BOOK REVIEW FEATURE

The Chicago School, Hayek and the Mont Pèlerin Society

Craig Freedman
Chicago Fundamentalism: Ideology and Methodology in Economics
Singapore & Hackensack, NJ: World Scientific Publishing, 2008,
472 pp., $130.95.

Philip Mirowski & Dieter Plewhe (eds.)
The Road from Mont Pèlerin: the Making of the Neoliberal Thought Collective
Cambridge, Mass: Harvard University Press, 2009, 480 pp., $62.

Reviewed by Evan Jones

Many people have heard of the 'Chicago School of Economics' and would have a superficial awareness of its character. It is reputedly a haven of 'free-market' economics and its best known exponent is the ubiquitous Milton Friedman, who died in 2006. Its critics see it as being at the core of the vast neoliberal ideological and political project that has seen the state re-engineered in the interests of capital over the last three decades. The detractors have been joined by the mainstream economist turned popular columnist Paul Krugman, who recently criticised the Chicago school in an extended article in the *New York Times* (Krugman, 2009).[1]

---

[1] Krugman condemns the Chicago school for its long term denial of the possibility of systemic economic crises. Krugman highlights that later generations of Chicago economists (citing Robert Lucas and John Cochrane) are even more hardline than Friedman's more nuanced macroanalysis. However, Krugman criticises the entire American economics profession for its 'blindness to the very possibility of catastrophic failures in a market economy'. '… economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth.' The article, while highlighting the conceits of mainstream macroeconomics, is nevertheless limited because of its implicit presumption that the salvation from crisis (leave alone other ills) is readily amenable purely from a functional macroanalysis and appropriate policies derived from such analysis.

It was never obvious how a school with a semblance of coherence could have evolved out of an Economics Department then comprising big-named, often ‘Right-wing’ but idiosyncratic intellectuals (Paul Douglas, Frank Knight, Jacob Viner, Theodore Schultz, etc.). The two books reviewed here give the answer.

The rise of the Chicago school is important in itself but merely one component of a larger project comprising intellectuals/ideologues and vested interests whose efforts were directed to countering those attempting to reform capitalism. A key origin of the intellectual/ideological wing is to be found in the *Privatseminar* of Ludwig von Mises, then secretary of the Vienna Chamber of Commerce, in the early 1920s. Thus was born the Austrian school of economics, home of a purist advocacy of individualism and the ‘free market’, its most famous member being Friedrich Hayek. The spark that placed this mentality in the public domain was the publication of Hayek’s *Road to Serfdom* in March 1944. The book was speedily reproduced in Australia in July (Hayek, 1944) and in the US by the University of Chicago Press in September, having previously been rejected by three US publishers (Caldwell, 2008: p.15).

Hayek travelled to the US in April 1945 to proselytise his book and was introduced to one Harold Luhnow, a Kansas City Missouri-based businessman in furniture and window-shades who was pathologically opposed to the transformations of the American polity associated with the New Deal introduced by the incoming Roosevelt Administration after 1933. Luhnow appropriated a fund designed to help Kansas City residents to further his political agenda; Hayek formed a long term (if uneasy) relationship with Luhnow to finance his own ideological crusade. Other like-minded businessmen and corporate executives would subsequently bring funding to this worthy cause.

Thus was born the Free Market Study (FMS) Project at the University of Chicago in late 1946, following a year of halting negotiations (M&P, Ch.4). Thus was born the Mont Pèlerin Society, which first met in an obscure Swiss location (hence the Society’s name) in April 1947.

The Chicago Economics Department did not initiate, nor did it ever monopolise, what came to be known as the Chicago School of Economics. The groundwork was done by Hayek (then still at the London School of Economics) and the economist Henry Simons, curiously located in the Chicago Law School, and confidant of the Chicago President Robert Hutchins. Simons, with no prior indication of distress, committed suicide in June 1946. His classical liberal commitment to strong regulation to ensure a competitive business regime (M&P, p.142) would not survive him.

