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# MONT PÈLERIN 1947

BY BRUCE CALDWELL

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## *Mont Pèlerin 1947<sup>1</sup>*

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“It was purely accidental that we managed to get funds for this conference” (F. A. Hayek, Apr 4, 1947, “Discussion on Agenda, Etc.,” Mont Pèlerin Conference).

### *Hayek Sets Up a Meeting<sup>2</sup>*

It was in an academic setting that Friedrich Hayek first broached the idea of an international society that would bring liberal thinkers into contact with one another, at a February 1944 talk before the Political Society at King’s College, Cambridge, with Sir John Clapham in the chair (Hayek [1944b] 1992a).<sup>3</sup> The lecture occurred just a month before the publication of the British edition of *The Road to Serfdom* made him, to his surprise, instantly famous. The fame (or notoriety, depending on one’s reaction to the book) spread further following the publication of an

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<sup>1</sup> This paper was prepared for the Special MPS meeting held at the Hoover Institution of Stanford University on January 16, 2020. I would like to thank the participants at Niall Ferguson’s Hoover History Working Group for useful comments.

It is also the first draft of the first substantive chapter of volume 2 of my biography with Hansjoerg Klausinger of F. A. Hayek, hence the abrupt start and the Hayek-centric focus of what follows. Some of the people and events mentioned in this chapter were dealt with in more detail in the earlier volume, so are handled very briefly here.

<sup>2</sup> There currently are two good books in English on the Mont Pèlerin Society that discuss the initial conference: Hartwell 1995 and Burgin 2012. Plickert 2008 is also an excellent source, in German. Sadly a recent dissertation, Innset 2017, half of which focuses on the 1947 meeting, is rather a disappointment. The author knows little economics, has a presentist bias, and though he claims to offer a corrective to more ideologically driven accounts he consistently represents liberalism as the ideology of an upper class elite worried principally about redistribution and loss of power.

<sup>3</sup> The strange numbering in this citation is used to keep all references consistent with how they appeared in the first volume of the Caldwell-Klausinger biography.

American edition in September, a subsequent condensation by Max Eastman for *Reader's Digest*, and an event-packed publicity tour in the States the following spring to promote the book. On that trip Hayek had the opportunity to discuss the project with Henry Luhnnow, the president of the William Volker Charities Fund, a Kansas City based foundation that under Luhnnow's direction increasingly supported free market scholarship. Luhnnow encouraged him to provide a more concrete proposal, which Hayek sent him in August 1945. Grandiosely if accurately headed "Memorandum on the Proposed Foundation of an International Academy for Political Philosophy Tentatively Called 'The Acton-Tocqueville Society'," it provided a rationale for the society, then talked about its activities: facilitating contacts among members from different countries through meetings, translating foundational and contemporary texts, establishing an international journal, and perhaps even setting up a permanent home. The price tag was a cool \$500,000. It took Luhnnow less than a month to turn him down (Luhnnow to Hayek, Sep 7, 1945).<sup>4</sup>

Hayek kept up his efforts to spread the idea as the war wound down, arguing in an article in the popular press that such a society would assist the postwar reconstruction effort by helping reestablish western values on the continent ([1945, June 23] 1992a). But he also continued to press the case to individuals; indeed, he got into the habit of bringing it up whenever he was around people who might be interested. Another occasion arose in October 1945, when he went to Zurich to give a lecture at the University.<sup>5</sup> He met for the first time Albert Hunold, who was then the director of one of the Swiss banks. Hunold had already agreed to try to raise some funds

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<sup>4</sup> Unless otherwise noted, the correspondence between Hayek, Luhnnow and Loren Miller cited here may be found in the F. A. Hayek papers, box 58, folder 16 (FAHP 58.16).

<sup>5</sup> Hartwell 1995, 30, dates the encounter to November 1945, but Hayek's datebook for that year indicates that his trip to Zurich took place in October.

for a journal to be edited by Hayek's friend and wartime correspondent Wilhelm Röpke, who had arranged the introduction.

Hayek had known the German economist Röpke since their first encounters at the Verein für Sozialpolitik in the 1920s, and he was also one of the attendees at the 1938 Colloque Lippmann. Röpke had spent the war at the Institut de Hautes Études Internationales in Geneva. The Institut, a child of the League of Nations, had been founded in 1927 by William Rappard, a Swiss diplomat, and Paul Mantoux, a French economic historian, and from 1928 had been directed by Rappard. In the 1930s the Institut hosted both Hayek and Lionel Robbins for lectures (Hayek [1937] 1999, Robbins 1939), and from 1933 onwards provided a home for scholars escaping authoritarian regimes of various forms, among them Ludwig von Mises and Hans Kelsen, both of whom were forced to flee again when the Nazi conquest of France made even neutral Geneva unsafe, at least for the likes of them. Hayek's links to the men who had remained in Geneva were more than purely professional. He had sent and received messages from Vienna concerning family members and friends through Röpke and Rappard during the war.

Like Hayek, Röpke was concerned that the past thirty years of war and depression had everywhere undermined confidence in foundational western values and principles, and that the world was turning for solutions to collectivism, a trend that posed a lethal threat to Europe's cultural inheritance. Though an economist he had in his wartime writings focused additionally on the spiritual and moral dangers that he felt were threatening western civilization at its core (e.g., Röpke [1942] 1950; cf. Burgin 2012, 80-81). To signal its purpose of reclaiming and reconstituting the western heritage in all its dimensions, his journal would be called, simply, *Occident*. It would provide a forum for a renewed discussion of alternatives to collectivism for shaping the values and policies of Europe as it rebuilt after the war.

Röpke's putative financial backer, Albert Hunold, was a strange bird. Over a long and peripatetic career he had been a schoolmaster, had gotten a doctorate in English literature but ended up, briefly, as an economics professor, and had been everything from a ski instructor and radio announcer to the head of the Swiss stock exchange (Hayek, Bartley interview, Feb 10, 1983). Not himself wealthy, he was exceedingly well-connected. A year after their initial encounter Hayek passed through Zurich again, this time on his way back to London from his first post-war visit to Vienna. He met again with his Swiss friend, who was now in yet another post, serving as the chief spokesman for the Swiss watch industry. Hayek asked him about how plans for Röpke's journal were going, and was told that the funds Hunold raised were not sufficient to finance the journal, but still available. Perhaps Hayek could use them for a preliminary meeting of the society that they had talked about on his previous trip?

That, anyway, was the story as told by Max Hartwell in his history of the Mont Pèlerin Society (Hartwell 1995, 30). In his own account, Hunold said that only about half of the funds had been raised, but added that the journal was also abandoned because the publisher they had chosen had started another journal, *Kyklos*, whose neoromantic editor (Edgar Salin) offended Hunold's sensibilities. Hunold wanted to find another publisher, but Röpke demurred, so the idea of the journal was put on hold (MPSP 5.15). Hayek added still more nuance to the story, reflecting the viewpoint of his friend Röpke: that the plan collapsed when Hunold insisted on complete editorial control over the journal, which Röpke refused and which led to a break between the two men. In any event all this worked to Hayek's project's benefit, for it ultimately provided the seed money for the first meeting. Hayek enjoyed telling the story, because it involved him reconciling Röpke and Hunold so that the money could be repurposed. He apparently relished the irony that he brought together the two people whose joint actions later led

Hayek to resign the presidency of the Society and nearly caused its collapse (IB 119-20, Bartley interview, Feb 10, 1983). But we get ahead.

Having secured a promise of funds for the meeting itself, Hayek returned to his American benefactor at the Volker Fund. Their relationship had improved since his first attempt at fund-raising faltered. From the start Luhnnow had wanted Hayek to find someone to write an American version of *The Road to Serfdom*, and in 1946 had financed a four-month trip to the United States for him to do so. Though there were some missteps Hayek ultimately succeeded in convincing Aaron Director to undertake what came to be called the Free Market Study, which he would execute at his new home in the Law School at the University of Chicago. Director moved there in fall of 1946, the same term that his brother-in-law Milton Friedman joined the Economics Department. Though Luhnnow would never get the book he wanted out of Director, he would later surely take solace in realizing that his efforts helped to create what would soon be known as the Chicago School of Economics.<sup>6</sup>

Coming off this successful venture, Hayek once again approached Luhnnow for support. He had evidently gained some skills regarding fund-raising technique in the interim. He began his letter by acknowledging the wisdom of Luhnnow's earlier expressed concerns: "I am still slowly pursuing the idea of an Acton-Tocqueville Society, and I am now rather in agreement with you that before one attempts any more formal organization one should try to get the prospective members together for a discussion meeting to see whether sufficient agreement on aims and method can be established to make a more ambitious plan worth while" (Hayek to

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<sup>6</sup> For a fuller account, see vol. 1, chapter 30. We will not enter here the stormy waters of what constitutes the Chicago School of Economics, and whether there was an "older school" associated with Knight and Viner and a "second school" associated with Friedman, Director and Stigler (not to mention a still newer one associated with, say, Becker and Posner), or when the term first started to be applied. Those interested in these matters might usefully consult Medema, manuscript.

Luhnow, Oct 28, 1946). He then noted that there was a prospect that certain individuals in Switzerland would finance the costs of the actual meeting. The only real stumbling block now was travel expenses, especially for the Americans he wanted to invite. Would the Volker Fund be willing to cover the traveling expenses, if not for everyone, then at least for the Americans? Only a week later came the very welcome reply: “We would have a definite interest in making a major contribution to defray the expenses of the American representatives to a preliminary meeting for an Acton-Tocqueville Society” (Luhnow to Hayek, Nov 4, 1946).

Next came a flurry of letters back and forth between Hayek and a variety of interested parties. Even a cursory reading shows that it was a very delicate balancing act; the whole thing could have collapsed at multiple crucial junctures. Hayek was adept at negotiating: he was ever the diplomat, but when it counted quite willing to make his position clear. Because the meeting would be held in Switzerland, Rappard and Röpke were key participants who needed fully to be on board. He sent a letter to each of them to make sure of their approval, and, doubtless recalling Röpke’s reaction to Hunold’s attempts to control the publishing of *Occident*, assured them that the funders had agreed to go ahead with “no strings of any kind” attached (Hayek to Rappard, Nov 23, 1946; MPSP 5.4). That certainly was true when he wrote, but as we will see, soon enough Luhnow began raising some uncomfortable questions.

