section, the *Comitato Italiano Atlantico*. In 1965, the *Comitato* called for the Carabinieri and Italian police to be given powers to intervene in Italian domestic politics to protect the NATO alliance. The same year, Lombardo was one of the speakers at the Parco dei Principi conference of the Alberto Pollio Institute that gave birth to the Italian strategy of tension, described below. In his presentation, 'Permanent Communist War against the West,' he called for 'universal counter-guerrilla warfare.' By this time, he evidently had considerable international outreach—the closing speaker at the Parco dei Principi meeting, Colonel (later Major-General and WACL member) Adriano Magi-Braschi, mentioned that he had 'had pleasure in meeting Mr. Lombardo in the most diverse parts of the world.' Lombardo spoke at the Alberto Pollio Institute's follow-on conferences (1966 and 1968) as well as a later conference on 'Unconventional Warfare and Defence' (June 1971).

According to the Italian Press, Lombardo was implicated in the 1974 Sogno coup (*L'Espresso* 17/12/1974; Willan 1991). In a post-humous memoir, Count Edgardo Sogno described how he visited the CIA station chief in Rome (July 1974) to inform him of his plans for an anti-communist coup: 'I told him that I was informing him as an ally in the struggle for the freedom of the West and asked him what the attitude of the American government would be. He answered what I already knew: the United States would have supported any initiative tending to keep the communists out of government' (cited by Willan 2001).

Another key Italian member of the 1970 AESP was its main financial backer, industrialist Carlo Pesenti, who had been active with Violet in hardline Catholic groups since the 1950s. Pesenti was President of Italcementi and of the Italmobiliare group active in banking, insurance, and the regional press. From 1956, Pesenti had also owned the Lancia car brand; a few months before joining the AESP, he had sold the loss-making enterprise to FIAT.

Only eight months after its relaunch, the Academy had succeeded in bringing together the leadership of the PEU, CEDI, the EM and the expanded Cercle Pinay, including all the key personalities involved in conservative campaigns for European Union. Internationally, it could

call on friends in high places who belonged to the Bilderberg Group. On a European political level, the Academy's members included former or serving Ministers from France, Germany, Belgium, Italy, and Spain; at the same time, behind the scenes, the AESP shared common ground with the Italian and Portuguese neo-fascist terrorists of AN and *Aginter Presse*.

## The Strategy of Tension in Italy

The Paneuropeans and Europe's covert conservatives were not the only people to mobilize; in the mid-1960s, the forces of renascent fascism in Europe regrouped, most notably in Italy and Portugal. In Italy, General Giovanni De Lorenzo was appointed head of the Italian secret service SIFAR (December 1955) and Commandant of the Carabinieri (October 1962–January 1966). Both SIFAR and the Carabinieri came under the authority of the Defence Minister, a post filled (February 1959–February 1966) by longstanding Cercle member Giulio Andreotti. De Lorenzo then served as Chief of the Army General Staff until he was dismissed for having spied on the Italian government (April 1967). Andreotti was entrusted with the destruction of the voluminous files De Lorenzo had built up on prominent Italian public figures, but it later transpired that, prior to their destruction, the files had been copied and given to Licio Gelli, Grand Master of the P2 masonic lodge. In May 1968, De Lorenzo was elected as a monarchist MP, joining the far-right *Movimento Sociale Italiano* (MSI) in 1971; he died in 1973.

De Lorenzo was a major figure in the Italian strategy of tension, particularly during his time as head of the Carabinieri. Following the 1963 elections, in which the Communists gained 25% of the vote, De Lorenzo used his unprecedented powers to launch a vast anti-communist operation which started with the training of the 'gladiators' the same year. Simultaneously, with some twenty top Carabinieri commanders, De Lorenzo finalized Plan Solo, a coup d'état scheduled for summer 1964. Opposition to the coup would be minimized by a wave of preventive arrests based on the files that De Lorenzo had built up on

157,000 people since 1959 (Bull 2012, 4). The coup was cancelled at the last moment as the result of a pact between the Socialists and the DC, but De Lorenzo continued planning for a later coup, setting up an anti-communist resistance network within the Carabinieri and the secret services codenamed *Rosa dei Venti* (Compass Rose).

In 1964, under De Lorenzo's guidance, SIFAR (renamed SID in 1965) funded the creation of the Alberto Pollio Institute which, the following year, organized the now infamous conference which marked the ideological birth of the strategy of tension. Held in the Parco dei Principi hotel (3–5 May 1965), the conference was attended by the elite of the Italian military and the extreme Right, including Delle Chiaie. Delle Chiaie's group *Avanguardia Nazionale* (AN, National Vanguard) had been founded in 1959 with funding from Pesenti. AN had been preparing for a strategy of tension since the spring of 1964 when the Italian neo-fascist militants had followed courses in terrorism and psychological warfare, later being offered support by the Greek military junta (1967–1974). AN was also part of the covert kidnapping and assassination network set up by the intelligence services of the Latin American dictatorships, codenamed Operation Condor. In Rome on 6 October 1975, AN attempted to assassinate former Chilean Interior Minister and prominent Pinochet opponent Bernard Leighton and his wife—reportedly as a 'favour to Pinochet who had direct contacts with and the full support of Delle Chiaie' (Bull 2012, 39).

As well as AN militants Franco Freda and Giovanni Ventura, another close associate of Delle Chiaie's during this period was Guido Giannettini, a journalist on military affairs, expert in revolutionary warfare and SIFAR/SID informant. A veteran of neo-fascist circles, Giannettini also had high-level transatlantic connections: in 1961, he had been invited to give a presentation at the US Naval Academy in Annapolis on 'The techniques and possibilities of a coup d'état in Europe,' a lecture attended by Pentagon officials and CIA officers. Giannettini did not confine himself to theory, giving shelter to former OAS members who had fled to Italy after their abortive coup attempt in 1962. While visiting Franco's Spain in 1962, Giannettini was awarded the honour of 'Captain of the Crusade' by the OAS for his services (Christie 1984; Laurent 1978; Bale 1987, 2–18;

Willan 1991, 123–124, Chapters 6 and 7). Through his contacts with SIFAR/SID, Giannettini could also ensure a certain degree of protection for Delle Chiaie's militants. Giannettini and Delle Chiaie both attended the 1965 Parco dei Principi conference along with AESP founding member Lombardo; Giannettini gave a presentation on 'The variety of techniques for the conduct of revolutionary warfare,' a subject he had tackled in his 1962 book, *The techniques of revolutionary warfare*. The year after the Parco dei Principi conference, the Italian far-right and the OAS joined forces in September 1966 to set up the now-notorious revolutionary neo-fascist group, *Aginter Presse*, based in Lisbon under Salazar's protective wing. *Aginter Presse* was run by former OAS activist Ralf Guérin-Sérac (Yves Guillou), together with Delle Chiaie. Another of *Aginter Presse*'s Italian contacts was Giannettini, one of the most active *Aginter Presse* members, responsible for liaising between *Aginter Presse*'s Lisbon offices, Delle Chiaie's AN and the Italian secret services. After the cancellation of De Lorenzo's Plan Solo in 1964, the Italian strategy of tension was launched (April 1969) with AN's bombing of the FIAT pavilion at the Milan Fair. By the end of this first year of terror tactics, 149 bomb attacks had been launched in Italy, as compared to fifty in the four years from 1964 to 1968.

Another coup attempt was launched on the night of 7 December 1970. In Operation Tora Tora, now known as the Golpe Borghese after its neo-fascist leader 'Black Prince' Borghese, the putschists, including Delle Chiaie and other AN and *Fronte Nazionale* militants, seized the Ministry of the Interior—but then withdrew, abandoning the operation on 'orders from above.' News of the coup attempt was suppressed by SID, and none of the participants was prosecuted. Amongst those implicated in the Golpe Borghese were several ISSED members in Rome, an Italian body that closely cooperated with Crozier's ISC.

ISSED's founder, General Diulio Fanali, a former Chief of General Staff of the Air Force, was one of those accused with Delle Chiaie and Giannettini of involvement in the Golpe Borghese. Fanali's name also cropped up in the judicial inquiry into the Compass Rose covert network. The Director of ISSED's magazine, *Politica e Strategia*, was Filippo de Iorio, a close friend of Andreotti with links to the Italian secret service. A future member of the P2 lodge (run by Licio Gelli),



de Iorio was forced to flee Italy after being implicated in the Golpe Borghese with Fanali, Giannettini, and Delle Chiaie. The co-Director of the ISSED magazine was Eggardo Beltrametti, who with Giannettini was one of the speakers at the 1965 Parco dei Principi conference. Beltrametti was also mentioned alongside Giannettini during the judicial inquiry into the Milan bombings which launched the strategy of tension (Laurent 1978, 304; Roth and Ender 1987, 54; Willan 1991, 41, 95; González-Mata 1979, 78).

## Great Britain

### The Monday Club and SIF

Besides its intelligence and industrial sponsors, the ISC also gained considerable political support, particularly in the climate that followed Conservative candidate Edward Heath's June 1970 election victory. The main political group echoing the ISC's concerns on communist subversion was the Monday Club which included many MPs, several of whom were veteran British intelligence operatives. The Club had been set up within the Conservative Party in 1961 to bring together defendants of apartheid South Africa and 'White' Rhodesia who opposed the new decolonization policy announced by Conservative Prime Minister Harold Macmillan in his 1960 'winds of change' speech. One of the earliest members of the Monday Club, joining in 1962, was the Catholic traditionalist Sir John Biggs-Davison, a Conservative MP from 1955 until his death in 1988. A stalwart in the Monday Club, Biggs-Davison served as its President (1974–1976).

The Monday Club MP Julian Amery (a future Chairman of the Cercle Pinay) had a long history of extensive intelligence contacts. Having served in the Balkans with MI6's Section D and the SOE during the war, he was one of the major figures who pushed MI6 in the immediate post-war period to adopt its disastrous plan 'to liberate the countries within the Soviet orbit by any means short of war,' notably the catastrophic attempts to 'set the Soviet Union ablaze' by landing armed bands of émigrés in Albania, Latvia, the Caucasus and the

Ukraine. In June 1950, Amery attended the founding CCF conference and served on its International Steering Committee; he sat on the Board of the British Society for Cultural Freedom, alongside Goodwin (the future ISC Administrative Director), and was one of the leading members of the Central and Eastern Europe Commission of Retinger's EM. Amery also sat in the Council of Europe Parliamentary Assembly (1950–1957) and on the PEU's Central Committee (mid-1950s) (Saunders 1999, 76, 88, 110; Crozier 1993, 15).

Sir Stephen Hastings, one of Amery's oldest political allies in the Monday Club, was a Rhodesian-born Old Etonian. During the war, Hastings had served with Colonel David Stirling in North Africa as one of the founding members of the SAS before moving to SOE and fighting in France. In 1950, he joined MI6 and was stationed first in Helsinki (until 1954) and then in Paris (until 1958), reporting on the French side of the Suez invasion and on de Gaulle's rise to power. His colleague and close friend at the MI6 station in Paris was Christopher Phillpotts, a future Head of MI6 Counter-Espionage. In 1958, Hastings was posted to Cyprus, serving alongside MI5 officer Peter Wright who worked extensively with Phillpotts in the molehunts of the late 1960s. Disgusted with the outcome of the Suez operation, Hastings left MI6 (1960) and was elected as Conservative MP; his first appearance in the House of Commons was sponsored by Amery, then Aviation Minister. Hastings then joined Amery in the Monday Club as one of the Club's eleven MPs (1963). In 1965, Amery and Hastings campaigned with newly elected Conservative MP Cranley Onslow against the cancellation of the nuclear-capable TSR2 strike aircraft. Onslow shared Hastings' and Amery's intelligence connections, having served in MI6 (until 1960); he worked briefly for IRD before being elected to Parliament (1964–1997).

The Monday Club also included the later Conservative MP (1970–1974) Geoffrey Stewart-Smith, founder in 1962 of the FAC, the British section of WACL until 1974, which produced the hard-line anti-Soviet journal *East-West Digest*, a fortnightly publication sent free of charge to all MPs. Stewart-Smith later created the FAPC, which continued the *East-West Digest* and published many works by Crozier and other figures on the British Right. As well as distributing the publications of

the four British anti-union groups (AOI, CC, EL, and IRIS), the FAPC also acted as British distributor of Dutch Interdoc publications.

Another and very significant Monday Club member was G.K. Young, a veteran MI6 coup-master closely involved in MI6's Albanian landings in the immediate post-war period, strongly supported by Amery. Unfortunately for all concerned, the top MI6 officer in Washington liaising with the CIA for the operation was Philby, who promptly blew it to the KGB. As MI6 head of Middle Eastern operations, Young was later a key figure in Project Ajax, the 1953 coup against Mossadegh in Iran. He also served as MI6 Director of Requirements, re-organizing MI6 intelligence-gathering in the 1950s before taking early retirement as Deputy Chief of MI6 (1961) and joining the merchant bank, Kleinwort Benson.

Young was brought into the Monday Club by Biggs-Davison in 1967, and was largely responsible for the Monday Club's rapid lurch to the extreme Right, particularly on the issues of immigration and subversion. In 1969, the Monday Club published Young's *Who Goes Home*, an anti-immigration pamphlet that stirred up controversy due to its call for mandatory repatriation of black people. Besides running the Halt Immigration Now Campaign (HINC) from within the Monday Club, Young chaired the Monday Club Action Fund (1967–1969), which he used to pay for his supporters to work in Monday Club regional offices. As a trained intelligence officer, Young planted his cadres throughout the Monday Club's national and regional groups; Young's ally, Meetings Secretary Bee Carthew, controlled the Monday Club's administrative structure.

In January 1970, the Monday Club Subversion Committee chaired by Ian Greig organized a seminar on subversion—the panel included Greig, Young, Charles Lyons (FBI) and Sir Robert Thompson (ISC). Young and Greig's preoccupation with subversion was shared by the main speaker: General De Lorenzo, former head of SIFAR and the Carabinieri and main actor in the aborted 1964 coup attempt, Plan Solo. De Lorenzo, by then elected as a monarchist MP, had been invited by Young, who was an expert on Italian Fascist policing methods. Posted to Rome just after the war, Young had dismantled the German and Italian intelligence networks for MI6 in close cooperation with

his OSS X-2 counterpart (1945–1947), James Jesus Angleton, later the legendary (and notorious) chief of CIA Counter-Intelligence from 1954 until his dismissal in December 1974, and thereafter a powerful focus of opposition to restriction of the CIA until his death in 1987. De Lorenzo's speech to the Monday Club came midway between the beginning of the Italian far-right strategy of tension (April 1969) and the Golpe Borghese (December 1970). At the time of his visit, De Lorenzo was also a key figure in the Compass Rose network within the Carabinieri and the secret services; a major component in the Italian *Gladio* network, Compass Rose was later implicated in a further coup planned for the spring of 1973 (Christie 1984, 35–36; Willan 1991, 99–102 *et seq.*; Willems 1991, 78–96).

As the same time as he was taking over the Monday Club, Young tightened his grip on another right-wing group, the Society for Individual Freedom (SIF). By 1970, Young had become SIF Chairman; the remaining posts on the SIF National Executive were filled by his allies, such as Biggs-Davison and Gerald Howarth, SIF General Secretary (1969–1971), member of the Monday Club National Executive Council (1971–1972) and Young's Monday Club Immigration Committee. Howarth would later serve as David Cameron's Minister for International Security Strategy (2012–2014). Other associates of Young on the SIF National Executive included Ivens (AOI Director, 1971–1992), and Ross McWhirter, who with his brother Norris was a veteran figure on the British ultra-right and editor of the *Guinness Book of Records*.

Also on SIF's National Executive member was the Conservative MP (1951–1987) Sir Frederic Bennett, Chairman of the SIF Parliamentary Committee and a close associate of SIF President and Monday Club member Sir John Rodgers.<sup>5</sup> Besides his parliamentary role, Bennett was also Senior Director of the Kleinwort Benson bank which Young joined in 1961; Bennett later assisted Young in creating the 'private

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<sup>5</sup>Rodgers was a Conservative MP (1950–1979) who became SIF President in 1970. A CEDI regular since at least 1963, Rodgers was CEDI International President (1965–1967) and by 1978 an AESP Life Member (Toczek 1991, 15–16).

army' Unison in 1974–1976. Bennett was also a stalwart member of the Bilderberg Group, attending fourteen annual Bilderberg conferences between 1963 and 1984. His significance within the Bilderberg Group can be judged by the fact that Bennett was chosen as host for their 1977 conference, crucial for the restoration of the Bilderbergers' tarnished reputation after the Lockheed bribe scandal which led to the cancellation of their 1976 conference and the resignation in disgrace of the longstanding Bilderberg President, Prince Bernhard of the Netherlands.

In 1970–1971, SIF was active in opposing demonstrations by the 'Stop The Seventy Tour' campaign chaired by the Young Liberal Peter Hain to protest against tours of the United Kingdom by South African cricket and rugby teams: one photograph illustrating a SIF action shows Young, Howarth, Biggs-Davison and McWhirter carrying an urn of 'ashes of English liberty.' In 1971, SIF set up the Hain Prosecution Fund which raised £20,000; its Chairman was Ross McWhirter, its Treasurer was Howarth. Gordon Winter, one of BOSS' key agents in London working under journalistic cover (including seven years for Crozier's FWF), had regular meetings with Howarth to coordinate BOSS/SIF collaboration. Winter was cautious about SIF however, as his BOSS handler had informed him that SIF was a British intelligence front run by two senior British intelligence operatives—Young and McWhirter. On Young, the information was certainly correct.

As a 'journalist,' Winter attended all of the matches during the Springboks' tour with the task of photographing the demonstrators for BOSS files. Winter then offered Howarth over one thousand mugshots of the demonstrators as well as his 60-page report for BOSS on the tour and on Hain's anti-apartheid campaign. Winter also offered to stand as the main witness in SIF's private prosecution of Hain but withdrew at the last moment on orders from BOSS, who wanted him to maintain his cover for a much more important task—the ultimately successful attempt to smear Liberal leader Jeremy Thorpe (Winter 1981, 382–383).<sup>6</sup> BOSS later used a double in an attempt to frame

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<sup>6</sup>Andrew's (2010, 636) authorised history of MI5 unsurprisingly described Winter as 'mendacious and unreliable.' Both Andrew and Winter are further discussed in *Rogue Agents*.

Hain (1986) for a bank robbery in Putney (October 1975). A month before Hain's trial, he escaped a letter-bomb posted from Vienna; the bank robbery charge against him was ultimately dismissed. Calls for a parliamentary inquiry into BOSS activities in Britain were rejected (May 1976).

## Unison, NAFF, Shield and FARI

Although it was an 'unattributable' asset, the ISC developed unprecedented links with the State by lecturing on subversion not only to industry but also to the British Army (including the SAS) and at the National Police College. In 1972, John Alderson, Commandant of the Bramshill Police College, wrote to ISC Senior Researcher Janke requesting their assistance in developing a course on terrorism and counter-subversion. As Janke wrote in a report of his visit to Bramshill in July 1972, 'the Commandant assured me that he would like to keep in touch more frequently with the Institute and would bear very much in mind our capacity to be of service to Bramshill' (*Searchlight* November 1976, 4).

Following this collaboration between the ISC and Bramshill, 'as a sign of renewed mutual confidence,' IRD commissioned the ISC to produce a *Manual of Counter-Insurgency*, consisting of a series of seven separate *Counter-Insurgency Studies*. 'This enabled IRD to distribute the studies selectively, according to the character of the government at the receiving end,' (Crozier 1993, 104); despite the stamp 'for official use only,' the Foreign Office might indeed not have wanted to distribute studies such as *Psychological and Information Measures* and *The Rehabilitation of Detainees* too widely.

The *Manual of Counter-Insurgency* might have 'contributed significantly to the international reputation of the ISC' but it was also stepping on someone else's bureaucratic turf: 'IRD had always had its enemies within the Foreign Office, however. With some logic, many high officials objected to its involvement in domestic affairs... Logically, a counter-subversion organisation should have been run by the Home Office.' This concern within the Foreign Office led in 1973 to what

Crozier (1993, 104) calls 'the IRD massacre,' when the IRD budget was removed from the secret vote, unattributable briefings were ended and a quarter of IRD's 400 staff were transferred elsewhere in the Foreign Office. Although depriving the ISC of a powerful patron, the reduction in IRD activities made the ISC even more important as a propaganda outlet.

The ISC's role as consultants in counter-insurgency led them to study Northern Ireland. The ISC Council minutes from January 1972 mention an ISC conference on Ireland that was held at Ditchley Park under conditions of extreme secrecy. Ditchley Park is a conference centre at Enstone in Oxfordshire used for private VIP meetings which are guarded by Special Branch and MI5. Ditchley Park was closely linked to the Bilderberg Group, fourteen of whose members sat on the centre's Board of Governors at one time or another (Eringer 1980, 37–40). One of the results of the ISC's Ditchley Park conference on Ireland seems to be the creation in November 1972 of the British-Irish Association, founded by Hamilton, FWF Managing Director and later ISC Editorial Director. Other BIA founding members included Moss and Crozier, the latter specifically asking for his name not to be included in the list of BIA sponsors.

Another major domestic ISC campaign in 1972–1973—without the support of the secret services, Crozier claims—was to support counter-subversion operations run by industry, a campaign which in February 1974 gave the ISC its greatest media coup. In January 1972, the Deputy Director-General of the Confederation of British Industry (CBI), John Whitehorn—'one of our converts' (Crozier 1993, 106)—had sent out a long memorandum to all CBI subscribers in which he expressed 'the concern of industry at the rise of subversive influences in British industry' and appealed for contributions to five 'anti-subversive organisations' (*Morning Star* 31/1/1976).

Four of these groups were already well-known for their reports on industrial subversion and the blacklists of militant trade unionists that they supplied to employers (EL, AOI, CC, and IRIS); the fifth was the ISC. By spring 1972, Crozier (1993, 106) 'had decided that a special study on subversion in industry had become necessary; the stark fact was that the trades unions virtually *owned* the Labour Party.'

As industry was being slow to support the ISC campaign, Crozier asked future Conservative Chancellor Nigel Lawson, whom Crozier had known at the *Spectator*, to produce a brief report entitled *Subversion in British Industry*.

In November 1972, thirty copies of the Lawson report were printed and distributed to the captains of industry, with assistance from Dettmer (EL Chairman) and Ivens (AOI Director). The Lawson report succeeded in raising the funds to convene an ISC study group on subversion in industry which began working in autumn 1973. The backdrop at the time was the confrontation between the unions and the Heath government over the 1971 Industrial Relations Act, culminating in Heath calling an election (February 1974) under the slogan ‘Who governs Britain?’ ‘Just before polling day, the Institute’s report, *Sources of Conflict in British Industry*, had been published with unprecedented publicity’ (Crozier 1993, 107). This media coup was a major contribution by the ISC to a concerted campaign against the Labour leader, Wilson.

A substantial body of verified information confirms the existence of sustained efforts to undermine Wilson’s Labour Government (1974–1976), to discredit Liberal leader Thorpe (1967–1976) and to have Conservative leader Heath (1965–1975) replaced by someone of a ‘more resolute approach.’ Colin Wallace—a former psy-ops officer within the IRD-founded Information Policy Unit (Infpol) in Northern Ireland and a key witness on MI5 intervention in domestic British politics in the 1970s—writes: ‘Various key members of the Intelligence community—past and present—assisted by influential figures in the public service, politics and commerce produced a series of political and psychological warfare projects which were designed to:

- prevent the election and re-election of a Labour Government;
- prevent any coalition between the Labour and Liberal parties;
- discredit key figures in both parties;
- collate and disseminate “black” information which could be used to discredit or “control” various politicians who were deemed to hold power behind the scenes in all three major political parties;



- have Mr. Edward Heath removed as leader of the Conservative party and replaced by someone of a more resolute approach to the political and industrial unrest.' (cited by Ramsay and Dorril 1986; Foot 1990)

The conspirators can roughly be divided into two groups. The first centred on serving MI5 officers including *Spycatcher* author Wright (1987) and others who had transferred from MI5's K Branch (counter-espionage) to F Branch (counter-subversion) when MI5 strengthened its role as a political police in the mid-1970s. This was notably the case of Charles Elwell who transferred from running K2 (Soviet satellite states) counter-espionage to heading F1 (Communist Party of Great Britain, CPGB, and other groups) counter-subversion in April 1974 before working closely with Crozier after his retirement from MI5 (May 1979).

The second group was a powerful private-sector coalition of retired MI6 officers, IRD disinformation assets and prominent members of the Tory Right, several of whom later served as Ministers under Thatcher. While the British press has concentrated on Wright and his MI5 faction in their late-1980s reports of the Wilson destabilization, the ex-MI6/IRD/Tory MP coalition and their partners in the industry-funded anti-union organizations were also major actors in the psychological warfare campaign being waged against all three party leaders. This coalition—the 'counter-subversion lobby'—was closely connected with the ISC (which received considerable support from the Cercle Pinay) but also with Crozier's future group, the National Association For Freedom (NAFF).

The February 1974 election was held against the backdrop of widespread MI5 smear campaigns about a 'Communist cell in the Labour Party'; Wilson was placed under blanket surveillance by MI5 during the campaign. For the first time, troops and tanks were deployed at Heathrow airport, and joint Army/police patrols started.

The *Times* (18/1/1974) reported that the CIA and NSA were stepping up counter-subversion operations in Britain; former senior CIA officer Miles Copeland declared that MI5 had their hands tied and were too timid to expose subversion. The *Times* (25/1/1974) published

largely unfounded allegations by Josef Frolik, a Czech intelligence defector to the CIA, who claimed that several Labour MPs were spying for the Soviet Union. Frolik was a key witness for the counter-subversion lobby and the ultras within MI5, 'confirming' their fears that the Labour Party was indeed a nest of Soviet spies; it is perhaps not coincidental that the MI5 officers in contact with Frolik had been Wright, 'leader' of the ultra faction, and Elwell, Crozier's partner in anti-Labour smear operations throughout the 1980s.

The *Daily Telegraph* (28/1/1974) carried a full-page article entitled 'Communists Aim to Dictate Labour Policy' which described 'the grip of Communist trades unionists on the Labour government.' The contribution of the anti-union outfits to cranking up the tension was considerable: AOI (run by SIF's Ivens) launched an appeal for £500,000 to prevent the election of a Labour government. The considerable sums raised from AOI's 4000 member companies paid for a massive media scare campaign which ran newspaper adverts depicting Stalin hiding behind a grinning mask (*Times* 6/7/1973).

Another important contributor to the media barrage was the veteran MI6 coup-master, Young (1984), who in April 1973 stood as Monday Club Chairman, lost by 455 votes to 625, and resigned, as did several of his supporters. Besides rallying the Monday Club dissidents in a new group Tory Action (November 1974), founded with Conservative MP Airey Neave (1953–1979), Young also developed another tack, working in 1974–1976 with his colleagues from SIF (Ross McWhirter and Bennett) as well as two former MI6 officers, Anthony Cavendish (1990) and Colonel Ronnie Waring of CEDI, to set up the Unison Committee for Action, a citizens' militia to keep essential services running and perhaps the most significant of the three private armies formed in the mid-1970s.

Unlike the militias formed in Belgium in the early 1970s and early 1980s, the private armies in Britain may well have been not primarily a paramilitary but a psychological operation—a 'Political Action' in MI6 jargon. Unison may have only been intended to be a 'paper tiger,' whose aim of strengthening the public feeling of a climate of disorganization and impending chaos (and therefore the need for an authoritarian government response) was achieved simply by the news of its creation.

That news came on 1 February 1974, when Young first announced the formation of Unison to *Daily Express* journalist and MI5 friend Chapman Pincher.

Two days later, the ISC followed with a major media coup when the *Observer* devoted over a page to a summary of the ISC's Special Report *Sources of Conflict in British Industry* under the banner headline 'The Communist Connection.' Written by Lawson using information from the ISC's right-wing anti-union partners (AOI, EL, CC, and IRIS), the ISC report claimed that the unions were rampant with 'red wreckers' plotting to bring British industry to its knees. Eight days before the election, the *London Evening News* (20/2/1974) carried a claim by Young that there were '40 or 50 Labour MPs for whom the Labour ticket is a cover for more sinister activities.' Another element in the anti-union campaign was death threats against union leaders; the police took the threats seriously enough to arrange for police protection for several Trades Union Congress officials (Dorril and Ramsay 1991, 229–233).

Despite this barrage of propaganda, the February 1974 election gave no party a clear majority. After the Liberals refused a coalition with the Conservatives, Heath was forced to resign. The counter-subversion lobby's fears had become reality; having won the largest number of seats, Labour formed the new government. However, Wilson had an unworkably small majority, and so-called a second election for October. Between the two elections, MI5 and the counter-subversion lobby worked to ensure a Labour defeat.

One major focus for their campaign was Northern Ireland. While MI5 tacitly encouraged the May 1974 Ulster Workers' Strike in which the Loyalists rejected and eventually brought down Labour's policy of power-sharing, the Army did nothing to break the Loyalists' grip. At the same time, at IRD's Information Policy Unit in the Army Press Office in Northern Ireland, Wallace received floods of MI5 smears on several dozen Westminster MPs from the Centre-Left of the Tory Party, the Liberal Party and the Labour Party, including Wilson and most of his Cabinet Ministers as well as both other party leaders, Thorpe and Heath. Using the MI5 files, Wallace was tasked to create disinformation documents as a part of a comprehensive smear operation called Clockwork Orange 2, also referred to as Carbon Dioxide.

In June 1974, the three major private armies—Young's Unison, Sir Walter Walker's Civil Assistance and Stirling's GB75—were exposed in the press, as was probably their original intention. In June, July, and September, troops and tanks again appeared at Heathrow Airport while the Army continued joint patrols with the police. In August, Stewart-Smith joined in the anti-Left campaign by publishing a brochure, *The Hidden Face of the Labour Party*, which claimed that 'over 10% of all trades union officials in the major industrial unions are Communists or far left-wing revolutionary Marxists.' However, the smear campaigns and 'reds under the beds' scare tactics were not enough to ensure a Conservative victory; in the October 1974 election, Labour scraped through with a majority of three seats.

The propaganda barrage, however, continued: Frolik's allegations were revived through the intermediary of Czech exile Joseph Josten, the Director of the Free Czech Information News Agency, which was close to MI6. Josten had served with Supreme Headquarters Allied Expeditionary Force's Psychological Warfare section during the Second World War and immediately after the war had won the Czech Defence Ministry's prize for his study *Propaganda and Peace during the War* before leaving Czechoslovakia in 1948. In 1974–1975, Josten was in close contact with the counter-subversion lobby; he joined ISC, SIF, and Monday Club members in NAFF the following year, and later wrote an ISC Conflict Study.

On 11 February 1975, Heath was deposed as Conservative Party Leader and replaced by a relatively unknown outsider, his former Education Secretary, Thatcher, whose leadership campaign had been run by Tory MP and former MI6 officer Neave, who played a central role in the pro-Thatcher campaign together with Wright and the MI5 ultras, Young and the Crozier complex. During the war, Neave had served in MI9, the escape network of MI6, after having been imprisoned in Colditz Castle along with two other key figures in the counter-subversion lobby: Stirling, founder of the SAS and creator of the private army GB75, and MI5's Elwell who later handled Frolik with Wright.

With a new hard-right leader at the helm of the Conservative Party, the counter-subversion lobby's campaign continued. On 26 February 1975, a House of Lords debate on 'Subversive and Extremist Elements'

again aired the Frolik allegations, a debate initiated by Lord Chalfont (Lieutenant-Colonel Alun Arthur Gwynne Jones), a former military intelligence officer who had served in Malaya (1955–1957) and then in Cyprus (1958–1959) alongside Hastings (MI6) and Wright (MI5). After leaving the Army (1961), he became the *Times* defence correspondent until he was ennobled as Baron Chalfont by Wilson and appointed Minister of State at the Foreign and Commonwealth Office and then Minister for European Affairs and Minister for Disarmament (1964–1970).

During his ministerial career, Chalfont was chief British negotiator for the Nuclear Non-Proliferation Treaty and represented Britain within the Western European Union; he also negotiated British entry into the EEC (1967–1969), a move ultimately vetoed by de Gaulle. Following Wilson's election defeat, Chalfont became the Opposition chief spokesman on Defence and Foreign Affairs (1970–1973). Leaving the Labour Party in protest at the 'radical left,' he rapidly veered rightwards to become a significant outlet for the counter-subversion lobby, particularly through his defence articles in the *Times* and television programmes. Allegedly 'the CIA's man in the House of Lords,' Chalfont had certainly been a member of the Executive Committee of the CIA-funded EM.

Shortly after the Cercle launched an international campaign to raise the ISC's profile in summer 1975, a new organization was formed in Britain to bring together the various groups that were 'concerned about the relentless spread of subversion' (Crozier 1993, 118). The new group, NAFF, was formed in July 1975 (although not formally founded until December). NAFF's first action (August 1975) was to organize a seminar on subversion where veteran espionage journalist and MI5 friend Chapman Pincher served as guest speaker; unsurprisingly, Pincher was later a major media outlet for the anti-Campaign for Nuclear Disarmament (CND) propaganda produced by Crozier's private intelligence service, the 6I. By mid-1977, NAFF boasted 30,000 members (*Scotsman* 8/8/1977). The list of members of NAFF's Executive and National Council shows that the new alliance was a merger of SIF, the ISC and the Tory Right, including many of the figures involved in the anti-Labour operations of the previous few years.

Alongside the ISC's Robert Moss on NAFF's Executive was Norris McWhirter (a member of SIF's National Executive, and author with his brother, Ross, of the NAFF Charter) and Ivens, Director of AOI—which had bankrolled many of the anti-Labour operations in the early 1970s; it also provided start-up capital for NAFF. Like McWhirter, Ivens had also served on the SIF National Executive. AOI was further represented on the National Council of NAFF by William E. Luke (AOI Board member since 1958). A former MI5 officer during the war, Luke later served as Chairman of the London Committee of the South Africa Foundation and in 1965 was the founding Chairman of the UK-South Africa Trade Association, active in the pro-Pretoria campaign (*Great White Hoax* 1977, 59–60).

NAFF's National Council also included Crozier, who provided NAFF with their first offices—in Kern House, headquarters of FWF. Several other ISC associates served on NAFF's National Council, among them the Czech exile Josten and Dr. Kenneth Watkins, an author of pamphlets published by AOI. A month before NAFF's foundation, Watkins had joined an ISC Study Group on Communist subversion in higher education whose findings were published as an ISC Special Report, *The Attack on Higher Education* (September 1977).

With Crozier on NAFF's National Council was Young—ex-Deputy Director of MI6 and founder of Unison. As SIF Chairman, Young brought with him into NAFF almost all of SIF's leaders; besides McWhirter and Ivens (who served with Moss as NAFF's 'inner core' on the Executive), this included Bennett (Bilderberg Group, Chairman of the SIF Parliamentary Group, Unison), and Biggs-Davison (then Chairman of the Monday Club, member of the SIF National Executive). Biggs-Davison was joined in NAFF by other top Tory MPs from the Monday Club, notably the former MI6 officer Hastings and Churchill. Biggs-Davison and Churchill were soon to be appointed Thatcher's opposition junior frontbench spokesmen on Northern Ireland and on Defence, respectively. Also on NAFF's National Council were three other members of Thatcher's Shadow Cabinet who later held ministerial office in her government: Rhodes Boyson, David Mitchell, and Nicholas Ridley.

NAFF's National Council also included three senior military figures, two of whom served on the ISC Council: Vice-Admiral Sir Louis Le Bailly, who had recently resigned as Director-General of Intelligence at the Ministry of Defence (*Time Out* 8/7/1977), and Sir Robert Thompson, a leading counter-insurgency expert with experience in Malaya in the late 1950s and Vietnam in the early 1960s. The third was Field Marshal Sir Gerald Templer, a wartime head of SOE's German section who was appointed Director of Military Intelligence in 1946 and Vice Chief of the Imperial General Staff in 1948, the year that Prime Minister Clement Attlee sent British troops to combat the Malayan Emergency. For Attlee, Templer also chaired a secret committee to investigate communist subversion in Britain, concluding that the Soviet Union would continue to try to penetrate the Labour Party, the trades unions, the media and the universities.

Templer was both High Commissioner and Director of Operations in Malaya (1952–1954), implementing the Briggs Plan which introduced the 'strategic hamlet' concept from 1950. On his return from Malaya, Templer undertook a worldwide investigation of colonial security for Prime Minister Winston Churchill (completed April 1955). He was then appointed Chief of the Imperial General Staff of the Army (September 1955) and advised the government on the Suez Crisis in 1956, serving until his retirement (September 1958). In late 1960, Templer was called on to head a sensitive government inquiry into a radical reorganization of British military intelligence, leading to the merger of the three service branches in the new Defence Intelligence Staff (1964). From 1966 to 1973, Templer occupied a key post for those fighting subversion: as Lord-Lieutenant of Greater London, he was in charge of all contingency planning for Military Aid to the Civil Power.

Templer also played a part in the genesis of the private armies by introducing Young to Sir Walter Walker. Walker of the Gurkhas had been a Malayan colleague of Templer and Thompson's, having run the Far East Land Forces Training Centre in Malaya (1948–1949), later founding the Jungle Warfare School at Kota Tinggi. In 1954, he was posted back to the United Kingdom and helped to plan the 1956 Suez invasion before returning to Malaya in 1957 as Commander of the

99th Gurkha Infantry Brigade until 1959, when his unit was sent to Singapore to ensure internal security during the elections. Promoted Major-General, Brigade of Gurkhas in 1961, Walker then commanded Britain's counter-insurgency campaign in Borneo (1962–1965) where his Gurkhas and his innovative use of signals intelligence broke the back of Indonesia's policy of *konfrontasi* with the British. Returning to Europe, he served as Deputy Chief of Staff, NATO Army Land Forces Central Europe until 1967, and then General Officer Commanding the Northern Command. In 1969, he was appointed Commander-in-Chief of Allied Forces Northern Europe, serving until his retirement (1972). In 1974, Walker worked alongside Young within Unison before splitting off to form Civil Assistance. Throughout 1976, Civil Assistance held long negotiations with NAFF about a possible merger of the two groups; the talks were abandoned in October 1976 when Civil Assistance shut down due to lack of active support.

The NAFF President was Viscount De l'Isle of Phoenix Assurance, a former Secretary of State for Air (1951–1955), who visited Australia in 1953 to review British nuclear weapons testing there. NAFF's National Council included an impressive array of the leaders of industry—Sir Frank Taylor of Taylor Woodrow, ex-CBI chief Sir Paul Chambers, and Sir Raymond Brookes, Chairman of GKN Engineering, a member of the CBI Council and a member of Luke's UK-South Africa Trade Association. 'To avoid the delays implicit in formal Council meetings, a small group of us decided to function as an informal action committee, without reporting to the Council. Bill De l'Isle presided, and the other members were Winston Churchill, MP, John Gouriet, a former Guards officer and merchant banker, Robert Moss, and myself' (Crozier 1993, 118).

Besides these NAFF actions, the counter-subversion lobby maintained the pressure on the Labour Party in the foreign press: the smears against Labour politicians as well as Heath and Thorpe were channelled across the Atlantic, reaching American newspapers in September and October 1975. The message was repeated for a domestic British audience (January 1976) when Chalfont provided a platform for Crozier's warnings of the Red Menace in a television programme on subversion called *It Must Not Happen Here*.