What became known as the Chicago school was a hydra-headed endeavour with a pragmatic division of labour, involving the FMS project, located in the Law School, the Law School itself (its importance grows with time), and the Economics Department. Milton Friedman straddled the Department and the project. In the 1960s an additional wing would be added in the Finance Department of the Business School, its distinct contribution being the mooted efficiency of financial markets, notably embodied (albeit widely misinterpreted) in the 'efficient markets hypothesis'.

Aaron Director (who had met Hayek at LSE in the late 1930s and whose sister Rose married Friedman in 1938) was hired to direct the FMS. It was Director's job to produce an American *Road to Serfdom*, a less sophisticated version for American audiences, as demanded by Luhnow. Hayek himself, though present, was not a major player, although his ideological stamp was on the overall product. Hayek belatedly came to Chicago in 1950 but, as none of the relevant departments or schools would take him, he was shunted into an edifice called the 'Committee on Social Thought'. Luhnow financed both the FMS project and the Hayek chair, and Chicago President Hutchins saw Hayek as a drawcard to bring corporate funding to the University (M&P, p.165). From this sinecure, Hayek's research and writing ceased to be centred on economics, and his advocacy was to be channeled mostly through the Mont Pèlerin Society (MPS).

For an understanding of the role of the more well known economists, we turn to Craig Freedman's *Chicago Fundamentalism*. Freedman's book is a collection of essays on the history of economic thought and methodology, but two thirds of it is devoted to discussion of the significant duo of George Stigler and Milton Friedman – the section given attention here.

Ironically, Stigler didn't join the Chicago faculty until 1958 (coming from Columbia University), having been denied the job that Friedman got in 1946, but they worked as a team from the start. Stigler appears to have initially been more strong-willed and directed. Friedman's varied formal education (Jones, 2006) might have led to a relatively apolitical quantitative technocratic future, but the job at Chicago and the friendships with Stigler and Director (established at Chicago in the mid-1930s) produced the Friedman that we know. Certainly, there were foretastes of the future evangelist. Friedman apparently once claimed that, by 1934, half of the faculty and students in social sciences at Chicago were 'either members of the Communist party or very close to it' (F, p.261). Friedman also once asked MIT's Paul Samuelson (whose undergraduate degree was from Chicago) whether J K Galbraith was a Commie (F, p.209).

Friedman and Hayek appear to have had nothing to do with each other, but Hayek's *Road to Serfdom* provided a simple language and a black-white script. Friedman and Stigler joined the battle to combat an imagined headlong rush to 'collectivism' in American economic thought and in political life in general. There were only close comrades or bitter enemies in this struggle. In turn, Hayek found active writers and publicists who would combat reformist capitalism on the crucial American terrain of which he was ill-informed.

Freedman implicitly highlights how complementary were the talents of Stigler and Friedman in this holy war. Stigler was the backroom person, Friedman the self-publicist. Stigler was the microeconomics expert, Friedman the macroeconomics expert.

Freedman's most dramatic contribution is to expose the crucial and hitherto neglected role played by the indefatigable Stigler. Freedman gives to Stigler (as an early initiator of the 'economic theory of politics' and ‘regulatory capture’) a key role in the movement that led to the dismantling of utility regulation in the US and to privatisation of public utilities in other countries (p.22). Freedman has pursued the ghost of Stigler both through his writings and through the memories of Stigler’s colleagues from extensive interviews, and the book is replete with myriad quotations regarding Stigler (and also Friedman).

At the macroeconomic level, the duo were paranoid about the attraction to Keynes’ 1936 *General Theory* and Keynesian offshoots in the US academy, and they were determined to counter any infiltration of this alien dogma. Friedman’s scholarly output at Chicago was devoted to destroying the reputation of Keynes and Keynesianism (of whatever variant). His (macro)empirical work was devoted to undermining the building blocks of Keynes’ *General Theory* and its supposed policy implications, his work culminating in the edifice of monetarism.