Given the rhythms of academic calendars Hayek decided that Easter week, which in 1947 was in early April, would be the optimal period for the meeting, so time was short. He had to figure out whom to invite and how word an effective invitation, one that would attract the key people to come. He sent a draft of a circular letter of invitation to Röpke and Rappard, soliciting their feedback. In December Hayek heard back from Hunold that the Swiss funds for the conference had definitely been secured, and so accordingly sent Luhnow a copy of the draft that included a



list of the invitees. Before hearing back from Luhnnow Hayek sent out the circular letter, dated Dec 28, to fifty-four people, noting the purpose and date of the proposed conference and the possibility of travel funds being available for those coming from America, and inviting a quick response (MPSP 5.4).<sup>7</sup> On December 31 he left for a two-week trip to Vienna.

While he was away a letter arrived at his LSE office from Luhnnow. Characteristically blunt, he informed Hayek that he had gotten “a violent reaction” from certain Volker Fund directors about some of the names on Hayek’s list. Though he did not identify who was objectionable, he summarized that “some of the reactions that I have had on one or two of your suggestions are such that I know the Directors of the Volker Charities Fund would not be interested in paying their travelling expenses anywhere” (Luhnnow to Hayek, Jan 6, 1947). To resolve the situation he proposed that a screening committee of four or five people with impeccable credentials be formed to vet the recommendations, and the Volker Fund would then pay the travel costs for those from the States who passed the test. Any others would need to pay their own way.

This was, of course, potentially disastrous. Hayek had no idea of who was so objectionable to Luhnnow and the other Fund directors, but in any event the invitations had already been tendered with an implied promise of travel funding for those in the States who accepted.<sup>8</sup> Equally important, if the meeting was to be held in April there simply was no time to

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<sup>7</sup> Hartwell 1995, 31, incorrectly states that there were 58 names on the list. Hayek sent at least some of the letters out prior to December 28. Frank Knight noted that his was postmarked Dec 22, and Harry Gideonse commented, “Must I ascribe it to the miracles of this technological age that it arrived here on December 27 and was dated on December 28?” (Knight to Hayek, Dec 31, 1946, FAHP, 76.24; Gideonse to Hayek, Dec 27, 1946, FAHP 74.6).

<sup>8</sup> Bizarrely, it appears that Hayek cabled Hunold from London on Jan 11, 1947, saying that “American traveling cost secured stop may I post definite invitations to maximum forty two with offer free say [sic – should be stay] mont pelerin april firs [sic] to tenth Hayek” (MPSP 5.4). This was evidently premature, but also raises the question: Who sent the cable from London for Hayek, who was in Vienna? Anyway, after he read Luhnnow’s letter he wrote to Hunold to let him know that in fact the funds had not been secured. Though Hayek still expected Luhnnow to come

set up a committee, gather their suggestions, and then decide whose travel could be funded. We do not know how long the letter sat unread in Hayek's LSE departmental mailbox, but it easy to imagine a reaction of sheer panic when on his return he finally opened it. On January 17 he cabled Luhnnow: "If you could provide travel expenses for the following eleven American members Brandt Director Friedman Gideonse Graham Hazlitt Knight Kohn Machlup Mises Stigler some of whom may not in fact be able to attend Vevey conference would appear secured and important opportunity to discuss Chicago investigation created. Letter follows Hayek." In the follow-up letter, dated the same day, he defended some of the people whom he thought might have met with disapproval (Brandt, Gideonse, and Kohn) and made some recommendations for a potential steering committee, but also made two key points: that the meeting would barely be worth having if the Americans could not come, and that if the meeting date were delayed the Swiss funding might disappear. Both points were true, but they also implied that Luhnnow needed to make the decision about travel funding now, without the benefit of a steering committee. The tactic worked. In his next letter Luhnnow agreed to fund the travel for all eleven people.<sup>9</sup>

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through, there was a chance he would not, and if that happened, he wondered whether it be possible to pay for some of them out of the Swiss funds (Hayek to Hunold, Jan 22, 1947, *ibid.*).

<sup>9</sup> Hans Kohn, a historian from Smith College, was the only one of the eleven named in the cable who did not ultimately attend. Burgin 2012, 101 states that in response to Luhnnow's abrasive letter, "Hayek quietly excised the most offensive names from a subsequent version of the list." This is incorrect. There were six people from America on Hayek's original list whose names were not included in the subsequent cable. Two were journalists, John Davenport of *Fortune* and Max Eastman of *Reader's Digest*. They were not on Hayek's cable because if they came their way would be paid by their employers. This was indeed the case for Davenport, and though Eastman ultimately was unable to come, *Reader's Digest* sent and paid for its European correspondent, Paris-based George Révay, in his stead. We know from a letter that Hayek sent to Luhnnow that two others, Henry Wriston, President of Brown University, and William Orton, an economist from Smith College, turned down the initial invitation (Hayek to Luhnnow, Feb 5, 1947). Hayek attempted a second invitation to both people, but they again declined (FAHP 78.25; 80.22). Friedrich Lutz, at Princeton, declined because coming would conflict with his teaching obligations (Lutz to Hayek, Dec 28, 1946, FAHP 77.21), and the invitation sent to Howard Ellis of the University of California, Berkeley, got lost in the mail. By the time he heard about the meeting from Fritz Machlup, it came too late for him to rearrange his schedule (Ellis to Hayek, Feb 5, 1947, FAHP 73.23). No names were excised from Hayek's original list.

To his credit, Hayek also made clear to Luhnnow that he should not expect any quick payoffs from the meeting.

I neither expect immediate results nor believe that any efforts which aim at immediate results are likely to change the general trend of opinion. What seems to me most urgently needed is that those who are capable of gradually evolving a philosophy of freedom which will appeal to the people of our time, should be able to do so in collaboration and full knowledge of their respective efforts (Hayek to Luhnnow, Jan 17, 1947).

Tension between those who wanted the Society to maintain a more public presence with respect to policy matters, and those who adhered to Hayek's original vision of simply bringing together scholars from many countries who would quietly work to reconstruct the foundations of a philosophy of freedom, would arise again and again in the early years of the Society.

As for Luhnnow, he was not prepared to give Hayek an entirely free hand. He requested that invitations to join the conference be extended to eight more people, plus Leonard Read and Loren Miller as "observers." He also conjectured that Jasper Crane, an executive at DuPont Chemical whom Hayek had met on his 1946 trip, would come at his own expense if invited. Hayek was again in a bit of a jam, because in terms of hotel accommodations, he only had room for six more people. Luckily, two of the people listed had declined previous invitations, so Hayek sent invitations to six, then as people declined, added others. In the end the people on Luhnnow's list who ultimately attended were the journalist Felix Morley; Leonard Read, F. A. "Baldy" Harper and Orval Watts, all from the recently-established Foundation for Economic Education (FEE); and Loren Miller from the Detroit Bureau of Governmental Research. Herbert Cornuelle, also at FEE, was a late addition. Regarding Crane, Hayek let Luhnnow know that he

was in a different category. The conference organizers had all previously agreed that invitations should only be extended to “people who are in the first place scholars and writers, in order to avoid any impression that the conference has been instigated by any business interests” (Hayek to Luhnnow, Feb 5, 1947). But they also allowed that people who were acquaintances of the organizers could be personally invited as observers, and if this suited Crane, he could come. In the end he did not.<sup>10</sup>

Luhnnow was not the only one providing Hayek with critical feedback on his choice of invitees. Both Ludwig von Mises and Karl Popper took strong, principled, and diametrically opposed stances on the matter. Mises sent Hayek a letter in which he noted having reservations about Brandt, Gideonse, Eastman, and especially Röpke, the last of whom he considered an “outright interventionist” (Mises to Hayek, Dec 31, 1946; FAHP 38.24).<sup>11</sup> Accompanying it was a four-page typed addendum titled “Observations on Professor Hayek’s Plan” which laid out his objections with his usual uncompromising clarity. Attempts to stop collectivism had failed because its opponents had adopted middle of the road positions that appeared as reasonable compromises but in fact made matters worse. *All* problems attributed to markets by critics were in fact the result of interference with the market process. Perhaps his most pointed line was: “He who wants to preserve freedom...must not protest that he abhors laissez faire” – which of course

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<sup>10</sup> Crane had written to Loren Miller in September 1945 about the importance of writing an American “bible for free enterprise,” and wrote again in May 1946 after having had a long lunch with Hayek about how impressed he was with him. He would end up being instrumental in raising funds for the first American meeting of the Society, at Princeton in 1958. His relationship with Miller, Read, Hayek, and the Society is explored in Philips-Fein 2009, chapter 2. For his part, Hayek described Crane as “a nice and sensible person” (Hayek to Luhnnow, Feb 4, 1947).

<sup>11</sup> As we saw in volume 1, Röpke had advocated Keynesian-style responses to secondary depressions back in 1931. Mises and Röpke had been together at the Institut in the 1930s, so were well familiar with one another’s views. In his 1942 book, Röpke had advocated a “third way” in which “everything was balanced.” To avoid competition becoming a “social explosive” it had to exist within a “sound political and moral framework” (Röpke [1942] 1950, 176, 179, 181.) All of this was anathema for Mises. For more on the sometimes fraught Mises-Röpke relationship, see Kolev 2018.

is just what Hayek had been doing since 1933. (Hayek's view was not the outlier; for example, virtually all of the liberals who had attended the Colloque Lippmann shared it, though they differed on what a renewed liberalism should look like.) For Mises, "Laissez faire does not mean: let the evils last. It means: let the consumers, i.e. the people, decide – by their buying and their abstaining from buying – what should be produced and by whom" (ibid). Mises shared the "Observations" with at least one other person, Henry Hazlitt, who was sympathetic to his views (FAHP 74.34). On the other extreme, Karl Popper thought that "it would be advantageous, and even necessary, from the very beginning, to secure the participation of some people who are known to be socialists or to be close to socialism" (Popper to Hayek, Jan 27, 1947). Though Mises hesitated in committing, despite their reservations both he and Popper ended up attending the meeting.