NAFF Executive Committee member Robert Moss enjoyed close links to the newly-elected Conservative leadership and soon became one of Thatcher's favourite speechwriters—her January 1976 'Iron Lady' speech had been written by Moss and delivered only six weeks after NAFF's foundation. The close cooperation between NAFF and Thatcher went far beyond speechwriting and public political support: several members of NAFF set up a secret advisory committee on security and intelligence matters to brief the Conservative leader. The initiative for the committee, called Shield, came from the ex-SAS/MI6 officer and NAFF National Council member Hastings who was active in 1977 in giving a Parliamentary platform to NAFF's psy-ops campaigns. On 9 March 1976, at a dinner hosted by Lord De l'Isle, attended by Thatcher and NAFF founding members Crozier, Moss, Gouriet and McWhirter, the creation of the Shield committee was given the go-ahead. Coincidentally or not, the same day, according to the authorized history of MI5, 'the maverick former Deputy Chief of SIS, George Young, gave a speech alleging that three of Wilson's ministers were crypto-Communists' (Crozier 1993, 127–129; Andrew 2010, 638).

The timing of Shield's creation could not have been more critical; within days, Wilson resigned, worn down by the psy war waged by his enemies within the British counter-subversion lobby, MI5, MI6, the CIA, and BOSS. In the vacuum created by Wilson's mid-term resignation, NAFF and their friends in MI5 and MI6 feared that Michael Foot, the left-wing candidate, might be Wilson's successor. In April 1976, NAFF's *Free Nation* published an editorial written by Crozier urging the Queen to dissolve Parliament and call fresh elections if a Labour government under Foot were to succeed Wilson (Crozier 1993, 118). As it happened, Wilson's chosen successor, the moderate Labour Foreign Minister James Callaghan, won the leadership elections and became Prime Minister. Nonetheless, the counter-subversion lobby continued the attack against the Labour government via a new body, the Foreign Affairs Research Institute (FARI), launched in the spring of 1976.

The new geopolitical institute brought together under one roof the disinformation assets of the ISC and top Conservative politicians in the Thatcherite NAFF and SIF who had worked with BOSS to oppose

demonstrations against sporting links with South Africa. FARI was largely funded by the South African government; its pro-apartheid actions are detailed in a later chapter. However, it was also active in British politics, and represented a coming together of Crozier's NAFF and ISC with Geoffrey Stewart-Smith's FAC and FAPC; FARI continued publication of Stewart-Smith's previous fortnightly bulletin *East-West Digest*, distributed free to all British MPs, and cooperated with the FAPC's foreign associates, notably Interdoc (Christie, n.d., 126–127).

FARI's President was veteran Bilderberger Bennett (a member of SIF and NAFF who had been working with Young in Unison); its Director was Stewart-Smith; and the Deputy Director was Ian Greig (co-founder of the Monday Club and Chairman of its Subversion Committee). On FARI's Council were Crozier and Moss (ISC, NAFF and Shield), who brought along Air Vice-Marshal Stewart Menaul, an ISC Council member who became a FARI mainstay. Having served as Senior Air Staff Officer, HQ Bomber Command (1961–1965), Menaul became Commandant of the Joint Services Staff College and Director General of the influential think tank, the Royal United Services Institute, from 1968 to 1976—a critical timespan in British politics. Besides joining the ISC Council, Menaul also provided the ISC with their first registered address in the premises of the RUSI. Another member of the FARI Council was Ivens (AOI, SIF, and NAFF). The political support FARI enjoyed is illustrated by the Council membership of four top Conservatives—Airey Neave (Thatcher's 1975 leadership campaign manager and Shadow Minister for Northern Ireland), his deputy Sir John Biggs-Davison (SIF, NAFF and at the time Monday Club Chairman), Amery and Chalfont. A final member of the FARI Council was Colonel Ronnie Waring, lecturer in counter-insurgency at the Royal Defence College, a CEDI member since the 1960s and Young's associate in Unison (*Guardian* 6/5/1980; 11/2/1983; Ramsay and Dorril 1986, 4–5, 40).

A new theme for the counter-subversion lobby was the alleged laxity of the Labour government in dealing with the 'Soviet-dominated' IRA. On three occasions between August and September 1976, the two Conservative spokesmen for Northern Ireland—Neave and Biggs-Davison, both FARI Council members—used IRD disinformation

to attack the 'failure' of the Labour government to combat the 'Czech and Cuban agents stoking revolution in Northern Ireland.' The source of this disinformation was Wallace of the Information Policy Unit in Northern Ireland (Infpol). In 1974–1975, Infpol was being pressured by MI5, rival to MI6 for control of the province, to go beyond black propaganda against the IRA and to turn its disinformation capability to the themes of KGB penetration of the Labour Party and Soviet manipulation of the IRA.

In 1974, Wallace was tasked by MI5 to produce defamatory documents for press release on the basis of smears and analyses of political, sexual, and financial vulnerabilities of several dozen Westminster MPs. When Wallace refused to participate in this operation (codenamed Clockwork Orange 2) without guarantees of ministerial approval, MI5 arranged for his removal from the province and his dismissal from the Civil Service, a fate that befell other actors in the secret war who would not toe the MI5 line. With a broken career behind him, Wallace did not refuse when in 1976 Neave, Shadow Minister for Northern Ireland, proposed that he work for him as a consultant. Part of Wallace's work consisted in providing the Neave/Biggs-Davison team with the information that Wallace had collated on Soviet subversion in Northern Ireland. Wallace has given the press a letter addressed to him from Neave, written in August 1976, in which Neave asked specifically for a report that Wallace had prepared for Infpol, *Ulster—a State of Subversion*. Wallace's report was based on an un-attributable IRD press briefing called *Soviets Increase Control Over British Communists*.

Neave then recycled the report's main allegations of Soviet subversion in Northern Ireland and KGB penetration of the Parliamentary Labour Party in a speech given in August. A few days later, FARI published a brochure written by Neave's deputy Biggs-Davison entitled *The strategic implications for the West of the international links of the IRA in Ireland*. The brochure was also based on the un-attributable IRD briefing and made the same references to Soviet subversion in Northern Ireland. Neave repeated the allegations in a second speech (11 September), and the same theme of Soviet manipulation of the IRA featured in a Conservative Party Position Paper on Northern Ireland published later the same month (Dorril and Ramsay 1991, 365, n10).

## The Madrid Meeting

That the British ‘Thatcher movement’ needs to be seen in a wider context is illustrated by a November 1976 meeting of the Cercle Pinay, held in conjunction with the CEDI XXV International Congress. The twin meetings demonstrated not only the overlap between CEDI and the Cercle but also the degree of cross-border networking of the International Right. Presiding over the CEDI Congress were CEDI co-founders and Cercle members Archduke Otto von Habsburg and Alfredo Sánchez Bella, assisted by a familiar face: Hans-Joachim von Merkatz.

From France came the Cercle core: Antoine Pinay himself, accompanied by Violet, Vallet, Father Dubois, and Cercle backer Carlo Pesenti of Italcementi. Also in attendance were Jean Vigneau and Jacques Leguèbe, the editorial team of the Cercle’s French pro-Pretoria journal, *Le Monde Moderne*. Amongst the prominent diplomats at the CEDI Congress were their South African paymasters—Secretary of Foreign Affairs Brand Fourie and his Ambassador to the UN in Geneva (1971–1978) Harold L.T. Taswell, previously Ambassador to the United States (1965–1971).

A final and eminent member of the French delegation was the French-born American Ridgway B. Knight, the Paris-based Director of International Relations of the Chase Manhattan Bank and principal advisor on European affairs to David Rockefeller, a core Cercle member since 1968. Knight had had an extensive previous career as an American diplomat, in Paris after the war, then at NATO, in Belgium (when NATO was forced to move from France to Belgium in 1966–1967) and finally as Nixon’s Ambassador to Portugal (July 1969–February 1973). Knight’s last posting is interesting in the light of the two Portuguese CEDI guests—putschist General Kaulza de Arriaga, a former Armed Forces chief in Mozambique (1970–1973) recently released from prison after a coup attempt, and Jorge Jardim, former leader of the Portuguese colonists in Mozambique and backer of RENAMO (Mozambican National Resistance), the counter-revolutionary guerrilla force created by the Rhodesian Central Intelligence Organisation.

From Belgium came the Secretary-General of both CEDI and MAUE, Vincent van den Bosch, and his colleagues within the core of

AESP/MAUE organizers: Florimond Damman, CEPIC President Paul Vankerhoven, the later Belgian Cercle convenor Jacques Jonet and, mostly significantly, Baron Benoît de Bonvoisin, accompanied by Major Bougerol of the PIO. CEPIC members Vankerhoven and de Bonvoisin would later be implicated in the funding of the neo-fascist NEM Clubs and the Front de la Jeunesse in the 1980s.

Four British members of the Cercle Pinay attended the CEDI Congress. The first three were the key FARI Board members Crozier, Moss, and Amery who could discuss matters with the top South African diplomats at the Congress. FARI had cause for celebration: the counter-subversion lobby's campaign against Harold Wilson had finally borne fruit in mid-March 1976 when Wilson tendered his resignation and was succeeded by James Callaghan. The fourth British Cercle member to attend the CEDI Congress was banker Sir Peter Tennant who shared the chairmanship of Cercle meetings with Crozier, Amery, and Pesenti (Crozier 1993, 193). Tennant had been one of the earliest members of the wartime SOE, heading SOE in Sweden before being sent to Paris from 1945 to 1950. Tennant later occupied various senior posts in the CBI. At the time of this Congress, Tennant was President of the London Chamber of Commerce and Industry and a longstanding advisor to Barclays' bank.

Besides Amery, two other Conservative MPs from the Monday Club attended the 1976 CEDI Congress. The first was Sir Peter Agnew, Conservative Party Secretary in 1975. Agnew had attended CEDI Congresses since at least 1960 and had sat on CEDI's Steering Committee since at least 1972; this Congress would be his last of his two-year mandate as CEDI International President. The second Monday Clubber was Sir John Rodgers, a CEDI regular since at least 1963, serving as CEDI International President in 1965–1967 and sitting as *ex officio* CEDI Vice-President since 1974. The leader of the British Conservatives in the Council of Europe, Rodgers and his fellow Congress participant Agnew would become AESP Life Members by 1978.

The Cercle's representation would, of course, not have been complete without the core members from Germany. Otto von Habsburg and Hans-Joachim von Merkatz were Chairmen of the CEDI Congress;

also attending was Strauss' right-hand man in the Cercle, Count Hans Huyn. The 1976 Congress, therefore, brought together the Cercle's operational triumvirate—Violet, Crozier, and Huyn.

The few available internal documents from the Cercle and its associates can only afford a glimpse of their international networking. Despite the scarcity of documents from other years, there can be no doubt that this coalition of top right-wing politicians and covert operators held meetings several times a year throughout the 1970s. This glimpse in 1976, another in 1979–1980, and a third in 1982–1985 may be fragmentary, but they certainly show only the tip of the iceberg.

## The 6I, the Heritage Foundation and the Fight Against Unilateralism

Following the May 1979 election of Margaret Thatcher as Conservative Prime Minister, one of the first of many pressing issues was the question of stationing American cruise missiles in Britain, Italy, Belgium, Germany, and Holland following the NATO Double-Track decision of December 1979. These deployments provoked a wave of protest from the previously moribund peace movement unseen since the Vietnam demonstrations of the early 1970s. The European Right and the intelligence services reacted in the early 1980s much as they had done a decade earlier: by a wave of aggressive counter-intelligence, agents provocateurs and smear campaigns to discredit peace activists as potentially violent KGB dupes or stooges.

The Cercle and particularly the 6I, Crozier's London-based 'Private Sector Operational Intelligence agency' founded in 1977 (Crozier 1993, 135), would play a key part in these anti-disarmament campaigns throughout the 1980s; indeed, the chapter of Crozier's memoirs covering this period starts with the words:

The best thing the 6I ever did was to penetrate and defeat the Soviet 'peace' fronts and the Western campaign groups [...] in the absence of government reaction in any of the affected countries [sic], it was left to private groups to counter the Soviet campaigns. At the 6I, we took a

decision to create new peace counter-groups wherever necessary, and to assist such groups where they already existed, both financially and with ideas. It was a considerable international coordinating effort which paid off in the end. (Crozier 1993, 239, 243)

In 'Crisis of the Empire (Notes for Memory),' Crozier told a June 1982 Cercle meeting:

Even before the [NATO] meeting of December 1979, the Soviets had shown that they understood what was at stake and proposed to act [...] The objective is clear and simple: to make it psychologically unthinkable and politically impossible to deploy the new American missiles. If the 'peace' campaign succeeds, the Soviets will be the victors: a Finlandised Europe will break away from America, or alternatively a disillusioned America will abandon Europe.<sup>7</sup>

The most intense of these 6I anti-unilateralist campaigns targeted the British peace movement, CND. Although the 6I was also notably active against proponents of nuclear disarmament in two further 'problematic' countries, Belgium and Holland, there were several good reasons why the British CND should have been singled out as the prime focus for 6I disruption.

CND was not only the largest of the European peace movements with a third of a million active members in the early 1980s but also the oldest. At the time of the 1979 NATO Double-Track Decision, CND could look back on a 20-year history of protest, having been founded in 1957 amidst growing opposition to recent British hydrogen bomb tests in Australia and the Pacific. Between 1958 and 1965, annual marches were held from the Atomic Weapons Establishment near Aldermaston to Trafalgar Square—an unprecedented 150,000 protestors attended the 1961 and 1962 Aldermaston marches. After the 1963 Test Ban Treaty, peace protestors' focus shifted from nuclear weapons to opposition to

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<sup>7</sup>[https://isgp-studies.com/organisations/Cercle/1982\\_06\\_11\\_13\\_Crozier\\_Cercle\\_speech\\_Germany.pdf](https://isgp-studies.com/organisations/Cercle/1982_06_11_13_Crozier_Cercle_speech_Germany.pdf)

the Vietnam War, but peace activism dwindled following American withdrawal from Vietnam in 1975.

However, uniquely, the British peace movement was reinvigorated well before the December 1979 NATO decision by two domestic upheavals, the first cultural, the second political. From 1976, the explosion of punk music ripped through Britain and revived anti-establishment opinion against the backdrop of the Queen's 1977 Silver Jubilee when the BBC 'Top of the Pops' had to omit the banned Number One single which screamed: 'God Save the Queen, the fascist regime, they made you a moron, potential H-bomb.' Politically, after three years of social and industrial conflict under Labour's embattled Callaghan, the May 1979 election of Thatcher hardened the cultural divide. The Conservatives won 44% of the votes, compared to 37% for Labour and 14% for the Liberals. Coming barely six months after the election, the NATO Double-Track Decision sparked a renaissance of the peace movement which exceeded even its previous peak in the early 1960s—in October 1981 and again in October 1983, more than 250,000 people attended CND demonstrations in London.

A further contributing factor to the scale of British protests was both the schedule and the scale of deployment of Cruise missiles in Europe—Britain was to be both the first and also the largest base for Cruise missiles. The European Cruise deployment programme began in July 1982 with 96 missiles installed at Greenham Common, soon publicly surrounded by a Women's Peace Camp. Britain—'Airstrip One' to quote George Orwell's novel, *1984*—was the only one of the five NATO deployment countries to host two Cruise missile bases; a further 64 missiles were stationed at Molesworth in December 1986, ensuring that the nuclear missile issue did not fade in the news.

The British peace movement was, therefore, the primary 6I target, and between 1979 and 1987, CND was subjected to an unprecedented propaganda and harassment campaign run by an alliance of three complexes: several private sector groups closely linked to the Cercle Pinay, the 6I and their backers in the Heritage Foundation; DS19 (Defence Secretariat 19), an official but covert anti-CND propaganda unit within the Ministry of Defence; and MI5's Internal Subversion division, F Branch.



These State and private initiatives interlocked on several levels. One notable link was MI5's Elwell who later worked with Crozier throughout the 1980s to produce a smear bulletin targeting the Labour Party, progressive charities and church groups. From April 1974 to May 1979, Elwell had been an Assistant Director of MI5 and the head of F1 Branch (CPGB and other subversive groups), playing a major part in MI5's shift in operations away from counter-espionage towards counter-subversion and strengthening the Security Service's role as a political police.

In the mid-1970s, Elwell set up a special unit within MI5 to produce a report on 'subversion and left-wing bias in the media.' The unit investigated journalists judged to hold anti-establishment views as well as those appointed to what MI5 considered politically sensitive or influential posts—all BBC News and Drama staff were vetted by MI5 from 1937 until 1985, using an office in the BBC's Broadcasting House and stamping suspect journalists' personnel files with a Christmas tree symbol (Hollingsworth and Norton-Taylor 1988, Chapter 5). Although Elwell's MI5 media monitoring unit was later disbanded, MI5 held on to its files—maybe not too tightly, bearing in mind the ISC Study Group on subversion in the media (which met May 1977–April 1978) and which published its findings as an ISC Special Report, *Television and Conflict* (November 1978).

In Elwell's capacity as a senior MI5 counter-subversion officer, he designated prominent figures in CND and the National Council for Civil Liberties (NCCL) as persons having 'Communist contacts,' allowing undercover surveillance that provoked a media furore in 1985 following revelations made by former MI5 F Branch officer Cathy Massiter. An MI5 officer from 1971, Massiter, who had worked full-time on the monitoring of CND (1981–1983), testified that the telephone lines of CND and NCCL leaders were being tapped, and that information on CND personalities taken from MI5 files had been provided to the Ministry of Defence's covert anti-CND unit, DS19 (Reeve and Smith 1986; Hollingsworth and Norton-Taylor 1988, 131–133; Campbell and Connor 1986, 282–284, 290–291; Norton-Taylor 1990, 80, 83–84).

This official but covert harassment of the peace movement was echoed by the private-sector groups centred around Crozier. FARI fired

one of the first shots in the UK anti-unilateralist campaign in the form of a 1980 brochure by Crozier entitled *The Price of Peace—A Plain Man's Guide to Current Defence Issues*; its cover illustrated the launch of an Russian SS-20. Published by Stewart-Smith's FAPC and also distributed by the Monday Club, the brochure's tables of the East-West nuclear balance in the brochure were produced by the ISC, and the defence expenditure table came from *NATO Review*. Having conceded that many peace campaigners were sincere, Crozier then asked: 'But how many realize that the campaign against nuclear arms modernisation, in which they are involved, is manipulated by Moscow?' Crozier (1993, 246) later revealed that the basic research had been done by 'a Dutch friend'; the brochure was published in Dutch in 1981, and an updated and expanded edition was published in the United States by the Heritage Foundation in 1983.

In 1981, FARI organized the first Annual World Balance of Power Conference which brought together many of the Cercle's American contacts: Edwin Feulner (Heritage Foundation President, 1977–2013), General Graham (ASC, pro-Star Wars group High Frontier) and Barnett (NSIC and the Committee on the Present Danger) (Sanders 1983). The conference, which aimed 'to consider the need of the entire non-communist world to respond to the Soviet global political and military threat,' started with a message of goodwill from President Reagan. A Second Annual World Balance of Power Conference was held in July 1982. Beyond FARI's efforts, the Cercle/6I also created several new British groups specializing in anti-disarmament propaganda, thanks to American funding from three main sources, of which the first was the CIA—after initial hesitation, Reagan's CIA Director, Casey, provided £50,000 (1981) and US\$100,000 (1982) (Crozier 1993, 244–245).

Another official but covert American source of funding for the UK campaigns against pacifist sentiment was the US Information Agency. On 9 September 1982, President Reagan designated the USIA to 'lead an inter-departmental effort to counter Soviet propaganda and disinformation. For an advisory body, the Administration created the Active Measures Working Group in 1981 to bring together the information the various agencies held to counter Soviet disinformation and forgery. It served as a clearing-house to expose such information and it

had permission to use classified documents and any other resources that were required to meet this goal. The Working Group was chaired by the State Department with representatives from State, Central Intelligence Agency, Defense Intelligence Agency, Arms Control and Disarmament Agency, United States Information Agency, and the Defense and Justice Departments. The Working Group ended in 1991, two years after the collapse of the Soviet Union.<sup>8</sup>

One of the USIA's first actions was to create a special unit to lead this campaign, the Office to Counter Soviet Active Measures and Disinformation; its Director (1983–1989) was Crozier's longstanding American contact, veteran anti-communist Herb Romerstein. Within months of his appointment, Romerstein ensured USIA funding for anti-disarmament propaganda by another old Crozier friend, Ernest W. Lefever, a USCISC member.

Major private-sector funding for the Cercle/6I campaigns was also provided by the Heritage Foundation, whose President, Feulner, had attended a December 1979 Cercle meeting. The Heritage Foundation, whose role is concealed in Crozier's (1993) memoirs, provided the infrastructure and funding for Cercle/6I front groups active in anti-peace movement propaganda in Britain.

While some of the funding was direct and therefore public, the Heritage Foundation also created an intermediary to act as a conduit for covert funding for the Cercle/6I campaign: the International Freedom Fund Establishment (IFFE), which was run by Crozier, who thus became the Heritage Foundation's bag-man in Britain. IRS tax returns for the Heritage Foundation show that it donated a total of US\$140,000 to IFFE for the three years 1982, 1983, and 1985. In an interview, Heritage Foundation Vice-President Herb Berkowitz described IFFE as 'a networking operation... we support them, and he [Crozier] does the work' and admitted to a further Heritage donation to Crozier of US\$50,000 in 1986. Crozier conceded that IFFE received a total of £200,000 from the Heritage Foundation (1982–1986),

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<sup>8</sup><http://www.faqs.org/espionage/De-Eb/Disinformation.html>, which thanks Romerstein.

while declining to identify the ultimate beneficiaries of such largesse (*New Statesman* 29/5/1987; *Guardian* 26/6/1987).

The main beneficiary of direct Heritage Foundation funding—receiving an estimated half a million dollars (1982–1985)—was the IEDSS. Founded in 1979, the IEDSS set as its goal ‘to assess the impact of political change in Europe and North America on defence and strategic issues, in particular, to study the domestic political situation in NATO countries and how this affects the NATO posture.’ The IEDSS Chairman was Heritage President Feulner; the IEDSS Council included Heritage Fellow Richard V. Allen, Reagan’s chief foreign policy advisor (1977–1980) and his first but short-lived National Security Advisor, in which post Allen was a recipient of the 6I’s confidential bulletin, *Transnational Security* (Crozier 1993, 184–185).<sup>9</sup> Also on the IEDSS Council were Chalfont (a FARI Board member with Crozier, Moss, and Amery) and an old ISC stalwart, Schapiro.

The IEDSS was closely linked to the ISC from its inception on; the IEDSS initially shared the ISC’s Golden Square address before moving to new premises—two doors away. Several ISC associates also wrote reports for the IEDSS—Crozier (*Communism—why prolong its death throes?*), the ISC’s Turkey expert, Kenneth Mackenzie and Richard Pipes (USCISC). Heritage control over the IEDSS is illustrated by IRS figures: in 1985, Heritage contributed US\$151,273 of a total IEDSS budget of US\$185,611; for the three years 1982, 1983, and 1985, Heritage donated US\$427,809 to the IEDSS (Hollingsworth and Norton-Taylor 1988, Chapter 5).

Besides its Heritage Foundation/ISC links to the ‘private sector’ for anti-disarmament propaganda, the IEDSS was also directly tied into the British State’s anti-CND campaign through two IEDSS Council members: Conservative MP Sir Raymond Whitney and junior Defence Minister Sir Peter Blaker—an old friend of Crozier (1993, 189) from Cambodian days. As Under-Secretary of the Army, Blaker had worked with Amery when the latter was Minister of State at the Foreign and Commonwealth Office (1972–1974); Blaker joined the FCO briefly

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<sup>9</sup>Allen was instrumental in securing initial CIA funding for the 6I (Crozier 1993, 244–245).

in 1974. After Thatcher's election victory, Blaker took Amery's old job as Minister of State at the FCO (1979–1981) and then became a junior Minister in the Ministry of Defence (1981–1983) when Defence Minister Michael Heseltine appointed him to head a secret Ministerial Group on Nuclear Weapons and Public Opinion. This Ministerial Group led to the creation (February 1983) of DS19, a Ministry of Defence unit which received information from MI5 on CND and which generated films and literature attacking the peace movement. This official but clandestine campaign by Heseltine and Blaker was assisted by Whitney, who served with Blaker on the IEDSS Board (1979–1984).

Whitney had considerable previous experience in black propaganda. Prior to being elected to Parliament and becoming a junior Minister under Mrs Thatcher, Whitney was the last head of IRD before it was officially 'closed down' (April 1977); like many other IRD staff, he was then transferred to IRD's 'purged' successor, the Overseas Information Department. The IEDSS allowed Blaker, Whitney and the Ministry of Defence team to recycle their anti-unilateralist propaganda under the guise of 'academic respectability'; one such IEDSS publication was *Perception and Reality—An Opinion Poll on Defence and Disarmament*, published in 1986 and written by Blaker together with Sir Clive Rose, former Deputy Secretary in the Cabinet Office (1976–1979) and then UK Permanent Representative on the North Atlantic Council (1979–1982). Rose, another old ISC friend, had previously written the 1985 book *Campaigns Against Western Defence: NATO's Adversaries and Critics* and in 1988 produced *The Soviet Propaganda Network: A Directory of Organisations Serving Soviet Foreign Policy*.

Besides the covert anti-unilateralist attacks of DS19, the Thatcher Government also ran an overt campaign against CND whose general coordinator (1979–1990) was Monday Club Conservative MP (1970–1997) Winston Churchill, a NAFF Executive member and FARI Council member alongside Chalfont and the Cercle trio of Crozier, Moss, and Amery. In the 1970s, Churchill had 'strongly defended the Army in Ulster,' and 'demanded the return of the death penalty for terrorism'—which had impressed Thatcher, and in November 1976 she appointed him a front-bench defence spokesman. But in November

1978, she had sacked him 'with great personal sadness' for voting against sanctions on Rhodesia.<sup>10</sup>

The IEDSS's anti-CND campaign was supported on a more vicious level by another Heritage beneficiary, the Coalition for Peace through Security (CPS), a 6I front group which was founded (autumn 1981) after Crozier had secured initial 6I funding from the CIA in March; the CPS initially shared offices with FARI. The Heritage Foundation's tax returns recorded a 1982 donation of US\$10,000 to the CPS, and a letter from the CPS to Heritage thanked it for a further contribution of US\$50,000 in October 1982.

The CPS had close links to the Conservative Party Central Office—the three CPS Directors (Julian Lewis, Edward Leigh, and Tony Kerpel) were all prospective Conservative parliamentary candidates. Immediately after its foundation (1981), the CPS obtained the list of Conservative Party agents around the country and was given free access to the Party's mainframe computer. One of its earliest actions was to set about infiltrating CND so as to gain access to its 1982 annual conference. This was the beginning of a savage smear campaign; its posters carrying slogans such as 'CND = KGB' and 'Communists Neutralists Defeatists' were funded by the Freedom Association, the new name of NAFF since 1979. In one typical action (August 1986), CPS activists disrupted a two-minute silence commemorating Hiroshima in Trafalgar Square by playing the national anthem full-blast over a loudspeaker system.

The main CPS activist was, as Crozier (1993, 243–246) recounts, 'a gifted young man named Julian Lewis. Introduced to me by Norris McWhirter, Dr. Lewis became the 6I's leading activist in Britain, notably as the scourge of [CND leader] Monsignor Bruce Kent and the Campaign for Nuclear Disarmament... in Britain, the energetic Julian Lewis and his young assistants wrote letters to the press, hired light

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<sup>10</sup>Churchill was the grandson of the eponymous wartime leader and son of Randolph Churchill, one of the SAS's founding members and a life-long intimate of Colonel David Stirling. The unprecedented backbench rebellion against the Conservative renewal of sanctions on Rhodesia was led by Amery and Hastings, and also cost Biggs-Davison his job as junior opposition spokesman for Northern Ireland.

aircraft trailing anti-CND slogans, organised counter-demonstrations, and challenged Bruce Kent and other speakers at CND rallies. Books, pamphlets, folders, posters were produced, all of them pithy and telling.' Lewis had been active in student politics before graduating from Oxford (1977); in 1976, with secret funding from NAFF, he posed as a Labour moderate to join the Newham North-East Constituency Labour Party in a failed attempt to reverse the deselection of Labour right-wing MP and former minister Reg Prentice (later to become the highest-ranking Labour figure to defect to the Conservative Party).

In 1981, Lewis completed his studies, receiving a D.Phil. in Strategic Studies from St Antony's College, Oxford, and began working for Crozier as CPS Research Director (1981–early 1985), alongside CPS Director Leigh, a staunch Catholic and Thatcher's private correspondence secretary (1976–1977) when she was Leader of the Opposition being briefed by Crozier and Shield. After working for Thatcher, Leigh served as Chairman of the National Council for Civil Defence (1980–1983) when he was elected to Parliament, acting as Joint Secretary of the Conservative Parliamentary Defence Committee (1983–1985) and sitting on the Commons Select Committee for Defence (until 1987). He is still an MP today and is founding Chairman of the traditionalist and Eurosceptic Cornerstone Group; Howarth is also a member.<sup>11</sup> Lewis stood as a parliamentary candidate in 1983, but was not successful, remaining outside Parliament until elected in 1997. In the 1980s, he was the 6I's director of operations in Britain, running the CPS and a host of other 6I front groups.

The tone of the CPS attack on CND can be judged from a later press interview given by Lewis: 'I am not surprised that the Stasi [East German security service] were worried about those of us who were working for the vital deployment of NATO Cruise missiles in Britain in 1983, and for the retention of our own nuclear deterrent. However,

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<sup>11</sup>It was to Leigh's Cornerstone Group that Conservative leadership candidate David Cameron gave his fateful 2005 commitment to withdraw the British Conservatives from the EPP fraction in the European Parliament, beginning the process that would end in Brexit—see <http://www.theguardian.com/politics/2009/may/29/david-cameron-european-parliament-epp-ed>.

I am increasingly alarmed at the determination of the Labour government [in 2000] to take no action whatever to expose the identity of these despicable hacks and traitors who were spying for our potential enemies at a crucial turning-point of the Cold War. Three-quarters of Labour MPs at that time were committed to one-sided nuclear disarmament, and several were fellow-travellers of the Soviet system, so it is not surprising that the Government wishes to hush the matter up. What is more worrying is that MI5—our domestic security service—is colluding in this or was so incompetent that it failed to discover what was going on in the first place'.<sup>12</sup>

In 1985, Lewis set up his own organization to run 6I campaigns in several fields; the new group, Policy Research Associates, 'successfully campaigned for changes in the law on Educational Indoctrination, Media Bias, Propaganda on the Rates and Trade Union Democracy'.<sup>13</sup> 'Propaganda on the Rates' (that is, local taxes) referred to another 6I action to undermine support for the peace movement, the Campaign against Council Corruption (CAMACC), which was run by Kerpel (Director) and Leigh (its main parliamentary activist), both CPS Directors; CAMACC and the CPS were both run from Lewis's PRA address. The CAMACC aimed to prevent local councils from publicly opposing American missile deployment by declaring their areas nuclear-free zones.

Another campaign undertaken by Lewis targeted alleged 'Media Bias'; in 1985, with the support of the Conservative Central Office, he founded the Media Monitoring Unit (MMU), a repeat of the ISC's 1970s actions against perceived leftist influence in the media. The *Daily Telegraph* (20/11/1986) reported that MMU 'was conceived and created last year by a small group of self-described right-of-centre

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<sup>12</sup>*Lymington Times* 23/09/2000, [http://www.julianlewis.net/old/cuttings\\_detail.php?id=44](http://www.julianlewis.net/old/cuttings_detail.php?id=44).

<sup>13</sup><http://www.julianlewis.net/biography>. A Conservative MP since 1997, Lewis served as Shadow Junior Defence Minister for the Royal Navy, the nuclear deterrent and other strategic issues (2002–2010). He then sat on Cameron's Intelligence and Security Committee (2010–2015) and chaired the House of Commons Defence Select Committee (2015–2017). In the 2016 UK referendum on EU membership, Lewis, Leigh and Howarth were amongst the 131 (of 330) Conservative MPs to support the winning Brexit campaign.



political activists. The driving force is Julian Lewis... He runs a political pressure group called Policy Research Associates which pops up now and again in debates on such matters as council corruption, trade union law and CND. Lord Chalfont is a patron as is Norris McWhirter, who founded the Freedom Association, and Edward Leigh, MP... The increasing activity of the PRA and the decision to form the monitoring unit is indicative of a more aggressive approach in right-of-centre circles to getting across its message... To get the unit off the ground, he approached Sir Peter Tennant, 75, a senior City businessman and advisor to the CBI. Tennant in turn drew together a nucleus of sympathisers, mostly from the City, who put up the £25,000-or-so to hire a director, buy a video recorder and publish the report.' Crozier (1993, 279) 'produced several occasional issues of the *Monitoring Report*, an impressively researched survey of the political attitudes in the media, which showed, in my view beyond doubt, that there was a predominantly left-wing bias, especially in television. The first yearly report, at the end of 1986, attracted much press attention, most of it favourable.'

Besides monitoring the media, the 6I was also prolific in producing its own publications attacking the peace movement, both in the United Kingdom and abroad. In 1982, the post-Crozier ISC published a Conflict Study, *Political Violence and Civil Disobedience in Western Europe*, while Crozier's CPS published *The Peace Movement and the Soviet Union* by former Soviet dissident and vocal right-winger Vladimir Bukovsky; co-published by the Scaife-funded Committee for a Free World with an introduction by Churchill, its scarlet cover portrayed a Soviet nuclear bomb dropping on silhouetted demonstrators waving CND signs.

Crozier then put together a 1984 anthology, *This War Called Peace*, published by his Sherwood Press. The following year, the 6I secured a high-profile platform for their output via the 1985 book *The Secret Offensive* by veteran espionage journalist Chapman Pincher, who gave the 6I's Crozier and Huyn personal profiles at the end of the book.

Five chapters of Pincher's book were devoted to what he calls 'The Offensive Called 'Peace'' stating (Pincher 1985, 262–263) that 'CND suits the Politburo's requirements so precisely that it could better be

named the Campaign for Nuclear Disaster' and quoting Lewis and Chalfont as alleging that 'nearly a quarter of the [CND] national council are members of the Communist Party and there are other committed left-wingers, including fellow-travellers who claim to be ex-Communists.' In a final chapter devoted to Crozier's favourite theme of a counter-offensive, Pincher declares (Pincher 1985, 316): 'However the counter-offensive is eventually mounted, as it will have to be, such a life-and-death encounter cannot sensibly be left to private organisations currently making some attempt at it, like Aims of Industry and the Coalition for Peace Through Security, nor to the philanthropy of a very few deeply concerned individuals like Sir James Goldsmith.'

The major anti-CND publication by the 6I was, however, the 1986 book *'Peace' of the Dead* by Paul Mercer, 'one of the best of our activists' (Crozier 1993, 243, 278). This 'exhaustive and authoritative analysis of the CND and its affiliates' was published in 1986 by Lewis's Policy Research Publications. The book's tone was set by the cover illustration of the CND symbol combined with a hammer and sickle cutting through a map of the United Kingdom; joining Mercer in his exhaustive efforts to prove Moscow's domination of CND were the CPS, the Freedom Association, Crozier, Chalfont (who contributed the foreword), John Rees and Peter Shipley, whose ISC Conflict Study, *Patterns of Protest in Western Europe*, was published in 1986.

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# 8

## Private Club and Secret Service Armageddon

David Teacher

### The Left Is Coming!

By the mid-1970s, the Cercle Pinay had succeeded in creating an international contact network of groups working on anti-communist and counter-subversion propaganda. In Belgium, the Cercle worked with the AESP and could count on the help of Defence Minister Vanden Boeynants and his aides in CEPIC. In France, the prestige of former Prime Minister Pinay and Violet's intelligence contacts from the *Service de Documentation Extérieure et de Contre-Espionnage* (SDECE) ensured the Cercle's influence. In Britain, the Cercle had a loyal ally in Brian Crozier of the ISC and found powerful friends in the Monday Club, the secret services and the world of black propaganda, public and private. In Germany, former West German *Bundesnachrichtendienst* (BND) agents, conservative bagmen, and prominent parliamentary spokesmen challenged Willy Brandt's Socialist government and consolidated the power of the 'Lion of Bavaria,' Franz Josef Strauss; in Switzerland, they could

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rely on an untouchable disinformation outlet to spread their message. In Spain, the Cercle sheltered under General Francisco Franco's protective wing with the support of several of his ministers.

But despite such wide-ranging contacts, the various components of the Cercle network, brought together to defend the conservative cause, felt their vision of the world to be threatened as never before. Between 1974 and 1976, a paranoid feeling of apocalypse, of imminent Armageddon spread through the private clubs, the lobby rooms and the secret services throughout Europe: the Left was on the rise! In Germany, despite a barrage of smears and attack ads, Brandt had triumphed in the 1972 elections; after his resignation in 1974, the new Chancellor Helmut Schmidt led the SPD towards a strong showing in the 1976 elections. In Britain, humiliated by the unions, the Conservative government fell, and Labour's Harold Wilson won the two 1974 elections. In France and in Belgium, the Left seemed well-placed to break the electoral monopoly of the conservatives. In the Iberian Peninsula, the longstanding geopolitical stability was soon overturned: in Portugal, Marcelo Caetano's dictatorship crumbled before the left-wing soldiers of the Armed Forces Movement; in Spain, the Generalissimo died, and democratic elections were called.

Everywhere, the trades unions, the socialist parties, and the peace movements—allegedly nests of Soviet subversion—gained ground. The Right were convinced that they were witnessing the total collapse of Western society as they knew it; this was the second emotional peak of the Cold War, a renaissance of the atmosphere of the 1950s. But they would not take defeat lying down, and the Cercle organized to confront this wave of subversion.

In France in 1974, the friends of the Cercle Pinay assisted the smear campaign against the Socialist Party's François Mitterrand who won the first round of presidential elections, just losing the second. In Germany and Switzerland, the FSG and ISP run by Karl Friedrich Grau organized an intensive programme of conferences and seminars on communist subversion attended by Swiss and German government, police and intelligence officials. In Belgium, members of the AESP set up PIO, a semi-public semi-private counter-subversion unit which had close links to the extreme right and coup plots in the 1970s.

Internationally, with funding from BOSS, the Cercle complex established pro-apartheid propaganda outlets in Paris and London. On the Iberian Peninsula, the complex did what it could to limit the damage caused by the fall of the two dictatorships. In Portugal, it supported the putschist aspirations of Generals Spínola and Arriaga and their underground army, the ELP, who in 1975 waged a strategy of tension with the expert help of the unmasked *Aginter Presse* terrorist network. In Spain, it gave covert funding to three former Franco ministers standing in the elections following Franco's death.

## Portugal and Spain

In a year marked by Wilson's narrow election victories (February and October 1974) and Mitterrand's near-victory (May 1974), the Portuguese revolution of April 1974 provided further confirmation to the Right of a left-wing landslide throughout Europe. The ISC's 1974–1975 annual review, the *Annual of Power and Conflict*, focused specifically on Portugal: 'An introductory article by Brian Crozier, the editor, on *Subversion and the USSR* makes special reference to the Soviet Union's activities in Portugal,'<sup>1</sup> and in his article for the *Annual*, *Western Europe's Year of Confusion*, Kenneth Mackenzie summarized the situation in saying: 'By early 1975 Portugal looked in distinct danger of becoming the first country in the Alliance to fall under Communist control.'<sup>2</sup>

The Portuguese revolution also had strategic implications outside of Europe, due notably to the new Portuguese regime's decision to withdraw from its African colonies of Angola and Mozambique, riven by war between Cuban-backed pro-Soviet forces and pro-Western forces supported by the CIA as well as the South African Bureau of State Security (BOSS) and Directorate of Military Intelligence (DMI), with whom the Portuguese colonial military were closely interlocked.