Meanwhile Stigler was manning the citadel of neoclassical microeconomics against attacks coming from all fronts within the economics profession itself. Surprisingly, Stigler did not distinguish between developments that threatened the whole corpus of the Marshallian version of neoclassical microeconomics and those pursued by (in Kuhnian language) narrowly focused ‘normal scientists’ pursuing ‘anomalies/puzzles’ thrown up by the dominant paradigm. The latter were typically oddments that could (and did) readily survive as pragmatic accoutrements to a paradigm still untroubled at the core. Highly illuminating is Freedman’s noting that Stigler and Friedman were terrified that the myriad developments at the microeconomic level might end up providing the foundations for Keynesian macroeconomics that it then lacked (F, p.216) – their agenda would then have been pincered from both ends. Stigler and Friedman even attacked the mathematical system-building boffins at the Cowles Commission, then at the University of Chicago, eventually driving them away to Yale.

The common element that made widely disparate economists into enemies was their attempt to confront (no matter how meekly or obliquely) the reality of economic power in the market place (F, p.30). For Stigler, to allow even the most minor consideration of ‘power’ was to threaten the entire edifice of neoclassical orthodoxy. Stigler abhorred the attention given by the Classical Economists to distribution and he attempted to shore up the ludicrous ‘marginal productivity’ theory of factor shares (F, p.31) by which power was obliterated from determination of the distribution of the economic ‘cake’.

In particular, Stigler saw any attempt to accommodate conceptually the distinct presence of a business firm in the market as the road to hell. Monopolistic competition, oligopoly, etc. all threatened (conceptually) determinate equilibrium and (ideologically) the happy obliteration of market power. Stigler’s war against reality was ably supported by Arnold Harberger (Chicago postgraduate student and staff member from 1953, not mentioned by Freedman). Upon joining the Economics Department, Harberger wrote an article, based on *a priori* neoclassical analysis, that claimed that the social loss attributable to monopoly in the US economy was less than 0.1% of gross domestic product (Harberger, 1954). This article became canonical in the discipline.[2]

Ultimately, perfect competition market theory was held to be sufficient to analyse the real contemporary economy. Stigler combined the defense of the theory with an empirical agenda (most of it contracted out) that dictated that economic concentration and its attendant market power were inconsequential in the marketplace.

The Stigler/Friedman scenario is also illuminating in providing an explanatory context for the motivation and character of Friedman’s celebrated essay ‘The Methodology of Positive Economics’ (in Friedman, 1953), which Freedman refers to briefly (F, pp.216, 424).

---

[2] In 1966, Harvard mainstream economist Harvey Leibenstein (mentioned without elaboration by Freedman) claimed that Harberger had examined only the consumption angle (‘allocative efficiency’) and had neglected the production angle, with monopoly providing the ‘slack’ for potential producer inefficiency. Given that orthodoxy precluded the prospect of inefficiency not readily obliterated by the cleansing market, Leibenstein named this mysterious phenomenon ‘X-Efficiency’. There followed an elaborate diversionary side-debate, facilitating the perpetuation of neoclassical hegemony, akin to the epicycles of Mars envisaged to reinforce the Ptolemaic earth-centred paradigm of astronomy. Stigler, as per usual, conducted a personal inquisition against this impertinent detractor from Chicago School verities.

Friedman claimed that a theory's assumptions need not be 'realistic' as the only test of a theory's worth was its predictive capacity. The whole point of this appallingly incoherent essay was to divert criticism of the neoclassical paradigm in general and of perfect competition in particular.[3] The predictive domain of neoclassical economics is hypothetical, not real world real time. The neoclassical paradigm has, by construction, no predictive capacity whatsoever in real time. The attachment to that paradigm was, and is, *a priori*.

An interesting facet of the Freedman narrative is the extent to which both Stigler and Friedman were prepared to bend their research for desired ends. Both claimed the importance of empirical research, yet for both it was to be selectively appropriated for a pre-determined goal. Freedman's invaluable interviews with colleagues, most of them sympathetic to the Stigler/Friedman intellectual/ideological project, elicit perennial admissions that Stigler and Friedman were transparently dishonest in their selectivity from data and from other scholarly work. As a reflection of this ruthlessness, both Stigler and Friedman alienated contemporary 'mainstream' economists (for example, Edwin Chamberlin and Don Patinkin respectively) when one would naturally have expected mutual respect and tolerance.