Finally, there were those who expressed concerns about calling the organization the Acton-Tocqueville Society. Having read Hayek's original 1944 piece proposing an Acton Society, Röpke had warned him that the name was barely known on the continent (Röpke to Hayek, Jan 2, 1945, FAHP 79.1). William Rappard later noted that, for those on the continent who knew them, their names "evoke not only the ideals of liberty...but also, perhaps on account of their noble birth and their Catholic faith, something reactionary" (Rappard to Hayek, Nov 29, 1946, FAHP 45.6). And though he did not attend the conference, Jasper Crane criticized the use of past thinkers because some would identify them with their specific countries rather than with their ideas, and in any case, the organization should be looking forward, not looking to the past. He suggested "The Forward Society" and various derivatives thereof; another possibility might be to name it after Prometheus, "the mythical giver of liberty to men" (Crane to Hayek, Mar 7, 1947, FAHP 73.1). The issue would come up again.

Luckily for Hayek’s sanity, most of the work for the final organization of the meeting could be left in Hunold’s capable hands – even his critics later unanimously praised his organizational skills. The conference would run for 10 days – as Hayek explained in his letter to attendees in March, this would allow for more interaction outside of the formal sessions, a critical part of the mission. Hunold’s choice for the meeting venue, the Hôtel du Parc, on Mont Pèlerin near Vevey overlooking Lake Geneva (which the French and francophone Swiss refer to as Lac Léman), was ideal in many ways: in addition to the stunning views, it was centrally located (for the Europeans) and, being in a country that had remained neutral during the war, was undamaged and itself a sort of “neutral territory” for discussants from many countries. Hunold also arranged outings that have since become such an integral part of all Mont Pèlerin Society general meetings. On Thursday the group took cars along the lake to a site of considerable meaning and charm, the Château de Coppet where Madame de Staël held her famous salons in the company of people like the early French liberal Benjamin Constant (with whom she had two children). One imagines that Hayek took the opportunity to entertain his traveling companions with the story of another famous visitor to Coppet, the “megalomaniac visionary” Comte Henri de Saint-Simon, who went there to propose marriage to Madame de Staël, this because (as he told the wife he left behind) “the first man of the world ought to be married to the first woman” (Hayek [1941b] 2010, 193, 190).<sup>12</sup> She rebuffed him.

On Saturday the group travelled by train to Schwyz to visit a 17<sup>th</sup> century palace and the famous monastery and abbey of Einsiedeln, founded in the 10<sup>th</sup> century. As it was the Saturday before Easter, in addition to a tour the group listened to a chanting of the Salve Regina,

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<sup>12</sup> Hayek wrote about Saint-Simon in “The Counter-Revolution of Science,” an essay published during the war in *Economica*. For more on the essay, see volume 1, chapter 25.

witnessed the resurrection service, and were treated to an organ concert. For this particular outing Hayek was recruited to request permission for the group to come, which was graciously granted (MPSP 5.4, 5.6).

As the meeting dates approached there were plenty of last-minute details that required attention. Hayek's recently married secretary Dorothy Salter Hahn (her new husband, Frank Hahn, would go on to teach economics at Cambridge) came along to take notes at the sessions. Hayek worried about the fact that only two women, Hahn and Veronica Wedgwood, would be present (some wives also accompanied their spouses, but they did not attend the working sessions) and asked Hunold if he could think of others to invite, but nothing came of it (Hayek to Hunold, Feb 4, 1947, MPSP 5.4). Four people who were scheduled to attend were for various reasons unable to do so. The no shows were Luigi Einaudi, then a Governor of the Bank of Italy; Jacques Rueff, a Colloque Lippmann attendee who in 1947 was President of the Agence Interalliée des Reparations; Charles Rist, a French monetary economist and critic of Keynes who with Charles Gide wrote a text on the history of economic thought; and the German historian Franz Schnabel, author of a massive history of Germany in the nineteenth century. The final total was 39 conferees.<sup>13</sup> Unfortunately the hotelkeeper only reserved 35 rooms, and as it was Easter weekend, the place was filled to capacity. The organizers were assisted by Aaron Director's request to share a double room with Frank Knight, this in order to get an ensuite bathroom for

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<sup>13</sup>A full list of the participants may be found in Hartwell 1995, 45-46. In the 1967 reprinting of his 1947 welcoming address, Hayek listed only 36, and Stigler 1988, 143, repeated this number, evidently drawing on Hayek's list. Hayek reduced the number from 39 to 36 because four of the people were supposed to be in the category of "observer," namely, Herbert Cornuelle, Henri de Lovinfosse, George Révay, and Felix Morley. Probably because of his prominence, Hayek included Morley on his list. To further complicate things, the editor of the 1992 *Collected Works* edition added Lovinfosse back in, but not the other two, bringing the number to 37. Innset used this number.

Knight. But three attendees (Morley, Cornuelle, and Henri de Lovinfosse) had to be accommodated in another hotel (MPSP 5.5).

### *The Participants*

So who were the thirty-nine people who came to the first organizational meeting of the Society? Hayek's original list of invitees included (excepting Hunold) only academics and writers, and he knew nearly all of them, professionally, personally or both. There were in the first instance the Swiss-based hosts and their compatriots: Hunold, Rappard, and Röpke. Added to this was Hans Barth, a philosopher and sometime journalist from the University of Zurich who was an acquaintance of Röpke's. We might also include in the Swiss contingent Bertrand de Jouvenel, a French political philosopher and journalist who had fled France for the safety of Switzerland in 1943. Hayek had first met him in London after the war (Jouvenel to Hayek, Jan 1, 1947, FAHP 76.15).

Jouvenel had a colorful if checkered past. At age sixteen he began what would turn into a five-year affair with his famous stepmother, the writer Collette, and in the early 1930s he travelled across America with his then lover Martha Gellhorn, the novelist and war correspondent who later would marry Ernest Hemingway (Knegt 2017, 221-22). As was all too common in the interwar period, Jouvenel's own political journey was similarly peripatetic. A progressive intellectual in the 1920s – an early book was titled *L'Economie Dirigée* (Jouvenel 1928) – like many of his generation he was a critic of the nationalism that had led to the slaughter and destruction of the Great War, and accordingly a great advocate of European cooperation, in his case especially between France and Germany. In the 1930s he was frustrated by the French government's failure to institute national policies to combat the depression, and became increasingly enamored of the strong leadership of men like FDR and Hitler, the latter of



whom sat for an interview with him. In 1936 he joined Jacques Doriot's Parti Populaire Français, the closest thing to a nationalist French fascist party, but resigned in 1938 at least in part to protest the Munich agreement that gave Germany the Sudetenland.<sup>14</sup> After the June 1940 armistice divided France in two, he continued to view and write about the prospects of a diminished France living under the tutelage of a robust, youthful, community-minded "New German Order" favorably; as one historian put it, he had been "seduced by the idea of an anti-bourgeois fascist youth revolution" (Knegt 2017, 225). During this period he worked with the German ambassador to the occupied portion of France, his old friend Otto Abetz, to advance the cause of Franco-German reconciliation. In his memoirs Jouvenel claimed that at the same time he was working as an intelligence officer for the Service de Renseignements de l'Armée Française. In November 1942 the Allied landings in North Africa led to the German and Italian occupation of Vichy, by which point Jouvenel had soured on his earlier vision and began supporting the local resistance. He was arrested and held by the Gestapo for two days, after which he went into hiding and, in September 1943, escaped across the border with his wife Helene (ibid., 53-58; Mahoney 2005, 10-12). He apparently had a dry wit. Leonard Read once asked Jouvenel if he understood any German: "He replied that the only thing he fully comprehended was during the war when the Germans said of him, 'He should be shot!'" (Leonard Read journal, July 3, 1949, FEE Archives).

So how did Jouvenel find his way to Mont Pèlerin? He did not need to go far: the village of Saint Saphorin where he settled is one of the towns at its base. While living there he finished

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<sup>14</sup> Soucey 1998, Knegt 2017, 13-34 review debates among historians of France as to the nature and extent of French fascism. Jouvenel ended up being a test case of sorts. Accused later of having been a fascist, in 1983 he sued the historian who made the claim for libel. At the trial Henry Kissinger, Milton Friedman and Raymond Aron testified on his behalf. The court split the difference by finding in Jouvenel's favor but only awarding him a nominal amount in damages. As they were leaving the court, Raymond Aron had a heart attack, dying within hours (Knegt 2017, 20; Soucey 1998, 141).

his erudite and provocative tome *Du Pouvoir (On Power)*, and at some point was befriended by Wilhelm Röpke (Jouvenel [1945] 1948). Jouvenel's remarkable book combined (sometimes speculative) history, ethnography, evolutionary metaphors, political philosophy, and much else, portraying power as an almost metaphysical force. He began by pointing out that the sort of "total war" that had been waged twice in the past thirty years would have been unimaginable in earlier times. What had changed to make such mass destruction possible? Throughout time authorities have always wanted power, the ability to command others, but were limited in the resources to do so. The power of kings was associated with their person. Representative government and the system of checks and balances were meant to challenge the prerogatives that attached to individuals, but they also brought with them new avenues for gaining and exercising power, now in the name of the nation rather than the king. Numerous cultural, economic and political changes in the 19<sup>th</sup> century – the growth of industrialization, urbanization, and in particular the gradual emergence of mass democracy – brought with them new tools. Chief among these were the ability of states to tax and to conscript their citizens, which provided untold new resources to exploit. Though still in the hands of a few, power was now spoken of as if it were in the hands of all the people, and therefore the old system of checks and balances was thought no longer to be necessary. Hayek would later summarize the danger that these developments posed in his laudatory review of the English translation of the book,

...power has an inherent tendency to expand and where there are no effective limitations it will grow without bounds, whether it is exercised in the name of the people or in the name of the few. Indeed, there is reason to fear that unlimited power in the hands of the people will grow farther and be even more pernicious in its effects than power exercised by the few (Hayek [1948] 1992, 249).

Despite his troubling past, the messages in Jouvenel's new treatise would resonate with those about to gather in Mont Pèlerin.