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<sup>1</sup>ISC advert for the *Annual* in Conflict Study no. 60, August 1975.

<sup>2</sup>ISC *Annual of Power and Conflict* 1974–75, 16.

A Portuguese withdrawal from Africa would mean that only the South African apartheid regime was left to defend the Cape Route, a vital fallback for oil supplies from the Gulf if the Suez Canal were to be closed.

Following the American doctrine of the 'domino theory,' the Right feared that Spain would also be contaminated by the 'Portuguese disease' and that the left-wing upheaval in Portugal could drag Spain down with it. The Iberian peninsula was therefore one of the major focuses for the ISC's publications—which included two Special Reports and two Conflict Studies: *Revolutionary Challenges in Spain* (a Special Report by Robert Moss, June 1974), *Southern Europe: NATO's Crumbling Flank* (June 1975), *Portugal—Revolution and Backlash* (September 1975) and *Portugal and Spain: Transition Politics* (May 1976), a Special Report which was the product of an international seminar held in London (mid-1975).

While the ISC's geostrategic experts alerted their readership to the threat of a communist take-over in the Iberian Peninsula, the ISC's allies in the Cercle complex channelled financial aid to right-wing leaders in Portugal and Spain through Strauss (*Spiegel* 9/1980, 22–29). In Portugal, the main beneficiaries of Cercle support were two putschist Generals who were central figures in the history of the Portuguese revolution and its aftermath: General António de Spínola, former Governor-General and Commander-in-Chief of Portuguese Guinea (later Guinea-Bissau) (1968–1973), and General Káulza de Arriaga, former Commander-in-Chief of Portuguese Forces in Mozambique (1970–1973) who had conducted Operation Gordian Knot, the most extensive counter-insurgency campaign ever undertaken in Portuguese Africa. Strauss gave generous clandestine funding to both; both were in contact with the top members of the Cercle Pinay and attended Cercle meetings.

Following a serious stroke in 1968, the Portuguese dictator Salazar had been replaced as Prime Minister by his previous deputy Marcelo Caetano. Caetano's attempt to introduce a modest reform programme of the *Estado Novo* was strongly resisted and eventually foiled by hardliners in the Portuguese Armed Forces. In December 1973, Arriaga and a group of extreme right-wing officers and politicians approached Spínola to canvass his support for a coup against the Caetano



government. Spínola however refused to become involved and revealed the plot to Caetano who rewarded Spínola by appointing him to the recently created and powerful post of Deputy Chief of Staff of the Armed Forces. This promotion was however short-lived; following the furore caused by Spínola's book *Portugal and the Future*, which indicated that the wars in Portugal's African colonies could not be ended by military means alone but also required reform at home, Spínola was dismissed (March 1974), as was his superior, Costa Gomes, who had refused to swear an oath of loyalty to Caetano.

After the Armed Forces Movement's bloodless coup which overthrew Caetano (25 April 1974), Spínola was appointed President of the seven-man Junta of National Salvation and President of the Portuguese Republic (15 May). However, after rumours of his involvement in a planned simultaneous counter-coup in Lisbon and Luanda (scheduled for 28 September), Spínola was replaced as President by his deputy Costa Gomes (30 September), and Arriaga and three former Caetano ministers were imprisoned. Spínola's supporters then went underground; Spínolista Army officers with experience of counter-insurgency with the *Frente Nacional de Libertação de Angola* (FNLA, National Front for the Liberation of Angola) joined with former agents of the shattered former intelligence and security service PIDE to create a clandestine army, the ELP. With its cover blown and its offices and archives seized by the Armed Forces Movement, *Aginter Presse* also took up the fight within the ELP: Guérin-Sérac and his lieutenant Jay Salby were prominent ELP commanders. Further help for the ELP came from supporters of the imprisoned Arriaga. Spínola and the ELP made a second failed coup attempt (11 March 1975), and Spínola was forced to flee Portugal.

In exile in Switzerland, Spínola founded the 'Democratic Movement for the Liberation of Portugal,' a coalition of former Caetano officials and ELP members. Throughout 1975, while the ELP carried out several hundred bomb attacks in Portugal to destabilize the government of the left-wing Armed Forces Movement, Spínola travelled around Europe, seeking support for a coup, should the Left win the 1976 Parliamentary elections (to be held on the second anniversary of the 1974 revolution). After meeting the American Ambassador to Portugal, Frank Carlucci, in the US air base at Torrejón in Spain at the beginning of August, Spínola

travelled to Bonn where he met a key contact: Strauss, who arranged for Spínola to meet a friend with international influence in the field of finance, Hermann Josef Abs. Abs, described by Rockefeller as 'the leading banker of the world,' was a former head of the Deutsche Bank (1940–1945) who also served as a close advisor to Chancellor Adenauer. The Deutsche Bank's wartime collaboration with the Nazi regime did not lead to a purge of its staff; Abs continued on the Board of the bank, serving as spokesman for the Board (1957–1967) before being appointed Honorary Chairman of the Board (1976).

Besides his banking activities, Abs was one of Joseph Retinger's (1972, 212) key German partners; in 1955, Abs chaired the European Movement's Economic and Social Commission. He was also one of the Bilderberg founding members, having served on the 1952 organizing committee with Pinay, Voisin and Pierre de Bonvoisin. The friendship between Abs and Strauss dated back to at least the mid-1950s when the two men met at meetings of the Bilderberg Group; Strauss, then Nuclear Power Minister, had first attended the Bilderberg Group in September 1955 accompanied by General Gehlen, future head of the BND. One year before the 1975 meeting with Spínola, Abs and Strauss had both attended the April 1974 Bilderberg conference. Abs was also a longstanding member of CEDI; with Strauss, Abs attended the XI CEDI Congress (1963).

After his meeting with Abs, Spínola visited Paris, where he had the opportunity of soliciting the support of Western intelligence agencies for his planned coup, meeting the CIA Head of Station Eugen Burgstaller and attending as guest of honour a meeting organized at the Paris Sheraton by Colonel Lageneste, in charge of SDECE foreign relations (Faligot and Krop 1985, 334–335). The Sheraton meeting was a major conference bringing together all the anti-communist forces in Portugal. Moving on to Lausanne in September 1975, Spínola met John McCone, a former CIA director who then worked for ITT; ITT promised US\$300,000 for Spínola's coup. Despite the support of several foreign intelligence services and pledges of funding by multinational corporations, Spínola's plans were wrecked just before the April 1976 elections by investigative journalist Günter Walraff (1976) who, posing as a right-wing militant, had tape-recorded Spínola's conversations about his plans for a coup.

After Spínola's preparations for a coup were exposed, Arriaga became the key rallying point for the Right in Portugal. Having been imprisoned in September 1974 for his involvement in a planned coup, Arriaga was released in January 1976, regrouping his supporters within the far-right *Movimento Independente para a Reconstrução Nacional* (MIRN) and campaigning throughout Portugal against the minority Socialist government under Prime Minister Soares elected in April 1976. The Cercle Pinay saw Arriaga as worth supporting and invited him to CEDI's November 1976 annual Congress in Spain. The CEDI Congress was held in parallel with a Cercle meeting (Grossmann 2014, 491–492), and was attended by all the top Cercle members.

Concerned at Arriaga's lobbying success, the American Ambassador in Lisbon, Frank Carlucci (later Carter's Deputy Director of the CIA and Reagan's National Security Advisor and Secretary of Defense) sent a cable to Washington in February 1977:

Kaulza is far rightist disguised as democrat. Caetano used to refer to Kaulza as the danger on the Right. Although he has no significant current backing in military, Kaulza is dangerous. He has the potential for catalyzing public support.<sup>3</sup>

The Cercle however continued to support him, inviting him to a May 1977 Cercle meeting hosted by Strauss in Bavaria (Grossmann 2014, 494–495). Also present were key British Cercle members Brian Crozier, Julian Amery and Stephen Hastings as well as two top Spanish politicians from the conservative *Alianza Popular* (AP) coalition, Fraga Iribarne, and Silva Muñoz. In November 1977, Arriaga then attended a hitherto unknown four-day Cercle meeting held in Washington, coordinated by CIA veteran Donald Jameson and attended by Pinay, Strauss, Sánchez Bella, senior Italian industrialists (no doubt including Pesenti), David Rockefeller, both the former and the serving National Security Advisors Henry Kissinger and Zbigniew Brzezinski, Carter's

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<sup>3</sup>Search for declassified State Department cable 1977LISBON01147 at <https://aad.archives.gov/aad/index.jsp>.

US Defense Secretary Harold Brown, union leaders George Meany and Lane Kirkland of the AFL-CIO, and William Colby, who had retired the previous year as Director of Central Intelligence.<sup>4</sup>

After Arriaga's Washington meeting with the Cercle, Carlucci nervously sent a cable to the State Department:

Ultra-rightist General Kaulza de Arriaga held press conference on his return from US in which he claimed he lunched with Henry Kissinger and dined with NSC Director Zbigniew Brzezinski. Given the tension here at the moment, the concern over possible right wing coups, and the widespread belief that Kaulza is one of the potential coup plotters, Embassy expects to receive a number of questions on the alleged lunch and dinner. Request ASAP any information Department can provide. Carlucci.

Secretary of State Cyrus Vance responded the next day in a priority cable; of greatest interest is the private information ('FYI') that Vance gave Carlucci:

1. About 30 guests attended each of the affairs mentioned by Arriaga (reftel). They were part of November 10–13 meetings of European and American businessmen and politicians. Arriaga was accompanied by his aide Costa da Noruega. NSC Director Brzezinski was present at a November 12 dinner and former Secretary of State Kissinger attended a luncheon, but neither held private discussions with Arriaga.
2. FYI: other participants included Antoine Pinay, France; Franz Josef Strauss, Germany; David Rockefeller, US; Alfredo Sanchez Beya [sic], Spain; and senior Italian industrialists. The group has no formal name and does not seek wide press coverage, but it is occasionally called the Pinay Group or the Cercle Violet, the latter derived from the name of a French lawyer instrumental in forming the group 20 years ago. The meetings began as discussions of international issues by European Christian Democrats. End FYI Vance.

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<sup>4</sup>Search for declassified State Department cable 1977BONN18128 at <https://aad.archives.gov/aad/index.jsp>.

Despite attending three Cercle meetings between November 1976 and November 1977, Kaúlza de Arriaga was dropped in late 1978 by Habsburg and Strauss who preferred to support the more moderate *Centro Democrático Social* (CDS) under Diogo Freitas do Amaral and Adelino Amaro da Costa.<sup>5</sup>

In Spain, Franco's death (November 1975) set a challenge for the Cercle: could the 'Portuguese disease' be prevented? From 1975 to 1977, Strauss channelled clandestine funds to a trio of former Franco Ministers who led parties within the AP coalition (founded in October 1976). The most important of the three was AP's founding President (1976–1986), Manuel Fraga Iribarne, Franco's Information and Tourism Minister (1962–1969). A contact of Damman (since 1963) and of Crozier (since 1965), he joined the AESP in 1970. Removed from his ministerial post in a purge of opponents of Opus Dei, Fraga became Spanish Ambassador in London (1973–1975); he received a personal visit there from Pinay as part of Pinay's 1975 European tour to promote the ISC. After Franco's death, Fraga returned to Spain (December 1975) and served as Vice-President and Interior Minister in the first post-Franco government, also sitting on the eight-man committee that drafted the 1978 Constitution.

The second Strauss beneficiary was Federico Silva Muñoz, Franco's Public Works Minister (1965–1970), prominent member of Opus Dei, leader of *Acción* (later *Unión*) *Democrática Española* and Honorary President of Fraga's AP coalition. The third recipient was Cruz Martínez Esteruelas, President of the *Unión Democrática del Pueblo Español*, who had served in Franco's last two cabinets as Planning and Development Minister (1973) and Education and Science Minister (1974). All three were given generous covert funding by Strauss: in 1977, Fraga received at least DM 135,000, and Silva Muñoz and Martínez Esteruelas DM 100,000 each (*Spiegel* 9/1980, 22–29). Fraga had two opportunities that year to discuss funding with Strauss; the two men met in April 1977 at the Bilderberg conference organized in Torquay by Sir Frederic

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<sup>5</sup>Search for declassified State Department cables 1977LISBON08893, 1977STATE277883 and 1979LISBON07015 at <https://aad.archives.gov/aad/index.jsp>.

Bennett, and again in May 1977 at a Cercle meeting hosted by Strauss in Bavaria, also attended by Silva Muñoz, Portuguese putschist Arriaga, and Crozier, Amery and Hastings (Grossmann 2014, 494–495).

Despite the generous aid, the AP won only 8% of the vote in the June 1977 elections, a debacle repeated in the elections of March 1979, the first to be held under the December 1978 Constitution that Fraga had co-written, scoring only 6%. However, following the January 1981 collapse of the centrist UCD government under Adolfo Suárez, the AP gained strength and won 26% of the vote in the October 1982 elections, becoming the main opposition party to the Socialist government under Felipe González which had won a landslide victory with 48% of the vote. In 1989, Fraga refounded the AP as the *Partido Popular* (PP), selecting as its President José María Aznar (1990–2004) who would later serve two terms as Spanish Prime Minister (1996–2004).

## South Africa and the Cercle Pinay

Besides carrying out its own domestic and international operations, the Cercle Pinay was soon to become a partner in one of the largest covert propaganda campaigns since Second World War: the media war waged by the South African Department of Information (DoI) in the mid-1970s, later exposed by the ‘Muldergate’ scandal (Winter 1981, 1989, 2004; Rees and Day 1980; *Great White Hoax* 1977). The South African government’s Erasmus Commission which investigated the scandal reported that between 1974 and 1977 the DoI channelled at least US\$73 million into a five-year clandestine operation to ‘finance secret propaganda and influence-buying projects abroad.’

Under Information Minister Connie Mulder and his deputy Dr. Eschel Rhoodie, 160 projects were launched, several of which aimed to buy newspapers both in South Africa and abroad. A first domestic project was a failed bid to buy a majority shareholding in South African Associated Newspapers so as to control the *Rand Daily Mail*, the liberal opposition newspaper that was part of the SAAN stable. Another project within South Africa was to compete with the *Rand Daily Mail* by launching the newspaper *The Citizen* in 1976. The

only newspaper to support the ruling National Party, it received some US\$35 million of secret funds before being blown as a DoI-funded propaganda outlet in 1978.

Abroad, the projects included channelling US\$11 million to American conservative publisher John McGoff to buy the *Washington Star*. When the attempt failed, McGoff used the money to purchase the Californian daily, the *Sacramento Union*. In 1986, McGoff was charged for having failed to register as a foreign agent of the South African government; the charges were later dropped because the Justice Department had exceeded the five-year statute of limitations in bringing the case. A later DoI project in the US was the funding in 1978 of an Iowa Republican Senate nominee, Roger Jepsen, who defeated a key opponent of apartheid, Senator Dick Clark.

The Cercle also benefited from DoI funding, working in close collaboration with the DoI and BOSS on a propaganda campaign that aimed to highlight the Soviet menace and Kremlin aspirations in Southern Africa. A major outlet for this common campaign was *Le Monde Moderne*, a journal founded in 1973 by Violet with financing from Pesenti as a French-language outlet for Crozier's London ISC. Besides republishing the Cercle-funded January 1972 ISC Special Report *European Security and the Soviet Problem*, the first issue of *Le Monde Moderne* also contained an article by former SDECE officer Jacques Leguèbe calling for the defence of South Africa. The same theme dominated the second issue, which included a piece by Rhoodie.

The most important step however was taken on 6 November 1973, when *Le Monde Moderne* organized a three-day restricted 'brain-trust' meeting on South Africa, attended by Crozier, Violet, Vallet, Damman and Mr. Burger, South African Ambassador to France. The Ambassador presented a two-page report drawn up personally by Prime Minister Balthazar Johannes Vorster, Information Minister Mulder, his deputy Rhoodie and General Hendrik van der Bergh, head of BOSS. They discussed how the ISC, the AESP, and *Le Monde Moderne* could assist the campaign that the South African government was conducting through such Pretoria-funded publications as *To The Point*, a newspaper with which *Le Monde Moderne* worked.

The meeting decided to launch several campaigns to put over South Africa's point of view to influential figures in Europe, one of which was to target French MPs—Pinay himself had been the guest of the South African government during a private visit four months earlier in August 1973: 'A Franco-South African Friendship Association was set up a while ago. Now we have to breathe life into it. Increase its numbers and quality. We must organize manipulation of the Members of Parliament - but with subtlety' (Péan 1984, 110).

This campaign was successful; from 1974, the number of French MPs visiting South Africa increased considerably. A second campaign targeted industrialists, a third the French military and a fourth the French and Belgian press, particularly by inviting South African journalists to Europe. The significance of the French group's campaigns were confirmed in a debate on Information held in the South African Parliament (April 1975), when the Deputy Minister for Information told the Assembly 'that an estimated 11 million French people had read favourable reports about South Africa as a result of his Department's careful planning concerning the type of guest invited from France' (*Great White Hoax* 1977, 179). Similar campaigns targeting German and British MPs, industrialists, military officers, and journalists were equally successful.

However, the November 1973 'brain-trust' meeting also decided that the greatest need was to create a prestigious French equivalent of the ISC, a 'neutral' geopolitical institute that could back up the more personal influence of VIP visits for Pretoria friends with 'academic' data on strategic considerations. According to the US Justice Department's charges against McGoff, his attempt to buy the *Washington Star* for Pretoria aimed to ensure that 'positive material relating to the strategic and economic importance of South Africa to the US and the West would be published and disseminated to policy and opinion makers within the US capital.' The ISC/*Le Monde Moderne* team were a powerful European source or relay for such propaganda. A key theme was oil: the OPEC crisis (October 1973) had focused the attention of Conservatives on the need to protect the West's vital fall-back for oil supplies—the Cape Route. The DoI's campaign aimed to ensure that the West's need for a strategic outpost on the Cape overrode any



objections about apartheid; the propaganda line to be used was, predictably, Soviet designs on world energy resources, as Violet described to Damman, Crozier and Ambassador Burger at the seminar: 'Oil is the vital weapon of the Cold War. The Soviet Union controls its sources and seeks to dominate the main oil trade routes—South Africa and the African territories owned by Portugal' (Péan 1984, 108).

In March 1974, the ISC published two Special Reports which stressed the importance of South Africa for Western oil supplies: *The Security of the Cape Oil Route* and *Soviet Objectives in the Middle East*. By the end of 1974, the plan to establish a South African-backed propaganda institute in collaboration with *Le Monde Moderne* and the ISC had been completed. With funding of one million francs provided by BOSS via Rhoodie (Péan 1984, 113), the *Centre d'Etudes du Monde Moderne* (CEMM) was launched in November. Among its members were activists from the extreme right and senior officers from the French armed forces (Laurent 1978, 305). On 6 November 1974, a year after the initial brain-trust meeting, the CEMM held its inaugural conference on the theme of the defence of Africa against the threat of communist subversion. The French core group at the launch were Violet, Vallet and two of the CEMM team, Leguèbe and Bernard Lejeune.

Attending for the ISC were Crozier and Peter Janke, author of the just-published ISC Conflict Study No. 52, *Southern Africa: End of Empire*. Much of the Study's information on 'terrorism' in Mozambique came from P.J. De Wit, a senior BOSS officer. Janke, formerly of IRD, was the ISC's Senior Researcher and South Africa expert, who in 1973 had hosted Michael Morris, a South African 'journalist' working in London. Morris was soon exposed as a sergeant in the South African Security Police (*Guardian* 30/3/1973) who had 'resigned' earlier that year from their Special Branch to write a book, *South African Terrorism*. In 1974, Janke renewed his friendship with Morris while visiting Cape Town to collect information for Conflict Study No. 52 from De Wit at BOSS headquarters. Morris later became head of a BOSS propaganda front, the South African Terrorism Research Centre, 'a direct copy of the British Institute for the Study of Conflict, but not half as good,' according to BOSS' one-time London agent, Winter (1981, 320–321).

Also attending the CEMM's launch was Count Hans Huyn, Strauss' foreign policy advisor—the earliest recorded meeting of all three men who would form the triumvirate coordinating the Cercle complex in the late 1970s to 1980s: Violet, Crozier, and Huyn. It is unlikely however that this was the three men's actual first meeting: Huyn had served (since at least 1972) on the International Council of CEDI with Habsburg, Sánchez Bella, Merkatz, and Vankerhoven—all AESP members. Huyn had also attended the January 1973 AESP Charlemagne Grand Dinner in the company of Habsburg, Damman and Giulio Andreotti. At the time of this 1974 launch, the AESP and the Cercle had been working closely with Crozier and the ISC for some time; the ISC had already produced three Special Reports co-funded by the Cercle since 1972.<sup>6</sup> Alongside Violet, the CEMM team, the ISC and Huyn, representatives of two major American military propaganda institutes cooperating with ISC attended the CEMM's launch: James L. Winokur, a Board Member of the NSIC which had already supported the first Cercle/ISC joint venture by buying 500 copies of the Cercle-funded 1972 ISC Special Report, and Admiral John S. McCain Jr, the former Commander-in-Chief Pacific Forces (CINCPAC) in charge of Vietnam War military operations from 1968 until his retirement in 1972. McCain then joined the Boards of the ASC and the US chapter of WACL (chaired by General Graham), and was working to create a Washington ISC offshoot (announced in March 1975). In May 1974, six months before this inaugural CEMM conference, McCain had shown his support for South Africa—and courted considerable controversy—by inviting the Chief of the South African Defence Staff, Admiral Hugo Biermann, for a week-long private visit to the US.

In 1975, the CEMM published *Africa and the Defence of the West* by Jean Vigneau of the *Monde Moderne* staff, later an AESP member. In parallel to their considerable input to the CEMM, the ISC also helped South Africa by passing on the ISC's 1974 Special Report *Sources of Conflict in British Industry*, 'which would be useful for indicating how

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<sup>6</sup>Besides funding the 1972 Special Report, the Cercle also financed *The Peacetime Strategy of the Soviet Union* (March 1973), and provided £7500 for *The Security of the Cape Oil Route* (March 1974) (*Transnational Anti-Communism and the Cold War* 2014, 154).

South African unions might be attacked as recalcitrant or strike-prone, not on account of any real grievances, but only because of left-wing militants and outside agitators' (Herman and O'Sullivan 1989, 109–110).

In the spring of 1976, Crozier launched a new British disinformation outlet, FARI. FARI appears to have been the London-based counterpart to the CEMM, the Cercle's Parisian pro-Pretoria organization. As had been the case with the CEMM, it was the South Africans who paid for FARI, providing £85,000 a year for several years; South Africa continued to finance FARI until at least 1981 (Coxsedge et al. 1982, 124; *Guardian* 11/2/1983). Funding for FARI was reportedly also forthcoming from the Lockheed and General Dynamics corporations.

Major propaganda themes for FARI were the West's dependence on strategic minerals from South Africa and the country's significance for defence of the Cape oil route in the face of rising Soviet naval power in the Indian Ocean and Soviet encroachment in Mozambique, Angola, and Namibia. In June 1976, Janke visited Swaziland to speak at a mining conference organized by a South African DoI front group, the Foreign Affairs Association (FAA). At the conference, 'Janke of the Institute of the Study of Conflict in London stressed the importance of South Africa's minerals to the West and dangers of the Soviet threat'; on his return to London, Janke prepared an edited version of the conference speeches for distribution to 'persons of influence,' published by FARI as *The West cannot survive without minerals from Southern Africa* (*Great White Hoax* 1977, 32).

The same theme was echoed by Grau's FSG, which published a brochure called *Südafrikas strategische Bedeutung für die Rohstoffversorgung des Westens* (South Africa's Strategic Significance for the West's Supply of Commodities), which stated: 'The cutting-off of contacts between South Africa and the industrialized countries of the West as the result of a Soviet Navy blockade or as a result of the fall of the current South African government and its replacement by a Communist or Communist-influenced government would leave the West entirely defenceless' (Annex of ISP documents in Young European Federalists 1989).

In partnership with FARI, the ISC continued their campaign in favour of South Africa with a total ISC budget for 1976 of over £30,000. The July 1976 publication of a Conflict Study by Janke,

*Southern Africa: New Horizons* was followed in November by another Conflict Study, *Soviet Strategic Penetration of Africa* by David Rees. A further project to support South Africa in 1976 was *The Angolan File*, a South African television 'documentary' which attacked the Americans for pulling out of Angola. The programme, broadcast on South African television, had been produced by the South African DMI, who had commissioned Crozier (ISC/FARI) to write the script (Winter 1981, 543–544).

Following a 1976 Cercle funding shortage caused by a storm on the lira, the CEMM closed down but *Le Monde Moderne* magazine continued publication, carrying an article on Angola by Moss in 1977. But in 1978, *Le Monde Moderne* also closed, and so Crozier and Cercle/6I member Albertini founded a new outlet, *Le Monde des Conflits*, devoted exclusively to circulating ISC studies in the French-speaking world; it continued until at least 1981 (Crozier 1993, 172).

Despite the closure of the CEMM, the Cercle's propaganda effort on Pretoria's behalf was not weakened. With South African funding, FARI under Cercle members Crozier, Moss, Amery, and Chalfont continued the Cercle campaign throughout 1977 by stressing Pretoria's strategic importance for the West in FARI publications: *An American View on the growing Soviet Influence in Africa*, *The Need to safeguard NATO's Strategic Raw Materials from Africa*, and two reports by FARI Deputy Director Greig, *Barbarism and Communist Intervention in the Horn of Africa* and *Some Recent Developments affecting the Defence of the Cape Route*, an update of the March 1974 ISC Special Report co-financed by the Cercle.

Greig's December 1977 *The Communist Challenge to Africa*, which included a preface by Chalfont, was published in the UK by Stewart-Smith's FAPC and in South Africa by the South Africa Freedom Foundation (SAFF), a DoI front group which also paid for trips to Pretoria for Moss and Walker (*People's News Service* 6/2/1979, 3). In 1978, the FAPC followed this publication with *The Bear at the Backdoor—The Soviet Threat to the West's Lifeline in Africa*, written by Walker with an introduction by Amery. The book, whose cover illustration showed a Soviet bear cutting a petrol line running from the Gulf around the Cape to Europe, accused the US intelligence community of

harbouring pro-ANC sympathies and advised a more rigorous approach in countering Soviet advances in Southern Africa.

1978 saw a flood of pro-Pretoria propaganda from FARI: *The growing United States dependency on imported strategic raw materials* and *The war on gold* (both ‘by our mining correspondent’), *The growing vulnerability of oil supplies* by former ISC researcher Audrey Parry, *Africa: Soviet action and Western inaction* and *Indirect aggression by Warsaw Pact and Cuban forces in the third world*, both by Greig, and *East Germany’s role in Africa*, a review of a West German article. Also in 1978, Janke helped Jan du Plessis (of the FAA) to compile the *1978 Freedom Annual* (Ramsay and Dorril 1986, 53). The ISC returned to the significance of South Africa for the West’s oil supply in a May 1979 ISC Special Report, *The Security of Middle East Oil*.

Much of the output from FARI, the ISC, and the FAPC was recycled by 6I co-founder Count Hans Huyn in his 1978 *Der Angriff - Der Vorstoss Moskaus zur Weltherrschaft* (The Attack—Moscow’s Thrust for World Domination). Huyn’s book, a German-language vehicle for the UK counter-subversion lobby, illustrated the degree of mutual recycling of Cercle propaganda; it lists sixteen ISC Conflict Studies, eleven FARI reports and four issues of the *East-West Digest*, quoting prolifically from Crozier, Moss, Greig, and Amery (all FARI members). Huyn also recycled the propaganda produced before the 1974 British elections, particularly *Not to be trusted—Extremist Influence on the Labour Party Conference* by Stewart-Smith (future director of FARI). Besides these British Cercle friends, Huyn also drew on Vigneau (*Le Monde Moderne* and the AESP) and Barnett (NSIC/USCISC).

## The 6I, Freedom Blue Cross and the Shah of Iran

The initiative for formalizing Cercle contacts into an international private secret service came in February 1977 with the backdrop of the Church Committee’s relentless probing into illegal acts committed by the CIA. Referring to Shield, the private counter-subversion advisory unit he ran for Thatcher, Crozier notes:

Something bigger than Shield was needed to deal with the wider threat from the Soviet Union and its worldwide subversive network [...] the stark fact was that the entire security apparatus of the United States was in a state of near-collapse [...] I proposed the creation of a Private Sector Operational Intelligence agency, beholden to no government, but at the disposal of allied or friendly governments for certain tasks which, for one reason or another, they were no longer able to tackle. Our main concerns would be to provide reliable intelligence in areas which governments were barred from investigating, either through recent legislation (as in the US) or because political circumstances made such inquiries difficult or potentially embarrassing; to conduct secret counter-subversion operations in any country in which such actions were deemed feasible. (Crozier 1993, 133–136)

Crozier records that the founding members of the 6I, as the private secret service was called, were himself, Huyn, Violet, ex-MI6 officer Nicholas Elliott and Lieutenant-General Vernon Walters, Deputy Director of Central Intelligence (1972–1976). Two further participants at the founding meeting were unnamed Americans, ‘able and diligent Congressional staffers’. Other 6I members were Crozier’s old friend Georges Albertini, Hans Josef ‘Jupp’ Horchem, Director (1969–1981) of the Hamburg branch of the German security service *Bundesamt für Verfassungsschutz* (BfV, Federal Office for the Protection of the Constitution), former BND officer Hans Christoph Freiherr von Stauffenberg who ran a private intelligence service for the CDU/CSU (Waske 2012), and CIA veterans General Richard Stilwell and Donald Jameson, both introduced below.

In 1978, the British and American ends of the Cercle complex sought funding from multinational companies for Crozier’s fledgling 6I. In June 1978, the NSIC held a conference in Brighton on ‘NATO and the Global Threat—what must be done’ which aimed to raise private sector funds to supplement the activities of the official agencies, ‘crippled’ after the earlier US Congressional Committees and the official ‘closure’ of Britain’s IRD (1977).

The conference, coordinated by Air Vice-Marshal Menaul (FARI), was sponsored by AOI, FARI, ISC, CSIS, and Lombardo’s *Comitato Atlantico Italiano*, among others. The ‘Brighton Declaration’ adopted

by the conference, written by keynote speaker and ISC Council member Vice-Admiral Sir Louis Le Bailly, stated that ‘the destruction of the CIA and other assaults on Western intelligence sources make it imperative that the United States and its allies should again take the initiative on intelligence, information, and counter-intelligence.’ The conference called for the establishment of a ‘new’ industry-funded group, Freedom Blue Cross, to carry out these private propaganda activities—in all likelihood, it was intended to be merely a funding front for Crozier’s 6I.

For the Cercle complex, the 1978 Brighton conference was attended by Crozier, Greig, Chalfont, Menaul, Le Bailly, Huyn, NSIC/ISC benefactor Scaife, the NSIC’s Barnett, Reagan’s future campaign manager and CIA Director Casey, and Dr. George Kilpatrick Tanham (USCISC and a counter-insurgency expert for the RAND Corporation since 1955). The South African delegation included Vice-Admiral James Johnson (who had retired as head of the South African Navy in September 1977), Cas de Villiers, du Plessis, and Gideon Roos of the South African Institute of International Affairs.

Besides other ex-military personnel and academics from Britain, Europe, South Africa, and Japan, the conference also brought together representatives of many of the British-based multinationals which had also been funding the four British anti-union groups: Taylor Woodrow, Tate & Lyle, Barclays and National Westminster banks, Vickers, British American Tobacco and the British subsidiary of ITT, Standard Telephone Cables (STC).

Despite the impressive roll-call of companies, big business’s interest was lukewarm: National Westminster and STC formally disassociated themselves from the Declaration (other companies did not), and nothing further, apparently, came of the venture. However, the following year, Crozier continued trying to raise funds from British and German industry for his ‘transnational security organization’ by circulating a planning paper entitled *The Multinationals and International Security*, as detailed in secret intelligence reports written by Bavarian security chief Hans Langemann.

Meanwhile, two early operations for the 6I were in Latin America and in Iran prior to the 1979 revolution. In Argentina, Uruguay, and Chile, the 6I advised the armed forces and the security services in ‘the

use of some of the non-violent, psychological techniques with which we had been experimenting in Europe.' Crozier (1993, 157) records that also spent several days closeted with General Augusto Pinochet, drafting fourteen articles of the new Chilean Constitution.

Apart from supporting Pinochet and other Latin American regimes, the 6I was also increasingly concerned by the instability of the Shah's regime in Iran in the months preceding the Islamic revolution. Here again, the 6I's experience in psychological warfare techniques was needed; the brutal repression by the Shah's secret service SAVAK and the armed forces served only to feed the rising tide of Islamic fervour. Violet in particular urged Crozier to travel to Iran to talk with the Shah. General Douglas Brown who managed the Dulverton Trust, one of the ISC's financial backers, found an intermediary for the Cercle in the person of General Charles Alan Fraser, South Africa's Consul-General in Iran and a personal friend of the Shah. In spring 1978, Crozier (1993, 174) flew to Tehran where he met Fraser; the two men were then received by the Shah, who seemed reluctant to heed Crozier's warning that the CIA would not act to save him and that psychological operations by the 6I were necessary to counter the climate of revolutionary unrest.

In May, shortly after this first visit to Tehran, Crozier met Prince Turki al-Faisal, brother of Prince Saud al-Faisal, the Saudi Foreign Minister (1975–2015). Six months earlier, Turki had replaced his uncle, Turkish-born Kamal Adham, as head of *Al Mukhabarat Al A'amah*, the Saudi intelligence service. He became a key link in the covert war waged against Soviet forces occupying Afghanistan by the coalition of the CIA, the ISI—the Pakistani military intelligence service which created the Taliban—and the Afghan mujaheddin, including one of Turki's personal contacts, Osman bin Laden. In recognition of his services, Turki was one of the Taliban's guests of honour at the proclamation of the Islamic Republic of Afghanistan in Kabul (28 April 1992).

Turki was one of the world's longest-serving intelligence chiefs, his reign lasting from September 1977 until August 2001 just prior to the WTC attack when, as an all-too-visible personification of US-Saudi links, he was removed as head of the Saudi intelligence service to assuage growing anti-American feeling in Saudi Arabia. However, he



was too valuable to lose and in 2002 was appointed Saudi Ambassador to the UK where he played a prominent role in the media drive for war with Iraq in 2003.

This first meeting between Crozier and Turki al-Faisal was arranged via Dan McMichael, administrator of the Scaife family's trust funds, a major source of funding for the NSIC and ISC. Crozier (1993, 158) briefed the Saudi prince about the 6I and its initial contact with the Shah. A proposed second meeting with Prince Turki al-Faisal (summer 1978) did not come off, but Crozier and the Cercle finally met the Saudi intelligence chief again at a Cercle meeting in Bavaria (spring 1979). Meanwhile, the Shah had reconsidered Crozier's offer of 6I help for psyops campaigns and contacted Turki al-Faisal, who put in a good word for the 6I.

Turki al-Faisal's recommendation of the 6I carried a lot of weight for the Iranians; Turki al-Faisal was the Saudi representative on the Safari Club, a network for covert cooperation between the French, Saudi, Iranian, Moroccan and Egyptian intelligence services, founded by de Marenches (1 September 1976) with headquarters in Cairo (Haykal 1982). Besides Turki al-Faisal's recommendation, Cercle participant General Fraser had also been advising the Shah to accept the 6I's help: 'he had raised with the Shah the question of financial assistance for our group, in return for our advice and expertise in combating the wave of subversion that threatened to sweep him off his throne.' Fraser advised Crozier (1993, 159) to involve ISC Council member Sir Robert Thompson whose counter-insurgency experience during the Malayan campaign and the early stages of the Vietnam War could be useful in the Iranian context.

In August 1978, the Shah reversed his previous decision and invited the 6I to Tehran; although Violet was prevented from travelling due to ill-health, Crozier, Elliott, Thompson, and a team of advisors flew to Tehran (3 September). The 6I team stopped off in France to pick up Pinay, whose long acquaintance with the Shah would add authority to their proposals. The Cercle/6I team met the Shah for two and a half hours, but were struck by his apathy. They then met two top SAVAK officials, discussing a plan to distribute leaflets to split the tacit alliance between the Shiite fundamentalists and the Communist Tudeh party.

The time was past however for such subtleties; the commander of the Tehran garrison, who had planned to meet Crozier's team, was unable to attend due to the unrest in the Iranian capital. Their visit came at a crucial time: the caretaker Prime Minister resigned the day after their meetings, and martial law was declared four days later, just after the Cercle/6I team's return to London. FARI got to work, producing Greig's *Iran and the lengthening Soviet shadow*.

In early November, the Shah finally decided to give the go-ahead for the Cercle/6I to intervene, and the top civilian in SAVAK flew to London to spend a full week closeted with Moss transforming a pile of SAVAK reports on communist influence in the revolution into an ISC Conflict Study. Following publication of Moss' Conflict Study *The Campaign to Destabilise Iran* (November 1978), the Shah authorized a first annual payment of £1 million to the 6I for a psychological action operation, but the decision to involve the 6I further would come too late as the Shah was overthrown (January 1979) before the payment could be made.

Back in Britain, some of Crozier's (1993, 167, 171) colleagues in the London ISC were becoming concerned at his covert activities: 'Partly for security reasons, partly because I did not want to involve the ISC Council in my extra-curricular activities, I had not taken any member of it into my confidence about the creation of the 6I.' Things came to a head when Le Bailly offered a letter of resignation from his post on the ISC Council, stating that Crozier's high profile and other activities were undermining the objectivity and efficiency of the ISC. The conflict escalated to end as a straight choice: Crozier's resignation as ISC Director or the resignation of several if not most of the ISC Council members. As Crozier felt that 'my "other" work was more important than running the ISC,' he resigned (September 1979) and was replaced as ISC Director by Goodwin with Greig becoming Senior Executive: 'Within weeks of my departure, the entire research staff of the ISC had been sacked. Not long after, the research library I had built up over many years was disposed of...'

Crozier's (1993, 187–188) resignation from the ISC allowed him to concentrate his efforts on the 6I (which left ISC premises to set up in offices on Trafalgar Square). With a reserve of US\$30,000, he expanded

the 6I's staff and began publishing a monthly restricted newsletter, *Transnational Security*, whose recipients 'fell into three categories. The top layer, which included the President [Reagan] and Mrs Thatcher, consisted of the Western and friendly Third World leaders, selected politicians, and friendly secret services. In the second layer, as of right, were contributors to our funds. The third layer consisted of our own people: agents and associates in various countries.' The bulletin later changed title to *Notes and Analysis* before merging in 1986 with the bulletin *Early Warning*, published by Robert Moss, Arnaud de Borchgrave, editor-in-chief of the Moonies' newspaper, the *Washington Times*, and John Rees of the John Birch Society.

One task for the 6I was to recreate the ISC's liquidated research library by compiling 'a reference archive of quotations from the already published words of hundreds of extremist politicians and trades unionists, as raw material for analytical reports in the Shield manner. In charge was a former MI5 man who had brought me disquieting information about the paralysis of the Security Service in the late 1970s' (Crozier 1993, 188). The unnamed MI5 man was clearly Charles Elwell, who had retired in May 1979 as head of MI5's F1 counter-subversion branch and immediately joined Shield; he worked with Crozier throughout the 1980s to produce the smear bulletin, *Background Briefing on Subversion*.

## The Langemann Papers

An unprecedented insight into Cercle/6I operations at this time was given by the September 1982 publication in the *Spiegel* of secret intelligence reports written in 1979–1980 by Hans Langemann, the head of Bavarian State Security and close collaborator of key German 6I member Stauffenberg. Langemann had served in the BND (1957–1970), where he rose to become a key operative for 'Special Operations' working closely with Brigadier-General Wolfgang Langkau, head of the BND's Strategic Service and future technical advisor to the Stauffenberg network.