But, to return to the other arms of the Chicago School in the making, it is pertinent to note that, in the Free Market Study project, Director never fulfilled his contract to write an American *Road to Serfdom*. The funds kept coming, but at a price. Luhnow and his fellow extremists demanded that Chicago generate a manifesto that legitimised the dismantling of business regulation. This meant that the substance of classical liberalism had to go while the language remained. Simon's stance was explicitly singled out as unacceptable (M&P, pp.156, 208); Simon's death fortuitously averted a fight among old friends over fundamentals that might have derailed the entire project at Chicago.

---

[3] A shameful reflection of the economics profession's priorities is that an entire industry has been constructed to delve into the entrails of the Friedman essay as if it contained pearls of wisdom deserving of exegesis.

At around 1950 the 'line' undertook a radical transformation. Monopoly and monopoly practices were no longer regarded as evil (M&P, Ch.6). The argument is difficult to follow, not least because coherence is non-existent. On the one hand, monopoly and its practices are said to be rare; and where they exist, they readily succumb to competitive forces (it's not clear whether the argument claims that the monopoly will cease to exist or whether the monopoly's capacity for harmful practices will be disarmed). In a 1951 speech, Friedman counseled not getting anxious over superficialities: '… monopoly is highly 'visible', and draws attention to itself whereas the workings of competition are devious and hidden' (M&P, p.219). On the other hand, monopoly is acknowledged, but its persistence treated as relatively benign (Friedman in the same speech). In addition, attention (Director) is now focused on the range of 'exclusionary practices' to argue for their benign character.[4]

In a 1962 series of public lectures, published as *Capitalism and Freedom*, Friedman subsumed the real world within the arcane textbook ideal: 'I have become increasingly impressed with how wide is the range of problems and industries for which it is appropriate to treat the economy as if it were competitive' (cited in M&P, p.220). To mop up any remaining loose ends or doubt, Friedman claimed that private monopoly is preferable to public monopoly or public regulation of private monopoly (a proposition borrowed from Hayek and the Austrian

[4] An international conference was held in September 1951 on the problems of enforcing a competitive order in the new post-War environment (proceedings published in Chamberlin, 1954). The six American speakers were from elsewhere (albeit Chicago *eminence grise* Frank Knight attended as an observer), highlighting that the nascent Chicago School was not yet represented on the reputational radar. However, the round table debate disclosed a curiosity – an American and European divide (p.493). The Englishman E.A.G. Robinson claimed that the Americans appeared to be singing (with variations) from the same song sheet – monopoly/oligopoly was now tolerable or was at least tolerated, a matter of concern to the non-Americans present. The youthful Chicago school, though absent, would have been encouraged. The Johns Hopkins based Fritz Machlup, Austrian school and classical liberal, jumped in to say (effectively) that this was a slander against his peers. 'The majority of American economists specializing in this field … condemn the very existence of the power to do good because it implies the power to do harm.' (p.495) Machlup, who was familiar with the Chicago agenda because he was in collaboration on another matter (trade unions), was economical with the truth.

School).[5] In short, regardless of appearances, everything is pretty much working out for the best; leave well enough alone.

Thus was the outcome of the Free Market Study Project, which was wound down in 1951. But it was soon replaced by the Antitrust Project (1953-1957) and a further one subsequently, with the same funding source, this time located in the Law School proper (M&P, Ch.6). It was these projects' role to interpret the antitrust regulatory apparatus' attack on monopoly and monopolistic practices as misconceived and destructive.