Returning to the other attendees, the people to whom Hayek was closest were, of course, his old friends from the Vienna days, now living in the States, Mises and Fritz Machlup. But he knew almost all of the others coming from America as well. Frank Knight, Aaron Director, and Milton Friedman were by then all at the University of Chicago, which had been Hayek's home base for his 1945 trip and half of his 1946 trip. He had known Knight since meeting him in Vienna, this before his move to England, and Director had attended Hayek's seminar when he visited LSE in 1938 and had been instrumental in finding him an American publisher for *The Road to Serfdom*. Harry Gideonse, who by 1947 had become the president of Brooklyn College, had in 1939 published an extended version of Hayek's "Freedom and the Economic System" in a Public Policy series that he edited (Hayek [1939] 1997); Hayek had met with him twice when he passed through New York on his 1945 trip. Hayek may have encountered Frank Graham, an international economist based at Princeton, when he visited Oskar Morgenstern and Friedrich Lutz there on his American trips. The only American Hayek definitely had not met prior to the meeting was George Stigler, then at Brown University for a year but returning to Columbia in the fall.<sup>15</sup> He would teach there until 1958, when he moved to the Graduate School of Business at Chicago. Stigler had gotten his PhD at Chicago in the 1930s, writing under Frank Knight, and knew Friedman well from their days together there, during their war work in New York, and at

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<sup>15</sup> Stigler 1988, 142 stated that he had not met Hayek before the meeting, but Hayek apparently knew of him early on: he was one of the people whom Hayek had recommended to Röpke to serve on the editorial board of *Occident* (Hayek to Röpke, Oct 14, 1945; FAHP 79.1).

the University of Minnesota, so though not based at Chicago he was very much a part of their contingent (Friedman and Friedman 1998, 53-54, 146-49).

There were other scholars who, like Machlup and Mises, had left their own countries in Europe at various points in the 1930s. Hayek was very close to two of them. He had known the Austrian philosopher of science Karl Popper since he had presented an early version of “The Poverty of Historicism” in his seminar at LSE in 1936. As we saw in the last volume, Popper and Hayek carried on an extensive correspondence during the war and Hayek had been instrumental in bringing Popper from New Zealand to LSE at war’s end. Hayek had first met the Hungarian émigré chemistry professor and polymath Michael Polanyi at the Colloque Lippmann in August 1938, but he surely knew of his earlier essays criticizing Soviet planning (especially the planning of science) and such “men of science” in Britain as J. D. Bernal: Hayek and Polanyi plainly had the same enemies (see Polanyi 1940). Polanyi had left Germany in 1933 to take a position at the University of Manchester. Hayek had met (according to Mises, the ideologically suspect) Karl Brandt, an economist specializing in agriculture who had left Germany for the New School and later for Stanford, when he visited that university in 1946. They discussed the Acton-Tocqueville Society on that occasion (Brandt to Hayek, Dec 31, 1946, FAHP 72.36). Finally, there was Erich Eyck, a German lawyer and historian who had left Freiburg in 1938, eventually settling in Oxford. Given Hayek’s various connections to Freiburg – his student Vera Smith had married Friedrich Lutz, who had gotten his degree there, and Hayek would stop in Freiburg to see Eucken when he took trips to Austria before the war – he probably knew him, too, and certainly knew of his work: he was someone whom Hayek had recommended to do an article for Röpke’s planned journal back in 1945 (Hayek to Röpke, Dec 5, 1945; FAHP 79.1).

A chief goal of the conference was to introduce liberals from the various European countries not only to their counterparts in America, but also to each other. Britain was represented by three economists, all of whom were of course well known to Hayek: his closest friend and LSE colleague Lionel Robbins, Stanley Dennison of Cambridge, and John Jewkes of Manchester. France would have been well-represented had Rueff (another Colloque Lippmann alumnus) and Rist been able to come, but even without them there was the economist Maurice Allais and law professor François Trevous. Italy would have had two representatives had Einaudi not canceled; the other was Carlo Antoni, a philosopher and historian. Though more were invited from the area, the Scandinavian countries fielded one representative each. Trygve Hoff, the editor of a liberal magazine named *Farmand* and fervent opponent of planning (Hayek had been working on getting a book of his translated into English just before the war began; see FAHP 75.7), represented Norway; Carl Iversen, an economist and political scientist, Denmark; and Herbert Tingsten, a political scientist who had also recently become the editor-in-chief of the Swedish newspaper *Dagens Nyheter*, Sweden. Hayek had visited both Copenhagen and Stockholm in January 1946, and saw both Iversen and Tingsten on the trip (Hayek to Röpke, Jan 17, 1946, FAHP 79.1). Finally there was Walter Eucken, Hayek's friend from the University of Freiburg and the only representative from Germany who had actually spent the war there.

The other category of people on Hayek's original list were "writers," principally members of the press and, again, mostly people he knew. There was Henry Hazlitt, by then an editor at *Newsweek*, whose glowing endorsement of *The Road to Serfdom* in the Sunday *New York Times Book Review* section got the American edition off to a strong start. John Davenport of *Fortune* magazine also attended, and he too had written an admiring review (Hazlitt 1944; Davenport 1944). As noted earlier Max Eastman, who had done the *Reader's Digest*

condensation of Hayek's book, could not come, but was replaced by the European editor, George Révay. The Oxford-trained historian and sole female participant Cecily Veronica Wedgewood was an editor at the British weekly *Time and Tide*, which had been an outlet for a number of contributions by Hayek: in 1945 alone he published seven pieces there. Even though he had written books Hoff was not a professor, so he too belonged in this category, and Tingsten did some journalistic writing in his capacity as newspaper editor. The only person that Hayek did not know among the writers who attended was Felix Morley, who had been suggested by Luhnnow.<sup>16</sup> Morley had previously been editor of *The Washington Post*, and in 1944 had helped found the magazine *Human Events*.

Someone who was not on Hayek's list and neither an academic nor a newspaperman was Henri de Lovinfosse, the founder of the blanket and cloth manufacturing firm S. A. Manta in Belgium. He told Hayek that he employed 1300 workers (Lovinfosse to Hayek, Mar 4, 1947; FAHP 77.19). A friend of Röpke's, he had only received an invitation from Hunold in March, probably with the intent of increasing the representation of conferees from European countries (MPSP 5.5). Karl Brandt visited Lovinfosse in Belgium on his way back from the conference, and praised him in a subsequent letter to Hayek: "He is a real liberal of the very best caliber; a progressive employer who has the most satisfied employees I have ever seen anywhere, because he uses his imagination and leadership for their benefit" (Brandt to Hayek, June 6, 1947).

And what about the men whom Luhnnow had recommended be added, either as participants or observers, presumably to keep tabs on the meeting and report back to him but also, perhaps, to ensure that "real liberalism" was adequately represented? Surely the first among

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<sup>16</sup>In a letter on Feb 5, 1947, Hayek told Luhnnow that Morley was someone he did not know personally. This implies that he had met the others mentioned in the letter, which included Read, Harper, Watts, and Miller.

them, on paper at least, was Leonard Read, the President of the newly-established Foundation for Economic Education. Read had worked in California throughout the 1930s, and by spring of 1945 had reached the post of manager of the Los Angeles Chamber of Commerce, the largest in the States. With the war winding down he decided to leave there for the Commerce National Industrial Conference Board, an institution dedicated to educating Americans about the basic principles of economics, something he deemed essential in postwar America. After eight months he quit, finding their requirement to tell “both sides of the story” when it came to issues of economic policy too constraining. One of his jobs at the Board had been fundraising, and he came to know several influential and wealthy industrialists. One of these was David Goodrich of the B. F. Goodrich Company, who put him in touch with others of like mind. Read attracted enough funds to create an organization that would promote the study of economic principles in ways more congenial to his own and his backer’s predispositions.

The Foundation for Economic Education opened its doors in March 1946. Its first offices were a couple of rooms in the Equitable Building on Park Avenue in New York City, where B. F. Goodrich was located, but by July had moved into a mansion estate about a half an hour north of the city, in Irvington-on-Hudson.<sup>17</sup> Read soon brought in Orval Watts, who had served as his chief economic counsel when he was at the L.A. Chamber of Commerce, as the chief economist, and Herbert Cornuelle to be his executive assistant. A little later Baldy Harper, a marketing professor and economist who had been teaching at Cornell, also joined the group. The story is

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<sup>17</sup> As Read’s biographer Sennholz 1993, 72-73, notes, high federal income and estate taxes, real estate levies, and the near impossibility of finding and keeping service personnel resulted in a buyer’s markets for estates outside of New York after the war. The purchase price for nearly seven acres and four structures was \$40,000. As an aside, Caldwell grew up in a house built on the grounds of a former estate on Long Island, William D. Guthrie’s “Meudon,” which had been sold to a developer then partitioned into two acre plots, one of which his parents bought.

told that Harper decided to leave Cornell after a trustee of the university had suggested that he remove Hayek's *Road to Serfdom* from his syllabus (Sennholz 1993, 64-73, Blundell 2015, 27; cf. Doherty 2007, 149-69; Nash 2006, 27-32).<sup>18</sup>

The most intriguing character among the foundation men was Loren “Red” Miller. One of the many hats that Luhnnow wore was that of Chairman of the Board for the Civic Research Institute in Kansas City. Miller worked there, and soon after they met Miller began to influence Luhnnow to turn the focus of the Volker Charitable Fund away from local projects and towards the support of free market causes. Miller later became the Director of the Detroit Bureau of Governmental Research, an agency that was part of the privately funded “good government” municipal reform movement, but he continued to be a key adviser for Luhnnow. Even from that rather modest posting, it seems he had his hand in everything.

Thus Miller had been in audience when Hayek, on his *Road to Serfdom* tour, spoke before the Economic Club of Detroit. Impressed by Hayek's talk, he set up the initial meeting between Luhnnow and Hayek. It was Miller who sent Hayek an encouraging letter after the Volker Fund initially declined to support the Acton-Tocqueville Society proposal (Miller to Hayek, Nov 10, 1945). He also helped Leonard Read raise the funds necessary to purchase the mansion in Irvington-on-Hudson for FEE. Hayek agreed to place Miller along with Read on the “advisory committee” overseeing Aaron Director's work on the Free Market Study. Herb Cornuelle, who Read hired to be his executive assistant and who came to the 1947 meeting, had worked for Miller as a trainee in Kansas City and later at the Detroit Bureau (Doherty 2007, 182-83; Hayek to Luhnnow, Aug 26, 1946).

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<sup>18</sup> As Doherty 2007, 651, n34, notes, Baldy Harper in fact had a full head of hair. The nickname had been given to him by fraternity brothers in college, and it stuck.