In 1970, Langemann left the BND to become security chief for the 1972 Munich Olympics—a disaster as it turned out—before

working in the Bavarian Interior Ministry as head of its State Protection Department, in which capacity he acted as top link man between the Bavarian government, Strauss' CSU party, the Bavarian branch of the German BfV security service, and the BND based in Pullach, a suburb of the Bavarian capital, Munich.

Unbeknownst to Crozier and the 6I, Langemann had been receiving full reports on the Cercle from Stauffenberg, information which Langemann then repeated in a series of secret intelligence reports, addressed to either Gerold Tandler, Bavarian Interior Minister, or to Tandler's Private Secretary, Dr. Georg Waltner, who also received the private intelligence reports from the Stauffenberg network.

Langemann's first report (November 1979) quoted a planning paper by Crozier describing the efforts being made to provide a solid operational basis for the 6I by canvassing leaders of industry for financial support. Langemann's report revealed that one of the major goals for the 6I was to shape the future decade by supporting three key right-wing election candidates in 1979–1980: Thatcher, Strauss, and Reagan. Langemann quoted Crozier's planning paper as stating that their aim was 'To affect a change of government in (a) the United Kingdom (accomplished) (b) in West Germany' and that Crozier's group could 'Guarantee a lobby in influential circles, whether directly or through middlemen, witting or unwitting,' and organize 'Covert financial transactions for political purposes'. The report also noted that Crozier 'has worked with the CIA for many years. One has to assume, therefore, that they are fully aware of his activities'. Langemann further detailed the high-level European support Crozier could count on—that of two serving intelligence chiefs: the Comte Alexandre de Marenches, Director of the SDECE (1970–1981) and Sir Arthur 'Dickie' Franks, Chief of MI6 (1978–1981) (*Spiegel* 37/1982, 28–31).

The mention in Langemann's report of a recent working meeting at Chequers between Thatcher, Franks and the 6I team of Crozier and former MI6 Division Head, Nicholas Elliott, shortly after Thatcher's May 1979 election victory is highly significant. As Langemann notes, 'It must therefore be concluded that MI6 as well [as the CIA] is fully aware of, if not indeed one of the main sponsors of, the anonymous security organization.' Franks' presence at the Chequers 6I meeting raises the

question whether the support given to Thatcher by the retired MI6 officers and IRD assets in the counter-subversion lobby was not echoed by serving MI6 officers such as Franks.

Franks was renowned as a hard right-winger who had previously sat uncomfortably as deputy to MI6 chief Maurice Oldfield (1973–1978), a man of liberal views; an early highlight of Franks' MI6 career had been working with Young on the 1953 Mossadegh coup. A few months after the Langemann report was written, Franks played a key role in circulating the manuscript of the Chapman Pincher/Wright book *Their Trade is Treachery* (1981) around Whitehall; his letter (15 December 1980) was produced as evidence in the Australian *Spycatcher* trial as proof that the British Government, MI5 and MI6 had known long in advance that Wright was passing on his allegations of Soviet subversion within MI5 and the Wilson government to Pincher—indeed, Thatcher's advisor, wartime MI5 officer Victor Lord Rothschild, had first introduced Wright to Pincher and then encouraged Wright (1987) to publish his memoirs.

However, Langemann warned that Crozier was indiscreet about both his basic plan and a specific campaign to ensure 'Victory for Strauss', standing as the CDU/CSU candidate in the elections set for October 1980. The 'undesirable negative publicity' feared by Langemann did indeed arise: the *Spiegel* got wind of Strauss' international links and published a two-part series in February and March 1980 (*Spiegel* 9/1980, 22–29; *Spiegel* 10/1980, 20–28). Besides documenting Strauss' support for Spínola and Arriaga and his covert funding of Fraga, Silva Muñoz and Martínez Esteruelas, the *Spiegel* articles also revealed Strauss' close friendship with the Comte de Marenches, reporting that Strauss frequently met de Marenches in Paris, either at the *Piscine* (SDECE headquarters) or at Strauss' hotel.

The *Spiegel* articles further stated that Count Hans Huyn had written to Strauss, advising him that the Saudi intelligence chief, Prince Turki al-Faisal, would be attending a meeting to be held in Bavaria in summer 1979 by a mysterious 'Cercle', the first mention in print of its name. As would later emerge, the discussions between the Cercle/6I and Turki focused on a new project: at the same time as Voice of America was rushing to expand its broadcasts to the Islamic border populations

of the Soviet Union, the Cercle/6I was preparing for its radio debut (*Spiegel* 12/1980, 156–157). Together with the Saudi intelligence service, the Cercle/6I planned to set up a powerful transmitter in Saudi Arabia for propaganda broadcasts to the same target audience as VoA: the Soviet Islamic world radicalized by the Iranian revolution (January 1979) and the Soviet invasion of Afghanistan (December 1979).

Huyn had already proposed similar action in his October 1978 book where, as a conclusion, he gave a list of twenty proposals for action to be undertaken if the West was to ‘survive in freedom.’ The ninth proposed action explains the background to the joint Cercle/6I-Saudi project: ‘The people in the Soviet zone of domination must be given more intensive exposure to objective news from the free world ... In the hermetically sealed system of non-freedom of the Soviet bloc, the people can only be reached very partially by a few shortwave broadcasts. These options must be considerably strengthened and expanded; all the developments of modern technology - including satellite television broadcasting - should be used’ (Huyn 1978, 258). Although no follow-up to the radio project is known, this Cercle/6I-Saudi cooperation did produce the 1980 FARI bulletin *The Importance of Saudi Arabia’s Security to the West* by Audrey Parry.

Following the *Spiegel’s* articles on Strauss and the Cercle, Langemann wrote a second report (March 1980), dealing specifically with the damaging revelations that had just appeared and detailing a December 1979 meeting of the Cercle. His report was the first primary source to reveal the presence at the December 1979 Cercle meeting of Heritage Foundation President Edwin Feulner, former CIA Director William Colby and Julian Amery.

His account also names for the first time a powerful Cercle ally—the German MP (1972–1981) Karl-Heinz Narjes, who provided a link to the very top of the European Community throughout the 1980s. Having joined the German diplomatic service in 1955 (the same year as Huyn), Narjes was a key official in the fledgling EEC throughout its first decade (January 1958–1967): Deputy Chef de Cabinet and then Chef de Cabinet to the first President of the EEC Commission, Adenauer intimate Walter Hallstein. Hallstein had previously led the German delegation in the negotiations to create the

EEC; the delegation's Secretary had been Huyn. As Hallstein's right-hand man, Narjes helped to resolve de Gaulle's boycott of the EEC (July 1965–January 1966).

After Hallstein's retirement in 1967 (becoming President of the European Movement until 1974), Narjes served as Director-General of the EEC's Press and Information service (1967–1969); its Director of Radio, Television, and Film (until 1973) was Rudolf Dumont du Voitel, a member of the AESP's Permanent Delegation (from 1970). In 1972, Narjes left Brussels and returned to German national politics as a CDU MP and CDU spokesman on foreign economic policy, while chairing the Bundestag Committee for Economic Affairs (1972–1976).

In January 1981, just over a year after the Cercle meeting detailed by Langemann, Narjes resumed his EEC career as German appointee to the crucial post of European Commissioner for the Internal Market, Customs Union and Enlargement, attending at least four Cercle meetings between 1982 and 1984. In January 1985, Narjes switched portfolio to become Vice-President of the Commission for Industry, Science, Research and Innovation until retiring in 1988. His successor as Commission Vice-President in charge of Science, Research and Innovation (1989–1993) was fellow 1979 Cercle member Filippo Maria Pandolfi.

Besides reporting on the December 1979 Cercle meeting, Langemann also referred to the emergence within the Cercle of a 'command staff' or 'Inner Circle' which develops suitable lines of action for current political questions'. In January 1980, two weeks after the signature of the Lancaster House Agreement which paved the way for the creation of Zimbabwe, the 'Inner Circle' met in Zürich; participants included Violet, Huyn, Crozier, and Elliott. Their discussions included: 'a) international promotion of the Prime Minister [of Bavaria, Strauss] b) influencing the situation in Rhodesia and South Africa from a European Conservative viewpoint c) the establishment of a powerful directional radio station in Saudi Arabia aiming at the Islamic region and including the corresponding border populations of the Soviet Union' (*Spiegel* 37/1982, 28–31).

Langemann also names for the first time two further participants at the 'Inner Circle' meeting, American intelligence veterans General

Richard 'Dick' Stilwell and Donald 'Jamie' Jameson. Stilwell's post-war career started as Special Military Advisor to the American Ambassador in Rome (1947–1949), and then Chief of the Far East Division of the CIA (1949–1952). After a tour of duty in Korea (1952–1953), Stilwell was Chief of Strategic Planning at NATO's Supreme Headquarters Allied Powers Europe (1956–1958) before being appointed in 1959 to the President's Committee for the Study of Foreign Assistance Programs which developed US counter-insurgency policy, notably producing 'one of the most influential documents of the past quarter-century'—the May 1959 report *Training under the Mutual Security Program* which coined the term 'pacification' (Prouty 1974, 499, Appendix III). Stilwell's policies laid the groundwork for the American pacification programme in Vietnam which would be implemented successively by three Cercle contacts—Thompson, Komer, and Colby.

Stilwell served again in the Asian theatre, firstly in 1963 in Vietnam, when he worked as Chief of Staff to General Westmoreland within the Military Advisory Command Vietnam (MACV), then in Thailand as Commander of the US Military Assistance Command (1965–1967) before returning to Vietnam (1968–1969). Stilwell then filled political posts: Deputy Chief of Staff for US Military Operations at the United Nations (1969–1972), and Commander-in-Chief of the UN and US Forces in South Korea (1973–1976). Less than a year after Langemann's 1980 report, Stilwell was appointed Reagan's Deputy Under-Secretary of Defense for Policy (February 1981–February 1985); he joined the ASC Board and the 6I's 'Politburo' soon after his appointment (Crozier 1993, 177).

Jameson, from 1951 a twenty-year veteran of the CIA's Directorate of Operations, headed the branch in charge of Soviet Bloc covert action and defectors (1962–1969). Jameson's branch encouraged dissidents behind the Iron Curtain, debriefed defectors and helped smuggle banned books to and from the Soviet Union and its satellite countries. Jameson had first debriefed Anatoliy Golitsyn, the defector who 'confirmed' the fears of the ultras within the CIA, MI6 and MI5 about Soviet penetration of Western governments and intelligence services, ensnaring the CIA, MI6 and MI5 in fruitless and highly destructive molehunts. Sceptical of Golitsyn's claims and wary of the high-level



attention the Soviet defector was being paid, Jameson recommended caution; he was however overridden by Angleton, who removed Jameson as Golitsyn's debriefer. Referring to Robert Moss of the ISC, Cleveland Cram, author of the CIA assessment of Angleton, wrote:

Moss had been spreading Angleton propaganda for some time, such as the claim that Golitsyn had provided the lead to H. A. R. 'Kim' Philby. This caught the eye of Adm. Stansfield Turner, who was then DCI [Director of Central Intelligence]. When he asked the CI [Counter-Intelligence] Staff about it, the staff replied from solid knowledge that the claim was false.<sup>7</sup>

After retiring from the CIA in 1973, Jameson helped set up the 'private' defector reception group, the Jamestown Foundation, serving as its Vice-President. From at least 1977, Jameson organized the once-yearly Cercle meetings in America. Besides this, Jameson worked (1980–1987) as Vice-President of Research Associates International Ltd, a Washington-based 'risk assessment consultancy' set up in 1979 by veteran CIA covert operator Theodore Shackley, who became a core Cercle member. Jameson also served as an advisor to the Nathan Hale Institute, incorporated in 1983 by W. Raymond Wannall, the long-standing head of the FBI's Intelligence Division until his retirement with the rank of Assistant Director in 1976 (Herman and O'Sullivan 1989, 99).<sup>8</sup>

Langemann's report raises more fundamental questions about the relationship between the Cercle and the 6I. His comment about the emergence of a 'command staff or Inner Circle' illustrates the difficulty in separating the functions of the Cercle as a confidential discussion forum and the 6I as a covert intelligence agency. Far from Crozier's claim of 'some minor overlapping,' Langemann's 'Inner Circle' is virtually identical to the 6I 'Politburo': both bodies included the key figures of Violet, Huyn, Crozier, Elliott, Stilwell, and Jameson. Only a

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<sup>7</sup><https://www.cia.gov/library/center-for-the-study-of-intelligence/kent-csi/vol38no5/html/v38i5a15p.htm>.

<sup>8</sup><https://www.cia.gov/library/readingroom/docs/CIA-RDP90-00806R000200720004-6.pdf>.

few 61 'Politburo' members were not in attendance at the January 1980 'Inner Circle' meeting that Langemann describes, among them Walters, Albertini, Stauffenberg, and Horchem.

## Victory for Strauss

After Thatcher was elected British Prime Minister in May 1979, the next priority for the Cercle was to support Cercle co-founder and Bavarian Premier Strauss, the CDU/CSU candidate for German Chancellor in elections to be held in October 1980. The outlines of the operation to promote Strauss are clear: within a month of the January 1980 'Inner Circle' meeting, a coordinated pro-Strauss campaign had been launched in Britain and in Germany by Crozier and German Cercle member Gerhard Löwenthal, presenter for nearly twenty years (January 1969–December 1987) of the fortnightly current affairs television programme, *ZDF Magazin*. The task was not easy: Strauss' previous hopes for the Chancellorship in the 1960s had been dashed by his murky reputation, tarnished in the 1962 '*Spiegel* Affair' which revealed that, while serving as German Defence Minister, Strauss had orchestrated the illegal extradition from Spain of the magazine's Deputy Chief Editor, Conrad Ahlers. The ensuing scandal led to his replacement as Defence Minister (1963) and scotched his chances of rising to the Chancellorship. In 1964, in the interests of Franco-German amity, Strauss had recommended payment of substantial reparation demands presented by Violet and Pinay to the German Finance Ministry; it transpired that the documents were forged (*Spiegel* 10/80, 23). In the mid-1970s, Strauss was implicated in the Lockheed bribes scandal following his approval while Defence Minister of the disastrous German purchase in 1959 of more than 700 Lockheed F-104 Starfighter aircraft, of which more than 250 had crashed by 1982, earning the nickname the 'Widowmaker'.

This time, the Cercle was determined to discredit the *Spiegel's* revelations of Strauss' parapolitical links. The tactic used was the old ploy of accusing journalists of being in the pay of the Kremlin. Within a month of the January 1980 'Inner Circle' meeting, Löwenthal founded

a Strauss support group, the *Bürgeraktion Demokraten für Strauss*. The group's posters alleged the existence of a systematic anti-Strauss campaign steered from Moscow: 'Germans! Do you know who is behind the anti-Strauss campaigns? Journalists financed by East Germany, cheque fraudsters, dope smokers, terrorist sympathizers, Communists and unfortunately also Social Democrats. Stop this left-wing Popular Front!' (*Spiegel* 35/1980, 22–25).

Grau's Frankfurt Study Group (FSG) was also involved in the pro-Strauss campaign with a typically devious 'political action'—plastering the election posters of prominent SPD moderates with forged stickers reading 'Better the Russians in Heilbronn than Strauss in Bonn! Détente!—Young Socialists in the SPD.' Grau's action team were caught by the police, the Study Group offices searched and considerable amounts of further forged campaigning material found, such as 'Popular Front for Schmidt!', a sticker smearing the Socialist Chancellor standing for re-election. Grau was later prosecuted for this campaign, an action which led to further police investigations of Grau (*Spiegel* 36/1981, 59–61).

International support for the Strauss campaign was provided by Crozier who from February on planted pro-Strauss articles in Sir James Goldsmith's magazine *NOW!*, for which Crozier edited an entire section during the magazine's short lifespan (1979–1981). The Cercle's efforts were fruitless, however; although the CDU/CSU got 45% of the secondary votes, Schmidt's SDP won 43% and Hans-Dietrich Genscher's FDP 10%, ensuring the continuation of the Socialist/Liberal coalition.

On 5 September 1984, Grau met an end that matched his conspiratorial nature. After his 1981 prosecution for the underhand tactics adopted during the 1980 pro-Strauss campaign, the German police had become interested in his involvement in providing covert funding for a variety of political initiatives. As part of a fraud investigation into movements of millions of Marks deposited with Luxembourg banks, the police arrested Grau during one of his trips to Luxembourg; he was carrying a list of bank accounts and an unauthorized and loaded pistol. Grau then faked a medical emergency and was transferred under police guard to a hospital; he broke his neck jumping out of an upper-storey window in an attempt to escape (*Spiegel* 51/1984, 92–93). Grau's

death seriously handicapped the network of groups he had established in Germany and Switzerland; both the FSG and the Swiss ISP ceased operations.

## Reagan and Cercle's American Friends

In 1980, the Cercle also turned their attention to the looming American Presidential elections. The presence of former CIA officers during the Cercle's discussions on the promotion of Reagan is indicative: participants at the Cercle's earlier 'command staff' meeting in January 1980 had included not only Violet, Crozier, Elliott, and Huyn, but also Jameson and Stilwell, the latter a Board member of the American Security Council. At the time of the Cercle meeting, the ASC Foundation was launching an intense media campaign against Carter for 'disarming America to death' through the SALT 2 Treaty. The ASCF produced a film, *The SALT 2 Syndrome*, that was used in South Dakota to oust Senator George McGovern. The film was shown eleven times on the three major state television channels, and as a film or videotape it was screened to over 1000 audiences. ASC official John Fisher stated: 'In the last three months of the campaign... ASCF increased its average TV showings from 30 a month to 180 bookings per month for a total of 1956 showings during this election year' (Bellant 1988, 32).

In July 1980, Crozier (1993, 179–186) flew to Los Angeles to brief Reagan personally on the 6I and to offer its services. Crozier was not the only one to contact Reagan or his campaign team; also in early July 1980, the Comte de Marenches met Casey, Reagan's campaign manager, in Paris. De Marenches, who wrote in his memoirs that 'under Carter, the Americans committed voluntary suicide,' shared with OSS veteran Casey not only a past in the Resistance during the Second World War but also an arch-conservative approach to both politics and intelligence work and a total disdain for Carter. De Marenches was well-placed to advise Casey on the ongoing Iranian hostage crisis; he had been the driving force behind the creation of the Safari Club, founded in 1976 to coordinate covert cooperation between the French, Iranian, Saudi, Moroccan and Egyptian intelligence services.

One month after the de Marenches-Casey meeting, Casey flew to Madrid for a series of negotiations with senior Iranian officials aiming to ensure that the 52 US hostages captured in the Tehran embassy would not be released before the November 4 presidential election to ensure that no ‘October Surprise’ could assist Carter to win a second term. The key meetings to finalize the deal were held in October in Paris under the benevolent eye of de Marenches’ SDECE; in September, Alain de Marolles, SDECE Director of Operations and principal deputy to de Marenches, had given the go-ahead for French arms dealers to supply Iran with military equipment in direct violation of Carter’s embargo (Sick 1991, 110–111). After Reagan’s election victory, de Marenches was invited to meet the President-elect and flew to California on 21 November 1980 to advise him on selection of Administration personnel and policy. De Marenches warned Reagan not to trust the CIA, particularly because of its lack of purposefulness:

Reagan repeated [de] Marenches’s warning – ‘Don’t trust the CIA’ - to George Bush, who had been CIA chief in 1976-77. Bush thought it was hogwash, but all the same it obviously left a deep impression on Reagan. Bush had already told one of his CIA friends that, given Reagan’s detached management style and his unfamiliarity with intelligence matters, it was important the President have a CIA Director he felt close to, someone he trusted fully, particularly on the issue of purposefulness. Now, after the [de] Marenches warning, that was even more important. (Woodward 1988, 39–41)

The man to whom Reagan offered the job—within days of his meeting with de Marenches—was someone the French spymaster approved of: OSS veteran and NSIC co-founder, Casey. Thanks to Casey and others, the NSIC and the Cercle/6I enjoyed unbroken access to the highest levels of US policymaking even before the advent of the Reagan Administration: as well as having been Reagan’s election manager, Casey was also head of the Reagan transition team, particularly in the field of intelligence, where Casey was assisted by former senior CIA officer and 6I founding member, Lieutenant-General Walters. The agenda for the incoming Reagan Administration had to a large extent already been mapped out in a 3000-page list of policy recommendations published

by the Heritage Foundation (January 1981) under the title *Mandate for Leadership*—its intelligence proposals had been drafted by NSIC Washington chief, Roy Godson, Senate Intelligence Committee staffer and later NSIC and IEDSS author Angelo Codevilla, and Crozier's old associate, Herbert Romerstein.

Once in charge of the CIA, Casey helped provide initial funding for the 6I's operations. Members of the 6I 'Politburo' also soon assumed high office: General Walters became Reagan's Ambassador at Large (1981–1985), US Representative at the UN (1985–1989) and Ambassador to West Germany (1989–1991), while General Stilwell served (1981–1985) as Reagan's Deputy Under-Secretary of Defence for Policy—despite the anodyne title, Stilwell was in reality charged with a fundamental reform of US special forces. Reagan also ensured contact with the Cercle and 6I through an old Californian friend, William A. Wilson, whom Reagan also appointed as his personal envoy to the Vatican (February 1981) and full US Ambassador to the Holy See (March 1984), resuming US-Vatican diplomatic relations suspended since the early 1970s. Besides the channels to Reagan via Casey, Walters or Wilson, the Cercle/6I also liaised directly with Reagan's successive National Security Advisors, Richard V. Allen, William P. Clark, Bud McFarlane and Admiral John Poindexter.

The NSIC and Cercle/6I could also count on several other highly-placed friends within the American national security apparatus throughout Reagan's Presidency (1981–1989). One of Crozier's frequent contacts throughout the 1980s—indeed, a probable founding 6I member in 1977—was one-time NSIC Programme Director Sven Kraemer, a veteran NSC staffer who had spent the Carter Presidency working as Senior Staff Member for Defense and Foreign Policy for the Senate. In 1979, Kraemer served as the Chair of the Heritage Foundation's Transition Team for the Defense Department. After Reagan's election, Kraemer returned to the NSC, serving as Director of Arms Control (1981–1987); then becoming Senior Staff Member for Defense and Foreign Policy for the House of Representatives (until 1989). In 1985, at least, Kraemer attended a Cercle meeting in Washington.

Another regular Crozier partner and probable 6I founding member was Richard Perle, nicknamed the 'Prince of Darkness' and named by

Grossmann (2014, 496) as a Cercle member since the late 1970s. Perle had been a Senior Staff Member for Senator Henry ‘Scoop’ Jackson (1969–1980), a prominent member of the Senate Armed Services Committee and a leading opponent of the SALT II treaty: ‘Aided by Perle, Jackson quickly became Israel’s number-one man in the Congress, constantly pushing for more and more money with fewer restrictions. In fiscal year 1970, Israel received military credits from the United States worth \$30 million. But, thanks to a Jackson amendment, the next year the amount sky-rocketed to \$545 million. By 1974, it had reached an extraordinary \$2.2 billion, more than seventy times what it had been just four years earlier’ (Bamford 2005, 273).

According to Ken Silverstein (2000, 232) ‘One of Perle’s great victories while working for Jackson came in late 1975, when he sabotaged the SALT II treaty that called for limiting American and Russian nuclear stockpiles and restricted missile defense systems [...] Donald Rumsfeld pressed President Gerald Ford to back away from SALT. Already reeling from the harsh attacks of Republican challenger Ronald Reagan, who accused Ford of coddling the Russians, the President declined to sign the treaty.’

Perle, Reagan’s Assistant Secretary of Defense for International Security Policy (1981–1987), was simultaneously a member of the ASC’s lobbying arm, the Coalition for Peace Through Strength. In 1982, Perle hired NSC Middle East expert Douglas J. Feith as his Special Counsel; a former assistant to Jackson, Feith then became Reagan’s Deputy Assistant Secretary of Defense for Negotiations Policy (1984–1986).

A third American friend of Crozier—‘one of the leading American official specialists on the Soviet intelligence system, whom I have known for many years’ (Crozier 1993, 11, Footnote 4)—was Herbert Romerstein who entered government service in 1965, working as an Investigator for the House Committee on Un-American Activities (HUAC, 1965–1971), Minority Chief Investigator for the House Committee on Internal Security (1971–75), and Professional Staff Member for the House Intelligence Committee (1978–1983). Romerstein then served as Director of the US Information Agency’s Office to Counter Soviet Active Measures and Disinformation

(1983–1989). Romerstein also worked with American Circle coordinator Jameson as an advisor to the Nathan Hale Institute.

A fourth Crozier contact and influential figure in the Reagan Administration was Ken deGraffenreid who had served as Senior Staff Member of the Senate Select Committee on Intelligence from its foundation in 1977 until 1981. He worked with Casey and Walters on Reagan's transition intelligence team before being appointed Senior Director of Intelligence Programs at the NSC (1981–1987). Leaving government office in 1987, he became a Senior Fellow on Intelligence at the NSIC. Kraemer, Perle, Feith, and deGraffenreid worked together over the next twenty years, becoming notorious figures in Rumsfeld's Pentagon (2001–2005).

## The International Freedom Foundation

According to a *Newsday* article (16/07/95), the IFF was founded in 1986 and fronted by notorious American lobbyist Jack Abramoff, later to be jailed for his corrupt relationship with several congressional legislators. With a staff of twenty under Chairman Duncan Sellars and Executive Director Jeff Pandin, the IFF operated from prestigious offices in Washington, lobbying Congress, organizing high-profile conferences and award ceremonies and publishing an extensive range of journals, reports and briefing papers. With branches in London, Rome, Hamburg, Brussels and Johannesburg, the IFF's stated aims were that it 'works to foster individual freedom throughout the world' and 'encourages and mobilizes support of indigenous democratic movements.'

In reality, the IFF's purpose was the exact opposite—to counteract pressure in the US for sanctions on South Africa by denigrating Nelson Mandela and the ANC as Soviet stooges. Over half the IFF's funding was provided by the South African DMI which gave at least US\$1.5 million a year from 1986. Interestingly, the IFF's creation in 1986 coincided with the closure after ten years of the London-based FARI, previous beneficiary of DoI/DMI funds. In 1992, President de Klerk ended DMI funding of the IFF as part of a withdrawal from 'Third Force' operations negotiated with Mandela; the IFF closed down in 1993.



Prior to its closure, however, the IFF afforded the 6I its last appearance covered by this investigation in a series of conferences in the US and in Germany (autumn 1991).

Before detailing the 6I's swansong, it is useful to examine the career and other affiliations of an IFF officeholder—J. Michael Waller, listed by the US Information Agency as Director of the IFF's International Security Affairs section. Waller had been 'a member of the staff of the US House of Representatives and the US Senate, served on the White House Task Force on Central America, and was a consultant to the US Information Agency, the US Agency for International Development and the Office of the Secretary of Defense in support of operations in Afghanistan and Iraq. In 2006, he received a citation from the Director of the FBI for 'exceptional service in the public interest' ... He is a frequent lecturer and instructor in psychological and information operations for the US military and the intelligence community.'

Waller also served as Vice-President for Information Operations at the Center for Security Policy (CSP), founded in Washington in 1988, another body which involved several of Crozier's American contacts—the CSP National Security Advisory Council included Kraemer, deGraffenreid, and their future Pentagon bosses Feith and Perle, as well as Feulner, Midge Decter of the Committee for a Free World, and former CIA Director James Woolsey; Cercle member Margo Carlisle was a member of the Board of Directors.

Waller and the trio of 6I friends Romerstein, Kraemer, and deGraffenreid overlapped in another American group, the Institute of World Politics, a 'Graduate School of National Security and International Affairs' founded in Washington in 1990. All four have served on the IWP Faculty, and IWP Guest Lecturers have included three former CIA Directors—Schlesinger, Woolsey, and Tenet—as well as Feith and Caspar Weinberger.

Before its closure in 1993 after the ending of South African funding, the IFF provided a platform for the 6I's American and European members in autumn 1991. Three IFF conferences on intelligence were held, the first two in Washington and the last in Germany; the proceedings were published the following year by the IFF's German branch under the title *Intelligence and the New World Order*. The speakers at the

first two Washington seminars, *Assessing US Intelligence Needs for the 1990s: Congressional Oversight of the Intelligence Community—Finding the Proper Balance*, included Romerstein, Cercle members Kraemer and Shackley, and CIA veteran George Carver. Of greatest interest though was the third IFF intelligence conference (November 1991) in Potsdam under the title *National Intelligence Agencies in the period of European Partnership*.

The IFF's German venue symbolized the changes since the fall of the Iron Curtain and German reunification (1989–1990), 'closing the circle of the superpower era, at a conference in Schloss Cecilienhof, Potsdam, where Stalin initiated the Cold War,' as the IFF book put it. The two keynote speakers in Potsdam also reflected the meeting of East and West: General Oleg Kalugin, former head of KGB Counter-Intelligence, and Colby, ex-Director of the CIA and a longstanding Cercle member. Alongside them on the podium as speakers were the GI team of Crozier (1992), Huyn and Horchem. Finally, among the participants at the IFF conference was the American Cercle convenor and GI member, Jameson.

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# 9

## The Pinochet Regime and the Transnationalization of Italian Neo-fascism

Galadriel Ravelli and Anna Cento Bull

### Introduction: Italian Neo-fascism, the Cold War and the ‘Strategy of Tension’

Neo-Fascism refers to the attempted revival of political activism in post-war Europe by groups and parties which harked back to Fascist ideals and strove both to keep them alive and to exercise a degree of influence in the new international context. As Piero Ignazi (2015, 211) highlights, in Italy this phenomenon ‘presents unique features compared to other European countries,’ due to two main factors. First, the existence of ‘the largest, most enduring and established neo-fascist party.’ Second, the presence of radical groups bent upon violence, including terrorist acts and bombing attacks which caused a considerably higher number of victims than in other countries. This chapter focuses

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primarily on the nature and activities of these latter groups because, for reasons that will be explored below, they succeeded in developing transnational links in Europe and beyond, and managed to play a role in Cold War politics outside Italy. When their leaders and members became investigated for their activities in their home country, they were able to rely on these external networks to become political refugees, first in Spain then in Latin America, which ultimately led to the establishment of collaborative relations with various dictatorial regimes, including Augusto Pinochet's in Chile.

In terms of size and domestic political influence, the *Movimento Sociale Italiano* (MSI), formed in 1946 and tolerated for pragmatic reasons despite the official ban introduced by the new Italian Republic, which was founded on the principle of anti-Fascism, dwarfed all the radical right groups. While comprising disparate currents and views, the new party was mainly divided between a leftist, anti-capitalist and revolutionary strand and a conservative, statist and law-and-order strand. After an initial period in which it seemed to find its inspiration in the uncompromising ideals of the Italian Social Republic of 1943–1945, from 1950 onwards, under successive leaderships, the MSI developed a parliamentary and accommodating strategy. According to Parlato (2017, 50), to achieve this aim 'it was essential to replace the fascism/anti-fascism alternative with the much more advantageous one, for the MSI, of communism/anti-communism.' In line with its goal, the party accepted the NATO alliance and sought ways to collaborate with the mainstream Christian Democratic Party. The strategy proved moderately successful, not least in terms of gaining votes and seats, but alienated the more radical elements and activists, who chose to split from the MSI. In 1956 a radical group, the *Centro Studi Ordine Nuovo* (ON), was formed under the leadership of Pino Rauti, followed in 1959 by the creation of the *Avanguardia Nazionale* (AN), under the leadership of Stefano Delle Chiaie.

As already mentioned, the new groups were bent on violence and tended towards adopting a clandestine form alongside a more public one, for both ideological and psychological reasons. In terms of the latter, military defeat had left many Fascist sympathizers feeling like 'aliens' in their own country (Tarchi 1995), ostracized from power and marginalized, with dreams of revenge and full of hatred for a population

which had turned their back on them. In this context, ‘many veterans believed that terrorist militancy could restore another authoritarian regime’ (Mammone 2007, 14) or at least demonstrate that they remained unswerving political warriors and soldiers. These strong emotions found resonance on the ideological terrain in the ideas of the Fascist thinker Julius Evola, who in the post-war period refined his previous critique and condemnation of modernity as decadence and moral degradation by advocating a continuation of the fight even in the throes of defeat. In the 1940s Evola’s thinking inspired the *Fasci d’Azione Rivoluzionaria* (FAR), established in Rome in 1946, whose members, including Evola himself, were tried in 1951 under charges of terrorism (Mammone 2007, 292–293). In the 1950s, he deeply influenced ON. As one of its leaders stated, ‘Our work since 1953 has been to translate Evola’s teaching into direct political action’ (cited by Cassina Wolff 2016, 492). Similarly, Goodrick-Clarke (2001, 67) notes that Adriano Romualdi, a leading young neo-Fascist, identified Evola in 1971 as the intellectual hero of militant right-wing youth in Italy ‘because the teaching of Evola is also a philosophy of total war.’ From the late 1950s, when Italy started to experience a period of economic and material growth, Evola’s writings became more pessimistic and seemingly preached passive resignation. In reality, this was the time when he developed ‘the ideal of the “active nihilist” who is prepared to act with violence against modern decadence’ (Goodrick-Clarke 2001, 67). As Furlong noted (2011, 102), Evola’s post-war ideas, especially as expressed in his 1961 book *Ride the Tiger*, ‘could be interpreted as a nihil obstat, not to conventional political activity that carried such a high risk of moral corruption, but to conspiracy and subversion.’

As Mammone has shown, Evola’s thought influenced extreme-right activists across Europe and his ideas helped foster cross-national fertilization and exchanges, especially with neighbouring France. Evola, in fact, re-interpreted the nation in spiritual terms, promoting the vision of a unified (and Nazified) Europe. As Cassina Wolff remarked, ‘This perception of ‘nation’ became especially popular among European far-right radicals who, in the 1950s and 1960s, had no chance of gaining power in their respective countries and thus sought legitimacy by making contacts across borders.’

In short, the groups which split from the MSI in the 1950s formed a distinctive strand of Neo-Fascism characterized by radical and uncompromising ideas, violent forms of political activism which included terrorist acts, and the establishment of transnational networks. Throughout the 1940s and 1950s, terrorist acts tended to consist of bombing attacks against property but they escalated in the 1960s until they reached a turning point on 12 December 1969, when bombs exploded simultaneously in public places in Milan and Rome. The bomb placed in the Bank of Agriculture, in Piazza Fontana, Milan caused heavy human casualties, resulting in 17 deaths and 88 people wounded. This event marked the start of a wave of bombing attacks which targeted primarily crowded trains at the peak of the holiday season, such as the *Italicus* (4 August 1974), and public squares, as at a mass anti-Fascist demonstration in Piazza della Loggia, Brescia (28 May 1974). The worst episode took place in Bologna (2 August 1980) when a bomb exploded in a passengers' second-class waiting room, destroying part of the station and killing 85 people, with over 200 wounded.

After numerous investigations leading to a series of trials and re-trials, which ended as late as the 2010s, the Italian courts established that ON was the group responsible for most of the bombing attacks. Thus, as the Supreme Court ruled in 2005 in relation to the Milan massacre, 'That the responsibility for the massacre is attributable to segments of Ordine Nuovo is a non-controversial element' (Cento Bull 2007, 43). The same Court also acknowledged that 'the tragic facts of 12 December 1969 [...] did not represent the work of a crazy splinter group, but the fruit of a coordinated operational 'acme' embedded [...] in a subversive, well developed, sedimented programme, albeit one whose origins, boundaries and size remain obscure.' However, despite attributing the Milan massacre to ON, the Supreme Court was unable to find individual Neo-Fascist defendants guilty, including main suspect Carlo Maria Maggi, who at the time was the leader of ON in the Veneto region. This was due to lack of evidence, not least because after so many years since the event many witnesses had died or fallen seriously ill. This led to a concerted campaign aimed at denigrating the judicial process led by *Alleanza Nazionale*, the party which in the 1990s had replaced the MSI and was then part of the Berlusconi government.



The campaign depicted the Neo-Fascists as innocent activists who had been deliberately turned into scapegoats by leftist judges. In 2017, however, in a grounds breaking judgement, the Supreme Court found Carlo Maria Maggi guilty of orchestrating the 1974 bombing attack in Brescia, and sentenced to life imprisonment another member of the same group. The verdict also made explicit reference to the existence of links between Neo-Fascist terrorism and sectors of the Army and the intelligence services.

The 2005 verdict, with its reference to ‘a subversive programme’ and the 2017 verdict, which linked Neo-Fascist terrorists to state institutions, highlight the existence of a complex overarching political strategy, known in Italy as the Strategy of Tension, within which the bombing massacres were meant to play a specific role (Ferraresi 1996; Cento Bull 2007). As the historian and judicial consultant Aldo Giannuli (2005) argued, the Strategy of Tension was developed at the international level in the context of the Cold War from 1960 onwards and was designed to oppose and put a stop to the policy of *Détente*, considered to play into the hands of the Communist bloc. In Italy, home to the largest Communist Party in Western Europe, *Détente* took the form of a policy of collaboration with the Socialist Party pursued by Christian Democratic leader and Statesman Aldo Moro. In 1963, the first government to include the Socialist party was formed; until then a close ally of the Communists, a move which many on the right judged to be dangerous and reckless. At the end of that decade, increased workers’ militancy and students’ unrest increased fears among the right that Italy was on the brink of a leftist revolution. In this context, an alternative strategy was conceived by an array of domestic forces backed by international anti-Communist organizations and intelligence services, whereby a campaign of bombing attacks would be used to create an atmosphere of chaos in the country and facilitate the establishment of a strong government, while curbing civil liberties and the power of the trade unions. Within this overall alliance of anti-Communist forces, the Neo-Fascists would be responsible for the bombing campaign, which would be charged to leftist groups, in a form of ‘false flag terrorism.’ As Ferraresi (1988, 92) argued, the Strategy of Tension followed a regular pattern:

a violent action is planned or carried out; the intelligence services are always at least aware of it, and in some cases participate directly. Once the action is over, responsibility for it is attributed to the Left, if possible; otherwise, a systematic cover-up is set in motion. If, in spite of this, some enterprising magistrates probe too deeply, their investigations are sabotaged by all available means.

To this day, Neo-Fascist thinkers and sympathisers continue to deny any possible involvement of the radical right groups in the Strategy of Tension, claiming that, unlike the MSI, they remained faithful to the Fascist ideal of uncompromising opposition to both Communism and Capitalism and to Evola's intransigent anti-Americanism. However, we have already seen how Evola's teachings were interpreted by the radical right groups as justifying recourse to violent and drastic tactics designed to accelerate, in the words of Franco Freda (1969), a Neo-Fascist charged with responsibility for the Milan 1969 bombing attack, the 'disintegration of the system.' Furthermore, according to Cassina Wolff (2016, 489), in the post-war period Evola had tended to prioritize anti-Communism: 'His critique of the modern world was turning into criticism directed at the 'materialist' Marxist culture that was allegedly invading Italian universities, as well as existentialism and psychiatry.'