It is not clear whether this revolution in the interpretation of an ideal market structure made it into the economics syllabus at the University of Chicago (neither book offers elucidation on this important issue). One suspects not, with the pathological devotion to the (Marshallian) neoclassical paradigm. This inference is supported by the publication of Friedman's microeconomics lectures which appear to have been essentially unchanged since their original delivery in 1946 (Friedman, 1962). The business firm, and other institutional detail, is absent from the text.[6] *Price Theory* is a neoclassical, not a neoliberal, text. The likely macroeconomic syllabus complement would have originally been a 'classical' paradigm (ultimate equilibrium is guaranteed via a 'real balance' or 'wealth' effect[7]) in which Keynes has been obliterated from

---

[5] Hayek mentions business only once in the 220 pages of the *The Road to Serfdom* (Hayek, p.180). But Hayek quickly moves to find in the admitted unsavoury phenomenon of 'organised capital' the real problem – support by the state (its controlling impetus driven universally by a 'socialist' mindset) and without which organised capital (or organised labour) would not exist.

[6] Of antiquarian interest is that Sydney University's Library copy of Friedman's *Price Theory* was donated by one Keith Campbell, longtime Professor of Agricultural Economics, whose devotion to 'free market' principles schooled generations of graduates to fight (ultimately successfully) the rampant 'agrarian socialism' sustaining Australian family farmers. The Library's copy of the 1966 'revised' (actually unrevised) edition was donated by the United States Information Service! The state apparatus that Friedman despised evidently subsidised the dissemination of propaganda for the cause of 'economic liberty'.

[7] The real value of people's savings is purportedly enhanced by general price deflation, thus leading to an eventual increase in aggregate demand.

history.[8] This vision would have been succeeded by a later tighter variant in 'new classical economics', and onto the madcap 'rational expectations' variant, pursued by the homegrown Robert Lucas, in which disequilibrium tendencies or hare-brained government tendencies are discerned and accounted for beforehand.

Thus we have a division of labour between the arms of the Chicago school. The Economics Department churns out dangerous fools and the Law School churns out dangerous activists. The Economics syllabus plays a negative role in that it deals with the real world by systematically ignoring it. The Law School syllabus plays a positive role in that it explicitly attacks the anti-monopoly ('antitrust') imperative of the American regulatory tradition since the enactment of the 1890 Sherman Act.

There is another more curious dimension to Chicago Law. A new principle was to be accommodated into jurisprudence – justice was old hat; efficiency was to be its replacement. Cases were to be decided on the principle of least cost (real or virtual). One could reasonably smell in this development the imperialism of mainstream economic methodology; one of Chicago economics' finest products, Gary Becker, was to be an important medium. The embodiment of this thrust was one Richard Posner who would not merely preach this doctrine but practice it on the bench. A new sub-discipline emerged and readily spread to enterprising Law Schools everywhere.

The eccentric Posner, adored and deplored in equal measure, has become something of a media celebrity (Macfarquhar, 2001). This status had been enhanced by the fact that Posner is now ratting against the economists and the finance theorists on his side. Posner claims that the 'efficient market hypothesis' group have failed us, and that Chicago macroeconomics in general is derelict (Cassidy, 2010). Posner has even come out declaiming the pertinence of Keynes for an unrepentant

[8] This author experienced such a syllabus in a US doctoral program in 1968, taught by one Thomas Saving, Chicago Ph.D., 1960, an exemplary embodiment of the new Chicago tradition.

cyclicality in modern capitalism (Posner, 2009). Of relevance here is that Posner had previously had no idea of the existence or contribution of Keynes. He moved to Chicago upon meeting Director and Stigler in 1968 and found their persons and ideas congenial. The jejune Posner's belated emergence from his socialised ignorance is a reflection of the Chicago economists' dictum that the enemy was to be blotted out of history.

If big and abrasive capital was now to be legitimated, 'big' labour was to be excoriated. The trade union was a heinous threat to liberalist principles. The only innately deleterious monopoly was that of the trade union. The American mind had been only lately tutored into the institutionalised realities of the labour union. Industrial America had forged a new feudalism in which labour militancy was to be crushed with a partisan law and violence. Much of American capital had still not accommodated the union's legitimacy acquired by the New Deal's Wagner Act in 1935. There was thus a crucial role for the economic philosopher experts who denounced the union as incompatible with free enterprise.