In addition to Luhnnow, Miller advised other big time funders of free market causes, among them J. Howard Pew of Sun Oil (co-founder with his siblings of the Pew Charitable Trusts in 1948) and Jasper Crane, recently retired from DuPont Chemical. Pew and Crane would go on to underwrite the *Freeman* magazine in the 1950s, FEE's most important outlet for advocacy. Miller also helped develop the people who would work in the foundations. Dick Ware was employed by Miller at the Detroit Bureau from 1946-56, and on leaving went on to run the Earhart Foundation. Through Miller's introduction, Ware (and Ware's wife) attended the 1949 Mont Pèlerin Society meeting (Doherty 2017, 180-83; Miller to Hayek, Apr 2, 1949; Ware to Hayek, Aug 5, 1949, FAHP 38.16).

Miller had multiple reasons to attend the first meeting. Luhnnow could not attend, so he was there to represent him and to see whether the Volker Fund's monies had been well-spent. Aaron Director would be in attendance, so he could also inquire into how the (Volker-funded) Free Market Study was coming along. He also wanted to identify who among the various people in attendance were "sound," the sort who might be worthy of further support.<sup>19</sup> Friedrich Hayek would be among those who passed the test. In a year's time Miller would use the connections he had made with Director to start the ball rolling to bring Hayek to the University of Chicago. But again, we get ahead.

### *Hayek's Agenda*

Even had the meeting at Mont Pelerin been a one-off affair it probably would have been worthwhile, given their fewness in number, simply to introduce liberals from a variety of

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<sup>19</sup> Ludwig von Mises started teaching at NYU in February 1945, his salary wholly financed by outside funds. Though the exact sources of funding are obscure, at least part of it appears to have been paid by the Volker Fund. By 1946 Mises was speaking so frequently at FEE that they were required to list him as an employee. Mises was an ideal academic spokesman for their views. For more on this, see Hülsmann 2007, 845-51.

countries to one another. In his invitation acceptance letter, Milton Friedman remarked on “the number of names on your list that are unfamiliar to us” (Friedman to Hayek, Jan 2, 1947).

Making those introductions was one of Hayek’s premier goals.

But he also wanted to form a society, which was far more ambitious. Such an organization would require a statement of principles, a set of commitments that all members would need to agree to. Having witnessed the fractious discussion that took place among supposedly like-minded men at the 1938 Colloque Lippmann, he could not have been sanguine about the prospects for any sort of quick agreement. It was not that disputes were unhelpful, of course, or something to be avoided. The whole point after all was to begin the process of arguing out the finer points of how to constitute a new liberalism for the postwar world. But he did not want things simply to explode. The combination of strong personalities and strongly held beliefs (Mises and Knight come immediately to mind) made the danger a real one. Even were such obstacles overcome, people would need not just to agree to some statement of principles, they would need to commit to carrying out the goals of the organization, whatever they might be. But what should they be? Hayek wanted to get a discussion among leading liberal intellectuals going, but he knew that some people, and not just those from the foundations, wanted to have a more public facing society, one that would attempt to enter the public forum and shape policy debates. Finally, if a Society was formed, there would need to be future meetings. Such gatherings, and international travel to them, would require substantial outside funding, and Hayek had just seen how hard that was to come by. We know in the end that the Society was formed, but at the time the outcome was anything but certain. The commitment of the people involved must be credited, but also the direness of the situation they confronted. In the spring of 1947, the prospects for Europe looked very bleak indeed.

We saw in the last volume how horrific things were in central Europe as the war ended. The intensification of strategic area bombing in the last year, and the inevitable carnage and destruction that accompanied final military assaults, killed hundreds of thousands and reduced city after city to rubble. There were massive flows of desperate refugees fleeing war zones, soon to be followed by the forced exodus of ethnic Germans from newly liberated countries. Finally, there was all manner of retributive violence – murder, beatings, rape, expropriations, public humiliations – in some places carried out by the conquering military forces (especially in areas taken over by the Russians), in others by fellow citizens eager to punish collaborators. By 1947 things had improved, but pressing geopolitical concerns, economic insecurity, political instability, and a looming humanitarian crisis created a sense of hopelessness and with it the potential for further upheaval.

The chief problem was: What to do with Germany?<sup>20</sup> The eastern part of that country had been occupied by the Soviet Union, and the west by France, Britain, and the United States, though in 1946 the British and American zones were joined. For two years the foreign ministers of the four nations met, trying to resolve the issue of how to move forward. In broad terms the Soviets preferred a single unified country (which would evidently fall under their sphere of influence), and a continuation of reparations payments (which they supplemented with materials and capital goods that they had been systematically dismantling and shipping east). The other allies were less concerned with the reparations question (France excepted) than with the reconstruction of a new democratic German state with its own independent government (which would serve as a buffer against Soviet expansionism). Neither side wanted to budge, and until

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<sup>20</sup> And also with Austria which, like Germany, was partitioned. We discuss the Austrian situation in some detail in volume 1, so will concentrate on Germany here. The next few paragraphs draw extensively on Bark and Gress, 1993, vol. 1, Part I; Judt 2005, chapters 3 and 4.

the question was resolved any sort of postwar recovery would be painfully slow, not just for Germany but also for the rest of Europe, which needed an economically viable Germany to help spur its own recovery.

The situation as it existed in the spring of 1947 was clearly unsustainable. Under the occupation regime, the allies were responsible for feeding the German people. Prices were controlled and a rationing system set up; it was essentially a command and control economy. The amount of food provided was insufficient to feed the population, but it was still costly for the allies. Britain, for example, was spending \$80 million a year on the occupation while collecting only \$29 million in reparations, causing Hugh Dalton, the Chancellor of the Exchequer, to observe that the British were paying reparations to the Germans, and this while bread was being rationed at home (Judt 2005, 123). The desperate conditions were further exacerbated by the weather. The winter of 1946-47 was brutal, the coldest since 1880. Roads and rail lines across the continent closed for weeks, throttling any sort of nascent recovery. There was a shortage of coal, and even when it was available it was difficult to deliver. The horrible winter was followed by a summer of drought, causing food production to fall in some places by 50% and more. The possibility of mass starvation was real.

The potential political consequences of the stalled situation were equally dire. The scholars and writers gathering at Mont Pèlerin were not sanguine, of course, about the nearly universal embrace by European governments of collectivist economic and social policies. But in 1947 their concerns went far beyond this. The Communist Party was gaining strength in places like Italy and France, where the potential for civil unrest grew with each strike and violent street demonstration. Meanwhile in occupied Germany and Austria the torpid pace and apparent arbitrariness across zones of the denazification process had become so widely resented that

renazification was becoming the more likely outcome. It is no wonder that the leaders of the Soviet Union, whose minions were sowing unrest in multiple countries across Europe, were in no hurry to resolve the Germany question. The democracies to their west were under increasing pressure, and the longer they delayed, the greater the chances that the other allies would simply pull out, leaving all the spoils to them.

The situation was certainly well-understood by the Europeans gathering at Mont Pèlerin. Jouvenel would later put the matter precisely: “Doubtless you feel as I do that we are now hovering on the brink. The Russian menace from the outside, the Communist menace from the inside, and to defend Europe against this double offensive, the Socialists whose every idea tends to disorganize and weaken the Occident” (Jouvenel to Hayek, Mar 9, 1948, FAHP 76.15). Hayek had witnessed both the destruction, but also some hopeful signs, himself. In 1946 he visited Germany to give a lecture on themes from *The Road to Serfdom*. He entered the lecture hall through a small opening in a burnt-out pile of rubble, only to be greeted by a room full of eager students. This took place while the German translation of the book was still banned there (the Russians, as one of the four occupying powers, had demanded this), but on the trip he discovered that samizdat copies had been circulating. (He knew this because one he had come across was different in small ways from the original.) Clearly there was a thirst in Germany for ideas, if only the ham-fisted policies of the occupying forces could only be gotten out of the way. Later in 1946 and again in early 1947 he had visited Vienna, and was again horrified by what he saw. The Americans would have been less aware of all this, though as Milton Friedman recounted, the active black market that he and George Stigler encountered as they passed through Paris on the way to the meeting at least made it feel more vibrant than London (Friedman and Friedman

1998, 159). The conferees may have been meeting in luxurious surroundings, but their purpose was clear enough.

What they did not know was that the logjam was about to break. Soon after their meeting, American Secretary of State George Marshall returned from the Moscow meeting of the foreign ministers convinced that the Russians were simply biding their time in hopes of furthering the continued deterioration of Europe. Two months later the European Recovery Program, or Marshall Plan, was announced. It signaled not only America's willingness to assist in the rebuilding of Europe, the fact that the assistance was turned down by Moscow as well as other countries that would soon be within its orbit signaled the beginning of the Cold War. But in early April 1947, none of this could be foreseen.

If the main point of Hayek's agenda was to form a society that would provide the intellectual foundation for a new liberalism to confront the many problems besetting the postwar world, there was also an actual agenda of *topics* that he wanted to discuss. He was explicit about this, mentioning five in his invitation letter and again in his February letter to those who had accepted, with a tentative schedule of when each would be taken up in the first week. The proposed topics were: 'Free' Enterprise or Competitive Order, Modern Historiography and Political Education, The Future of Germany, The Problems and Chances of European Federation, and Liberalism and Christianity. Topics for the second week's sessions would be determined by the conferees. If the decision was positive to form a society, a statement of principles would also be formulated.

At 10 in the morning of April 1, the group gathered for the opening meeting. William Rappard gave a welcoming address, and in it asked why the modern world had rejected Adam

Smith's two great contributions, his sound economic analysis and demonstration of the links between freedom, constructive effort and wealth. Rappard's answer was that after thirty years of warfare and economic catastrophe the great mass of people were exhausted, caring more about security than either freedom or growth. The point of the conference was to start the process to reverse that trend: "May it prove to be for both continents the starting point of an intellectual, economic and political renaissance without which it would seem well nigh impossible not to despair of the future."<sup>21</sup>

Hayek followed with his own welcome, thanking both attendees and sponsors, and explaining how he had come to organize the conference. He emphasized his interest in bringing together not just people from different countries but also people in different disciplines, not just economics but fields like law, philosophy, and history. (He also apologized that, despite his best efforts, economists were over-represented, another perennial problem for the Society going forward.) He read out the names of people he invited who, though supportive of the goals, could not come, remembering also two people whom he had first discussed the idea with who had since died, Henry Simons and Sir John Clapham. He noted the presence of some sympathetic members of the press, but also emphasized that it was a private meeting so that anything said during the discussion was to be treated as off the record. He offered a brief rationale for each of the topics he had suggested for discussion, then proposed some procedures for the following days – the conference language would be English, a standing committee would be formed, time

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<sup>21</sup> Papers prepared for the conference, like Rappard's, may be found in MPSP 5.12, while Hahn's notes on opening talks (when papers were absent) and on subsequent discussions may be found in MPSP 5.13-14. Rappard's paper also contains some methodological musings on the relationship between economic science and normative claims for liberalism.

would be devoted to assigning topics for the second week and chairs for all the sessions, any decisions about moving forward would be postponed until later (Hayek [1967] 1992, 237-48).