It is also the case that a tactical convergence with state forces and even with the USA at a time when the left appeared to be on the offensive did not necessarily mean a betrayal of these ideals in the eyes of the Neo-Fascists. Rather, it could be welcomed for both pragmatic and strategic reasons. At the pragmatic level, it would bring protection and support as well as resources, not least financially. There were also precedents for this behaviour. Before the end of the war, various Fascists had been rescued by the OSS, the precursor to the CIA, in the so-called Stay Behind operation, in case Italy fell to the Communists. One of those saved by the Americans was Prince Junio Valerio Borghese who, as part of the Italian Social Republic, had led a special force known as the Decima Mas (XMAS) and had been responsible for killing many partisans (Ganser 2005, 64). After the war, Borghese created his own Neo-Fascist group, Fronte Nazionale, yet was also a staunch supporter of the USA in the Cold War context. In the 1940s, the Neo-Fascist clandestine

group FAR was funded by the Americans (Cento Bull 2008, 593). Indeed Pino Romualdi, leader and founder of the FAR, had also been in contact with the OSS in autumn 1944 (Parlato 2006, 80). At the strategic level, it might create an environment in which a pro-Fascist coup d'état became possible. Indeed, the year 1970 witnessed an attempted coup organized by Julio Valerio Borghese and his Fronte Nazionale, in collaboration with Delle Chiaie's AN. In short, the Strategy of Tension should be conceived as comprising an array of disparate forces pursuing different and even alternative goals. While conservative and state forces aimed at reversing Moro's policies and establishing a more authoritarian rule, relying on the Neo-Fascists to carry out the dirty work, the latter hoped to destabilize the status quo and open the way for conquering power, leading to a Fascist dictatorship.

Similarly, Italian Neo-Fascists established links at the international level with organisations which were Conservative and anti-Communist rather than Fascist, even though they also recruited Fascist sympathisers as members. According to Giannuli (1997), collaboration between Conservative and Fascist organisations under the umbrella of anti-Communism started from the late 1950s. One of these organisations was the Organization de l'Armee Secrete (OAS), set up in Spain in 1961 but led by French Army officers, which opposed Algerian independence and was responsible for a series of violent attacks, including a bombing campaign. As Rossi stated (2003, 82), Evola liked the OAS, because he considered its members as 'representatives of a "warrior order," a sort of reincarnation, albeit an imperfect one, of the SS.' Another was the *Aginter Presse*, set up in Portugal in 1966 by Yves Guerin Serac with the goal of counteracting Communism at the international level. Serac was a traditionalist Catholic whose organization received funding Republican Party in the USA and recruited members professing disparate ideologies.

The transnational links established by the radical right groups became extremely useful when successive investigations and trials started to bring to light the complex web of ties linking Italian Neo-Fascists to military and intelligence forces. The latter, in fact, countered these investigations with cover-up tactics, either withholding information or manufacturing false documents and above all helping Neo-Fascist

activists escape abroad, primarily to Spain. No longer able to influence domestic politics, the political refugees turned their attention increasingly to the international sphere and in so doing they became involved directly in Cold War politics. However, as in the case of the Strategy of Tension, they considered any alliance with anti-Communist forces as a tactical one, while remaining bent on pursuing an independent path aimed at exploiting opportunities for establishing dictatorial regimes informed by Fascist ideals. In the mid-1970s, when faced with setbacks in Europe following the collapse of the dictatorships in Spain, Portugal, and Greece, Italian Neo-Fascists were again forced to move, both in order to avoid being extradited to Italy and in order to continue their struggle elsewhere. Not surprisingly, many moved on to Latin American countries, where they could rely on the support of local dictatorships. Delle Chiaie, for instance, fled Spain for Chile, where he enjoyed a friendly relationship with Pinochet. Later, he moved to Argentina, Bolivia, and Venezuela, until he was finally arrested in Caracas in 1987.

While scholars recently started to research Neo-Fascism's transnational links at the European level (Mammone 2011, 2015; Albanese and Del Hierro 2016) very little is known concerning their activities in Latin America. This chapter aims at addressing this gap and exploring Italian Neo-Fascists' relations with and activities in Latin American countries in the 1970s and 1980s, with a particular focus on Chile following the 1973 coup by Pinochet.

## The Transnational Fascist Network

The relationship between the Italian Neo-Fascists and Pinochet should be placed in the context of the transnational Fascist network that originated in the 1920s in Europe. Albanese and Del Hierro (2016, 4, 161) understood the network as a 'complex socio-political phenomenon' which 'involved political actors in the form of individuals, groups, parties, and regimes.' The network originated from the international aspirations of Italian Fascism and managed to survive the end of the Second World War thanks to the persistence of relations between Fascist militants across Europe. Two main factors account for the creation and

duration of this network: the launch of several transnational European organizations in the early 1950s and the existence of sanctuaries in Europe and Latin America that welcomed Nazi/Fascist war criminals and the new generation of Fascists. This section will firstly highlight Fascism's transnational features since its origins and will then illustrate how the transnational network managed to survive over decades.

Spreading Fascist ideology across Europe and in other continents was a key preoccupation of Mussolini since the establishment of his Fascist regime in Italy in the 1920s. Already in 1923, a Fascist organization named *Fasci Italiani all'Estero* (Italian Fascists Abroad) was founded by the Deputy Secretary of the Fascist party, Giuseppe Bastianini, 'to regiment Italian emigrants' and to 'disseminate Fascist ideology beyond Italy's borders' (de Caprariis 2000, 151). The organization aimed at formally coordinating dozens of Italian expats' informal groups supporting Fascism that already existed abroad.

In the first years of Mussolini's regime, the launch of the *Fasci all'Estero* was considered as a key strategy to consolidate his leadership and to counteract the activities of anti-Fascist militants abroad. Branches of the *Fasci* were disseminated in Europe and in the Americas, where the community of Italian migrants was more numerous. The outcome of this strategy was not fully successful as it very much depended on the political context of the countries in which the *Fasci* were founded. As de Caprariis (2000, 175) observed, 'Mussolini was well aware that Italian communities could not be used to disrupt the political system of their host countries.' The progressive independence of these organizations from their homeland led the regime to fully reorganize them, and by the end of the 1920s the *Fasci* were formally subordinated to the Ministry for Foreign Affairs (Santoro 2005, 58). Nonetheless, the foundation of the *Fasci all'Estero* contributed to establishing a Fascist transnational network that not only linked Italian Fascist expats to their homeland, but also incorporated foreign supporters and sympathizers of Mussolini's regime. As Albanese and Del Hierro highlight (2016, 11), after Mussolini's seizure of power in 1922, 'Italian Fascism spread throughout Europe, becoming a model for Fascist groups across the continent.' In the early 1930s, Mussolini promoted a series of International Conferences of Fascist Parties as the best response to the

Soviet Union's Comintern. These meetings were attended by Fascist militants from several countries (Bar-On 2008), further fostering the transnationalization of Fascism and the establishment of relations between Fascist supporters across Europe.

The spread of Fascism across continents should not be understood as a mere transfer of its key ideological elements to other countries. Transnational approaches to Fascism underline the need to treat it as a 'global and transnational ideology, potentially interpreted and reformulated in different geopolitical and cultural landscapes' (Mammone 2011, 318). This implies that wherever Fascism was exported or merely incorporated by domestic movements, it underwent changes and evolutions that depended on its interaction with the local context. According to Mammone (2015, 15), a 'genuine "fascist wind" blew across inter-war European state borders (and probably outside them).' Its main features were

a sense of moral and national decadence, nationalism [...] the belief in the superiority of a given and pure community/people against all inassimilable "others", a desire for rebirth or regeneration, coupled with a cult of violence, authoritarianism, charismatic leadership, the rejection of parliamentary politics and democratic rules, and –whenever and wherever possible – imperialism.

This dynamic conceptualization of Fascism allows us to understand why it actually survived the end of the Second World War, inspiring movements and political leaders across the world. As Finchelstein puts it (2008, 326, 327), 'Fascism as a term and a reality refer to a transnational network of shared ideological subjectivities.' It did play the role of 'the original point of reference for other fascist movements,' including Nazism. Furthermore, as Albanese and Del Hierro observe (2016, 161), the rise of Fascism in Italy saw the mobilization of Fascists across Europe and this was accordingly the beginning of the transnational Fascist network.

After the end of the Second World War and the defeat of the Fascist and Nazi regimes, Fascism was far from being annihilated: 'Fascist ideals had not disappeared completely' (Mammone 2015, 32). European

Fascists felt the need to relaunch Fascism in the light of the newly established geopolitical order. In particular, the launch of the European integration process urged Fascists to elaborate a prompt response to what they perceived as a US-backed project, which was seriously endangering the independence of Europe. Furthermore, the 'Americanization of European societies' was, to Fascists, as unbearable as the threat of a Soviet invasion (Mammone 2011, 65, 296, 298). Hence, the 'new Euro-fascist dogma' saw in Europe 'the new spatial dimension' where to revitalize Fascism. The ambitious goal of Neo-Fascism in the early 1950s was turning Europe into 'a united, sovereign, independent political force, which obeyed neither the dictates of Washington nor Moscow' (Bardeche 1970, 176–178; cited by Bar-On 2008, 330). To achieve this, transnational Fascist organizations were created in the 1950s: they became a crucial space for interaction and exchange between Fascist militants.

In 1951, the MSE (*Mouvement Social Européen*), was created in Malmö by Fascist delegates from 14 countries (Griffin 1995, 342; cited by Bar-On 2008, 335). The organization aimed at coordinating initiatives to relaunch Europe as an independent (Fascist) force, free from the conditioning and interferences of the two superpowers. In practical terms, as Mammone (2011, 315–318) observes, the MSE was a crucial 'platform' where to elaborate and discuss 'the most up-to-date Euro-fascist doctrine' with the purpose of involving also the younger generation. Due to the existence of internal divisions within the MSE with regard to the relationship with the US and the racial supremacy issue, a few months after the Malmö meeting a new European transnational organisation, the NOE (*Nouvelle Ordre Européen*) was founded in Zurich. Similarly to the MSE, the NOE promoted international meetings and conferences and was able to attract militants and organisations from several European countries, including the Italian ON, which identified itself with the movement's racist stance. As Mammone observes, the role played by these organisations, besides the theoretical attempt to re-elaborate Fascist doctrine, was that of creating 'an environment that fascinated and influenced extremists well beyond the 1950s,' enhancing exchange and interaction between militants at a European level.

Further attempts to reorganize Neo-Fascist organisations at a European level were made also in the 1960s, with the Belgian *Jeune Europe* (Young Europe) representing the most illustrative case. The organisation, founded by the Nazi militant Jean Thiriart, advocated a prompt response to the threats posed by de-colonization and successfully liaised with OAS militants and other Neo-Fascist organisations in Europe in defence of the West (Milza 2002, 114). According to Milza, *Jeune Europe* was an original experiment in the Neo-Fascist transnational galaxy, as it was able to adjust itself to the challenges posed by the contemporary world, such as the ongoing de-colonization which supposedly threatened the survival of the West and its racial supremacy.

Although the aforementioned organisations were generally short-lived and were chronically affected by internal divisions, they demonstrated that Fascism was able to reorganize itself at a transnational level after the end of the Second World War. This is undoubtedly a consequence of Fascism's ability to cross national boundaries from its very origins. As illustrated in the first part of this section, Fascism had always had a transnational aspiration that allowed it to be embraced by militants across different countries and at the same time to inspire movements and ideas. Its capacity to cross borders and to adjust itself to new political contexts provides the first explanation for the survival of the Fascist transnational network. Furthermore, the transnational performance of Fascism relied primarily on the informal relations established by militants across countries. Transnational organisations such as the NOE and the MSE favoured the meeting and exchange between militants of different origins and generations. As Khagram et al. (2002, 7) observe, most networks 'are based on informal contacts': hence, the opportunity to interact provided by transnational meetings was key to ensuring the survival of the transnational Fascist network.

The fascination for Fascism by militants and political forces across the world had a significant impact on the survival of the network especially in logistic terms. After the end of the war, Nazi and Fascist militants were welcomed in Spain and Latin America, where they could avoid judicial prosecution for war crimes. The welcoming attitude of the hosting countries can be explained and justified, especially in the case of Spain and Argentina, by their leaders' fascination for Fascism.



In the case of Spain, the existence of solid relations between the country and Italian Fascists is of vital importance to explain General Francisco Franco's welcoming attitude. The relationship between Spain and Italian Fascism dates back to the time of the first *Fasci all'Estero* and has been fully illustrated by Albanese and Del Hierro (2014, 2016). The support provided by Mussolini during the Spanish Civil War and the close diplomatic relations between the Francoist regime and the RSI explain the survival of the relationship from the inter-war period to the end of the Second World War. Although Franco was 'never a core Fascist' (Payne 1999, 477), Fascist ideology did play a key role in consecrating his leadership (Ellwood 1990). Hence, the proximity between Franco and Fascists escaping from Italy was both relational and ideological and both factors favoured the establishment of Spain as a right-wing sanctuary after the end of the Second World War. Similar factors saw Spain welcoming also Nazi militants and high-ranking officers, 'thanks to a network of friendships, favours, and influence' (Rodríguez 1995, 54). Significantly, Spain was still a safe sanctuary for far-right militants in the early 1970s, when members of Italian Neo-Fascist movements (mainly ON and AN) found refuge in the country to avoid judicial prosecution for their involvement in the Strategy of Tension in Italy. The pre-existing connection between Italian Fascists and Spain helps explain the friendly reception of the militants in the country. Hence, Spain proved to be a key sanctuary for Fascists over decades, favouring the survival of Fascism at a transnational level.

In Argentina, President Juan Domingo Perón was keen on welcoming Fascist and Nazi militants escaping from Europe (Adriano and Cingolani 2011, 441). Perón, a convinced anti-communist (Finchelstein 2010, 170), was strongly influenced by Fascism. As Finchelstein observes, the 'transnational Fascist intellectual contribution' to Peronism was significant. Perón, who had lived in Fascist Italy, adapted Fascism to Latin America by combining 'a non-Marxist reading of socialism with extreme right-wing nationalism.' Hence, his welcoming attitude toward Fascist and Nazi militants, which to a certain extent turned Argentina into a right-wing sanctuary, was mainly influenced by ideological stances.

As a matter of fact, both sanctuaries provided several Nazi and Fascist criminals on the run the chance to avoid judicial prosecution for war crimes in Europe and to settle down in friendly regimes. In many cases, sanctuaries fostered the interaction between the Fascist generation and the post-war Neo-Fascist one. Albanese and Del Hierro (2016, 7) argue that militants such as Leon Degrelle (Belgian Nazi militant) and Otto Skorzeny (former SS officer), who found refuge in Spain after the end of the war, embodied the capacity of Fascists to adapt themselves to the new geopolitical order and to transmit their ideas to the new generations in the frame of the transnational Fascist network. 'With them, the main Fascist ideas also survived, and through them, these ideas were transmitted to the new generations that received the baton around the middle of the 1950s.'

In particular, Degrelle was one of the coordinators of the network managing the first escape corridor that allowed Nazi criminals to leave Europe (via Spain) and safely reach Argentina. Militants from France, Belgium, Germany, Romania, Croatia, and Italy relied on the network to find refuge in Latin America (Adriano and Cingolani 2011, 423). The connection between the two continents further demonstrates that the transnational relations between Fascist militants were key to the survival of the Fascist network after the end of the war. Significantly, Albanese and Del Hierro mention also Junio Valerio Borghese as one of the influential interwar Fascists who managed to liaise with the new Fascist generation after the end of the war. As the next section shows, Borghese played a relevant role in the relationship between Pinochet and the Neo-Fascists.

To conclude, the establishment of a Fascist transnational network was firstly fostered by the transnational aspirations of Fascist Italy and by Fascism's ability to cross national boundaries and fascinate domestic movements across the world. The establishment of transnational relations between Fascists and Fascism supporters ensured the survival of the network across Europe and Latin America. The existence of sanctuaries such as Spain and Argentina and the launch of Fascist transnational movements in Europe ensured the survival of these relations throughout decades. This is the context in which the first contacts between Pinochet and Italian Neo-Fascists were established in the early 1970s.

## The Italian Neo-fascists and Operation Condor: The Attempted Murder of Bernardo Leighton

Fascism inspired domestic movements also in Chile. In 1932, supporters of Fascist Italy and Nazi Germany founded the National Socialist Movement of Chile (Grugel 1985, 110, 112). The MNS was strongly nationalist and openly elitist: it advocated an aristocratic state model, and proudly claimed anti-Semitic and anti-racist positions, openly criticizing the presence of immigrants in the country. The cult of violence was a key feature of the movement, which imitated the style and structure of the Germany Nazi Party: ‘There was the same emphasis on achievement through violence, the same mobilization of the young, the use of salutes, flags, and uniforms.’ As Grugel observes, the ideology of the movement combined nationalist indigenous instances with European Fascism. Although the movement never seized power in the country, its legacy is of pivotal importance to understand the relationship between the Italian Neo-Fascists and Pinochet. Furthermore, the case of the MNS highlights that Fascism as a transnational ideology was adaptable to several political contexts and ideologies: in Chile, it evidently found a fertile environment among nationalists.

The Chilean group that inherited the MNS legacy was *Patria y Libertad*. The movement, founded in 1971, claimed to be a nationalist revolutionary force, fiercely opposing both communism and liberalism (Gomes 2016). Most of all, it ‘conformed to the pattern of a classic Neo-fascist party’ (Grugel 1985, 117), conceiving violence as a key tool of political fight. Its strong anti-Marxist stance made it a relevant actor in the strategy that led to the overthrow of Salvador Allende’s democratic government in 1973. The group advocated the establishment of an authoritarian government in the country as a key resource to annihilate Marxism and successfully liaised with members of the army who enthusiastically embraced its nationalist and Fascist rhetoric. As Grugel (1985, 120) observes, nationalism in Chile was a ‘complex phenomenon’ that was embraced mainly by the far-right, as it represented ‘above all the importance of order, discipline, hierarchy and elitism, reinforcing its authoritarian, anti-communist, anti-liberal tendencies.’ Significantly,

McSherry (2005, 10) highlights that in the early 1970s, *Patria y Libertad* collaborated with conservative forces to undermine Allende's government by spreading a climate of terror in the country. Allegedly, the group had also received funding from the CIA and provided the US Embassy with 'tapes of some Allende's intercepted conversations' (McSherry 2005, 10). Michael Townley, DINA agent and key intermediary between Pinochet's Junta and the Italian Neo-Fascists, was significantly a member of *Patria y Libertad*, hence underlining the continuity between the group and Pinochet's Junta. The movement dissolved itself after the coup, having achieved its main goal (an authoritarian government in Chile).

The *Patria y Libertad* case shows that the fascination for Fascism by nationalist forces in Chile was strong. Hence, this inherently ideological element, alongside the wide transnational network of relations between Fascists and Fascist sympathizers across the world, explains why in April 1974 Junio Valerio Borghese and Delle Chiaie (2012, 190) were invited to visit Pinochet in Chile. The former RSI commander was welcomed with admiration and respect by the Chilean dictator: 'When the General [Pinochet] welcomed us, it made me feel proud to see him standing in attention before the Commander' (Delle Chiaie 2012, 190). Going back to Mammone's understanding of the 'Fascist wind,' we can understand what motivated the mutual admiration between the Italians and Pinochet. Pinochet's violent coup and the establishment of an authoritarian regime in Chile, which revolved around his charismatic leadership, did actually echo the 'Fascist wind' and embodied an evident ideological proximity with Italian Neo-Fascism. Neo-Fascists rejected democracy and looked at authoritarianism as the ideal regime. Violence was conceived as a necessary and prominent component of the political fight, a force that allowed its users to restore hierarchy and order where there was chaos (Ferraresi 1996, 32). The Neo-Fascists saw in Pinochet's regime a successful attempt to launch a revolution that reflected their ideological foundations.

The purpose of the visit was, according to Delle Chiaie (2012, 19, 190–191), merely political. The features of the Chilean coup, which was 'the road to a national-social revolution,' were widely discussed, alongside the role of Chile in the international scenario. From the early

1960s, Delle Chiaie had adapted the Euro-Fascist dogma to his own political project, which aimed at the creation of a third, independent force (not necessarily European) that could oppose the imperialism of the two superpowers. The militant saw in Pinochet's 'nationalist' revolution a key resource for his political project and according to his testimony the dictator pledged his support in its implementation.

According to judicial investigations carried out by the Italian authorities, the visit to Chile was not motivated merely by political issues. At the time of the visit, both Borghese and Delle Chiaie were fugitives based in the Spanish sanctuary. Thanks to the contacts established during their trip to Chile, they allegedly managed to set up an import-export agency in Spain mainly dealing with Chilean imported goods which provided the militants with the income to continue their political activities (*Sentenza Ordinanza* nr.1054/71, 5/11/75, 153). During his long stint as runaway, Delle Chiaie had always mixed political activities with commercial activities, hence the allegation is unsurprising. What is worth highlighting is that this is strategically not mentioned in his autobiography, which presents his relationship with Pinochet as merely political.

The relationship between Pinochet and the Neo-Fascists significantly evolved in 1975, when they were asked to kill Chilean Christian Democratic deputy Bernardo Leighton, who had moved to Rome after the 1973 coup (Mayorga 2003, 11). The case of the attempted murder of Bernardo Leighton illuminates the key role played by right-wing groups in implementing Pinochet's transnational repression plans and explains why the Neo-Fascists fled to Chile in 1977. The attack has to be placed in the frame of Operation Condor,

a secret intelligence and operations system created in the 1970s through which the South American military states shared intelligence and seized, tortured, and executed political opponents in one another's territory. (McSherry 2005, 1)

The Condor system was mainly implemented by right-wing Juntas from Argentina, Chile, Uruguay, Paraguay, Bolivia and Brazil (McSherry 2005, 4). The DINA, Pinochet's intelligence apparatus, had

a key coordinator role in implementing Operation Condor. As Muñoz Rumbero (2015, 104, 108) observes, the DINA was created between 1973 and 1974 to be Pinochet's 'main instrument in the fight against Communism.' The agency was directly subordinated to Pinochet's rule, who had exclusive and constant control on its activities and used it also to consolidate his power in the country. Since its creation, the DINA could count on a foreign apparatus in charge of monitoring the activities of Chilean refugees in neighbouring countries. As the Carlos Prats murder case illustrates, the DINA foreign apparatus' activities often resulted in indiscriminate prosecution and murders.

Prats, a former Chilean army commander at the time of Allende's government, had moved to Argentina after the coup to avoid the Junta's prosecution. The general and his wife were killed in September 1974 by a bombing attack. Judicial investigations clarify that 'the assassinations were carried out by agents of DINA with the assistance of members of the Fascist Argentine group *Milicia* [...] and the complicity of the Argentine army and police' (McSherry 2005, 69, 70). The Prats murder was one of the first extraterritorial DINA's executions and it proved that the Chilean intelligence could rely on the support of neighbouring countries in targeting political opponents. McSherry argues that the surveillance cooperation established between Chile and Argentina in 1973 was the prototype of Operation Condor. The attack against Bernardo Leighton and his wife, which occurred on the 6 October 1975, should thus be considered as part of the preliminary operations of the Condor prototype led by the Chilean intelligence.

Why was Leighton attacked in Italy? First, the Prats murder suggests that from the very beginning the Chilean Junta carried out a borderless crusade against its political opponents. Whether these were still based in Latin America or elsewhere, they had to be monitored and eventually eliminated. Second, Leighton's political role and his relations in Italy were considered as particularly problematic by the Chilean regime. The main concern was Leighton's capacity to unify and potentially organise Chilean political opponents abroad, with unpredictable consequences for the regime (*Relazione introduttiva sui fatti e i mezzi di prova* 1995, 6). Furthermore, the DINA was particularly worried about the potential collaboration between the Italian Christian Democratic party

and the Italian Communist Party (which had been under discussion at the time). In September 1973, the leader of the Italian CP, Enrico Berlinguer, launched the proposal to collaborate with its main political enemy, the Italian CD party, 'to restore the economy and maintain public order' (Clark 2008, 388). The proposal for a 'historic compromise' seemed to pave the way for an involvement of the Communists in the government, a perspective that obviously scared conservative forces. The concerns were echoed by the DINA, which according to its former agent Townley feared that the collaboration between the two parties in Italy would have legitimized a similar convergence in Chile 'and would have, in great part, unified the Marxist opposition in Europe against Chile' (US District Court, Deposition of Michael Vernon Townley 1992, 76). Hence, the attack against Leighton played a double role: on one hand, it aimed at sending a clear message to the exiled opponents of the Junta that they were still under the DINA's radar, even in Europe. On the other hand, it aimed at discouraging any compromise with Communist forces at a transnational level.

The key element in the Condor operation was covert action. The operation relied on a state parallel structure, which could count on the collaboration of paramilitary squads and non-state actors such as right-wing groups. This was crucial to the survival of the military Juntas, as 'to secure at least a minimal acceptance of their legitimacy, the national security states needed to mask the involvement of the state in the atrocities being carried on' (McSherry 2005, 21). This explains why the Argentine right-wing group *Milicia* was involved in the Prats assassination and why the Italian Neo-Fascists were asked to kill Leighton in 1975. The aforementioned relationship between Delle Chiaie and Pinochet, provides a further explanation for the Neo-Fascists' involvement. Thanks to the transnational relations between Fascists and Fascist sympathizers, Pinochet could count on the expertise of the Italian Neo-Fascists to eliminate his enemy in Rome. As previously highlighted, the political performance of the Neo-Fascists in Italy was marked by their deep involvement in the Strategy of Tension, which made them *experts* on political violence and terrorism techniques.

Judicial investigations carried out by the Rome Prosecutor's office provide an exhaustive overview of the relationship between the Chilean

Junta and the Italian Neo-Fascists. The evidence gathered by judicial authorities highlighted that the murder was first commissioned to the Neo-Fascists by DINA agent Townley in summer 1975 and eventually carried out by Delle Chiaie's group. As Vincenzo Vinciguerra<sup>1</sup> reconstructs, despite the direct relationship between Pinochet and Delle Chiaie, it was agent Townley who contacted him about the Leighton operation. This was necessary as the relationship between Pinochet and the militant, who was a fugitive under investigation for several crimes, had to be covert to protect the dictator from possible scandals (Tribunale Ordinario di Milano, hearing of Vincenzo Vinciguerra, 22/05/02).

In spring 1975, the Neo-Fascists were asked by Townley logistic support to coordinate the assassination of Carlos Altamirano, leader of the Chilean Socialist party who had found refuge in Spain. At the time, the Neo-Fascists were mostly based in the Spanish sanctuary, where they had a close relationship with the Spanish intelligence. According to Vinciguerra (Procura della Repubblica di Roma, hearing of Vincenzo Vinciguerra, 9/09/92), Townley, as a DINA agent, preferred to avoid direct contact with the Spanish intelligence to prevent diplomatic incidents and hence asked for the Neo-Fascists' support, given their relationship with the Spanish intelligence. Delle Chiaie discouraged the operation against Altamirano, warning Townley that the Spanish intelligence was not keen on foreign interferences within its territory. As a matter of fact, the operation was called off (*Relazione introduttiva sui fatti e i mezzi di prova* 1995, 18–19). While the preparatory meetings for the murder of Leighton between Townley and the Neo-Fascists took place in Rome in summer 1975, the Altamirano episode highlights that already in the early months of 1975 the DINA relied on the group to implement its transnational repression plan. The agency wanted to target its enemies in Europe and the relationship between Pinochet and the Neo-Fascists proved to be a valid asset to this end.

The attack against Leighton and his wife has been the subject of three different trials that had two different outcomes. In 1983, three

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<sup>1</sup>Neo-Fascist member of Delle Chiaie's group.



Neo-Fascists were tried: Pierluigi Concutelli (ON) and Silvano Falabella (AN) were accused of having shot the couple, and Delle Chiaie (AN) was accused of being the mastermind behind the attack. In 1989, Concutelli and Delle Chiaie were finally acquitted for lack of evidence, whereas Falabella was fully acquitted. The trial was affected by the scarce collaboration of the US authorities, which repeatedly denied their Italian counterpart the possibility to interrogate former DINA agent Townley (a US citizen), whose testimony was crucial in order to understand the relationship between the Neo-Fascists and the Chilean Junta.

The US reluctant attitude is understandable in light of its involvement in Operation Condor. Firstly, it is worth recalling that the US army provided key training in counter-insurgency techniques (including torture) to Latin American military personnel since the Cuban revolution (Weeks 2003, 16), which was feared to be a dangerous catalyst for leftist revolutions in the region. The US army's School of the Americas in the Panama Canal Zone was the main provider of this training. The military was considered a key actor to prevent the spread of Communism in Latin America; hence courses 'included counter-espionage, counter-subversion, the study of Communist objectives in Latin America, and Soviet security and espionage agencies.' Several future Latin American dictators were trained at the School of the Americas, thus it is evident that these courses were a key asset for the future promoters of Operation Condor. Not only did the US provide training to the military involved in Operation Condor: declassified documents analyzed by McSherry (2005, 251) highlight that the superpower was fully aware of the unfolding of the atrocities committed in the context of the plan. Indeed, the 'US military intelligence and officers had intimate knowledge of Condor operations and did not raise any objections.' The US considered the Condor a 'counter-subversive or anti-Marxist organization,' hence it was functional to the global anti-communist crusade it carried out during the Cold War. It is therefore understandable why the US initially refused to collaborate with the Italian authorities during the 1980s, when the Cold War was still ongoing.

The end of the Cold War positively affected the investigations on the Leighton case. Already in 1990, the US judicial authorities started to share some key documents related to the case with its Italian

counterpart and in 1992, Townley was eventually interrogated by the Rome Prosecutor's Office (*Relazione introduttiva sui fatti e i mezzi di prova* 1995, 5). Finally, in 1995, Townley was convicted by the Court of Rome as the intermediary between the Neo-Fascists and the DINA in the organisation of the attack. Also in 1995, Manuel Contreras (chief of the DINA) and Eduardo Iturriaga Neuman (DINA agent), were tried by the Rome's Court for being the instigators of the attack, whereas Giulio Crescenzi (AN) was tried for having provided the weapon to Concutelli. Contreras was sentenced to 20 years of prison, whereas Neuman was sentenced to 14 years of prison (McSherry 2005, 43). Crescenzi was acquitted of the charge.

Townley's testimony (US District Court, Deposition of Michael Vernon Townley 1992) is of pivotal importance to understand the role played by the Neo-Fascists in the DINA's transnational repression plan. As the former agent observes, Contreras, chief of the DINA, hoped to form 'an alliance' of movements and groups with similar anti-communist stances on which he could rely to coordinate the agency's transnational operations. Significantly, the Italian Neo-Fascists were considered as key assets in this project.

According to Vinciguerra, it was Pinochet in person who ordered the murder of Leighton. During a meeting with Delle Chiaie and Contreras (Procura della Repubblica di Roma, hearing of Vincenzo Vinciguerra 9/09/92), commenting the failure of the operation, Pinochet would have observed that 'Lastima, este viejo no quiere morir' (Procura della Repubblica di Roma, hearing of Vincenzo Vinciguerra 1/07/92).<sup>2</sup> The testimony confirms that Pinochet had full control on the DINA's operations. On the relationship between Pinochet and the head of the DINA, Huneus (2007, 96) observes that

His wishes [Pinochet's] were put into effect with great efficiency by Contreras, creating the dynamic of state terrorism, a result of deepening authoritarianism and the strengthening of Pinochet's personal power.

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<sup>2</sup>'What a shame, this old man doesn't want to die.'

## The Italian Neo-fascists and the Chilean sanctuary

Despite the failure of the attack, the Neo-Fascists were offered a reward for their collaboration: the chance to move to a safe sanctuary in Chile. This was a key opportunity to the group, which had relied on the Spanish sanctuary until the launch of the democratic transition process in the country. As Delle Chiaie (2012, 219) recalls in his autobiography, the dismantlement of the Spanish sanctuary put him in a risky position as he could no longer rely on the authorities' protection to avoid his arrest and repatriation to Italy. Hence, the offer of a safe sanctuary in Latin America was a vital solution to avoid judicial prosecution in Italy. As Rome Prosecutor Giovanni Salvi observes, in 1977

The entire group was received and 'cuddled' in Santiago del Chile, as a compensation for the job done [...] There was awareness of the fact that the historical phase during which AN enjoyed impunity was over [...] and there was the will to lay the foundations for a fugitiveness abroad. (Requisitoria del PM Salvi 22/06/95)

A small group of Delle Chiaie's comrades followed their leader to Santiago del Chile in mid-1977: significantly, all the militants were under investigation in Italy for their involvement in the Strategy of Tension. Hence, the support offered by Pinochet was crucial to ensure the continuation of the group's political militancy. Judicial investigations (Relazione introduttiva sui fatti e i mezzi di prova 1995, 22) highlight that the group was offered an apartment in the city; the DINA directly paid all the utility bills. It is worth underlining that the group was not merely offered a safe sanctuary in Chile, but was actually incorporated into the DINA structure. As Vinciguerra recounts (Tribunale Ordinario di Milano, hearing of Vincenzo Vinciguerra 22/05/02), the militants had different functions at the DINA, depending on their expertise. Augusto Cauchi (ON militant) worked as IT assistant in the agency's seat. Vinciguerra himself carried out propaganda tasks, occasionally in coordination with the Argentinean intelligence. Furthermore, members of the group carried out an espionage mission in

Peru (Relazione introduttiva sui fatti e i mezzi di prova 1995, 22). Due to his personal relationship with Pinochet, Delle Chiaie often participated in DINA meetings with high-ranking officers such as Contreras (Tribunale Ordinario di Milano, hearing of Vincenzo Vinciguerra 22/05/02). This indicates that his relationship with Pinochet continued even in the late 1970s.

The collaboration between the Neo-Fascists and the DINA in Chile was short-lived. In the aftermath of the scandal concerning the murder of Orlando Letelier in Washington, the agency was rapidly dismantled at the end of 1977. Letelier was another 'enemy' of the Junta, being a former minister of Allende's government (McSherry 2005, 152, 154–157). He found refuge in the US (Washington) and his political activities in the country made him a target of the Condor Plan. Thanks to the transnational links between Latin American Juntas, DINA agent Townley, alongside Fernandez Larios, managed to obtain fake Paraguayan passports that they used to enter the US and coordinate the assassination.<sup>3</sup> Townley recruited right-wing Cuban nationalists to implement the murder and on the 21 September 1976, Letelier was killed by a bomb placed in his car. The Letelier murder caused great embarrassment to Pinochet's Junta. Evidence of the involvement of Chilean army officers in the attack shortly started to circulate in the press in Chile and abroad, prompting Pinochet to rapidly dissolve the DINA and to replace it with the CNI (*Central Nacional de Informaciones*) (Huneus 2007). This turn affected the safety of the Neo-Fascists in Chile. Being the DINA their main source of protection (and income), their presence in the country became precarious. As Vinciguerra (Tribunale Ordinario di Milano, hearing of Vincenzo Vinciguerra 22/05/02) recalled,

Our situation became difficult because General Contreras was a personal enemy of the new Chilean secret services Chief, General Mena. There was a secrecy problem with regard to the relations existing between us Italians and the DINA.

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<sup>3</sup>Larios was a Chilean military officer known for being 'a particularly savage and sadistic torturer' (McSherry 2005, 154).

The new intelligence body was accordingly unaware of the collaboration between the DINA and the Italians and tried to probe into it. This put the group in an uncomfortable position and prompted them to rapidly leave the Chilean sanctuary.

Delle Chiaie (2012, 224–225) provided a completely different explanation for the presence of his group in Chile. In his autobiography the militant defined the 1973 coup as a ‘civic-military operation [...] opposed by the US and perceived with sympathy by China.’ Delle Chiaie was, in his own words, welcomed in the country where he could meet again several ‘friends, military officers and civilians’ (including Pinochet) with whom he had been in contact for a long time. He also visited the headquarters of the DINA, which he depicted with admiration for its organized structure. As previously mentioned, he saw the coup as a prologue to a real revolution. Accordingly, the DINA had the main goal of ‘safeguarding the revolution,’ a glorious process which aimed at fighting both the American and the Marxist infiltration in the country. The militant presented himself as fully involved in the ‘Chilean revolution’: this was a crucial chance to test the convergence between military officers and civilians that would have hopefully stimulated future ‘revolutions’ also in other Latin American countries.

Significantly, his account lacks any references to his or his group’s involvement in DINA’s operations. A key element in Delle Chiaie’s self-narrative is the need to portrait himself as a pure, uncorrupted militant who was never subordinated to state powers. As Cento Bull observes (2007, 136), his reconstruction of his political militancy is ‘based on an adversarial genre in which the Neo-Fascists play the part of the good guys, unswerving in their beliefs and true to themselves.’ Hence, there is no room to admit that which judicial investigations have reconstructed in detail. Significantly, in his interview with the Galadriel Ravelli (9/06/15), Delle Chiaie fiercely restated his collaboration to the ‘revolution’ in Chile, rejecting any allegations of subordination to the Chilean secret services. ‘Since I knew the President [...] did I really need the secret services’ protection?’

Consistent with his self-depiction as a pure, idealist militant, Delle Chiaie provided a different explanation for the abandonment of the Chilean sanctuary. In his account, this was motivated by Pinochet’s

unexpected turn to neo-liberalism, which wiped out his hopes about the full achievement of the revolution. Allegedly, after the assassination of Letelier and his wife, President Jimmy Carter had sent a delegate to discuss with Pinochet an agenda for significant political changes in the country. The United States imposed the immediate dissolution of the DINA, the implementation of privatization policies and the launch of a referendum to provide Pinochet's Junta with some degree of popular legitimization. Delle Chiaie argued that Pinochet fiercely resisted these impositions, therefore an international anti-Chilean campaign was launched, using the Letelier case to denigrate the Junta. Eventually, Pinochet had to capitulate and all the US requests were met, including the dissolution of the DINA and the launch of neo-liberalist policies in the country. According to Delle Chiaie (2012, 228–229), this accounted for the adoption of the Chicago Boys' policies by the Junta: a turn that he could not possibly accept. As previously illustrated, Evola's anti-Americanism strongly influenced Neo-Fascist movements in Italy. Furthermore, the emphasis on the 'spiritual dimension of man' that marked Neo-Fascism led to the condemnation of both Capitalism and Marxism as materialist doctrines that frustrated the pure essence of humanity (Ferraresi 1996, 34). Hence, in rejecting the neo-liberal turn in Chile, the Neo-Fascists were proudly reclaiming their ideological identity. Facing the impossibility to prevent the neo-liberal turn in the country, the militant and his comrades eventually left Chile and moved to Argentina, where they hoped to find a more ideologically proximate environment.

The Chicago Boys were a group of economists who graduated from the Catholic University in Chile and had also received training at the University of Chicago (Huneus 2007, 271). 'The Chicago Boys emphasized monetarism and free-market societies,' opposing Marxist economic doctrine and state intervention policies (Brender 2010, 113). In 1974, the group was formally asked to join Pinochet's Junta and officially became a close collaborator of the Ministry of Economy (Huneus 2007, 271, 283). 'Economic success was a high priority for the military regime and part of its multipronged legitimization strategy.' Hence, the choice to embrace the Chicago Boys' neo-liberal doctrine helped to ensure the survival of the military Junta. The group rapidly became

the 'only group capable of managing the economy,' using the 'political resources' of the regime to silence opponents to their neo-liberal policies within the Junta and in academia. The allegedly subordinated role of the Chicago Boys to the US is a matter of debate. As Kedar (2017, 3) observes, the neo-liberal programme of the group has been often portrayed as an imposition by Washington (hence recalling Delle Chiaie's interpretation). According to the scholar, the neo-liberal turn of Pinochet's Junta was not the outcome of external impositions but a mere manifestation of its political mission: eradicating Marxism and structuralism in the country. According to Huneus (2007, 276), the Chicago Boys should not be treated as mere technocrats but as political supporters of the Junta who shared its right-wing orientation and approved authoritarianism as the only regime through which it was possible to achieve a radical change of Chilean society.

Delle Chiaie's account is not consistent: the Chicago Boys had already joined the Junta in 1974; whereas the dissolution of the DINA happened almost four years later. Hence, his portrayal of Pinochet's 'unexpected' neo-liberal turn in late 1977 is not plausible and merely reflects his aforementioned need to portray himself as a pure, idealist leader.