Chicago economics essentially sub-contracted out this crucial role. Chicago's H. Gregg Lewis was an in-house advocate, although his empiricist leanings clouded the desired ideological lesson. An important comrade-in-arms was David McCord Wright, Southerner and University of Virginia Professor (McCord Wright, 1951), teacher of a later generation of neoliberal heavyweights. But perhaps the key figure was to be Fritz Machlup from Johns Hopkins University (M&P, Ch.5). The Hungarian-born Austrian economist Machlup was already shilling for the American Chamber of Commerce. Hayek arranged for him to be the main speaker at the session on unions at the inaugural 1947 meeting of the MPS (M&P, 188). According to Machlup, behind the destruction of a 'free labour market' by union practices was undesirable state intervention. An important complement to the neoliberal anti-union blitz has been the later arrival of Richard Epstein at the Chicago Law School. Epstein (who cannot be faulted for consistency) is a purist advocate of common law conventions who sees no structural asymmetry in the capital-labour workplace relationship.[9]

The labour and unions question is a useful vehicle to highlight that the early history of the Mont Pèlerin Society (MPS) was characterised by serious differences of opinion on major issues. Crudely, the Europeans involved in the MPS stood against a pragmatic alliance of the Austrian school and Americans. The most coherent of the disparate European crew were the German 'ordoliberals' (M&P, Ch.3), who had constructed a tight (constitution-based) version of classical liberalism (centred on an integrated and assertive competition policy).

There was a pragmatic dimension to the forgers of the idea of a 'social market economy'; they sought to influence West German (and Swiss) politics, involving a corporatist element of a 'social partnership' between capital and labour. For the ordoliberals, unions '… had attained the status of politically legitimate quasi-public institutions, with indispensable functions for the stability of the social order.' (M&P, p.187) These realists thought the Austrians unrealistic, even mad. The Swiss Albert Hunold saw unions at the enterprise and industry level as heading off pressure for a welfare state. The Englishman Stanley Dennison saw unions as a bulwark against worse evils (M&P, p.186). In other words, the trade union is a contemporary reality; it has to be incorporated into the system in order to preempt genuinely radical change.

The Austrian influence in the MPS appears to have gained through the 1950s. The strident voice of the American financial backers became more intrusive. The apex of this latter force occurred at the first MPS meeting on US soil in 1958, with proceedings stage-managed by the backers led by the rabid ex-DuPont executive Jasper Crane (M&P,

---

[9] Epstein has been used as a heavyweight by the Australian anti-union forces congregating around the H R Nicholls Society (Epstein, 2001).

p.192).[10] Later generations of European MPS members appear to have succumbed to the simple melody of the Austrian siren song.

The crowning achievement of the Chicago school, Hayek himself and the Mont Pèlerin Society occurred under the military-backed junta of General Augusto Pinochet's Chile. *The Road from Mont Pèlerin* includes a masterly chapter (authored by Karin Fischer) on the neoliberal coalition's involvement in the Pinochet regime (1973-89). The chapter provides not only intimate detail of the character of the neoliberal influence but also of the balance of forces before and after Pinochet (M&P, Ch.9). The longer perspective highlights that the Pinochet regime was one phase in a long term neoliberal project by which a modern reactionary structure replaced Old Reaction in the process of dispensing with the reformist tendencies of not merely the socialists under Salvador Allende but also the Christian Democrats under Eduardo Frei. A fascinating dimension is the key role of reactionary Catholic forces (the *gremialistas*) in forging a locally-specific (quasi-fascist?) version of neoliberalism.