By modern conference standards the schedule was exceedingly civilized. Morning sessions did not begin until 9:30, afternoon sessions at 4:30, and evening sessions at 8:30. Thursday afternoon was devoted to the trip to Coppet, and after the Friday afternoon session the group did not convene formally again until Monday afternoon. Evidently all the free time was designed to promote interaction outside the formal meetings. Sessions would open with either a paper or remarks by whichever person had been given responsibility for it. Discussion then ensued, details of which were preserved in shorthand notes taken by Dorothy Hahn. Though remarks are attributed to individuals in her notes, these were not verbatim transcripts, but summaries of what each person said.

The afternoon session began with Hayek reading his paper, “Free’ Enterprise or Competitive Order” (Hayek [1948] forthcoming).<sup>22</sup> The title was meant to emphasize the difference between a system of laissez faire, free enterprise, and his own preferred system, one in which the state and the legal framework work in tandem to make competition as effective and beneficent as possible. To be sure, even under free enterprise there was some minimal role for the state, which provided institutions for the protection of property and enforcement of contracts, and the prevention of violence and fraud. These though were not enough. Exploring what constitutes a proper competitive order was of course a chief goal of the conference, but clearly, and right from the start, by making the distinction he was distancing himself from Mises and

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<sup>22</sup> This was the title that Hayek used in his mailings to the conference participants and in the agenda at the meeting, but the manuscript copy had “and” in place of “or,” and that is the title it was ultimately published under in Hayek’s 1948 collection, *Individualism and Economic Order*.



other advocates of laissez-faire, which presumably included people like Hazlitt as well as all of the foundation people.

Hayek emphasized too the importance of building the intellectual foundations of liberalism, and (provocatively, given his audience) quoted in full J. M. Keynes' famous passage at the end of *The General Theory* about the importance of the "gradual encroachment of ideas" that policymakers distilled from the writings of some "academic scribbler from a few years back" (ibid, xx).<sup>23</sup> Recognizing how effectively collectivists had staked out what appeared to be the moral high ground, Hayek insisted that what must be sought in a reconstituted liberal creed were "reforms which can be fought for by unselfish men, within a program for freedom" (ibid.).

His next step was to point out some problems with the free enterprise view that he opposed. Defending property rights was not enough, for example, without acknowledging that many of the benefits to society only occur when there is a diffusion of property as well. Parroting "freedom of contract" likewise accomplished little when both judge-made law and legislation altered contracts in ways that either restrained trade or protected incumbents. He noted how the concept of limited liability and other laws that applied to corporations aided the growth of business monopoly, and laws granting unions monopoly privileges and protections similarly assisted labor monopolies to form. Such ad hoc adjustments must be replaced by a legal framework that supports and bolsters the competitive order.

In addition to a proper legal framework, and in an implicit bow to Henry Simons over Keynes, he asked to what extent monetary management to forestall cyclical unemployment

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<sup>23</sup> It is interesting to consider whether Keynes would have been on the list of invitees had he still been alive. Were he there some lively sessions would have been even livelier, but his presence probably would have been polarizing in ways that would have been unproductive.

might be pursued using a fixed rule. He also asked what provision should be made for the unemployed and the unemployable poor. About halfway through he added that,

it seems to me highly desirable that liberals shall strongly disagree on these topics, the more the better. What is needed more than anything else is that these questions of a policy for a competitive order should once again become live issues which are being discussed publicly; and we shall have made an important contribution if we succeed in directing interest to them (ibid, xx).

He would get his wish in the discussion session to follow.

But first there were comments on Hayek's paper by Director, Eucken and Rappard, with Director's being the most extensive (or at least the most reported on by Hahn). Director like Hayek felt that the liberalism as currently conceived was incapable of responding adequately to real challenges that had arisen in the areas of monopolies and combinations, cyclical instability, and income inequality. Because there was no adequate liberal framework for addressing these issues, ad hoc remedies that caused their own problems were typically offered in their place. If Hayek's talk focused on remedies that involved the legal framework, Director's focused more directly on economics and on specific policy responses. Given that he was supposed to be working on the Free Market Study, a project that Hayek had negotiated and itself funded by the Volker Fund, his position in the line-up of speakers was probably intentional. Hayek wanted to showcase Director, and for his remarks to showcase both his abilities and the direction of his thinking.

Director performed his task admirably; his systematic presentation reads in parts like a summary of a mainstream introductory economics text of today on market failures and their

possible remedies, though with a strong normative emphasis on his preferred policies. Monopoly power can be reduced by opening domestic markets to international competition, by using antitrust, and by changing patent law to reduce the length of time patents are protected. Legal prohibition of cartels and interlocking directorates was also essential, and in some instances the placing of limits on the size of firms might be warranted. Labor unions had through special legislation escaped limits on restraint of trade; such ad hoc legislation should be abolished. Echoing Hayek and his friend Henry Simons, Director thought that monetary rules should be used to prevent the cycle, with overall price stability as the guide (he did not spell out how that would work, but the idea of stabilizing movements in a constructed price index as a policy goal would not be welcomed by the Austrians). Previous attempts to reduce income inequality had resulted in a series of ad hoc measures that favored specific groups: minimum wage laws, price supports in agriculture, protection of specific trades, and so on, all of which should be abolished. But that did not mean that inequality should be ignored. The reduction of monopoly and support of education would help to mitigate it, but these needed to be supplemented by a program to improve the physical well-being of children from poor families, a progressive income tax system, and payments to low income households to ensure a minimum level of income.

Next up were Eucken and Rappard. The former emphasized the importance of having a system of laws in place to deal with monopoly rather than relying on the discretion of a legislative body, and wisely pointed out that firms do not fear nationalization (such monopolies are protected by the state) as much as they do competition. For his part, William Rappard stressed that liberals should be advocates of a free society, then pointedly noted that occupied Germany was anything but that.

General discussion waited until the evening session. The event might have been retitled “free enterprise *versus* the competitive order,” or more simply “Mises versus the rest,” though both Hazlitt and Miller made brief comments in support of Mises’ positions, and “the rest” did not always agree with one another. Mises’ arguments were predictably direct and pithy. We want the state, itself a monopoly, to control other monopolies, yet its own monopolies (like the US Postal Service or the New York subway system) make deficits, not profits. Why think it would do better in the area of monopoly management? Furthermore, why do people attack monopolies instead of the government policies – e.g., patent law, tariffs – that lead to them? Everyone opposes the corporate form, but it provides many benefits, and its only privilege is that the rights of its creditors are limited. As for income redistribution, the government was already taking 70% of the income of the upper classes (actually, at that time the top marginal tax rate in the US was around 90%, but he may have been estimating the total tax burden rather than the marginal one); where was the additional amount supposed to come from? As for tax policy, if taxes were simply low enough, one wouldn’t even need to consider it.

Mises’ approach was not successful. People wanted to discuss alternative policies, to find out which ones might best cohere with a liberal vision, not the reasons why policies were unnecessary. Both Hayek and Robbins tried to intervene in various ways, mostly to clarify the various positions under discussion, but at times things got testy. Harry Gideonse thought Mises was only answering the questions he wanted to answer, not those he was asked, and Frank Graham became even more agitated:

Perfect freedom exists in the jungle. There is no law there. I think if we carry out the suggestions of Professor Mises we shall be in the jungle. We are here to find the middle

road between the jungle and the jail... It seems to me that unless the government takes the active role to maintain competition, competition will not be maintained.

And so it went for the rest of the evening.

The session was sufficiently acrimonious that Veronica Wedgwood, who chaired the morning session the next day, said that she suspected the organizer had chosen to put a session on the uncontentious subject of “Modern Historiography and Political Education” with a woman in charge next in order to allow things to cool down. There might be something to that, though certainly another reason was that the first two sessions were on topics that would bring to mind the two missing members Hayek alluded to in his opening talk, Henry Simons and the English historian, and Hayek’s closest friend at Cambridge, Sir John Clapham.

Hayek’s complaints against the way history was being practiced were multiple. He had argued in his 1933 LSE inaugural address that the German Historical School economists had in their attacks on economic theory undermined public confidence in the science of economics, thereby opening up debates on public policy to all manner of proposals by quacks and charlatans. Their legacy was that the quest for scientific truth had been replaced by rampant relativism. It did not help that they had also supported Bismarck in his efforts to construct a welfare state (albeit this was designed to keep the working classes from embracing socialism) that was later reproduced in other countries. When he got to England Hayek encountered new narratives, many colored by the “scientific” Marxist notion that there were inevitable laws of history, chief among them that capitalism was inevitably doomed to destroy itself. Many advocates of planning argued that this made the adoption of a planned society imperative. Finally, those same critics of capitalism also argued that ideas were unimportant, just ornamentation when compared to the

true movers of human history, changes in the mode of production and in the social relations of production. For Hayek (as for Keynes) this was nonsense; ideas were crucial. The Abuse of Reason project, to which he had dedicated his war years, was a critique of all these movements.<sup>24</sup>

Hayek's hopes for the session were not realized. Wedgewood mostly addressed the question of whether "serious" professional historians should cede the writing of the more popular kinds of history to generalists and propagandists. In her view, a competition among many historians would be the best guarantee against the misuses of history that were everywhere apparent. Both Erich Eyck (who spoke of the role of nineteenth century German historians in glorifying the Prussian crown, promoting the German Empire and destroying liberal doctrine) and Hayek (who questioned both value-free history and the notion of inevitable laws) tried to get things back on Hayek's preferred track, but much of the subsequent discussion turned on philosophical issues. Can history tell us what really happened, or does all history require selection and interpretation? How do, and how should, values enter into historical writing? What is a fact? Though such questions are interesting they were not what Hayek had in mind. He would have to wait until a later meeting, when the papers that were published in *Capitalism and the Historians* (Hayek ed., 1954) were first presented, to address the role of history in political education.