The abandonment of the Chilean sanctuary did not result in the interruption of the relationship between the Neo-Fascists and Pinochet. First, despite the dissolution of the DINA and pressure by the CNI, the Neo-Fascists were not handed into the Italian authorities, which indicates that they could still count on Pinochet's tacit support. In fact, the group was free to move to Argentina and to continue its political militancy in Latin America after its short collaboration with the DINA. Furthermore, Delle Chiaie admitted that the Neo-Fascists supported the regime at an international level well up to 1980. In that year, the group was asked by the Chilean Embassy in France to foster the participation of *reliable* journalists to a French TV programme on Allende's death. The talk show was meant to host some Chilean supporters of Allende; hence, the Junta, which wished to tackle its international isolation, was looking for non-Chilean speakers to debunk the narrative of Pinochet's violence against his political enemy. Delle Chiaie (2012, 236–237) claimed that he and his comrades (who had useful contacts

in France) managed to find some reliable journalists who accepted to participate in the programme and to support the regime's claim that Allende was not killed by the Junta but had actually committed suicide. This was, according to the militant, the first time in which the *truth* about Allende's death was revealed in Europe—this operation was crucial to rehabilitate Pinochet's reputation at an international level.

The episode demonstrates that despite Delle Chiaie's claimed disappointment for Pinochet's neo-liberal 'turn,' his belief in the regime's political mission and his choice to support it at an international level persisted after 1977. Significantly, Delle Chiaie presented Chile's neo-liberal *turn* as the outcome of US pressures, hence blaming the superpower for its interference in the country's internal situation. In this sense, Delle Chiaie provided an overall positive portrayal of Pinochet, to whom he demonstrated loyalty even in the early 1980s, as demonstrated by the aforementioned case.

## Conclusion

The relationship between Pinochet and the Italian Neo-Fascists provides a fascinating and unique picture of Fascism's transnational features. Firstly, it demonstrates the persistence of transnational relations between Fascists and Fascist sympathizers over decades. Fascism is here understood as a dynamic ideology which since its origins travelled across countries to be embraced, adapted and admired by a variety of actors who adjusted it to their own political goals and views. The influence of Fascism on Chilean nationalist movements and the link between Pinochet and Junio Valerio Borghese, who represented a myth for different Fascist generations, is illustrative in this sense. This feature ensured the survival of the Fascist transnational network, which originated from the relations that revolved around the spreading of Fascism at a transnational level, throughout several decades. A further factor fostering the survival of the network was the logistic support provided by friendly regimes to the network's members. Former Nazi and Fascist militants wanted for war crimes as well as Italian Neo-Fascists seeking to avoid judicial prosecution in Italy were all welcomed by sympathetic



regimes such as Spain, Chile, and Argentina. The opportunity of finding a *safe refuge* in those countries also promoted regular exchanges between the interwar Fascist generation and the post-war one.

The dynamic transnational trajectories of Fascist militants and ideas and the resilience of relations within the transnational network explain the relationship between Pinochet and the Neo-Fascists, which significantly evolved over time in light of the Chilean Junta's transnational repression plan. The collaboration between the two was mutually beneficial.

The involvement of the Italian Neo-Fascists in Pinochet's transnational repression operations demonstrates that right-wing groups were key assets to his Junta and confirms the relevance of the aforementioned relations in making the DINA a powerful apparatus able to target its opponents even in Europe. Crucially, Italian judicial investigations on the Leighton case not only shed light on the relationship between Pinochet and the Neo-Fascists: they also contributed to highlight the features of the dictator's transnational crusade against dissidents.

The Neo-Fascists' reliance on the Chilean sanctuary demonstrates that their relationship with Pinochet was pivotal to ensure the continuation of their political militancy. Neo-Fascism's political performance in Italy was marked by its involvement in the Strategy of Tension, which saw the Neo-Fascists repeatedly staging terrorist attacks that affected Italy for almost two decades. After the dismantlement of the Spanish sanctuary, the support provided by Pinochet was crucial in preventing the group from being arrested by Italian authorities. Once in Chile, the militants became involved in several DINA activities, which demonstrates that their reliance on Pinochet's support not only provided them with a safe sanctuary but also with new political opportunities in Latin America.

The account provided by Delle Chiaie, leader of the Neo-Fascist group, provides a significantly different perspective on his relationship with Pinochet. This is consistent with his self-portrayal as an idealist militant whose conduct was motivated solely by his values and beliefs. The focus on his account allowed us to better understand the ideological proximity between the Neo-Fascists and Pinochet's Junta and the role played by the transnational Fascist network in facilitating these ties.

The connection between the two was primarily motivated by the existence of a common ideological background which is only understandable by conceiving Fascism as a dynamic, transnational ideology which was embraced by a variety of actors across the world. Although the experience of the Neo-Fascists in Chile was actually short-lived and was abruptly interrupted, the persistent connection between the group and Pinochet in 1980 demonstrates that the relationship actually survived over almost a decade. Furthermore, the positive overview of the dictator's 'revolution' expressed by Delle Chiaie even today shows that there has been no repudiation of Pinochet's regime.

The relationship between Pinochet and Italian Neo-Fascism highlights that crucial role that the dictator played in fostering the continuation of the Neo-Fascists' political militancy. On the other hand, the Neo-Fascists played a similarly relevant role in implementing Pinochet's transnational repressive crusade, which was significantly a prologue to the better known Operation Condor. Whether the move to Argentina was merely strategic or instead motivated by ideological reasons, the persisting positive depiction of Pinochet's 'nationalist revolution' by Delle Chiaie and his continuing support for it in 1980 reveal that the allegedly *sudden* Chilean turn to neo-liberalism did not significantly undermine the relationship between the dictator and the Neo-Fascists.

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# 10

## Hayek on Limited Democracy, Dictatorships, and the 'Free' Market: An Interview in Argentina, 1977

Birsen Filip

### Introduction

Friedrich Hayek (1899–1992) is highly regarded for his contributions to the development of liberal thought, particularly his work on individual freedom, economic freedom, 'spontaneous' order, and limited state action. He also defended dictatorial regimes, provided that they were committed to achieving the conditions of a 'free' market economy at the expense of unlimited democracy. This chapter examines Hayek's rationale for supporting certain types of dictatorial regimes, based largely on the views expressed in an interview published in the Argentinean weekly magazine, SOMOS (25 November 1977), while on a one-week visit to Argentina in 1977. At that time, the country was ruled by the administration of army commander General Jorge Rafael Videla, who overthrew the government of Isabel Martínez de Perón (1974–1976) with the support of the Argentine military.

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The interview was conducted by Alvaro Carlos Alsogaray (1913–2005), an Argentine politician who was well-known as a defender of neo-liberal policies and an ardent supporter of dictatorial regimes that strive to achieve ‘free’ market conditions by limiting democracy. Two main topics of discussion emerge: the first was a discussion of the alleged defects of western democratic systems; while the second focused on the need to combat inflation without resorting to price controls. Although the inflation discussion is interesting and important, this chapter primarily examines the former topic. This chapter places Hayek’s interview in the context of his other writings in order to gain a better understanding of his objections to unlimited democracy and his support for dictatorial regimes in achieving the conditions of a ‘free’ market economy.

## Hayek’s Visit to Dirty War Argentina

Between 1976 and 1983, Argentina was governed by a military dictatorship that committed countless crimes against its own citizens. During the period that became known as the ‘Dirty War,’ the ruling Junta appointed Videla (1925–2013), ‘commander in chief of the Army, as the President’ of Argentina.<sup>1</sup> To expand their authority, the Junta removed ‘key articles of the Constitution,’ eliminated the ‘Congress; and replaced eighty percent of the judges.’<sup>2</sup> The Junta also ‘gave the President the power to hold civilians in administrative detention, without charges, for unlimited periods.’<sup>3</sup> Dictator Videla used his newly acquired authority to modify some of the ‘fundamental principles of penal law and of criminal procedures, with the general intent of allowing military forces to participate in the repression of “subversion” unencumbered by judicial oversight.’<sup>4</sup> These changes permitted Videla’s

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<sup>1</sup><https://www.hrw.org/sites/default/files/reports/argen914full.pdf>.

<sup>2</sup><https://www.hrw.org/sites/default/files/reports/argen914full.pdf>.

<sup>3</sup><https://www.hrw.org/sites/default/files/reports/argen914full.pdf>.

<sup>4</sup><https://www.hrw.org/sites/default/files/reports/argen914full.pdf>.

dictatorial regime to engage in illegal detentions, kidnappings, extreme torture and mutilation in clandestine camps, and the forced disappearances of thousands of Argentine people. In total, more than 30,000 people disappeared during the continuous terror and violence that characterized Argentina's Dirty War, when political, general, and individual freedom were all suspended.

Prominent Argentinean economists and politicians adhered to Hayek's brand of neo-liberalism during Videla's brutal rule. The country's highly organized and well-connected corporate elites also firmly supported Videla's dictatorial regime and its neo-liberal economic orientation. The corporate elites were fully aware that the military Junta was instrumental in enabling them to achieve their economic goals and objectives by implementing neo-liberal reforms. Videla explicitly confirmed that his administration sought to establish a 'free' market economy:

Our objective was to discipline an anarchic society ... regarding Peronism, to put behind its populist and demagogic vision; with respect to the economy to go to a liberal market economy... In order to become more efficient, society needed to be disciplined. (cited by Klor et al. 2017, 3)

During Videla's dictatorship, Argentina's corporate elites had 'legal and financial advisors and government officials in their directories, as these individuals would know how to navigate the changing conditions created by political and economic instability, powerful labor unions, regulations, different stabilization plans, and idiosyncratic credit allocation practices.' These financial advisors and government officials significantly helped multinational corporations to 'deal with institutional barriers,' as did a number of 'attorneys, engineers and accountants' (Luch and Salvaj 2012, 99). Furthermore, elite business classes even went so far as to use their connections to have the military Junta kidnap, torture, and disappear some of the key figures within the working classes who represented potential threats to their interests. In fact, it was common practice for the well-connected elite business classes to provide



lists of ‘subversives’ in their work force to the military regime, and that the regime used these lists to target firm level union representatives and workers for disappearances. (Klor et al. 2017, 9)

In 1977, while the Videla dictatorship was terrorizing and dehumanizing much of the population, Hayek was invited to visit Argentina for one week by the Argentine National Academy of Economic Sciences (*la Academia Nacional de Ciencias Económicas*) and the Foundation of Buenos Aires Stock Exchange (*la Fundación Bolsa de Comercio de Buenos Aires*). The membership of these two organizations included some of Argentina’s corporate elite and prominent politicians, many of whom were very influential during the National Reorganization Process (*Proceso de Reorganización Nacional*), which was characterized by countless human rights violations, and terror and violence directed against leftist groups during this Dirty War (Heredia 2016, 48).<sup>5</sup> During his visit, Hayek was awarded an honorary degree from the National University of Buenos Aires (*Universidad Nacional de Buenos Aires*) for his achievements in science and the humanities and had the opportunity to engage in conversations with ‘many officers from the Military School’ (Farrant et al. 2012, 521).

During the National Reorganization Process, the Argentine National Academy of Economic Sciences included José María Dagnino Pastore (1933–) and Roberto Teodoro Alemann (1922–) among its members, both of whom served as Minister of the Economy during the military dictatorship. Alemann was appointed Minister of Economy by President Leopoldo Fortunato Galtieri Castelli (1926–2003), who was in power from 22 December 1981 to 18 June 1982; and Dagnino Pastore who served from 1 July 1982 until 10 December 1983, under the Presidency of Reynaldo Benito Antonio Bignone (who in 2010 was sentenced to 25 years in prison for his role in the kidnapping, torture, and murder of leftist individuals during the Dirty War).

Other notable advocates of neo-liberalism during Argentina’s military dictatorship included Guillermo Walter Klein (1936–), Alberto Benegas

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<sup>5</sup>‘The National Reorganization Process’ is the term that leaders used when referring to the regime during the Videla dictatorship that ruled Argentina from 1976 to 1983.

Lynch (1940–), Meir Zylberberg (1928–), and José Alfredo Martínez de Hoz (1925–2013), all of whom were members of either the Argentine National Academy of Economic Sciences or the Foundation of Buenos Aires Stock Exchange, or both. Klein served as Secretary of State for Economic Affairs (*Secretario de Estado de Programación y Coordinación Económica*) in the military government and was a member of the Buenos Aires Stock Exchange. Lynch, who is widely regarded as the first adherent of the Austrian School of Economics in the Spanish language, was a member of the National Academy of Economic Sciences, a former economic advisor to the Buenos Aires Stock Exchange, and a former member of the Board of the Mont-Pèlerin Society. Zylberberg was an adherent of Austrian economics in Argentina and a member of the Mont-Pèlerin Society. Martínez de Hoz was a businessman with 'strong connections to U.S. banking and financial interests,' who served as Argentina's Minister of Economics during the Dirty War (Klor et al. 2017, 12).<sup>6</sup>

The economic cabinet that Martínez de Hoz appointed was primarily comprised of members of the country's elite business classes (Klor et al. 2017, 12). He implemented a series of neo-liberal economic reforms that were shaped by external pressures and elite business interests. These included devaluing the peso, reducing export taxes and import tariffs, freezing wages (leading to their 'steep decline in real terms'), increasing public utility and food prices, and cutting welfare subsidies. He also initiated the 1977 Banking Reform, which 'significantly opened up the financial sector of the economy by freeing interest rates, centralizing monetary authority in the Central Bank, and opening the sector to foreign participation.' In the end, Martínez de Hoz's approach of relying on orthodox neo-liberal reforms turned out to be a complete failure, as the peso became 'overvalued, inflation and government debt increased, and a balance of payments crisis reemerged' (Trowbridge 2001, 7).

Hayek did not hesitate to accept the invitation from the Argentine National Academy of Economic Sciences and the Foundation of Buenos Aires Stock Exchange even though some of their members played

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<sup>6</sup>Prior to his appointment as Minister of Economics, Martínez de Hoz was the 'CEO of Acindar the country's leading steel manufacturer' (Klor et al. 2017, 12).

important roles during Videla's dictatorship. He also did not express any reservations with the human rights violations or the suspensions of individual freedoms committed by the ruling Junta and its supporters during the Dirty War over the course of his visit to Argentina or any time thereafter. In fact, Hayek rarely discussed or commented on the human right violations committed by many dictatorial regimes; when he did, he largely dismissed such behaviours, attributing them to a willingness to 'do bad things' in order to gain power. Indeed, Hayek was contemptuous of what he dismissed as Amnesty International's 'bunch of leftists' who publicized evidence about Pinochet's human rights abuses (Farrant and McPhail 2017).

These views are inconsistent with his image of being a 'philosopher of freedom' (Backhouse 2006, 34) and contradict some of the opinions he expressed on individual freedom and limited state action in many of his books and articles, which influenced the development of liberal thought (Farrant et al. 2012, 528).

## Who Was Alsogaray?

Hayek's interviewer had a reputation as a fierce anti-socialist and was one of the most prominent supporters of neo-liberalism in Argentina's political and economic arenas from 1955 until his death in 2005. Alsogaray was a member of both the Argentine Economic Sciences Academy and the Mont-Pèlerin Society. As such, it is not surprising that he agreed with Hayek's defence of liberal societies and opposition to totalitarian regimes. Like Hayek, he did not support the notion of a social system based on absolute, deliberate, and rational planning, nor did he believe in the laissez-faire approach or the existence of perfect competition. He agreed with Hayek's defence of a strong, authoritarian state establishing and sustaining the conditions for a 'free' market economy.

In addition to promoting neo-liberalism in Argentina, Alsogaray was well-known for his achievements in different areas of political and economic life in the country. He was a prominent businessman, economist, engineer (he studied military, civil, and aeronautical engineering), and politician, who previously served as Argentina's Ambassador

to the United States and was a former Member of Parliament in Buenos Aires.<sup>7</sup> Alsogaray was appointed Minister of Industry on 16 September 1955 after General Eduardo Lonardi (1896–1956) proclaimed *The Liberating Revolution* (*Revolución Libertadora*), which deposed Juan Perón (1895–1974) as President of Argentina (1946–1955) prior to the completion of his second term in office.<sup>8</sup> Subsequently, Alsogaray's advocacy of privatization and deregulation led the military Junta to implement a series of economic reforms aimed at liberalizing Argentina's economy. In fact, Alsogaray made a speech in Toledo, Spain in March 1984 where he explained his contributions to the development of some of the policies instituted by the military Junta during 1955–1956—his 'three performances' in Argentine economic policy:

The first was during the *Revolucion Libertadora*, after the Peronist regime was overthrown and an attempt was made to replace the existing economic system. I was appointed Industry Minister. Peron's system could work if applied by men of good will. If his theories had granted Peron popular adherence, it was highly convenient to adopt them in order to achieve such support. We struggled in vain for three months. At last, on 6 June 1956, Garcia and I made up our minds to explain the situation to the military Junta so that they could design more appropriate policies. (cited by Tella and Braun 1990, 60)

In 1956, Alsogaray founded his own political party, the Independent Civic Party. Subsequently, he was appointed Minister of the Economy by President Arturo Frondizi (1908–1995) during an economic crisis in 1959 (de Pablo 1977, 40).<sup>9</sup> That same year, Alsogaray imposed a number of harsh austerity measures that were largely focused on devaluating the Argentine peso, and reducing subsidies and other publicly funded social programmes. Shortly thereafter, his austerity measures caused inflation to increase and real wage to fall by 20%, which likely contributed to the onset of a recession, prompting his

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<sup>7</sup><http://www.lanacion.com.ar/692635-a-los-91-anos-murio-alvaro-alsogaray>.

<sup>8</sup><http://www.lanacion.com.ar/692635-a-los-91-anos-murio-alvaro-alsogaray>.

<sup>9</sup>Frondizi was Argentina's President (1958–1962).

resignation in 1961. However, he was not absent for very long as he was once again appointed Minister of Economy in 1962 by the administration of José María Guido (1910–1975), who seized power in a coup d'état that year and served as President of Argentina until 1963. Although he served as Minister of Economy for only for seven months, Alsogaray continued pushing through austerity measures that were similar to those he implemented during the Frondizi Presidency.

When Juan Carlos Onganía (1914–1995) seized the Presidency via a military coup d'état in 1966, he nominated Alsogaray to be Argentina's Ambassador to the United States, where he remained until 1968. After returning to Argentina, Alsogaray founded two additional political parties: Nueva Fuerza<sup>10</sup> in 1973 and the Union of the Democratic Centre (*la Unión del Centro Democrático, UCeDe*) in 1982, the latter of which was an extreme supporter of 'free' market economics.<sup>11</sup> However, none of the three political parties he started attained any real significance within the Argentinean political arena. Nonetheless, Alsogaray remained active in the country's political sphere, as evidenced by his appointment as 'debt advisor' to President Carlos Saúl Menem (1989–1999) in 1989, after the onset of the hyperinflation crisis in Argentina.

Alsogaray earned a reputation as one of the most prominent supporters of neo-liberalism in Argentina. In fact, he strongly supported the granting of dictatorial power to Videla in order to achieve the conditions for neo-liberalism. His high opinion of Videla's dictatorship was displayed in December 1990, with his enthusiastic reaction to President Menem's (1930–) pardon for a number of individuals found guilty of serious human rights abuses directed at more than 9000 civilians during Argentina's Dirty War, including murder, kidnapping, and torture. The list of pardoned individuals consisted primarily of ex-senior

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<sup>10</sup><http://www.lanacion.com.ar/692635-a-los-91-anos-murio-alvaro-alsogaray>.

<sup>11</sup>The Union of the Democratic Centre (U.D.C.) received financial aid from The National Endowment for Democracy (NED) through 'the Instituto de la Economica Social de Mercado, which is associated with the U.D.C. and of which Alsogaray' played an important role (Corn 1991). The NED is funded by a number of Fortune 500 corporations, including Chevron, Coca-Cola, Google, and Microsoft, in addition to the US Chamber of Commerce (<http://www.ned.org/wp-content/uploads/2015/09/2013-sponsors.pdf>). It claims to be 'dedicated to the growth and strengthening of democratic institutions around the world' (<http://www.ned.org/about/>).

military officers, including Junta leader Videla, who had been sentenced to life imprisonment under the Presidency of Raúl Alfonsín (1983–1989).

But Alsogaray was infuriated that Mario Firmenich (1948–), a co-founder and co-leader (1970–1983) of the left-wing guerrilla group, Montoneros, was included in President Menem's pardon:

He feared that since the military men were freed along with a former leftist guerrilla leader, the 'pardon puts all of them in the same bag.' His remedy is a parliamentary resolution to commend the officers. 'We must give General Videla and the commanders their due as winners of a war,' Alsogaray declared. (Corn 1991, 116)<sup>12</sup>

Alsogaray's reaction was largely unsurprising, given his positive view of the 1976–1983 dictatorship and considering the fact that he openly regarded Videla and Alfredo Astiz—one of the most brutal torturers and murderers of the Dirty War—as heroes.

Alsogaray's positive view of the military Junta is partly attributable to Videla's commitment to establishing the conditions of a 'free' market system in Argentina. This corresponded with his view that an authoritative state is justified in intervening in society via deliberate and rational planning if its goals include implementing neo-liberal economic policies, preventing monopolies, and ensuring that competitive markets function properly. That means that Alsogaray rejected the classical liberalism defence of a laissez-faire economy, where the state never intervenes in the 'free' market system. In reality, he often stressed the importance of state intervention in establishing the conditions and institutions of the 'free' market system, which was also discussed in his interview with Hayek.

## Hayek and Alsogaray on Unlimited Democracy

SOMOS is a 'discursive production of Atlántida publishing house that supported the application of institutional violence during the

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<sup>12</sup>In 2010, Videla was sentenced to life imprisonment for crimes committed during the Dirty War.

dictatorship' which started on 24 March 1976 (Urtasum 2008, 66). The Hayek interview largely consisted of a discussion about the negative aspects of unlimited democracy and the positive aspects of limited democracy.<sup>13</sup> Alsogaray began the interview by explaining the timeliness of military interventions in Argentina, Bolivia, Brazil, Chile, and Uruguay in combatting the social, economic, and political chaos that prevailed in these countries at that time. He largely attributed the emergence of these chaotic conditions to 'mass democracy,' which he described as an 'extremely degenerated' version of 'true democracy.' According to Alsogaray, the military interventions that took place in each of the specified countries saved them from totalitarian systems and preserved their freedom. He also expressed full confidence in the abilities of these military interventions to eventually restore the conditions of 'true democracy' in each of their respective countries before asking Hayek for his opinion on what measures could be taken to prevent the onset of 'mass democracy' going forward (SOMOS 1977, 32).

Hayek began his response by explaining that he believed democracy and unlimited government were connected and that 'mass democracy' was a form of unlimited democracy that allows governments to exercise unlimited power. Hayek emphasized that the threats posed by deliberate, rationally designed, and centrally planned economies were not limited to 'free' market economies. Freedom and 'free' market economies in occidental countries were also threatened by the prevalence of unlimited democracy, which would eventually transform itself into a totalitarian system. Hayek admitted that there was an irreconcilable conflict between democracy and capitalism (SOMOS 1977, 34).

Hayek believed that the unlimited power and influence that a system of unlimited democracy bestows upon the majority essentially means the government's power and authority is limited to defending and promoting the interests of the mass majority. In other words, democratically elected systems hand unlimited power to a group of elected

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<sup>13</sup>Hayek distinguished between limited and unlimited democracy by expressing his belief that 'unlimited democracy is under the sway of the dangerous and "demagogic" idea of social justice and allows ... governments too much power' (Farrant et al. 2012, 521).

representatives whose decisions are ultimately directed by voters. In reality, unlimited power is typically exercised by democratically elected governments to satisfy the demands of organized interests groups with enough influence to exert pressure on the government if they feel that their interests are not being served. Furthermore, unlimited democracy allows the government to expand its power if the majority of the population believes that doing so favours their own interests. According to Hayek, the unlimited power of a democratically elected government is most visible in the economic arena, where governments regularly intervene in order to obtain the votes of the masses and special interest groups (SOMOS 1977, 33).

Hayek clarified that just because a government operating under a system of unlimited democracy might be forced to intervene in the economy this does not necessarily mean the majority supports the concept of an interventionist state. The mass majority simply wants its goals and interests to be satisfied. Therefore, the interventionist aspect of unlimited democracy is a by-product of a political party's fear of the prospect that it will be unable to obtain a majority of votes in a future election. As a result, the state is forced to constantly intervene in order to satisfy demands of the mass majority and special interest groups. Hayek told Alsogaray that this reality would inevitably lead unlimited democracy to destroy itself.

Alsogaray agreed with Hayek's arguments pertaining to the destructive outcomes associated with unlimited democracy and suggested that Argentina was operating under precisely such a system prior to the military intervention. He also concurred with Hayek's assessment that unlimited democracy was incompatible with the economic freedom that characterizes a 'free' market economy. Furthermore, Alsogaray believed that mass democracy had been threatening the ideals outlined in Argentina's Constitution. He explained that reaffirming the importance of Argentina's 1853 Constitution, which established an occidental liberal political regime, and adopting rules of true democracy would be crucial to ridding the country of the vices of mass democracy (SOMOS 1977, 33, 34).



During the interview, Alsogaray also revealed his preoccupation with trying to conceive a societal order that could achieve compatibility between a 'free' market economy and the institutions of a true or limited democracy in Argentina. Hayek responded by stating that the challenges associated with achieving compatibility between a democratic system of government and a properly functioning 'free' market economy was not limited to Argentina; it was a problem faced by much of the occidental world. He highlighted Great Britain as a prime example, explaining that its status as a democratic country for more than a century was being threatened by the spread of distributive justice over the span of just a few decades. Hayek strongly opposed the application of distributive justice, because he regarded it as an enemy of the 'free' market economy (SOMOS 1977, 34).

It has been well-documented that clandestine detention centres or camps were established during Videla's dictatorship. Enemies of the state were often kidnapped and sent to such facilities where they were subjected to various forms of torture, humiliation, and dehumanization. Some of these detention centres have also been implicated in a number of mass murders. Despite his frequent objections to the notion of an authority implementing centrally designed or planned goals and ends that result in un-freedom, oppression, and coercion, Hayek did not condemn Videla's oppressive and coercive regime, nor did he criticize any of business elites that supported the Junta. Many of these elites were members of either the Argentine National Academy of Economic Sciences or the Foundation of Buenos Aires Stock Exchange, the same organizations that invited Hayek to visit Argentina.

Throughout the interview, it was apparent that Hayek believed that Videla's brutal dictatorship was a temporary situation that would only remain in place until a liberal societal order was re-established. He also believed that transitioning Argentina from a dictatorial government back to a liberal democratic society was among the key priorities of the Videla government. Furthermore, based on the Alsogaray interview plus Hayek's other writings and statements, it is obvious that he was willing to overlook the human rights violations committed by Videla's authoritarian government, as well

as those perpetrated by other brutal dictatorial regimes, provided that they were devoted to achieving the conditions of a 'free' market economy.<sup>14</sup>

A few years later, when it became evident that Argentina was unable to become a liberal democratic society, Hayek admitted that he did not 'know why they failed...[his] impression is that they had the political ability and the intelligence to do so' (Farrant et al. 2012, 521). The views that Hayek expressed on unlimited democracy in his interview with Alsogaray were also expressed and elaborated upon in some of his writings and publications.<sup>15</sup>

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<sup>14</sup>In 1977, Hayek also visited Chile and met with General Augusto Pinochet (1915–2006), who abused and violated human rights on countless occasions during his dictatorial rule (1973–1990). Hayek openly expressed his preference for 'liberal dictators' like Pinochet over democratically elected governments in an interview he gave to *El Mercurio*, a neo-liberal Chilean newspaper that received funding from the CIA and played an important role in the success of the military coup that overthrow the socialist government of Salvador Allende (1908–1973). Hayek regarded Pinochet and other dictators that sought to achieve the conditions of a liberal society as 'educated, reasonable and insightful men—men, who honestly hope that the country can be returned to a democratic order soon ... men who ... [would be] happy to let go the responsibility which they believed they had to assume.' Hayek's preference for the Chilean dictator could not be attributed to his ignorance about Pinochet's brutal rule, as he was the 'recipient of evidence that amply documented the Pinochet Junta's human rights abuses.' In spite of this knowledge, he continued to publicly defend the Junta and its efforts to achieve a 'free' market economy. He also expressed positive opinions about Pinochet's dictatorial regime, claiming that 'it is possible for a dictator to govern in a liberal way' (Farrant and McPhail 2014, 332, 336, 341). In *El Mercurio*, Hayek also stated that 'Chile's efforts to develop and reform its economy provided "an example at the global level"' (Farrant et al. 2012, 521).

<sup>15</sup>Hayek (1978) did not consider human rights to be particularly important, claiming that it was a fairly new concept: 'You see, my problem with all this is the whole role of what I commonly call the intellectuals, which I have long ago defined as the secondhand dealers in ideas. For some reason or other, they are probably more subject to waves of fashion in ideas and more influential in the American sense than they are elsewhere. Certain main concerns can spread here with an incredible speed. Take the conception of human rights. I'm not sure whether it's an invention of the present administration or whether it's of an older date, but I suppose if you told an eighteen year old that human rights is a new discovery he wouldn't believe it. He would have thought the United States for 200 years has been committed to human rights, which of course would be absurd. The United States discovered human rights two years ago or five years ago. Suddenly it's the main object and leads to a degree of interference with the policy of other countries which, even if I sympathized with the general aim, I don't think it's in the least justified. People in South Africa have to deal with their own problems, and the idea that you can use external pressure to change people, who after all have built up a civilization of a kind, seems to me morally a very doubtful belief. But it's a dominating belief in the United States now.' Friedrich Hayek, interviewed by Robert Chitester date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles, <http://oralhistory.library.ucla.edu/>).

## Hayek on the Defects of Democracy

Democracy is a topic that received considerable attention in Hayek's writings. Although he was concerned about what form of democracy the Western world regarded as the best method of government and the destructive outcomes associated with each of them, it would be incorrect to say that Hayek (1979, xiii) was opposed to all forms of democracy. He believed that democracy was the 'only effective method' that 'we have discovered of making peaceful change possible.' He also stated that democracy was 'probably the best method of achieving certain ends, but not an end in itself.' Based on his critiques of democratic systems, he argued that the main 'evil' is unlimited government—'nobody is qualified to wield unlimited power.' The powers which 'modern' democracy possesses would be 'even more intolerable in the hands of some small elite' (Hayek 2011 [1960], 170, 525).

Hayek (2007 [1944], 110–111) explained how unlimited democracy could endanger true democracy: the 'fashionable' concentration on democracy as the 'main value threatened' can be blamed for misplaced faith in the viewpoint that 'so long as the ultimate source of power is the will of the majority, the power cannot be arbitrary.' The 'false assurance which many people derive from this belief is an important cause of the general unawareness of the dangers which we face. There was 'no justification for the belief that so long as power is conferred by democratic procedure, it cannot be arbitrary; the contrast suggested by this statement is altogether false: it is not the source but the limitation of power which prevents it from being arbitrary. Democratic control may 'prevent power from becoming arbitrary, but it does not do so by its mere existence.'

Hayek (1979, 12, 16, 99, 150) frequently argued that a government is able to retain power in a mass democracy 'only by satisfying a sufficiently large number of pressure groups.' Successfully securing the support and votes of the majority forces governments to become the 'playball' of all the 'separate interests.' As a result, increased earnings are established via state actions—which aimed to achieve some sort of social justice—instead of the 'free' market. Under a system of unlimited democracy, politics had become a 'tug-of-war for shares in the income

pie.' On every occasion that the government intervened in order to raise wages of a particular group, this provided a 'legitimate claim for similar treatment' for other groups.

Hayek (1979, 138) argued that unlimited democratic governments might be inferior to other forms of limited governments. He explained that unlimited democracy has 'largely lost the capacity of serving as a protection against arbitrary power.' In fact, unlimited form democracy has 'ceased to be a safeguard of personal liberty, a restraint on the abuse of governmental power which it was hoped it would prove to be when it was naively believed that, when all power was made subject to democratic control, all the other restraints on governmental power could be dispensed with.' It had, instead, become the 'main cause' of a progressive and accelerating increase of the 'power and weight of the administrative machine.'

Hayek (1979, 39) would not consider himself a democrat if unlimited democracy was the only brand of democracy available, because 'decent government' is 'impossible' under such a system:

I must frankly admit that if democracy is taken to mean government by the unrestricted will of the majority I am not a democrat, and even regard such government as pernicious and in the long run unworkable.

According to Hayek (1979, 3, 6, 14, 15), the agreement of the majority on a particular issue is not 'sufficient to determine a programme for current governmental action.' He discussed some of the negative outcomes of unlimited freedom in *Law, Legislation and Liberty: The Political Order of a Free People*, where he explained that, under such a system, it is highly unlikely that a representative body will be capable of upholding its 'general principles,' because retaining its majority will entail taking all necessary measures to 'buy the support of the several interests.' Because the government is dependent upon public opinion for its survival, the state will use its unlimited power (which it has accrued as a consequence of its democratic status) to satisfy the desires of the 'mass majority,' which could include the 'majority' making use of its ability to meet the 'demands' of specific segments of the population.

Hayek argued that societal order within a liberal society (also referred as open societies or great societies) cannot be designed; as such, liberal societies can not 'aim at particular foreseeable results,' because 'the particular will of all authority, including that of the Majority of the moment' could be constrained by the mandate of the representative assembly, which reflects the 'general principles approved by general opinion.'

Hayek (1979, 2) maintained that a government of unlimited democracy has the potential to engender the progressive transition of the 'spontaneous order of a free society into a totalitarian system' beholden to 'some coalition of organized interests.' That would suggest that a 'majority democratic government' could turn out to be as repressive as the 'worst dictatorship,' because granting a 'government unlimited powers' upon it the ability to make even the 'most arbitrary rule' into law. This ability essentially makes it possible for democracy to establish the 'most complete despotism imaginable.' The forces which had destroyed liberty in Nazi Germany were also present in the United States and England. This concerned Hayek (2007 [1944], 108, 110, 119) because Hitler was able to manipulate the defects and flaws of unlimited democracy in order to establish fascism in Germany: Hitler did not have to:

destroy democracy; he merely took advantage of the decay of democracy and at the critical moment obtained the support of many to whom ... he yet seemed the only man strong enough to get things done.

According to Hayek (1982 [1976], 134), Hitler was able to take advantage of unlimited democracy because it possesses inherent characteristics that would inevitably lead it away from the ideals that it was intended to serve. Some of the worst crimes of the twentieth century, including those committed by Hitler, could be attributed to democratically elected political leaders attempting to achieve some sort of social justice, often with the 'enthusiastic support of millions of people who were guided by moral impulses.' The notion that Hitler or Mussolini, Lenin or Stalin, appealed 'only to the worst instincts of their people' was patently false, as many of their statements and initiatives resonated with 'some of the feelings which also dominate contemporary democracies.'

Although many of the people that initially supported some of these movements became dismayed with the eventual outcomes, there is no denying that the original 'communist, national-socialist or fascist movements' included many people that were 'inspired by ideals not very different from those of some of the most influential social philosophers in the Western countries' among their ranks. Many of these individuals were inspired by the 'desire for a visible common purpose,' which characterized the 'tribal society,' and thought that they were participating the establishment of a 'just society' where the most vulnerable members of society 'would be better cared for.'

Democratic systems created the illusion that the role and power of the state was limited. Unlimited democracy is not compatible with limits on state action. The 'ideal' of a democratic control of government and that of the 'limitation of government by law' are thus, according to Hayek (1979, 26), different ideals that certainly cannot be both achieved by placing into the hands of the same representative body both rule-making and governmental powers. Though it might be 'possible' to assure the realization of both these ideals, no nation has yet 'succeeded' in doing this effectively by constitutional provisions; peoples have approached this state only temporarily thanks to the prevailing of certain 'strong political traditions.' In recent times, Hayek asserted, the effect of the 'existing institutional set up' has been 'progressively to destroy what had remained of the tradition of the rule of law.'

Hayek (1979, 5) recognized democracy as one of the most important 'safeguards' of freedom. However, he also stated that freedom was incompatible with unlimited democracy, which has become the standard and facilitated the movement 'away from that ideal of individual liberty' that was previously considered to be the 'surest safeguard' against the current transition 'towards a system which nobody wanted' (Hayek 1973, 3). His opposition to unlimited democracy was unwavering to the point that he claimed he would 'prefer to sacrifice democracy temporarily...rather than have to do without liberty, even if only for a while' (Farrant et al. 2012, 522).

Hayek (1979, 5, 16) highlighted the importance of coercion in safeguarding freedom in a democratic system on the basis that it ensures 'obedience to rules of just conduct approved by most.' He argued that

these types of rules represent the ‘essential’ condition for the absence of arbitrary power and ‘therefore of freedom.’ That means the evils of unlimited democracy can be prevented if the role of the state is limited via rule of law. Government can be prevented from serving special interests ‘only by depriving it of the power to use coercion in doing so, which means that we can ‘limit the powers of organized interests only by limiting the powers of government.’

According to Hayek (1979, 5), placing limits on state action has enabled the ‘peaceful co-existence of men in a Great Society.’ He concluded that limiting state action was necessary to attain the conditions of freedom, because the system would eventually transform itself into a dictatorship if the role of the democratic government was not restrained via the rule of law. Hayek (1973, 3, xx) argued that ‘unlimited democracy is riding for a fall and that it will go down, not with a bang, but with a whimper.’ He acknowledged that while he did have a strong belief in the ‘basic principles’ of democracy as the ‘only effective method which we have yet discovered of making peaceful change possible,’ his personal preference was still for a liberal dictator over an unlimited democratic system. However, Hayek also stated that he did not regard a strong, dictatorial government as an ideal system of government. Rather, he claimed that he opposed dictatorial powers with the exception of temporary transitional periods needed to achieve the conditions of a liberal society.<sup>16</sup> In other words,

under certain ‘historical circumstances,’ an authoritarian government may prove especially conducive to the long-run preservation of liberty. (Farrant et al. 2012, 515)

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<sup>16</sup>Hayek provided several examples of the type of supposedly transitional dictatorial government he had in mind: England under Oliver Cromwell (Cromwell’s Protectorate supposedly providing a vital transitional way-station “between absolute royal power and the limited powers of constitutional monarchies”), the example provided by “two very strong men” (“Adenaur and Ludwig Erhardt”) in West Germany, and the example provided by the Portuguese “dictator Oliveira Salazar” (Salazar supposedly ‘started on the right path...but he failed’). In 1962, Hayek sent a copy of *The Constitution of Liberty* (1960) to Salazar (1889–1970), the authoritarian Prime Minister of Portugal (1932–1968), in the hope that his book might prove useful for Salazar ‘in his endeavour to design a constitution which is proof against the abuses of democracy’ (Farrant et al. 2012, 521).

In defending the coercive powers of a government, Hayek (1982 [1976], 6) stated the 'ultimate' justification of the 'conferment of a power to coerce is that such a power is required if a viable order is to be maintained, and that all have therefore an interest in the existence of such a power.' But this justification does not 'extend further than the need.' There is clearly 'no need that anybody, not even the majority, should have power over all the particular actions or things occurring in society.'