Chile appears to have been designated early for an asserted neoliberal project, not least because it became the home of the United Nations Economic Commission for Latin America in 1948 – from which base, under Raúl Prebisch, the 'import substitution' development model was promoted and the more radical 'underdevelopment' theorists nurtured.[11] The US moved into Chile strategically in 1956 ('Project Chile') under various aid agency fronts. Chicago Economics was both an initiator and

[10] Crane had previously been reluctant to support MPS activities because he found the diversity of opinion amongst initial MPS membership odious, and he wanted Hayek to weed out the wrong-thinkers. Crane originally thought even Hayek himself to be lacking in purity, suspecting him of being Jewish ('collectivist' by ethnic predisposition), with Hayek's *Road to Serfdom* displaying semi-socialist tendencies! (M&P, p.286).

[11] In the international sphere, a separate group of neoliberals (including Peter Bauer and Gottfried Haberler) worked to undermine a third world developmentalist agenda that was state-centred and perennially oriented to import substituting industrialisation (M&P, Ch.7). This is a complicated story as there is some formal substance in Bauer's bottom-up self-help model. But the involvement of this same grouping in successfully attacking developing countries' attempts to control the power of transnational corporations through the United Nations (M&P, Ch.10) highlights their ongoing hypocrisy.

a vehicle for this push (Theodore Schultz and Arnold Harberger were key functionaries). Chicago's involvement '… succeeded in substantially altering the way economics was taught in the whole Chilean University system' (M&P, p.310).[12]

The neoliberal push took off under Pinochet in 1975, after a brief battle with military-based corporatists. Our warriors for 'liberty' became actively involved. Friedman was brought to Chile at the end of 1974 (when the post-war long boom was over and scapegoats were being sought); Friedman gave his imprimatur to the ensuing 'radical shock treatment'. The Virginia school comrades of the Chicago school became important ideologues during the third Pinochet phase after 1979, when substantial additional privatisations were implemented (particularly the social security system, soon gobbled up by two corporate giants). Virginia school founding fathers James Buchanan and Gordon Tullock became regular visitors to Chile. Harberger's ground rent theory was used to strip away land use planning and regulation (M&P, p.326).

Hayek, in a 1981 interview with a Venezuelan journalist, replied: 'Don't confuse totalitarianism with authoritarianism. I don't know of any totalitarian governments in Latin America. The only one was Chile under Allende. Chile is now a great success.' (M&P, p.327) The Chilean constitution was re-written and enacted in September 1980, effective March 1981, with Hayek's *The Constitution of Liberty* as its bible. The project was overseen by *gremialista* Jaime Guzmán, '… the architect of the legal and constitutional framework of the military government' (*ibid.*). The Constitution's version of individual freedom is Hayek's – that derived from a 'radical market order'. The MPS gave its blessing to the Chilean enterprise by holding its meeting there in 1981 (and it met there again in 2000).

The Pinochet era is typically seen as a military regime. But chapter author Fischer's longer focus implicitly sees Pinochet as a vehicle for

---

[12] It was also a nice earner for the University of Chicago. 'In the course of three decades, more than 150 Chilean students received their training in Chicago … During the 1960s, Latin American graduate students made up one-third of the total stock of students in Chicago's Economics Department' (M&P, p.310).

more profound forces. Capital was the ultimate driving force of the Chilean neoliberal project. The Chicago boys, the MPS membership, and Hayek as the master architect of the defense of 'individual freedom' found their ideal vehicle in a repressive regime that delivered its antithesis.

The two books reviewed here are not written for a general audience. *The Road from Mount Pèlerin* is slightly more accessible, not least because some of the chapters can be read independently. Freedman's *Chicago Fundamentalism* is written for fellow professional economists, and its account of often arcane disciplinary and personal battles presumes knowledge of key themes in the post-1945 evolution of American economics. Freedman's close focus on Stigler and Friedman neglects the broader context of their activity but, serendipitously, a larger picture is contained within the Mirowski & Plewhe volume so that a composite story, as above, can be elicited. However, neither book mentions the political and material background to the contemporary ideological battle – of nation-based postwar reconstruction, of reformers constrained by a *Pax America*na forged by a resurgent American capitalism – so one needs to resort to the history books for that background.