If the first session was predictably stormy, and the second vaguely disappointing, the third on "The Problem of Germany" ended up being the most memorable of the meeting, this due to Walter Eucken. It was a risk, Hayek knew, particularly for the Americans who would have known little about him, to invite a German who had stayed in Germany during the war to the conference (Hayek [1983] 1992, 192). They would not have known that, while in Freiburg, he

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<sup>24</sup> See volume 1, part IV, "Fighting the Spirit of the Age."

had been vocal in his opposition to the University rector Martin Heidegger's acquiescence in the policies of the Nazis. They would have been ignorant about his participation in groups that criticized the autarkic economic policies of the Nazi regime, and of his circle's links to people like Dietrich Bonhoeffer and Carl Friedrich Goerdeler who were directly involved in the German resistance. All this had made his situation increasingly perilous at the end of the war. He was in fact detained for a couple of days by the Gestapo, but unlike his colleagues Adolf Lampe and Constantin von Dietze, he had been spared being tortured (Rieter and Schmolz 1993, 95-99). The Gestapo was not the only worry. In January 1945 Röpke had told Hayek that he had had no news "from W.E. since he cannot dare to write to me, but after the wholesale bombardment of his town I am extremely worried about him." Hayek was greatly relieved when he found out that Eucken, "about whose fate I was more concerned than anyone else's in Germany," had managed to survive (Röpke to Hayek, Jan 2, 1945; Hayek to Röpke, Jul 10, 1945, FAHP 79.1).

Röpke gave the lead talk, with the more senior, white haired and distinguished Eucken speaking second. Both emphasized that the occupation that followed the war essentially substituted one totalitarian regime for another. The effects of the various restrictions on the German population had been disastrous. As Röpke put it, it was "purely a matter of chance whether the worker gets enough to live or not." Both thought that currency reform and the lifting of controls on prices and production in the two western zones were the most important immediate steps to be taken, with the question of integration with the east to be faced later. (Röpke thought such integration less necessary, Eucken thought it important both politically and economically.)

What made Eucken's comments so powerful, even when read today, was his vivid description, made all the more poignant because delivered in calm and measured tones, of

everyday life under the occupation.<sup>25</sup> Because rations were incapable of sustaining human life, an illegal black market had sprung up. Brandy was used for larger transactions, cigarettes for small ones, but for all that, almost all trade was local. Survival often depended on home production of potatoes and other vegetables. In a dig at Lord Beveridge, whose name had become associated with Full Employment as national policy, he deadpanned:

Full employment prevails, and an enormous amount of work is done with very little result. In a short conversation I had with Lord Beveridge in a room below freezing point he asked, what do people do? My answer was that they spend their time going to the countryside to barter, with the return of an excursion being infinitesimal, such as single potatoes or a half a pound of grain. A thousand people thus achieve in a day what a single trader could do in a few hours.

His summary was bleak: “the German economy is undergoing a progressive primitivization and now corresponds rather to the economic system of the 6<sup>th</sup> and 8<sup>th</sup> centuries...At the moment Germany is half a corpse.”

Eucken’s moral authority was such that he was also the first speaker in the discussion session that followed that evening. Another contributor was the agricultural specialist Karl Brandt, who supplemented Eucken’s claims by reviewing the decline in daily caloric intake for Germans since the war ended, concluding that the average was less than 1000 per person (of course not all were able to attain the average). Brandt also came up with the best line of the night

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<sup>25</sup> Eucken understood but did not speak English well, so Hayek translated for his friend, a service that he later recalled fondly. See Hayek [1983] 1992, 192.



as he recounted the German response to the denazification program: “Germans talk of ‘Hitler’s 1000 year Reich: 14 years of Nazism, 986 years of denazification’.”

In reminiscences about the first meeting, both George Stigler and Milton Friedman recalled the affecting scene of Eucken taking meticulous care in the peeling of an orange, the first he had seen in years (Stigler 1988, 146, Friedman and Friedman 1998, 160). But as Friedman went on to add, “More important, he made vivid what it was like to live in a totalitarian country, as well as in a country devastated by war and by the rigidities imposed by the occupying authorities” (ibid.). If the people assembled needed a personification of what they were there for, and a depiction of the world they sought to avoid, Eucken provided it. He quickly became, in Hayek’s words, “the star of the conference.” Eucken was made one of the vice-presidents of the Society and would play a key role in recommending who from Germany should be invited to future gatherings (Hayek [1983] 1992, 192; Kolev, Goldschmidt and Hesse 2019, sec. 2.2).

The fourth session on “The Problems and Chances of European Federation” was the least successful of the week. Federation had been a topic of extensive discussion just before the war, driven in part by fears over German territorial aggression, and Hayek and especially Robbins had been active participants. Hayek raised the topic again at the end of *The Road to Serfdom*, in part because he feared that some sort of planning regime would be imposed by the victorious allies on the conquered territories, and in part because he thought that a federation could serve as yet another check on national governments, especially in the area of trade, e.g., by preventing them from pursuing protectionist policies. Though a few of those assembled still thought that some form of federation was desirable – Maurice Allais was perhaps the most enthusiastic – many did not, and virtually everyone (even Allais) agreed that current obstacles to it were formidable, rendering the discussion purely theoretical.

On the morning of Good Friday the topic turned, fittingly, to “Liberalism and Christianity.” Hayek felt it was essential for the preservation of liberalism that its traditional antagonism towards Christianity be overcome. In Germany some of the most effective resistance to Hitler had been among active members of the church. Liberal political parties in most European countries were a dead letter, leaving those that had affiliations with the church as the only real alternatives to the social democrats and communists. Christian democratic parties leaned left-wing and progressive, to be sure, but if they could be convinced to look on certain liberal doctrines with more sympathy, there would be room for coalitions to grow. This is why right from the outset, in his August 1945 memorandum to Luhnnow, Hayek spoke of bringing “Catholic liberals” into the Society.<sup>26</sup>

Hayek had originally planned to have someone sympathetic to his views lead off the discussion, like William Orton (his first choice), Franz Schnabel, or Michael Roberts, but none of them ended up coming to the meeting (Hayek to Orton, Feb 5, 1945, FAHP 78.25). So he turned to Frank Knight. This was a dicey call. In his letter accepting the invitation to the meeting Knight had warned Hayek against “snuggling up” too closely to the Catholic church, for “...if one says he is a Catholic and a Liberal, he either doesn’t know what he is or places some other value or interest above telling the truth!” He then went on to disparage Orton, whose book he recently reviewed, noting “if he is a Liberal I certainly am not” (Knight to Hayek, Dec 31, 1946, FAHP 76.24). Was a civil discussion of the topic possible with Knight as the lead speaker?

It turned out to be one of the most interesting sessions (Felix Morley said at its end that it had been the most important so far). Knight’s extraordinary opening remarks, imperfectly captured

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<sup>26</sup> See volume 1, chapter 30.

by Hahn's notes, wandered far and wide. He began with the assertion that man is a religious animal, then asked whether liberalism could be formulated in a way so as to be compatible with religion. (He thought not.) Next he offered a broad historical tapestry, ranging from the early days of Christianity in the Roman empire through the Reformation to its role in America. The tensions he identified were well-known: that between the scientific search for truth no matter where it might lead versus belief that was dictated by faith, and that between the liberal's insistence on tolerance of divergent views versus the natural intolerance of heretical views exhibited by the religious.

Those conflicts all spoke against the chances of any easy reconciliation between religion and liberalism, but others spoke equally resolutely of its necessity. Once again Eucken drew on his own personal experience of life under a totalitarian system, arguing that there was no room for religious belief under such a regime, that only under a liberal system, precisely because of its dedication to tolerance, would Christianity be permitted to survive. While acknowledging the historical tension that had existed between the two, he asserted that in a world that seemed headed towards collectivism that liberalism was a friend rather than a foe of religious belief. Hayek of course agreed, adding in his comments that the antagonism between them was more an accident of history than essential, and noting that it was a writer in a Catholic magazine that had in England offered the first positive review of *The Road to Serfdom*. Frank Graham, who agreed with Knight that it was not so much a question of getting liberals to tolerate Christians as vice versa, made the telling observation that religious groups tend to support tolerance most fervently when they are in a minority and want to preserve their right to follow their beliefs. Given that in the current world the religious *were* in a minority, it might be possible for liberals to enlist their support. Eucken closed the session with a quiet and powerful affirmation of his own faith,

rebutting the view that Christians would only come to liberalism out of self-preservation, and again recounting his own experience and those of then men he had known – some of them now dead – in the resistance:

I am a Christian, and I want to say that from a purely Christian point of view I regard the competitive order as essential. If we consider what resistance there was in Germany, and the main victims of the Nazi oppression, these men were all liberals, but at the same time also Christians – Christians it is true without any formal dogma, but agreeing on man having an eternal life. It was that conviction that gave them their strength.

Despite some occasionally testy exchanges, the first week was deemed sufficiently successful that the assembled group decided to take the next steps. A committee of five was formed to write up a statement of principles. Perhaps predictably, the first try produced a document that was both too long and yet still missing bits that certain people wanted included. (Graham wanted it noted that liberals believe in the solidarity of all human beings; Friedman wanted it said that liberalism was a progressive philosophy with humanitarian aims.) At that point the drafting of the document was turned over to Hayek's great friend Lionel Robbins. It was a wise move. Robbins had very efficiently run the affairs of the economists at LSE before the war, then worked equally effectively beginning in late 1941 as head of the Economic Section in the wartime coalition government (Howson 2011, chapter 12). Asked if he could have a new statement ready the next morning, he said no, only by the next afternoon, and of course it was.

The new document was briefer – six points rather than ten – and, with the goal of achieving broad support, quite general. Everyone but Maurice Allais signed it.<sup>27</sup>

There were also discussions of the purposes of the Society (a forum for discussion and the dissemination of ideas; the possibility of a journal was also raised), its membership (to be determined by invitation), and, most entertainingly, its name. Suggestions ran the gamut from individuals (Acton-Tocqueville of course; Director suggested “the Adam Smith-Tocqueville Society”) to descriptive (Morley came up with the rather laborious “International Society for the Study of Freedom in Society”) to the classically heroic (Robbins offered “the Protagonist Society” and Popper “the Periclean Society”). When Karl Brandt proposed “the Mont Pèlerin Society” Popper responded, “That is meaningless.” Whether it was meaningless or not might be debated, but it was sufficiently inoffensive that the group ultimately adopted it.