## Hayek's Many Contradictions

Hayek's defence of dictatorial regimes during transitional periods towards the achievement of 'free' market conditions actually contradicts his own liberal thoughts, as the notion of a dictatorship would be incompatible with his conceptions of freedom, 'spontaneous' order, and limited state action, among others. For example, in defending the important role that 'spontaneous' order plays in the progress and development of society, Hayek (1973, 11, 41, 46) argued that an individual's power over the 'particular contents of this order is necessarily restricted.' In other words, Hayek's liberal society requires the existence of 'spontaneous' order where nobody, including a dictator, can exert any kind of power to coerce others. In societies based on 'spontaneous' order, 'many of the institutions of society which are indispensable conditions for the successful pursuit of our conscious aims are in fact the result of customs, habits or practices,' as opposed to having been 'invented' or created based on the logical deduction and rational design of an authority with coercive power: the use of 'spontaneous ordering forces' enables us to induce the 'formation of an order of such a degree of complexity (namely comprising elements of such numbers, diversity, and variety of conditions) as we could never master intellectually, or deliberately arrange, we will have less power over the details of such an order than we would of one which we produce by arrangement.' In the case of 'spontaneous orders we may, by determining some of the factors which shape them, determine their abstract features, but we will have to leave the particulars to circumstances which we do not know.'

Hayek's arguments in favour of 'spontaneously' ordered societies were based on his critiques of other systems of co-ordinating social, political,



and economic activities on the part of the state, mainly in the case of totalitarian regimes. He often compared deliberate central planning (artificial order or taxis) to 'spontaneous' order (self-generating order or kosmos), claiming that totalitarian regimes were based on the former, with social engineers utilizing the methods of the natural sciences to realize large-scale, common goals. One of Hayek's (1964 [1952], 74) main arguments against the central planning of totalitarian regimes was that social institutions, progress, and historical developments could not be reduced to general rules and laws; they cannot be deliberately planned, predicted, and shaped because they are outcomes of the 'spontaneous' forces of the society. Despite these views, Hayek refrained from criticizing Videla's dictatorship on the basis that it used its status as a coercive regime based on deliberate central planning to achieve the conditions of a 'free' market economy. The fact that the Argentine government experienced a substantial increase in the number of bureaucrats and achieved an unprecedented level of centralization under President Videla's administration also did not seem to bother Hayek very much, even though this resembled the situation that prevailed in many of the totalitarian regimes that he had been so critical of during his career.

By defending the practice of relying on dictatorial regimes to achieve the conditions of a 'free' market economy, Hayek also contradicted his own concept of freedom, which he defined as 'absence of coercion.' He explained that a dictatorship is the most effective instrument of enforcing the ideals of the dictator via coercion. Hayek (1973, 56) defined the 'condition of freedom' as a state in which 'each can use his knowledge for his purposes' so as to achieve individual goals free from intervention or coercion on the part of an external authority. Furthermore, he argued that coercion is 'evil precisely because it thus eliminates an individual as a thinking and valuing person and makes him a bare tool in the achievement of the ends of another' (Hayek 2011 [1960], 71).

Hayek (1979, 24) explained that individual freedom was absent under totalitarian systems: the difference between a society of 'free' men and a 'totalitarian' one lies in the fact that in the 'former this applies only to that limited amount of resources that is specifically destined for governmental purposes, while in the latter it applies to all the resources of society including the citizens themselves.' For Hayek, freedom

pertains to the relationships that exist between different individuals who are able to 'spontaneously' pursue their own goals and ends within the particular dispersed knowledge that they possess, while simultaneously bearing the consequences of their actions. He claimed that without freedom, it would not be possible to attain growth in knowledge, the development of civilization, or progress in humanity.

Hayek regarded interference and coercion in the private spheres of individuals on the part of external entities as key factors that inhibit freedom, because they conflict with individual free choice and prevent people from determining and achieving their own particular goals and ends. Hayek (1979, 11) argued that the primary enemy to freedom was any form of coercive power, such as a tyrant, monarch or dictator, because they implement obstacles to the achievement of freedom. He defended a limited state role in securing freedom and the private spheres of individuals via the rule of law, arguing that 'only limited government can be decent government.' Preventing the coercion of one individual by another in a free society requires that the state itself should be the only entity to possess a 'monopoly of coercion.' However, this power to coerce needs to be limited to the greatest extent possible by taking measures to ensure that its implementation is based on predictable, 'known rules' and laws (Hayek 1960, 21). In other words, even though the state is permitted to intervene to establish legal order within a society for the purpose of securing individual rights and freedom, it is necessary to place limitations on this power by means of a legal system, so that the state is prevented from transforming itself into a dictatorship. On this basis, the state is able to secure freedom while simultaneously respecting the rule of law. Therefore, Hayek's defence of dictatorial regimes during periods of transition towards the achievement of 'free' market conditions is incompatible with his concept of freedom, as he argued that freedom requires assured private spheres, where individuals are not coerced or prevented from using their own beliefs, thoughts, intelligence, or knowledge to achieve their particular goals and ends.

According to Hayek, freedom requires that all individuals have liberty from all coercive authority when they are in their private spheres, which necessitates that the role of the state is limited via the rule of law. He often emphasized the importance of assured private spheres,

including private property, and individual rights and freedoms, such as freedom of speech, freedom of expression, freedom of the press, and freedom of religion. Hayek (1960, 20) maintained that individual rights represented the 'essential conditions of freedom,' which include 'legal status' as a 'protected member' of the community, immunity from arbitrary arrest, the right to freely choose one's work, and the right to free movement. Still, Hayek said nothing about the fact that individual freedom was suspended under Videla's coercive regime. Given that transitional dictatorships routinely violate the private spheres of individuals, it is difficult to align the support that Hayek expressed for such regimes (in his interview with Alsogaray and elsewhere) with his liberal thoughts and ideas on freedom. On this basis, it is also impossible to defend his silence in the face of the illegal detentions, kidnappings, torture, and disappearances of thousands of people perpetrated by Videla's dictatorship during the 'transitional' period (that is, 1976–1983).

Hayek's defence of dictatorial regimes during transitional periods towards the achievement of 'free' market conditions was also incompatible with his theory of knowledge. Hayek (1973, 14) argued that the nature of knowledge is dispersed and fragmented, meaning that each member of society is able to acquire 'only a small fraction of the knowledge possessed by all'; as a result, each citizen is largely oblivious to 'most of the facts on which the working of society rests.' That being said, the 'distinctive feature of all advanced civilizations' is that they employ 'much more knowledge than anyone can possess,' meaning that every individual citizen operates within a 'coherent' structure most of whose determinants are 'unknown to him.'

Hayek's (1979, 17) theory that knowledge is limited and dispersed served as the basis of his critique of centrally planned systems, which he claimed required the presence of social engineers or planners: in a 'Great Society nobody can possess knowledge of, or have any views about, all the particular facts which might become the object of decisions by government.' He concluded that the limited and dispersed nature of human knowledge meant social engineers or planners could never possess adequate knowledge or gather all of the information required to reshape or redesign the institutions of society or achieve the common goals and ends of the nation. In addition to the reality of dispersed knowledge, Hayek

(1973, 32) also argued that social engineers further limited their own knowledge by accepting the premise of collective ends and goals, while simultaneously ignoring or rejecting the possibility that members of society could possess multiple competing ends and goals. Hayek claimed that it is misguided to believe that 'reason alone can tell us what we ought to do, and that therefore all reasonable men ought to be able to join in the endeavour to pursue common ends as members of an organization.'

In many of his works, Hayek relied on his theory of knowledge to criticize the practice of social engineers using knowledge to reshape and redesign the institutions of society. However, he ignores the nature of his own theory by allowing an exemption in cases where this is done with the objective of creating the conditions to facilitate a properly functioning 'free' market economy. In other words, Hayek did not oppose the central and deliberate planning of society as a whole provided that the social engineer uses knowledge for the purpose of achieving the conditions of a 'free' market economy. Hayek somehow accepted the idea that the central and deliberate planning of a dictatorial regime could be compatible with his brand of liberal thought as long as it retained power on a temporary basis, during a transitional period, until the conditions required for a 'free' market to function properly could be achieved or re-established. This is demonstrated by the fact that Hayek did not criticize Videla's dictatorial regime for acting as a social engineer in reshaping and redesigning the institutions of society in order to achieve the economic goals and objectives of the elite business classes, either during his visit to Argentina in 1977 or at any point after he left. The specific measures and actions instituted by the Junta in its attempt to establish the necessary conditions to facilitate a 'free' market economy included removing 'key articles of the Constitution,' eliminating 'the Congress,' replacing 'eighty percent of the judges,' modifying 'fundamental principles of penal law and of criminal procedures,' holding thousands of Argentine people in detention camps without charges, and implementing neo-liberal economic reforms from above.<sup>17</sup>

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<sup>17</sup><https://www.hrw.org/sites/default/files/reports/argen914full.pdf>.

## Conclusion

During his visit to Dirty War Argentina, Hayek defended liberalism because of its capacity to restrict the deliberate control of societal order via coercive power, which was consistent with arguments he presented elsewhere. He also praised liberalism for its capacity to ensure individual freedom, economic freedom, and 'spontaneous' order, as well as its ability to limit state action. However, he also defended the premise of a dictator deliberately controlling and arranging society during a transitional period in the achievement of a predetermined end. This apparent contradiction allowed Hayek to tolerate a dictatorial regime exercising deliberate control over societal order through the imposition of coercive power, provided that the objective was to establish the conditions of a 'free' market economy. Under such a scenario, Hayek believed that the stated goal of achieving the conditions for a 'free' market economy justified the means employed, even if they included the forms of terrorism, repression, devastation, and dehumanization that characterized Argentina's Dirty War.

Hayek made it clear that he personally preferred a liberal dictator over a government elected under a system of unlimited democracy. In his interview with Alsogaray, he asserted that unlimited democracy was incompatible with the economic freedom that characterizes a 'free' market economy. He also attributed the emergence of chaotic situations in many countries, as well as some of the greatest crimes that transpired during the twentieth century, to unlimited democracy. More precisely, he held the system of mass democracy responsible for the rise of dictators like Hitler, Mussolini, Lenin, and Stalin to some extent, arguing that each of them 'appealed to some of the feelings which also dominate contemporary democracies.' He believed that communism, national-socialism, and fascism promised to achieve common goals or the public good, much like unlimited democracy did. He expressed support for military interventions intended to prevent countries from transforming their societal organizations into totalitarian systems. However, Hayek also emphasized that dictatorships had to be temporary, lasted only until the liberal societal order was 're-established.' The high praise

that Hayek heaps upon the 'free' market economy in many of his writings and statements demonstrates that he was willing to overlook the human rights violations committed by brutal dictatorial regimes provided that they were devoted to achieving the conditions of a 'free' market economy.

Whether a dictatorial regime is transitional or permanent should be irrelevant to the issue, as both use deliberate arrangements, are based on command and obedience, and organize society according to a hierarchical structure where the dictator's will reigns supreme. Dictatorial power is incompatible with the concept of placing limits on state action, even if it is of the transitional and temporary variety that Hayek defended. Either way, the dictator coerces individuals through the suppression of individual rights and freedoms for the purpose of achieving predetermined goals. Therefore, Hayek's defence of dictatorial regimes during transitional periods towards the achievement of 'free' market conditions contradicts his own liberal thoughts. More precisely, his defence of dictatorial regimes is incompatible with his definition of individual spheres, his theory of knowledge, and his concepts of freedoms, 'spontaneous' order, and limited state action. This is not particularly surprising when considering how useful the concept of freedom proved to be for Hayek as a tool for promoting the superiority of 'free' market capitalism. The fact that he developed his arguments against totalitarian regimes during the Cold War era likely contributed to his stubborn defence of all forms of power and authority in establishing the conditions for a 'free' market system.

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# 11

## Friedrich Hayek and His Visits to Chile: Some Austrian Misrepresentations

Birsen Filip

### Introduction

Friedrich August von Hayek (1899–1992) visited Chile twice during the brutal dictatorship (1973–1990) of Augusto Pinochet (1915–2006): in November 1977 and April 1981.<sup>1</sup> This chapter examines and contrasts two versions of Bruce Caldwell and Leonidas Montes’ descriptions of these visits and their interpretations of Hayek’s views on Pinochet’s regime: ‘Friedrich Hayek and his Visits to Chile’ (2014a, b, 2015a), written for English-speaking readers, and ‘*Friedrich Hayek y sus dos Visitas a Chile*’ (2015b), which targets a Spanish-speaking audience.

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<sup>1</sup>Hayek’s 1981 visit was hosted by a newly formed organization, *Centro de Estudios Públicos* (CEP) (Caldwell and Montes 2014a, 1; 2014b; 2015a, 262). CEP is a conservative Chilean think tank that was founded in 1980.

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Using articles and interviews published by Chilean newspapers (*El Mercurio*, *La Tercera*, and *La Segunda*) and Chilean magazines (*Que Pasa* and *Ercilla*), and interviews with ‘principals’ who are still alive, Caldwell and Montes (2014a, 1–3; 2014b; 2015a, 262–264) attempt to explain how Hayek’s visits engendered what they assert are *misleading* accusations based on *false* assumptions. In particular, addressing four allegations put forth by Naomi Klein (2007), Greg Grandin (2006), and Corey Robin (2011): they

- seek to prove that Hayek was not involved in the decision to hold the 1981 regional meeting of the Mont Pèlerin Society in Viña del Mar;
- argue that Hayek and his academic work did not have an impact on the writing or content of the new Chilean Constitution of Liberty (that was enacted in 1980 and went into effect in 1981);
- want to disprove the notion that Hayek was a ‘closet’ admirer of Pinochet’s regime; and
- try to explain Hayek’s ‘failure’ to ‘speak out’ against the human rights abuses that occurred under Pinochet’s 17-year rule.

This chapter demonstrates that Caldwell and Montes were overzealous in their defense of Hayek: they present him almost as a naïve and saintly figure—in the face of persuasive evidence to the contrary. It also highlights some notable differences between the English and Spanish versions and explains the strategic reasons behind them.

## Why Did Hayek Visit Chile?

Chile became the focus of many human rights organizations and much of the international press because of the human rights violations that were committed during the 11 September 1973 military coup and throughout Pinochet’s subsequent rule: by the mid-1970s an

extensive human rights advocacy network had been established, both within Chile and internationally, comprising several distinct types of organisations: (1) inter-governmental organizations, like the Inter-American

Commission on Human Rights; (2) international non-governmental organisations like Amnesty International and WOLA; and (3) domestic non-governmental organisations, like Copachi. (Burbach 2003, 63)

In Western Europe, ‘solidarity organizations were especially active in protesting the abuses of the Pinochet regime’ (Burbach 2003, 62).

Hayek received many letters and phone calls discouraging him from visiting Chile from ‘well-intentioned people I did not know’ all of which were ‘intended to stop me from visiting such an objectionable country’ (cited by Caldwell and Montes 2014a, 18; 2014b; 2015a, 276). He also admitted that some of the objections to his planned visit were raised by people that he actually knew, including Ralph Raico (Hayek’s former Ph.D. student at Chicago) who in a letter (13 June 1977) ‘warned him’ about ‘human rights abuses’ in Chile (Caldwell and Montes 2014a, 18, n56; 2014b; 2015a, 276, n56). But he decided to visit Chile in spite of such pleas to his conscience.

Caldwell and Montes (2014a, 4–5, 11, 16; 2014b; 2015a, 264, 265, 270, 276) briefly mention that the military regime enacted ‘strict political repression’ and committed ‘ruthless human rights abuses’ for approximately 17 years. They also acknowledged that the Junta Military imposed ‘harsh’ political repression such as the ‘systematic persecution of communists, socialists,’ and ‘anyone linked to the left.’ They also briefly refer to reports published by the Commission on Human Rights at the United Nations in 1975 and 1976, which stated that many Chileans were imprisoned, tortured, disappeared, forced into exile, and executed under Pinochet’s brutal dictatorship. Despite this knowledge, Caldwell and Montes do not explicitly point out that Hayek’s decision to visit Chile was largely inconsistent with his image as a philosopher of freedom and one of the most important contributors to liberal thought. However, the fact that they attempt to interpret Hayek’s ‘frame of mind’ when he received the invitation to visit Chile (in June 1977) in order to rationalize his decision to accept it—in the face of widespread criticism—suggests that they were well-aware of this apparent contradiction.

The first explanation that Caldwell and Montes (2014a, 17; 2014b; 2015a, 275) provide pertains to the treatment that his *Mont Pèlerin*

Society colleague, Milton Friedman, received for his involvement with the Pinochet regime. Friedman's decision to visit Chile and his recommendation for economic shock therapy elicited a number of controversies and criticisms directed against him. The treatment Friedman was receiving would have 'angered' Hayek, and may, they speculate, have motivated him to accept the invitation.<sup>2</sup>

Their second justification is that while Hayek did not know very much about the Chilean economy,

- the fact that he was a 'life-long' critic of socialism most likely meant that he wanted to personally witness Chile's transition from a Marxist government to a 'free' market economy through Pinochet's reforms. (These reforms included massive currency devaluation, the removal of price controls, returning companies nationalized by the Allende government to their previous owners, and a reduction of tariffs and other trade barriers.) They suggest that Hayek may have wanted to personally witness the effectiveness of Pinochet's transitional dictatorship in bringing inflation under control, increasing productivity, and improving efficiency via shock therapy, particularly since it was the middle of the Cold War era: Hayek's visits in 1977 and 1981 took place while the Chilean economy was on the 'rebound': between 1975 and 1981 the average annual growth rate was 7.3% (Caldwell and Montes 2014a, 13; 2014b; 2015a, 272).
- Caldwell and Montes (2014a, 4, 13, 18; 2014b; 2015a, 264, 272, 276) also point out that after enacting a new Constitution in September 1980, the country began to exhibit signs of a slow and gradual political transition back towards a 'constitutional democracy';
- Hayek was 'suspicious' about the objectivity of news reports in the western press and was probably 'curious' about what conditions in Chile were 'really' like;
- he was 'surprised' about the observed level of Chilean economic development—which 'deepened his suspicions' about the press;

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<sup>2</sup>Friedman faced protests and numerous demonstrations when he went to Sweden to accept the 1976 Nobel Prize in Economic Sciences (Caldwell and Montes 2014a, 16; 2014b; 2015a, 274).

- he was reacting not just to Chile but also to the ‘multiple’ pressures and concerns brought on by both the cold war and to what he alleged were the ‘mistaken’ direction of the economics profession in the 1970s and was ‘hoping’ that there might be a transition back to a ‘limited’ democracy in Chile and other countries which had combined an ‘authoritarian and military’ political regime with a ‘liberal’ economic system.

In fact, they claim that, ‘given Hayek’s character, his mindset, and the larger political context, it is rather hard to imagine him *not* [emphasis in original]’ accepting the invitation to visit Pinochet’s Chile.

This justification appears long on ideological protection and short on critical analysis. By itself, Hayek’s visit is not particularly controversial: it could be attributed to a desire to personally witness the implementation of ‘free’ market conditions by a military dictatorship and experience Chile’s ‘free’ market ‘miracle.’ The real controversy occurred *after* the visit, when Hayek failed to address the human rights violations or the suspension of individual freedoms attributed to Pinochet’s brutal dictatorship, particularly in light of the extensive criticism directed against his regime by many human rights organizations and much of the international press.

## Hayek’s Views on Human Rights Violations

It has been well-documented that after the legitimate, democratically elected government of Chile was toppled by Pinochet’s military coup, ‘Congress was dissolved; a State of Siege was declared,’ the security of citizens was compromised, ‘the Tribunal Constitutional was dissolved,’ ‘all public employees were declared to be interim,’ Marxist ‘political parties ... were dissolved,’ ‘the universities were intervened by the Military Junta,’ the ‘electoral register were declared void and then incinerated,’ the ‘expulsion of individual from the national territory on political grounds’ was legalised, etc. (Couso 2011, 402). These measures suspended freedom for most Chileans; while the economic freedom of multinational corporations remained largely unaffected.

In an interview with *El Mercurio*, Chile's largest and most respected daily newspaper, Hayek explained that he was surprised by the state of Chile's economic development. He had thought he was going to find an 'underdeveloped' country, but now he could not use that term to describe Chile. He praised the military dictatorship for its willingness to run the country 'without being obsessed with popular commitments or political expectations of any kind,' adding that the 'painful' economic reforms they were experiencing were a 'necessary evil' that would soon be overcome. He ended by praising Pinochet's market liberalization efforts: the 'direction' of the Chilean economy was 'very good'—the 'effort' the country was undertaking was an 'example for the world' (Caldwell and Montes 2014a, 22–23; 2014b; 2015a, 280).

Subsequently, in a letter to the London *Times* (3 August 1978), Hayek stated that he had 'certainly never contended that generally authoritarian governments are more likely to secure individual liberty than democratic ones, but rather the contrary. This does not mean, however, that in some historical circumstances personal liberty may not have been better protected under an authoritarian than democratic government.' He had 'not been able to find a single person even in much maligned Chile who did not agree that personal freedom was much greater under Pinochet than it had been under Allende.'<sup>3</sup>

Hayek's letter—which (Caldwell and Montes 2014a, 27; 2014b; 2015a, 283) cite—mentions nothing about human rights violations in Chile and did little more than worship Pinochet's 'free' market miracle; much the same could be said about his interview with *El Mercurio*. Hayek's failure to discuss Pinochet's human rights violations would not have been unexpected by anyone familiar with his work, which did not attribute much importance to human rights. In fact, Hayek claimed that human rights was a concept with a very short history:

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<sup>3</sup><https://www.margaretthatcher.org/document/117136>.

You see, my problem with all this is the whole role of what I commonly call the intellectuals, which I have long ago defined as the second hand dealers in ideas. For some reason or other, they are probably more subject to waves of fashion in ideas and more influential in the American sense than they are elsewhere. Certain main concerns can spread here with an incredible speed. Take the conception of human rights. I'm not sure whether it's an invention of the present [Carter] administration or whether it's of an older date, but I suppose if you told an eighteen year old that human rights is a new discovery he wouldn't believe it. He would have thought the United States for 200 years has been committed to human rights, which of course would be absurd. The United States discovered human rights two years ago or five years ago. Suddenly it's the main object and leads to a degree of interference with the policy of other countries which, even if I sympathized with the general aim, I don't think it's in the least justified. People in South Africa have to deal with their own problems, and the idea that you can use external pressure to change people, who after all have built up a civilization of a kind, seems to me morally a very doubtful belief. But it's a dominating belief in the United States now.<sup>4</sup>

Given Hayek's stance on human rights, it is hardly surprising that he made no mention of Pinochet's human rights violations—which included the brutal killing and torture of more than 3000 people—at any time before, during or after his visits to Chile. Hayek (1982 [1976], 103) expressed his concerns about human rights in *Law, Legislation and Liberty: The Mirage of Social Justice*: to the

negative rights which are merely a complement of the rules protecting individual domains and which have been institutionalized in the charters of organization of governments, and to the positive rights of the citizens to participate in the direction of this organization, there have recently been added new positive 'social and economic' human rights for which an equal or even higher dignity is claimed!

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<sup>4</sup>Friedrich Hayek, interviewed by Robert Chitester date unspecified 1978 (Centre for Oral History Research, University of California, Los Angeles), <http://oralhistory.library.ucla.edu/>.

Hayek complained that these are claims to particular benefits to which ‘every’ human being ‘as such’ is ‘presumed to be entitled.’ Yet there was no indication as to who is obliged to provide those benefits nor is there any specification of the ‘process’ by which they are to be provided.

It is, of course, meaningless to describe them as claims on ‘society’ because ‘society’ cannot think, act, value, or ‘treat’ anybody in a particular way.

According to Hayek, if such claims are to be met, the ‘spontaneous order’ (society) must be replaced by a ‘deliberately directed’ organization: the ‘cosmos’ of the market would have to be replaced by a ‘taxis’ whose members would be forced to do ‘what they are instructed to do.’ Such members could not be allowed to use their knowledge for their ‘own purposes’ but would have to ‘carry out the plan’ which ‘their rulers’ have decreed in order to meet the ‘needs to be satisfied.’

*Law, Legislation and Liberty: The Mirage of Social Justice* also reveals Hayek’s (1982 [1976], 103–104) belief that human rights was essentially derived by combining the ‘old civil rights’ with rights derived from Marxism: the ‘old civil rights’ and the ‘new social and economic rights’ could not be achieved simultaneously because they were in ‘fact incompatible.’ The new rights could not be enforced by law without at the same time destroying that ‘liberal order’ which the old civil rights aimed to achieve. The ‘new’ trend was given its chief impetus through the proclamation by President Franklin Delano Roosevelt of his

‘Four Freedoms’ which included ‘freedom *from* want’ and ‘freedom *from* fear’ together with the old ‘freedom *of* speech’ and ‘freedom *of* worship.’ (emphases in original)

But the new trend found its ‘definite’ embodiment in 1948 in the *Universal Declaration of Human Rights* (adopted by the General Assembly of the United Nations)—which according to Hayek, was ‘admittedly’ an attempt to fuse the rights of the Western liberal tradition



with the ‘altogether different’ conception derived from the 1917 Marxist Russian Revolution (Hayek 1982 [1976], 103–104).<sup>5</sup>

Hayek’s opposition to Marxism apparently played a key role in his arguments against human rights, as well as his opposition to totalitarian regimes and his defence of liberal societies in the battle of ideologies during the Cold War era. In other words, he associated human rights with Marxism (to some extent): criticizing human rights violations would, therefore, contradict much of his work. Hayek (1982 [1979], 202–203, n. 42) went so far as to refer to human rights as a ‘trick’ perpetrated by Marxists: in view of the

latest trick of the Left to turn the old liberal tradition of human rights in the sense of limits to the powers both of government and of other persons over the individual into positive claims for particular benefits (like the ‘freedom from want’ invented by the greatest of modern demagogues) it should be stressed here that in a society of free men the goals of collective action can always only aim to provide opportunities for unknown people, means of which anyone can avail himself for his purposes, but no concrete national goals which anyone is obliged to serve.

Hayek (1982 [1976], 104) also opposed the notion of human rights as a universal value: human rights could not be made ‘universal’ within a system of rules of ‘just conduct’ based on the conception of individual responsibility. Thus human rights ‘require that the whole of society be converted into a single organization, that is, made totalitarian in the fullest sense of the word.’ These ‘rules of just conduct which apply

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<sup>5</sup>Hayek (1982 [1976], 183, 184, n2) directed his readers to the Universal Declaration of Human Rights (adopted by the General Assembly of the United Nations on 10 December 1948) and an ‘intellectual background’ report (‘Human Rights, Comments and Interpretations’), a symposium edited by UNESCO which contains in the Appendix a ‘Memorandum Circulated by UNESCO on the Theoretical Bases of the Rights of Men’ plus a ‘Report of the UNESCO Committee on the Theoretical Bases of the Human Rights’ (also described as ‘UNESCO Committee on the Principles of the Rights of Men’), which, according to Hayek, explained that their ‘efforts’ had been directed towards ‘reconciling’ the two different ‘complementary’ working concepts of human rights, of which one ‘started, from the premises of inherent individual rights’ while the other was ‘based on Marxist principles,’ and at finding ‘some common measure of the two tendencies.’

to everybody alike but subject nobody to the commands of a superior can never determine what particular things any person is to have.' They could never take the form of 'everybody must have so and so.'

Hayek (1982 [1976], 104) argued that in a 'free' society what an individual will receive 'must always depend in some measure on particular circumstances which nobody can foresee' or determine. For him, 'Rules of just conduct can therefore never confer on any person as such (as distinct from the members of a particular organization) a claim to particular things; they can bring about only opportunities for the acquiring of such claims.'

Given that Hayek associated human rights with Marxist principles, one should not expect him to condemn the abuse of human rights. In fact, it is abundantly clear that Hayek *did not care* that Pinochet's brutal dictatorship resorted to terrorism and oppression to coerce Chilean citizens, because it was devoted to achieving the conditions of a 'free' market economy.

## Were There Valid Reasons for Hayek to Refuse to Visit Chile at that Time?

In regard to his 1977 visit, the letter officially inviting Hayek to visit Chile to deliver a lecture and receive an honorary degree came from Juan Naylor Wieber, the Rector of Universidad Técnica Federico Santa María (Caldwell and Montes 2014a, 18–19; 2014b; 2015a, 276). During Pinochet's military regime, all of the Rectors of the Universidad Técnica Federico Santa María were former military commanders, including Naylor Wieber (1918–), who served as Rector (1973–1977).<sup>6</sup> On 17 October 1973, Naylor, an ardent supporter of the Pinochet regime, made a speech at the Universidad Técnica Federico Santa María, where he stated in no uncertain terms that any activity related to Marxism was sufficient grounds for immediate expulsion from the university.

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<sup>6</sup>Ismael Huerta (1977–1984) and Arturo Niño de Zepeda (1984–1989) were two examples of former military commanders who served as Rectors of Universidad Técnica Federico Santa María.

The invitation (dated 25 May 1977) was sent to Hayek with an accompanying letter from Pedro Ibáñez, a prominent Chilean businessman who was well-known for his anti-communist and anti-Marxist views (Caldwell and Montes 2014a, 19; 2014b; 2015a, 276–277). Ibáñez requested ‘U.S. assistance and financial support to beat the Communist candidate’ when he was a senator in the 1960s (Gustafson 2007, 99). Hayek’s 1977 visit was arranged by the Business School of Valparaíso, Fundación Adolfo Ibáñez, which bears the name of Pedro Ibáñez’s father (Caldwell and Montes 2014a, 19; 2014b; 2015a, 276).<sup>7</sup>

In 1977, Hayek also received a letter discussing the details of his visit to Chile from Carlos Cáceres, Dean of the Valparaíso Business School who also served as Chilean Central Bank President and Pinochet’s Finance and Interior Minister (Caldwell and Montes 2014a, 20; 2014b; 2015a, 278). Subsequently, Cáceres exchanged a series of letters with Hayek to work out the details of his trip prior to his arrival in Chile. Carlos Cáceres was an ‘ardent neoliberal’ with close ties to the dictator and the countries’ ‘economic oligarchy’ who regarded Pinochet as the father of the modernization of the Chilean economy and who had ‘close bonds’ with the owners of *El Mercurio* (Burbach 2003, 79). Based on their credentials, it should come as no surprise that Carlos Cáceres and Pedro Ibáñez were the only ones present when Hayek met General Pinochet (Caldwell and Montes 2014a, 21; 2014b; 2015a, 279).

Rationalizing Hayek’s decision to accept the invitation to visit Chile appears to be one of Caldwell and Montes’ main objectives. However, when considering the circumstances in Chile and the players involved in planning and facilitating the visit, it would be difficult to imagine a scenario where Hayek would *not* have accepted the invitation.

First, the initial letter officially inviting him to visit was sent by Naylor, Pedro Ibáñez, and Carlos Cáceres, all well-known anti-communists, anti-Marxists, and ardent defenders of ‘free’ market capitalism who shared

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<sup>7</sup>Pedro Ibáñez Ojeda’s father, Adolfo Ibáñez, was a very successful businessman who served as general manager of Compañía Comercial e Industrial Tres Montes S.A., which has always dominated the trade of coffee, tea, vine and oil in Chile. In 1951, Pedro Ibáñez Ojeda succeeded his father in the same role and continued to diversify the products of the company into other areas including juice, gelatins, and condiments.

similar ideological views with Hayek. Furthermore, the Universidad Técnica Federico Santa María was receiving financial support from the Earhart Foundation, which has consistently supported and financed the activities of the Mont Pèlerin Society, including meetings and travel, in conjunction with a number of other prominent companies like the Relm Foundation, the Lilly Endowment, the Volker Fund, the United Fruit Company, the Ford Motor Fund, GE, DuPont, and Shell Oil.<sup>8</sup>

The Universidad Técnica Federico Santa María had received a grant from the Earhart Foundation (Ann Arbor) to invite a ‘distinguished’ economist (Caldwell and Montes 2014a, 19; 2014b; 2015a, 277). Hayek’s status as an Earhart Foundation Fellow afforded him links to a number of major think tanks and other resources that helped him circulate his ideas to a broader audience.<sup>9</sup> His visit to Chile fit well with his ideological commitments and the agendas of neo-liberal institutions like the Earhart Foundation, which, since its founding in 1929, has often financed the works and research of intellectuals, journalists, politicians, and academics who defended ‘free’ market economic principles.<sup>10</sup>

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<sup>8</sup>The Mont Pèlerin Society was ‘originally financed by a group of aristocratic families’ and has always been supported by ‘the top financial aristocracy of Europe’ (Peterson 1999, 122). ‘The connections between the business world and that of think tanks and intellectual organizations would only deepen over the years’ (Phillips-Fein 2009, 296).

<sup>9</sup>The list of Earhart Foundation fellows also included a number of other Nobel-winning economists, including Gary Becker, James M. Buchanan, Ronald Coase, Friedman, Robert Lucas, Daniel McFadden, Vernon L. Smith, and Stigler, all of whom played significant roles in promoting ‘free’ market economic policies around the world.

<sup>10</sup>One of the largest recipients of Earhart funding was the Atlas Economic Research Foundation, a ‘global network of more than 450 free-market organizations in over 90 countries’ originally founded in 1981 by Antony Fisher (1915–1988), to provide ‘the ideas and resources needed to advance the cause of liberty’ (<https://www.atlasnetwork.org/about/our-story>). After reading *The Road to Serfdom*, Fisher contacted Hayek to tell him that ‘he agreed with every word in the book, and was going to go into politics to save Britain from socialism.’ ‘Fisher asked Hayek ‘for his advice as to what he should do to further the cause, and Hayek advised him not to go into politics, but instead to start a public policy think tank’ (Mirowski 2014, 17, 18). ‘Several years later, after achieving success as an entrepreneur (creating the first factory-style chicken farm in Britain), Fisher decided the most effective way to act on Hayek’s advice would be by establishing an independent research institute that would bring innovative, market-based perspectives to issues of public policy. In 1955, he founded the Institute of Economic Affairs (IEA) in London, which gradually gained credibility and laid the intellectual groundwork for what later became the Thatcher Revolution... Friends like Milton Friedman, Friedrich Hayek, and Margaret Thatcher applauded the idea of replicating the IEA model far and wide.’ The Atlas Economic Research

## Hayek's Influence on the 1980 Chilean Constitution

Caldwell and Montes (2014a, 27–28; 2014b; 2015a, 284) attempt to refute the claim that Hayek had a ‘substantial’ influence on the content of the Chilean constitution, as well as a role in the ‘process’ of its ‘creation.’ They reject the notion that Chile’s new constitution (which was enacted in September 1980 and went into effect in March 1981), was influenced in any way by Pinochet’s ‘personal governmental consultation’ with Hayek (that took place before the final draft was completed). They also deny that Jaime Guzmán (1946–1991), who played an instrumental role in creating the 1980 Constitution, had incorporated ‘significant elements of Hayek’s thinking’ into it. Finally, Caldwell and Montes dismissed the claim that Chile’s Constitution of Liberty was named after Hayek’s *The Constitution of Liberty*: during the run-up to the plebiscite,

the phrase ‘Constitution of Liberty’ was used by promoters of the new Constitution. But the phrase was not an invocation of Hayek’s book of the same name. In the Chilean context, ‘Liberty’ would mean for them ‘Not Marxist.’

Guzmán is widely regarded as the architect of Pinochet’s new constitution. Following the coup, Guzmán, who was a fervent advocate of the neo-liberal economic policies promoted by the Chicago Boys, became an influential policymaker and advisor to Pinochet. He believed that Pinochet saved Chile from becoming a ‘pro-Soviet regime,’ arguing that his military coup represented the

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Foundation’s main objective was ‘to coordinate activities and corporate funding among the network of European and American think tanks and to extend it by developing and financing a group of neoliberal organizations outside Western Europe and the United States.’ It played an important role in setting up the Instituto Libertad y Desarrollo (ILD), ‘one of the first generation of neoliberal think tanks in the South’ (Mitchell 2009, 396, 397).

defeat of the Communists and the chance to overcome decades of ‘irrational’ policies undertaken by democratic politics with rational policies designed by technocratic politics. (Couso 2011, 397)

Caldwell and Montes (2014a, 29–31; 2014b; 2015a, 284–286) contend that, despite the fact that Guzmán played a major role in the creation of the 1980 Constitution, ‘he did not act alone.’ They also try to downplay Hayek’s influence on Guzmán by arguing that he was not familiar with Hayek’s work—going so far as to claim that, even though Hayek’s books were ‘in his library, relevant testimonies doubt that Guzmán had read them.’ According to Caldwell and Montes, these pieces of evidence suggest that Hayek had ‘little’ impact on the creation of the 1980 Constitution of Liberty.

However, Guzmán studied law at the Pontifical Catholic University of Chile, graduating with highest honours in 1968 before becoming a lawyer. In addition to sharing similar liberal views with Hayek, this background in law suggests that Guzmán may have had a professional and personal interest in reading *Constitution of Liberty*, given that Hayek also received a doctorate in law at the University of Vienna. This suggests that Caldwell and Montes should not have been quite so adamant in their conclusion that Guzmán was unfamiliar with Hayek’s work.

Caldwell and Montes’ efforts to minimize the impact of Hayek’s views on Chile’s new constitution led them to provide their readers with insufficient details about the actual process employed by the ruling military Junta in its creation and implementation. Pinochet began the process of drafting a new constitution almost immediately after the success of his military coup with help of ‘eight law professors and former congressmen’ in what came to be called ‘Comisión de Estudios de la Nueva Constitución Política del Estado.’ These experts sought ‘the strengthening of the constitutional clauses protecting the right to private property.’ After 1977, ‘once the wording of the constitutional clauses guaranteeing private property rights were finished, the Commission started to broaden the scope of its economic rights proposals. This was suggested by the economic team of the Chicago Boys.’ Their goal was to ‘end political debate on economic matter.’ The ‘Constitution of 1980 adopted what the Chilean legal doctrine calls “Economic Public Order,”

setting the basic principles and rules that define the role of state and individuals concerning economic matters' (Couso 2011, 405–409, 411).

The contents of the 1980 Constitution were 'highly ideological' and aimed at 'perpetuating the economic and social model designed by the military regime' (Couso 2011, 397, 400). It was anti-communist, anti-Marxist and defended a laissez-faire economy, with state intervention largely limited to maintaining the conditions of a 'free' market economy at times when the private sector was unable to do so. The 1980 Constitution strengthened property rights, increased economic freedom, and established a subsidiary role of the state, which correspond with precisely the same kinds of rights, freedoms, and state role that Hayek consistently defended.

To defend their contention that neither Hayek's works nor his personal meetings with Chilean officials played any role in the creation of Chile's 1980 Constitution, Caldwell and Montes (2014a, 28; 2014b; 2015a, 285) argue that Hayek and his work was 'virtually unknown' in Chile in the 1970s. While a case could be made for Hayek's work not being particularly well-known among Chile's general population, it would be difficult to argue that this was also the case among key players in the military dictatorship, given their proclivity for defending and implementing neo-liberal economic policies, as well as the fact that many of them studied in the US, particularly in the economics department of the University of Chicago.

Hayek's initial application to work at the University of Chicago was for a position in its economics department (Mitch 2015, 2016). However, while many of the economists employed there at that time generally agreed with the liberal ideas that Hayek expressed in *The Road to Serfdom*; John Nef recalled that many also opposed his 'appointment' to the economics department because of some major disagreements on certain economic matters; and because they viewed '*The Road to Serfdom* as too popular a work for a respectable scholar to perpetrate' (cited in Hayek 1989, 24). For these reasons, Hayek's application was rejected and instead, he accepted a position as a Professor of Social and Moral Science in the University's Committee on Social Thought. Nevertheless, Hayek and academics from the Chicago School of Economics were able to look past some of their differences on economic matters and

collaborate to advance their shared neo-liberal agenda. In taking all this into consideration, it would be difficult to believe that the Chicago Boys, who adamantly supported Pinochet's dictatorship and were instrumental in designing the 1980 Constitution, could possibly not have been familiar with Hayek's work. As Arnold Harberger (2016), the 'original' Chicago Boy, put it:

I think most of us had read Hayek, first of all, had read *The Road to Serfdom* at least, of Hayek. And without necessarily becoming religious fanatics on the subject, I think most people were on the side of that message.