Hayek himself, as a philosophical idealist, was happy to ignore the material background. At the inaugural meeting of the MPS, Hayek claimed 'I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.' Yet the 'gradual encroachment' of Hayek's ideas was underwritten by the interests of capital. Mirowski succinctly captures the self-delusion: '… how much more powerful are ideas consciously forged with the vested interests firmly kept in mind!' (M&P, p.431-2)

In a Postface of *The Road* …, Mirowski valiantly attempts to capture the essence of neoliberalism (M&P, p.434). The attempt is not very successful, as the neoliberal camp is hydra-headed – a character that enhances its strength. Mirowski himself highlights that successive MPS meetings managed to eventually sideline the European ordoliberals, but the difference between the Americans and the Austrians remained entrenched (M&P, p.442). However, one of Mirowski's 'essential components' bears emphasis – its statist character: 'because neoliberals believe in the freedom of capital, they must also have authoritarian agencies to enforce its rule.' (M&P, p.434). Mirowski cites an un-named commentator as labeling neoliberalism 'an authoritarian version of liberalism' (M&P, p.441). Quite right, although all liberalisms are authoritarian in practice. Neoliberalism happens, transparently in the hands of the anti-democratic Hayek, to be also authoritarian in principle.

In his *Road to Serfdom*, Hayek completes his brief foray into 'the socialist roots of Nazism' by mentioning key contemporary defenders of the Nazi regime, foremost amongst whom was Carl Schmitt, 'the leading Nazi expert on constitutional law' (Hayek, 1944: p.165). With delicious (though apparently unconscious) irony, Mirowski concludes his co-edited volume with the claim that it is Schmitt's philosophy that best explains Hayek's statism: '… a strong state was necessary to neutralize what he [Hayek] considered to be the pathologies of democracy.' (M&P, p.443) Those people who previously found it peculiar that Prime Minister John Howard's version of labour market deregulation should be encased in a massive 600 page Act (accompanied by 400 pages of regulations) called *WorkChoices* can now find a resolution to their consternation. Hayek's much celebrated notion that the economy functions by 'spontaneous order' (the invisible hand) is the window-dressing for a system inexorably sustained by the iron fist of the state.

Evan Jones is a research associate in the Department of Political Economy at the University of Sydney.

evan.jones@sydney.edu.au

References

Caldwell, Bruce (2008), *The Road to Serfdom: Text and Documents*, New York: Routledge.

Cassidy, John (2010), 'Interview with Richard Posner', *New Yorker*, 13 January.

Chamberlin, E. H. (ed.) (1954), *Monopoly and Competition and Their Regulation*, London: Macmillan.

Epstein, Richard (2001), 'The Common Law and the Labour Market', H R Nicholls Society, *http://www.hrnicholls.com.au/articles/hrn-epstein.php*.

Friedman, Milton (1953), *Essays in Positive Economics*, Chicago: University of Chicago Press.

Friedman, Milton (1962), *Price Theory: a Provisional Text*, Chicago: Aldine Publishing Co.

Harberger, Arnold C. (1954), 'Monopoly and Resource Allocation', *American Economic Review*, 44, May, pp. 77-87.

Hayek, F. A. (1944), *The Road to Serfdom*, Sydney: Dymock's Book Arcade Ltd.

Jones, Evan (2006), 'The Charlatanry of Milton Friedman', *Workers Online*, December. *http://workers.labor.net.au/features/200612/c_historicalfeature_milton.html*.

Krugman, Paul (2009), 'How Did Economists Get It So Wrong?', *New York Times Magazine*, 6 September; reprinted in the *Australian Financial Review* as 'Rethinking Economics', 11 September.

Macfarquhar, Larissa (2001), 'The Bench Burner: An interview with Richard Posner', *New Yorker*, 10 December. Reproduced at: *http://www.igreens.org.uk/richard_posner.htm*.

McCord Wright, David (ed.) (1951), *The Impact of the Union: Eight Economic Theorists Evaluate the Labor Union Movement*, New York: Harcourt, Brace & Co.

Posner, Richard (2009), 'How I Became a Keynesian: Second Thoughts in the Middle of a crisis', *The New Republic*, 23 September.