#### *The Second Week – Economics and Russia*

At the end of the first week the substantive agenda for the second week was also determined. Given the preponderance of economists at the meeting, and the failure to get very far in the discussion at the very first session of the meeting, it is unsurprising that four of the five were on economic policy. These were Contra-Cyclical Measures, Full Employment and Monetary Reform; Wage Policy and Trade Unions; Taxation, Poverty and Income Distribution; Agricultural Policy; and The Present Political Crisis. The last topic was suggested by Karl Popper, and referred to ongoing concerns with how to deal with Russia. The discussions in the

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<sup>27</sup> Both the original and the final statement of aims are included in Hartwell 1995, pp. 41-42, 49-50. Allais disagreed with the group’s stance on private property, this on vaguely Georgist lines. See Burgin 107, 257-58, n. 85.

sessions of the second week are fascinating to follow, both for their substance and for the way that they reflected tensions that would repeatedly recur in later meetings of the Society.

The first session was straight economics, specifically macroeconomics, and the direction of the discussion would be very familiar to economists of today. All agreed that the policy that was being everywhere touted – that governments had a responsibility for producing full employment, and should use Keynesian demand management policies to do so – was a dangerous one, especially to the extent that Lord Beveridge’s definition of “full employment” (around 3% unemployment) was taken as appropriate. That way lay inflation, as well as a temptation for further government overreach when its unrealistic goal went unrealized, through directing labor, interfering with wage bargains, fixing prices, and so on. Given their rejection of Beveridge’s approach, the next question was what changes might be made in monetary and financial institutions to reduce uncertainty and minimize the likelihood of a business cycle. A movement to a commodity reserve standard to provide the anchor that gold once provided, and the imposition of a 100% reserve requirement on banks to make the banking sector less volatile, were among these. A second set of issues was whether a rejection of Beveridge’s Full Employment policy also implied a rejection of Keynesian demand management policy in a downturn. Robbins (who had turned from a critic to a supporter of Keynesian policy prescriptions during the war) insisted that Keynes and Beveridge were not the same thing, that in addition to pushing for greater wage flexibility the government might time its capital expenditures so as to mitigate the cycle – he did not use the phrase “with shovel-ready” projects but could have. This brought the predictable reply from Milton Friedman that it was difficult to get the timing of such expenditures right, and getting them wrong could exacerbate the cycle. Friedman argued that a system of monetary rules combined with a rearrangement of the tax

system so as to make responses automatic rather than relying on discretion best reflected the liberal creed. Such debates are familiar territory to economists. The only outlier in the discussion was Röpke, who continued to tout his own unique hybrid of Austrian and Keynesian policy. When a boom is underway, the government should try to restrain it to keep it from overheating the economy. When the inevitable recession occurs, it should be allowed to run its course, unless a secondary deflation emerges, at which point Keynesian demand stimulus should be instituted. There was another way in which Röpke was different from the rest: he wanted to inquire what social philosophy a concept like Beveridge's Full Employment implied. No one responded to that; this was a discussion about economics, and only economics, an implicit limit that surely grated on Röpke's nerves!

Similar sorts of tensions were on display in the session on wage policy, and even more so the one on agricultural policy. In both cases, cultural differences as well as differences in institutional constraints that were seen as blocking possibilities for reform held center stage. Fritz Machlup did a masterful job introducing the main questions to be addressed regarding wage policy. He noted the contradiction produced when the presence of strong unions is combined with calls for Full Employment. His proposed liberal policy was to avoid cyclical unemployment via a proper monetary policy, to avoid regional pockets of high unemployment by encouraging labor mobility, and to reduce restrictive entry practices (e.g., closed shop laws) by unions. Other ways to reduce union power – by limiting the size or geographical scope of a union – might also be considered. This immediately brought protests that such steps though useful in theory could not possibly work in the speaker's country. There is no labor mobility in Switzerland, said Rappard. Other Europeans were split between simply encouraging dialogue between workers and management – Rappard and Lovinfosse favored this route; Knight, supposedly the great

advocate of discussion, thought it unrealistic – and having some neutral party, usually the government, in charge of setting wages.<sup>28</sup> John Jewkes made the interesting point that it was the unions in England that were offering the most effective resistance to the Labour government’s attempts to direct labor. No consensus was reached.

There was even more resistance to a “one size fits all” agricultural policy. On one side were those who felt that agriculture was truly different from other ways of making a living, and certainly from industry. For Röpke, of course, it represented a way of life, and indeed an end in itself, one that would provide a bulwark against “the proletarian nomads of industrialization.” He favored a set of policies that would support the spread of the family farm. Others had less romantic views of the agricultural life, but still insisted that the sector was afflicted with special problems that demanded intervention. It seemed both unfair and inefficient that a bad growing season or two could put even good farmers out of business. Brandt, the agricultural specialist, felt that changes in credit policy – higher interest charges in good times, lower ones in bad – could help avoid such problems.

The opposition here included Loren Miller, who put the riposte precisely:

Why shouldn’t everyone be insured against the vicissitudes of the market, if farmers can be insured? What would be the sum of *all* the interventions which have been suggested during the conference. Wouldn’t that be a planned economy?

Hayek supported Miller, noting that if one considers problems only one at a time, it is hard to keep one’s mind on the general principles of liberal policy that they were seeking. And indeed it

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<sup>28</sup> Lovinfosse, it must be noted, was probably the only person present who might have been involved in management-labor negotiations, and if we believe Brandt’s casual observation noted earlier, he was quite successful at maintaining good relations with his workers.



was at this session that his plea that the conferees ignore existing political constraints was itself most ignored. Robbins, doubtless reflecting knowledge he had gained in his years of wartime government work, added that sometimes the best that a liberal economist could do, when faced with an illiberal government, is to advise on the least harmful way to achieve the illiberal aim. A Hippocratic oath of sorts for liberals in government, it actually captures rather well the general self-image of economists, if one substitutes in “efficiency” as the desideratum.

The final session on economic policy, on Taxation, Poverty and Income Distribution, was very much the Milton Friedman show. In his opening talk he reiterated that a rules-oriented monetary policy had the best chance of securing macroeconomic stability, and that the remaining problem of poverty could be handled by imposing a progressive income tax with a negative income tax (though he did not call it that) feature that kicked in below a certain level of income. This simple change in the tax system was all that was needed; all the other programs that were designed to combat poverty could, and should, be eliminated.<sup>29</sup> Dorothy Hahn’s notes recorded a barrage of questions that followed. How would it work? At what income level would people start paying taxes, and who would decide that? What about farmers who didn’t keep records of income? Won’t those who work and pay taxes resent their money being used to support those who did not? In a classic Friedmanian performance, he answered each objection with a short, crisp reply. Hahn’s hand would have been sore by the end of this session.

Hayek raised an interesting objection to Friedman’s proposal: “Freedom not to work is a luxury which the poor country cannot afford.” His solution was to provide a labor service, under semi-military conditions that paid below the prevailing wage, for those who would otherwise be

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<sup>29</sup> The similarity to Director’s proposals on these topics in his comments in the first session should be noted, though Director also discussed corporations and antitrust there. Both reflect Simons’ influence.

unemployed. We note this because when Hayek sometimes during this period said that he favored a “minimum wage,” this is what he was thinking of: not a floor below which the wage could not fall, but a wage that was below the prevailing wage, and hence one that would not have much effect on the wage structure. In any event, no one took him up on it. Incidentally, this probably was the session in which Mises purportedly “stood up, announced to the assembly ‘You’re all a bunch of socialists,’ and stomped out of the room” (Friedman and Friedman 1998, 161), though clearly, given the general reception of his views, it might have been others as well.<sup>30</sup>

These four sessions bring out the fault lines apparent in later meetings: between economists and the more philosophically minded, between those looking for general principles and those focused on culturally-sensitive, country-specific solutions to particular policy problems, between the Americans and the Europeans, between the academics and the foundation representatives. The final session had fewer disagreements, but also fewer answers. What was the appropriate liberal response to the Soviet Union’s intransigent post-war stance? Liberals believe in the rule of law, in trade, peace, and tolerance. What to do when facing an uncooperative illiberal regime? With Nazi Germany the answer had been appeasement, with horrible results. Was the west in danger of making the same mistake again? Some – Frank Knight in particular – insisted on the importance of dialogue. But in spring 1947 not many others were prepared to follow him. Popper averred that he was “quite sure that Russia understands only the language of threats” and Lionel Robbins intoned that “You only get further with the Russians if you treat them as though they are *not* human beings.” Michael Polanyi concluded the

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<sup>30</sup> Friedman appears to be the source of the widely repeated anecdote. There is nothing about it in Dorothy Hahn’s notes.

session with the comment that “Professor Robbins has said what I was going to say, but he’s said it very much better.”

On the final day a “Memorandum of Association” was adopted and the Society formed. Hayek was made president, and five vice-presidents were chosen: in addition to Eucken, these were Jewkes, Knight, Rappard, and Jacques Rueff. Director would serve as secretary, and C. O. Hardy as treasurer. In November 1946 the Society was incorporated in Chicago. This was preferable to London because, as Hayek pointed out, the presence of currency controls in England would have made transacting the business of the Society difficult (money could come, but not go out).

So Hayek had pulled it off, the first meeting anyway. He had shown considerable skill as both a fundraiser and a scholar who could attract similarly talented scholars to join him. But he also demonstrated a knack for keeping people with disparate views in conversation with one another. He expressed his own views, to be sure, but just as often he would try to clarify the debate and, by a keen ability to float above the fray, to keep the conversation flowing. Pictures at the meeting often show him beaming, enjoying the intellectual repartee, engaging his guests as a host at a dinner party might. The German economist Leonhard Miksch wrote in his diary about the 1949 Seelisberg meeting of the Society, noting there that Hayek “remains very discreet and smiles his friendly Viennese smile, both diplomatic and ambiguous” (quoted in Kolev, Goldschmidt and Hess, 2019, appendix). A very apt summary, that.

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