While there is little doubt that Friedman's economic advice had a role in the application of shock therapy to Chile's economy, the fact that Chile's transition to a 'free' market system had been meticulously planned and financed in the United States since the 1950s should not be ignored. Financial funding for this endeavour was provided by the American government's foreign student aid programme and the Rockefeller Foundation in accordance with an 'agreement' named Project Chile with the Economics Department of the University of Chicago signed in March 1956. As a result, 'approximately thirty Chilean economists were trained in Chicago between 1956 and 1964.' After the official end of Project Chile in 1964, the 'recruitment and training of students continued with funds from the Economics Department of the University of Chicago.' From the 1950s to the 1970s, in the course of 'three decades, more than 150 Chilean students received their training in Chicago.' Subsequently, after the completion of their studies, these students returned to Chile and began to set up institutions of the 'free' market system. This cultivation of Chicago Boys was not limited to Chile, as these programmes were initiated in universities throughout Latin America to 'introduce and strengthen Western economics' (Fischer 2009, 308, 310).<sup>11</sup>

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<sup>11</sup>Friedman was considered to be the 'intellectual leader' and 'primary architect of the Chicago School' because of his defense of laissez-faire capitalism, his strong opposition to state intervention, and his defense of 'freedom rather than equality' (Van Overtveldt 2007, 8).



Following the overthrow of Allende's government, a substantial number of Chicago Boys joined Pinochet's military Junta, including: Sergio de Castro, Minister of Finance (1977–1982); Jorge Cauas, Minister of Finance (1975–1977); Miguel Kast, Minister of Planning (1978–1980), Labor Minister (1980–1982), and Governor of the Central Bank of Chile, (1982–1983); Sergio de la Cuadra, President of the Central Bank of Chile (1981–1982) and Minister of Finance (1982–1983); Álvaro Bardón Muñoz, President of the Central Bank of Chile (1977–1981) and Secretary of Economy (1982–1983); Pablo Antonio Baraona Urzúa, Minister of Economy (1976–1979); Juan Carlos Méndez, Budget Director (1975–1981); Martín Costabal, Budget Director, 1987–1989, Hernán Büchi, Minister of Finance (1985–1989) (Parmar 2014, 205).<sup>12</sup> These individuals became influential policymakers and participated in developing the new 1980 Constitution. Both the 'military and the Chicago Boys shared a sense of mission of rescuing the country from Communism and economic stagnation' (Couso 2011, 404).

Caldwell and Montes (2014a, 32–33; 2014b; 2015a, 288) claim that Chile's new constitution 'set new restrictions on Pinochet's authority and, in the end, finally allowed for a plebiscite that would bring a return to democracy.' In hindsight, however, it would be difficult to refute the idea that the military regime designed the 1980 Constitution to make it

extremely hard for any political group to translate majoritarian popular support into the kind of congressional supremacy that would make possible the reform of the policies enshrined during the military regime. Thus, even if a particularly successful political party were to get a solid majority of the popular vote, it would still need to gather almost 60 percent of congressional support to change important legislation. If, against all odds, that were to happen, the new legislation would still need to confront the scrutiny of the Constitutional Court, which the 1980 charter requires to review all legislation with super-majoritarian requirements. (Couso 2011, 398)

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<sup>12</sup>Hernán Büchi obtained an MBA at Columbia University.

In other words, contrary to Caldwell and Montes' claim that the 1980 Constitution of Liberty would eventually allow for a return to democracy, in actuality, the document was rationally and consciously designed in a way that reflected a complete 'distrust in democracy'; in particular, the Armed Forces were tasked with guaranteeing the constitution played a significant role in preventing the re-emergence of democracy in Chile. Even though in the 'last two decades of democratic transition the Constitution of 1980 was amended in order to get rid of the most openly anti-democratic elements (such as the non-elected senators or the military oversight on the President of the Republic), Chile's constitutional order is still far from being completely democratic' (Couso 2011, 399).

## **The Choice of Viña Del Mar as the Venue for a 1981 Mont Pèlerin Society Meeting**

Caldwell and Montes (2014a, 33; 2014b; 2015a, 288) contest claim that Hayek chose Viña del Mar as the location for the 1981 Mont Pèlerin Society meeting, arguing that he had no role concerning siting of the meetings because he was not part of the Society's Executive Committee. The choice of Viña del Mar as the venue for a meeting of the Mont Pèlerin Society that particular year was an issue because it gave the impression that members of the organization were not particularly concerned with or bothered by the human rights violations committed under Pinochet's brutal dictatorship. While it appears that Hayek did not have a direct say in the selection of Viña del Mar as the location for the 1981 meeting, it cannot be denied that the Mont Pèlerin Society represents his legacy, which implies some indirect responsibility.

The Mont Pèlerin Society was established as a result of Hayek's desire to engage with those who shared similar philosophical and political ideals and could exchange views and work together to advance and promote neo-liberal thought and develop arguments against collectivism and socialism. Its membership was always comprised of

people from a variety of disciplines and academic backgrounds, including economics, philosophy, law, history, and political science. This diverse group collaborated on the development of liberalism, with each individual member playing a significant role in promoting and ‘strengthening’ liberal thought (Van Overtveldt 2007, 344). Their goal has been ‘developing norms and principled beliefs guiding students in different disciplines.’ It could be also said that the membership of the Mont Pèlerin Society is unified by the ‘desire to learn how to effectively oppose what they summarily described as collectivism and socialism’ and promote ‘free’ market economies around the world (Mirowski and Plehwe 2009, 5, 6).

## Differences Between the English and Spanish Versions

Comparing the English (2014a, b; 2015a) and Spanish (2015b) versions reveal a number of interesting and notable differences:

- the English version provides many details about the political and economic climate in Chile prior to Pinochet’s military regime that were omitted from the Spanish version;
- Spanish readers are given much more detailed biographical information about Hayek’s life and work compared to their English-speaking counterparts;
- unlike the Spanish version, the English document includes an exposition of Hayek’s defence of dictatorial regimes during transitional periods towards the achievement of ‘free’ market conditions;
- Caldwell and Montes provide a more extensive discussion of Friedman’s role in Chile in the Spanish version; and
- the English version includes a brief mention of Fidel Castro’s visit during Allende’s presidency, which is not mentioned in the Spanish version.

What were the reasons and rationale behind these differences?

## The Political and Economic Situation Under Allende's Socialist Government

Caldwell and Montes (2014a, 4, 7–8; 2014b; 2015a, 264, 267) maintain that while there were some economic successes following the election of 'Marxist' President Salvador Allende, these were short-lived and his government's economic reforms and policies ultimately resulted in a 'collapsed' economy and 'severe political polarization.' In the English version, they try to convince readers that Allende's controversial socialist reforms, which included the nationalization and expropriation of key companies, along with his 'heated anti-imperialist and anti-oligarchic discourse' were instrumental in generating a 'chaotic' situation in the countryside, political polarization and, 'of course, declining productivity.'

Caldwell and Montes (2014a, 9; 2014b; 2015a, 269) insist that Allende's government produced an economic crisis, created an atmosphere of social anarchy, and destroyed the country's institutional framework, which in 1973 contributed to a 'massive transport strike and several incidents of violence' and other signs of 'civil unrest.' Interestingly, the Spanish version did not really include any discussion of Allende's government, possibly because the authors thought their English-speaking audience would not be as informed as their Spanish readers about the social, political, and economic situations that prevailed in Chile, either during Allende's regime or after the military coup. However, an examination of *how* this information was presented suggests that the authors may have been trying to persuade their English audience that Allende's policies produced disastrous results that made the coup inevitable. In that case, this information may have been excluded from the Spanish version out of concern that Chileans, or Spanish readers in general, would not agree with their assessments.

Caldwell and Montes (2014a, 6, n18; 2014b; 2015a, 266, n18) argue that Allende's socialist reforms produced a 'chaotic situation' characterized by strikes, political polarization, and an economic collapse, while failing to acknowledge that a number of factors outside the control of the president contributed to producing and exacerbating many of these

problems. They do admit that US involvement in Chile began intensifying in the early 1960s, when the US government and the CIA provided financial support to the political campaigns of Eduardo Frei Montalva (1911–1982) when he opposed Allende in the 1964 election.

In their *History of Chile, 1808–1994*, Simon Collier and William F. Sater (1996, 310) report that the United States was providing large amounts of aid under President John F. Kennedy's 'Alliance for Progress' program: 'around US\$720 million between 1961 and 1970, the largest amount, on a per capita basis, given to any Latin American nation.' Although Caldwell and Montes (2014a, 6, n18; 2014b; 2015a, 266, n18) cite this figure in a footnote, they fail to report the context:

the American connection in Chile was again highlighted later in 1965, by the revelation that the U.S. Defense Department was sponsoring a social-science inquiry into Chile's 'internal war potential.' (Collier and Sater 1996, 310)

Caldwell and Montes simply fail to discuss the possibility that US involvement could have played a role in facilitating the catastrophic social and economic conditions that emerged in Chile when Allende was president, instead electing to attribute these conditions exclusively to his government's socialist policies (Burbach 2003, 9–15). Had they considered this possibility, they might have found that, 'Beginning in the early 1960s, U.S. policy makers initiated more than a decade of efforts to control Chile's political life' (Kornbluh 2003, xiii). In fact, the CIA began a covert action programme to prevent Allende from being elected in 1970, which included American-funded 'propaganda and false information about Allende,' out of fear that his election would end US domination and move the country closer to Cuba and the Soviet Union. The CIA used the American International Telephone and Telegraph Corporation (ITT) to fabricate propaganda against Allende and prevent him from being elected (Burbach 2003, 10, 11–13).

The CIA's actions were not limited to supporting Allende's rival. There were, in fact, five main elements of the CIA's actions in Chile at that time:

- ‘political action to divide and weaken the Allende coalition’;
- ‘maintaining and enlarging contacts in the Chilean military’;
- ‘providing support to non-Marxist opposition political groups and parties’;
- ‘assisting certain periodicals and using other media outlets in Chile which can speak out against the Allende government’; and
- ‘using selected media outlets’ in Latin America, Europe, and elsewhere to ‘play up Allende’s subversion of the democratic process and involvement by Cuba and the Soviet Union’ in Chile (Kornbluh 2003, 87).

President Richard Nixon was concerned that, under Allende, Chile could become an adherent of communism like Cuba. With this in mind, US Secretary of State Henry Kissinger stated in June 1970:

I don’t see why we need to stand idly by and watch a country go Communist due the irresponsibility of its own people. (Cited by Burbach 2003, 10)

After Allende secured the Chilean presidency in fair and open elections (September 1970), Kissinger instructed the US Ambassador in Chile, Edward Korry, that a ‘Chilean military coup be organized... with US assistance.’ Then, on 15 September 1970, in a meeting held with Attorney General John Mitchell, and CIA director Richard Helms, Nixon gave the order to overthrow Allende, ‘making remarks like \$10,000,000 available, more if necessary’ to ‘make the economy scream’ (Burbach 2003, 11). Subsequently, on 21 September 1970, Ambassador Korry informed Kissinger that:

Once Allende comes to power we shall do all within our power to condemn Chile and Chileans to utmost deprivation and poverty. (O’Shaughnessy 2000, 30)

In a White House meeting with Kissinger, Attorney General John Mitchell and CIA Director Richard Helms, Nixon ‘issued explicit instructions to form a coup that would prevent Allende from being inaugurated on November 4 [1970], or subsequently bring down

his new administration' (Kornbluh 2003, 1). However, 'almost every member' of the American embassy in Chile and intelligence community 'shared the opinion that fostering a coup in Chile in the fall of 1970 was a nearly impossible, diplomatically dangerous, and undesirable operation' (Kornbluh 2003, 9). And so, on 25 September 1970, Ambassador Korrry contacted Kissinger and stated:

I am convinced we cannot provoke [a coup] and that we should not run the risks simply to have another Bay of Pigs. (Cited in Kornbluh 2003, 10)

In light of these reservations to initial plans to prevent Allende from assuming the presidency, 'U.S. policy makers adjusted their strategy' in favour of removing him from office at a later date (Kornbluh 2003, 79).

To secure American corporate interests in Chile, where US companies like Anaconda and Kennecott dominated strategic natural resources, the 'CIA produced propaganda, manipulated the press, funded opposition groups, dealt with coup plotters and rebellious army officers, funded strikes, and in many other ways made life difficult for Allende' (Gustafson 2007, 1). It has been well-documented that the 'CIA paid for newsletters, booklets, posters...the largest Chilean media conglomerate' (Burbach 2003, 11). The CIA also offered assurances to the Chilean military that the US was committed to

'full support in coup' short of sending the marines; and foster the creation of 'a coup climate by propaganda, disinformation and terrorist activities' to provide a stimulus and pretext for the military to move. (Kornbluh 2003, 14)

Perhaps more importantly, the CIA also informed the Chilean military that the United States sought to 'cut military assistance to Chile unless they moved against Allende, and that the U.S. desired, and would actively support, a coup' (Kornbluh 2003, 14, 15).

The US intended to prevent Allende's government from implementing policies that would adversely impact the interests of American corporations, including the nationalization of several US corporations and the copper industry. In order to make the Chilean economy 'scream,'

the US cancelled 'virtually all bilateral founding, pressured international agencies like the World Bank to make no loans to Chile, and in general worked with US corporations to strangle the economy.' The CIA was authorized to spend '\$3.5 million on coup plotting in Chile in 1971, and a total of at least \$8 million by the time of the coup' in September 1973. Right-wing terrorist groups like *Patria y Libertad* (Fatherland and Liberty) were 'funded, and by late 1971 the CIA was making almost daily contacts with the Chilean military.' Indeed, the Chilean military was the 'only government organization to receive increased US funding under Allende, rising from \$5.7 million in 1971 to \$15 million in 1973' (Burbach 2003, 13). According to Peter Kornbluh (2003, 83, 84), 'Training and other military aid programs doubled between 1971 and 1972 from \$1 million to \$2.3 million. Between 1967 and 1970, sales of U.S. military equipment totaled \$6 million; between 1970 and 1973, that figure more than tripled to \$19 million.'

Allende's government proceeded to nationalize American copper companies, Anaconda, and Cerro de Pasco, and 'expropriated' eight key industries, such as ITT (Burbach 2003, 13). As part of its response, the CIA advocated for 'direct' pressure on some of the countries that had significant economic relations with Chile. Additionally, the Nixon administration also attempted to 'isolate Allende's government diplomatically' around the world (Kornbluh 2003, 86). To further weaken Chile's economy and 'foment domestic discontent,' the US government took measures to prevent Chile from receiving financing from external sources by essentially:

erecting what some called an 'invisible blockade.' (Burbach 2003, 14)

Given that US businesses accounted for approximately 'two-thirds of the \$1.6 billion' in external funding for investments within Chile, the attempts to isolate Chile, both diplomatically and economically, on the part of the US administration, constituted an

'invisible blockade' against a country whose economy was deeply dependent on financial, and commercial relations with the United States. (Kornbluh 2003, 82)



To demonstrate the severity of these measures, consider that in the six years of Eduardo Frei's government (1964–1970), Chile obtained US\$302 million from the US government, US\$192 million from the Inter-American Development Bank and US\$98 from the UN World Bank (a total of US\$592 million). However, these same institutions provided Chile with a total of only US\$11 million in foreign financial aid during Allende's socialist government (1970–1973) (O'Shaughnessy 2000, 43). When Frei was in power, Chile had accumulated nearly \$1 billion in debt from American banks. The Chilean economy was heavily dependent on American 'commercial credits to finance machinery' and parts for strategic industries as well as 'trucking, buses, taxis, and planes' (Kornbluh 2003, 83). In addition to the 'invisible blockade' aimed at destabilizing the economy, the CIA supported a series of violent terrorist attacks against Chile, including against 'state railroads, power plants and key highway arteries in order to create chaos and stop the country from functioning' (Burbach 2003, 14).

After the coup (during which President Allende lost his life), American approach was to 'maintain and strengthen' the Pinochet regime, according to declassified State Department records (Kornbluh 2003, 205). For instance, food and financial aid, which had been cut off after Allende took office, was re-established for the Pinochet government. Furthermore, the multilateral lending institutions, the World Bank and the IDB both 'reopened' their loan programmes in Chile. Also, the CIA 'focused on helping the Junta improve its bloody image abroad, and popularity at home' (Kornbluh 2003, 204–206).

Caldwell and Montes' chose to blame Allende's socialist reforms for generating a 'chaotic situation' in Chile, which included strikes, political polarization and the collapse of the economy. This is largely a reflection of the positions taken by many US 'officials, and their supporters in academia' who blamed Allende's socialist policies and nationalization of American businesses for the

severe drop-off in bilateral and international financial support for Chile; there was no 'invisible blockade,' according to the disingenuous official histories, and Allende was responsible for his own demise. (Kornbluh 2003, 83)

Caldwell and Montes also ignore the destructive outcomes of the American invisible blockade against Allende's socialist government, as well as substantial evidence of US destabilization efforts directed at Chile and CIA involvement in the coup that eventually overthrew the country's elected government in 1973.<sup>13</sup> Much of this information is contained in many CIA documents made public in 2000; also approximately 3800 White House, National Security Council, Pentagon, and FBI records were released, along with 18,000 State Department documents that shed 'considerable' light on Pinochet's 17-year dictatorship as well as US policies and actions in Chile between 1970 and 1990 (Kornbluh 2003, xvii).

## Hayek's Biography

Caldwell and Montes provide biographical information about Hayek in both versions, including details about his professional life while working at the Universities of Freiburg and Salzburg, as well as his battle with depression. However, a comparison of the two articles reveals that while similar topics were discussed, Spanish readers were provided with much more detailed information. The authors likely made this decision on the premise that their Chilean and Latin American audiences would be much less familiar with Hayek as a person relative to their English-speaking counterparts.

In an attempt to refute the claim that he influenced the contents of the Chilean constitution and played a significant role in its development, Caldwell and Montes (2014a, 21–22; 2014b; 2015a, 279) try to demonstrate that neither Hayek nor his writings were particularly well-known among Chileans during Pinochet's dictatorial regime. First, they claim that it 'should probably be mentioned that Pinochet would barely have known whom Hayek was, except that he was a Nobel laureate in economics who was apparently supportive of the Chilean economic

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<sup>13</sup>Caldwell and Montes (2014a, 9; 2014b; 2015a, 268) claim that the Allende government's policies of nationalization and 'expropriation' isolated Chile from much of the world economy—with the exceptions of Cuba, the Soviet Union, and China.

recovery plan.’ However, this claim is significantly weakened when they state that Hayek had already become a celebrity as a result of being awarded the 1974 Nobel Memorial Prize in Economics, after which the media, including TV, radio, newspapers, and journals, interviewed him on every possible occasion to obtain his insights and expert opinion on a variety of political and economic issues of the time. Being a Nobel Laureate also afforded him meetings with well-known politicians and elite business groups around the world (Caldwell and Montes 2015b, 90). This notion that prominent politicians and elite business groups all over the world sought to consult with Hayek and obtain his expertise runs counter to Caldwell and Montes’ claim that Pinochet would ‘barely have known whom Hayek was.’

Second, Caldwell and Montes (2014a, 18; 2014b; 2015a, 285) provide what they assert is the ‘best illustration’ of the ‘relative ignorance’ among Chileans of Hayek’s work—the ignorance of *El Mercurio*’s interviewer, Lucia Santa Cruz, about Hayek’s (1982 [1979]) latest publications as proof that neither Hayek nor his writings were well-known among Chileans. From this, they infer that Hayek could not have personally advised Pinochet when they met in 1977 or influenced the drafting of the 1980 Constitution.

Cruz admitted that she was not aware of Hayek’s (1982 [1979]) *Law, Legislation and Liberty* when she interviewed him for an article that *El Mercurio* ran on 19 April 1981. On this basis, Caldwell and Montes (2014a, 42; 2014b; 2015a, 285, 296) conclude that ‘those who knew of him may have read *The Road to Serfdom*, but very few Chileans had read anything beyond his most popular book.’ The ignorance of an alleged authority like Santa Cruz could, therefore, be projected on the entire society. Caldwell and Montes described her as a ‘reputed’ and ‘well-regarded’ Chilean historian who had studied at Oxford University while her father was the Chilean Ambassador to the U.K. She was a ‘frequent’ and ‘influential’ contributor to public debates in Chile. Their implication is that if such a credible, informed, and politically active historian could be ignorant of Hayek’s latest work, then it is reasonable to conclude that most Chileans would not know who he was.

This argument is neither particularly strong nor convincing. There is also reason to believe that Santa Cruz may not have been as credible an

historian as Caldwell and Montes believe. For instance, as a member of *El Mercurio's* editorial board, Santa Cruz frequently wrote articles that were favourable to Pinochet and justified his military dictatorship. More importantly, she published an article in Britain's *Sunday Telegraph* falsely claiming that her husband, Juan Luis Ossa, had been 'tortured during the Allende government (1970–1973).' However, her claim was exposed as a fabrication when

The assistant director of investigations under the Allende administration, Carlos Toro, in whose presence Ossa was interrogated after being arrested for carrying arms, said her husband was never tortured. 'It is infamy to try to seek comparisons with the human rights violations committed during the dictatorship,' said Toro. 'Torture was never committed under the government of Allende.'<sup>14</sup>

Her role in manipulating Chile's national history of the time when Allende was in power means that there is not even a consensus as to whether she was a 'well-regarded Chilean historian' among her peers, contrary to Caldwell and Montes' claim. For these reasons, Caldwell and Montes would be advised to seek out someone other than Lucia Santa Cruz to present as an authority or reliable source to support their arguments.

## El Mercurio Interview: Hayek's Views on Dictatorships

The English version includes a discussion of Hayek's defense of dictatorial regimes during transitional periods towards the achievement of 'free' market conditions, which is omitted from the Spanish version. It focuses on and cites from Hayek's opinions on dictatorships from an interview he gave in Freiburg prior to his trip to Chile and published in *El Mercurio* (12 April 1981) (Caldwell and Montes 2014a, 42, 44, 45; 2014b; 2015a, 296, 298, 299). His interviewer was Renée Sallas,

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<sup>14</sup><http://www.ipsnews.net/1999/02/rights-chile-prominent-academics-protest-distortion-of-history/>.

an Argentinian journalist. Hayek expressed positive opinions about Pinochet's dictatorial regime and its efforts to achieve a 'free' market economy and a liberal society, specifically stating that 'it is possible for a dictator to govern in a liberal way. And it is also possible for a democracy to govern with a total lack of liberalism. I personally prefer a liberal dictator to a democratic government lacking liberalism.' When Sallas asked if he would 'propose stronger, dictatorial governments,' Hayek (1981) responded:

When a government is broken, and there are no recognized rules, it is necessary to create rules to say what can be done and what cannot be done. In such circumstances it is practically inevitable for someone to have almost absolute powers. Absolute powers that they should precisely use to avoid and limit any absolute power in the future. It may seem a contradiction that precisely I say this, as I plead for limiting government's powers in people's lives and maintain that many of our problems are born, just out of the excess of government. But, however, when I refer to this dictatorial power, I am only talking for a transitional period. As a means for establishing a stable democracy and liberty, free of impurities. Only in this way I can justify, advise it.

It is highly improbable that the omission of any discussion of Hayek's preference for 'stronger, dictatorial governments' or support for the idea of a dictator with near-absolute powers during transitional periods towards the establishment of a stable liberal society from the Spanish version was unintentional. What is more likely is that this was a conscious decision on Caldwell and Montes's part on account of the fact that many Spanish-speaking countries had negative experiences with dictatorial governments or authoritarian military regimes in their contemporary histories.

Examples would include the corrupt and oppressive government of General Fulgencio Batista in Cuba (1952–1959), Francisco Franco Bahamonde's violent and oppressive dictatorial regime in Spain (1936/1939–1975), the cruel and oppressive dictatorship of Rafael Leónidas Trujillo Molina in the Dominican Republic (1930–1961), and Jorge Rafael Videla's violent and brutal dictatorship in Argentina

(1976–1983), among others. Given that the crimes and abuses committed by these and other dictatorial regimes are not likely to have been forgotten by the citizens of those countries or their neighbours in the region and beyond, any discussion Hayek's support for 'stronger, dictatorial governments,' during transition periods or at any other time, could have elicited a strong reaction and caused considerable damage his image as a philosopher of freedom among Spanish-speaking readers. This was less of an issue for Caldwell and Montes' English-speaking readership, as these countries have had little experience with such dictatorships in their contemporary histories and many readers would be unaware of the crimes and abuses of such regimes in other countries, even in cases where their own governments were involved in installing or supporting them.

### **Friedman's Involvement in Pinochet's Chile**

In their Spanish version, Caldwell and Montes (2015b) include a much longer discussion of Friedman's role in Chile's 'free' market economic reforms during Pinochet's dictatorial rule compared to the English version. It is not entirely clear why the authors felt that it was necessary to highlight Friedman's role in applying shock therapy to Chile's economy, given that Chileans are likely well-informed about this subject. Perhaps Caldwell and Montes hope that emphasizing the role of Friedman would have the effect of making Hayek's role appear less significant by comparison.

To show that Hayek was not influential enough to advise Pinochet on economic matters or make policy recommendations, Caldwell and Montes (2014a, 21; 2014b; 2015a, 279) refer to a 2010 interview with Carlos Cáceres, who (along with Pedro Ibáñez) was present when Hayek met Pinochet in 1977. In that interview, Cáceres stated that he was able to remember 'many details' of Hayek's trip and recalled picking him up at the airport in Santiago and taking him to Viña del Mar (where both the Valparaíso Business School and Universidad Técnica Federico Santa María are located). On the way, they stopped in Casablanca, at a restaurant 'famous for its chicken stew.' When they arrived at Viña del Mar,

Hayek found the coastal resort setting much to 'his taste, walking on the beach and bending down to inspect the stones.'

Cáceres claimed that nothing of note was discussed when Hayek met with Pinochet, recalling only that it was a 'brief twenty minute affair, and whatever was discussed (which he said he could not remember), he supposed that it was nothing too substantive, noting the difficulty of intercourse when neither party knew the others' language.' However, Cáceres made claims to the contrary in a letter he sent to Hayek 'soon after the visit,' in which he wrote that 'his positive comments were well-received by the regime.' Caldwell and Montes (2014a, 23, n71; 2014b; 2015a, 280, n71) also provide a footnote in the English version, which includes a portion of the letter to Hayek (28 April 1978) in which Cáceres expressed the 'deepest gratitude' of the Business School 'and myself' for having the 'valuable opportunity' to listen to his lectures and to discuss his 'very interesting and innovating approaches about the future of the economic sciences as well as its relationship with the political environment.' On 'several' occasions, President Pinochet as well as the members of the economic committee, made 'public statements acknowledging' Hayek's comments about the Chilean economy. Cáceres' letter clearly reveals that Hayek's views and ideas were well-received by Chile's dictatorial regime—including Pinochet. This effectively contradicts Cáceres' own statements from the 2010 interview (as referenced by Caldwell and Montes): 'nothing of note' was discussed when Hayek met with Pinochet and 'Pinochet would barely have known whom Hayek was.'

To support their claim that Chileans were not familiar with Hayek's work, Caldwell and Montes (2014a, 12, 29; 2014b; 2015a, 271, 285) seek to shift attention: Friedman's *Capitalism and Freedom* (1962) and later his 'popular' *Free to Choose: A Personal Statement* (1980), were 'read and were influential' in Chile. They provide many details about Friedman's significant involvement in the implementation of 'free' market economic reforms in Chile during Pinochet's military dictatorship. They also highlight the 'influence and control' of the Chicago Boys at 'all relevant government positions' in Chile. It has been well-documented that the application of the 'National Recovery Plan' to the Chilean economy, which also came to be known as 'shock therapy,' was broadly supported by Friedman and the Chicago Boys.

In addition to trying to show that Friedman's views were more influential than those of Hayek in Chile during Pinochet's rule, Caldwell and Montes (2014a, 40, 50; 2014b; 2015a, 294–295, 303) seek to demonstrate that Hayek's views were considerably different from those of Friedman and the Chicago School. To do so, they cite Hayek: Milton Friedman is an 'old friend of mine. I agree with him in general, but I disagree on two points. Friedman is a positivist and he gives too much importance to statistical data. This macroeconomic interpretation is useless. Only microeconomics has value for the economy. And regarding his quantitative theory of money, it is excellent, but very simple. Perhaps too simple.' Friedman was a 'great economist with whom I agree on almost every point, but disagree not only on the mechanical use of money supply. I am too an economist, but I like to think that I am something more than that. I always say that an economist who is only an economist, cannot even be a good economist. Well, Friedman grew up in the tradition of the Bureau of Economic Research under Mitchell's influence. He maintains that since we have created institutions, we can change them as we want. This is an intellectual mistake. It is an error. It is false. In this sense, Milton is more constructivist than I am.'

According to Caldwell and Montes (2014a, 50; 2014b; 2015a, 304), these two quotes demonstrate the 'differences and the tensions' between Hayek's views and those of Friedman and the Chicago Boys. Despite significant efforts on the part of the authors to blame Friedman for the implementation of neo-liberal economic reforms in Chile while absolving Hayek of all blame, the reality is that both Hayek and Friedman held similar opinions with regards to the relationship between freedom and the role of the state. It is important to point out, with the publication of *The Road to Serfdom*, Hayek gained close contact with a number of academics at the economics department of the University of Chicago, many of whom were also members of the Mont Pèlerin Society.<sup>15</sup>

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<sup>15</sup>The Chicago School was 'established in the immediate postwar era as a complement to the Mont Pèlerin Society, and was dedicated to the reconciliation of the nascent neoliberal ideas with a rather simplistic form of neoclassical economics' (Mirowski 2014, 9).



In fact, some of economics professors at the University of Chicago at that time were also founding members of the Mont Pèlerin Society, including Friedman, Frank Knight, and George Stigler.

While it may be true that Hayek and Friedman adhered to distinct schools (Hayek the Austrian School; Friedman the Chicago School), both were neo-classical economists.<sup>16</sup> The similarities between their two respective schools of thought become apparent when considering that Hayek originally wanted to work at the University of Chicago's economics department, before he became Professor of Social and Moral Science at the University's Committee on Social Thought. Furthermore, despite some disagreements on economic matters, Hayek and Chicago School economics collaborated to realize Hayek's desire to 'create a space where like-minded people who shared philosophical ideas and political ideals could mingle and engage in a process of further education and collective learning dedicated to advancing a common neoliberal cause,' which resulted in the founding of the Mont Pèlerin Society in 1947 (Mirowski 2009, 5). Since then, the Mont Pèlerin Society has consistently promoted negative freedom, economic freedom, and maximization of the interests of the elite classes (Peterson 1999, 122).

The invitation to visit Chile was sent to Hayek on 25 May 1977. When asked whether he was 'pleased' with the 'progress' of the Mont Pèlerin Society, Hayek (1992 [May 1977]) replied:

Oh yes. I mean its main purpose has been wholly achieved. I became very much aware that each of us was discovering the functioning of real freedom only in a very small field and accepting the conventional doctrines almost everywhere else. So I brought people together from different interests. Any time one of us said, 'Oh yes—but in the field of cartels you need government regulation,' someone else would say, 'Oh no! I've

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<sup>16</sup>Four academic centers played prominent roles in the development of neo-liberalism in the twentieth century: the Freiburg School (Walter Eucken), the Austrian School of Economics (Hayek), the London School of Economics (Edwin Cannan), and the Chicago School of Economics.

studied that.’ That was how we developed a consistent doctrine and some international circles of communication.

By examining the relationships between the state, economics, and freedom according to the views of Hayek and Friedman, it becomes evident that their respective concepts of freedom share similarities in terms of content and nature. Both Friedman and Hayek were strongly opposed to the growing role of government in the social, economic, and political arenas for the purpose of achieving distributive justice, because they believed that such forms of interference threatened freedom. In response, they defended a ‘free’ market economy that emphasized individual freedom, which proved to be very influential during the Reagan-Thatcher era, and impacted upon the development of liberal thought.

Hayek and Friedman adhered to similar definitions of freedom, with Hayek (1960, 19) referring to it as the absence of ‘coercion by other men,’ whereas Friedman (1962, 15) called it ‘the absence of coercion of a man by his fellow men.’ It was on this basis that both argued that the elimination (or limitation) of state intervention was a key element in the achievement of freedom. More specifically, Friedman and Hayek were strongly opposed to all forms of state intervention designed to achieve the conditions of positive freedom. For this reason, their respective conceptions of freedom focused on a minimal role for the state within society, negative freedom and economic freedom, without giving any consideration to positive freedom or ethical and moral values. In fact, neither Friedman nor Hayek allowed ethical and moral values to have any role in their economic, political, and social theories.

Given that Hayek and Friedman’s respective formulations of freedom reached only its minimal form, and valued it only for its instrumental value—to promote the ‘free’ market economy over welfare states and centrally planned economies—it should come as no surprise that neither criticized Pinochet’s economic reforms and Hayek did not criticize his dictatorial regime. Friedman and Hayek did little more than use an important philosophical concept like freedom to defend the superiority of a ‘free’ market economy in Chile.

## Castro's Visit to Chile During Allende's Presidency

Another interesting disparity between the two versions of the Caldwell and Montes article is that the English version briefly mentions that Castro visited Chile (10 November 1971) while the Spanish version does not mention it. One could speculate that the authors made this decision because they thought that Chileans would already be well-aware of Castro's visit, as well as the high regard he had for Allende's socialist regime. Alternatively, their objective may have been to further tarnish Allende's image among their English readership by associating him with Castro, who was regularly depicted as a communist dictator in the Western press.

According to Caldwell and Montes (2014a, 8; 2014b; 2015a, 268), Castro's visit was not supposed to be a 'long one,' but he stayed for 'almost a month,' traveling around the country and giving lengthy speeches. In the end his 'rhetoric became rather extreme, apparently making Allende uneasy.' However, Castro's (2 December 1971) speech at the National Stadium in Santiago, reveals nothing that would have made Allende uneasy. In fact, Castro (2007, 360, 363) stated: we have visited Chile as 'revolutionaries, as friends, as supporters of this process and of this country.' Castro also explained that socialism brought very profound changes to Chile, which could not be understood from a distance:

we have come to learn about living process. We have come to learn how the laws of human society operate. We have come to see something extraordinary. A unique process is taking place in Chile. It is a revolutionary process in which revolutionaries are trying to carry out changes peacefully. A unique process, practically the first in human history...It is unique in the history of humankind, trying to carry out a revolutionary process by legal and constitutional methods...We observe, and the world observes with enormous interest, how this Chilean process is developing today.

This quote reveals that Castro's desire to personally observe and understand how socialism was affecting every aspect of life in Chile,

particularly given the fact that its success came via democratic elections and not revolution like in Cuba, was actually the main reason why his visit ended up being almost a month long. That is to say, he wanted to see the 'mines, the saltpeter, the copper, the iron, the coal, the work-places, the agricultural centres, the universities, the mass organizations, the parties of the left, everything and everyone; we wanted to talk with revolutionaries and even with those who, though they could not be considered revolutionaries, were decent people. We could not think of a better way to spend our visit' (Castro 2007, 365). Perhaps if Caldwell and Montes had read Castro's comments for themselves, they would not have been so suspicious of the duration of his stay in Chile.

Castro's National Stadium speech was very supportive of Allende's socialist government and emphasized that a 'unique process is taking place in Chile.' As such, there is little reason to believe that his rhetoric was 'making Allende uneasy,' as Caldwell and Montes claim. They could have easily avoided making such a spurious claim by reading Castro's speeches for themselves and drawing their own conclusions, instead of relying on the opinions of a secondary source. However, given that their main goal was to convince readers that Allende's socialist regime was responsible for engendering the military coup that overthrew it, Caldwell and Montes have little incentive to take that approach.

## **El Mercurio's Relationship with the CIA and Pinochet's Dictatorship**

Caldwell and Montes mentioned that *El Mercurio*, Chile's largest, most respected, and 'staunchly right-wing' daily newspaper, published interviews with Hayek during both visits, in addition to organizing a lunch in his honour during his 1977 visit. However, while the authors discussed the opinions that Hayek expressed about the Pinochet regime in these interviews, they avoided the subjects of *El Mercurio's* role in toppling the Allende government and its support for Pinochet's dictatorship. As it turns out, the newspaper received considerable financial funding and support from the CIA since the 1960s, as the CIA 'poured funds' into *El Mercurio*, putting 'reporters and editors on the payroll,

writing articles and columns for placement and providing additional funds for operating expenses' (Kornbluh 2003, 91).<sup>17</sup>

The CIA funding continued into the 1970s to ensure that *El Mercurio* would play an active role in destabilizing Allende's government. Nixon regarded *El Mercurio* as being particularly important in overthrowing Allende (Gustafson 2007, 161); and Kissinger (1979, Chapter XVII) identified Chilean millionaire, and owner and publisher of *El Mercurio*, Agustín Edwards, as the person who came to Washington to 'warn of the consequences of an Allende takeover'—which 'triggered Nixon into action.'

After Edwards' visit, the CIA used *El Mercurio* as a 'key outlet for a massive propaganda campaign,' to which it contributed \$2 million. Subsequently, in summer 1973, the CIA's Santiago Station identified *El Mercurio* along with the paramilitary *Patria y Libertad* and militant elements of the *Partido Nacional* as the main

private-sector organizations that 'have set as their objective creation of conflict and confrontation which will lead to some sort of military intervention.'

The CIA's Western Hemisphere 'covert action division credited the paper with a singular contribution to creating a coup climate.' Based on the CIA's own internal records, *El Mercurio* played a 'significant' role in setting the stage for the military coup of 11 September 1973. Even after the success of Pinochet's coup, the CIA continued to covertly underwrite its

most important asset, *El Mercurio* newspaper empire, as it became the leading voice of pro-regime propaganda in Chile, regularly maximizing the military's 'reforms' while minimizing reporting on repression. (Kornbluh 2003, 88, 91, 93, 94, 207)

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<sup>17</sup>In addition to the financial funding and support provided by the CIA, *El Mercurio* also received funding from ITT, which owned 70% of the Chilean Telephone Company, to finance a propaganda campaign to prevent Allende from being elected, as well as a subsequent media campaign that contributed to the overthrow of his government (Gustafson 2007, 182). Significantly, the first economy minister named by Pinochet was 'Fernando Léniz, president of the *El Mercurio* newspaper' (O'Shaughnessy 2000, 137).

## Conclusion

Despite his reputation as a defender of freedom, Hayek did *not* value human rights, claiming it to be a relatively recent concept derived from combining ‘the old civil rights’ with rights derived from Marxism. His conception of freedom is a minimal form of freedom, which serves as a very useful tool in promoting the superiority of the ‘free’ market economy. His concept of freedom includes economic freedom in the ‘free’ market (with negative freedom as components) while, at the same time, excluding positive freedom and ignoring ethical and moral values. It should, therefore, come as no surprise that Hayek accepted the invitation to visit Chile during Pinochet’s dictatorship—or that he claimed ‘personal freedom was much greater under Pinochet than it had been under Allende.’

In their efforts to preserve Hayek’s reputation by providing justifications for his decision, Caldwell and Montes resort to providing incomplete information and concealing certain facts, while misrepresenting others. Furthermore, the discrepancies between the English and Spanish language versions, in terms of the information included and omitted, appear to have been strategic decisions based on the audiences being targeted—which suggests a deliberate and concerted effort to mislead their readers. They have failed to fully enlighten their English- and Spanish-speaking readers about this ‘controversial episode’ in Hayek’s life.

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