

COMMANDING HEIGHTS

Lord Ralph Harris

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Director of Britain's first free-market think tank, the Institute of Economic Affairs, from 1957-1987, Lord Ralph Harris played a pivotal role in changing the climate of opinion in Britain, turning it away from state planning toward market solutions.

Lord Harris discusses Friedrich von Hayek's life and ideas, and the beginnings of the Mont Pelerin Society and the IEA within the context of the British economy of its time.

A Trip Back in Time: Mont Pelerin, 1947

INTERVIEWER: So it's 1947. Tell me what happens in an obscure little part of Switzerland.

LORD RALPH HARRIS: What happened in 1947 was that [Friedrich von] Hayek thought of a great dream, which was to assemble a handful of what he regarded as survivors, and as a result of his *The Road to Serfdom*, he traveled to America, and he'd been in touch with people in Europe, and so he had a list of good eggs, good intellectuals, who understood the market economy and the whole case. And he thought about this, he'd written about it, [and] he'd made talks at Cambridge, where he was then removed from the LSE [London School of Economics]. And he found a man called Renault, a German-Swiss who managed to raise some money and who was an amazing organizer and who identified this idyllic spot, this marvelous congenial hotel, to assemble these 36—mostly economists, some historians, and a few journalists.

INTERVIEWER: Now today that sounds like a fairly easy thing to achieve, but in 1947 we're in the middle of rationing. It's a difficult job. Describe the atmosphere in which this happened.

LORD RALPH HARRIS: Well, alas, I wasn't here in 1947. I was still at Cambridge as an undergraduate, but I've heard all of the Hayek memories from these various people. There were many elaborate introductions to begin with. There were three or four people from England: Lionel Robbins; Professor [John] Jewkes at Oxford, then he was at Manchester; Professor Dennison, another Cambridge man. And so the best thing was to introduce one another to each other. The first thing to do was to introduce themselves, and to establish that English was to be the language, which was a very remarkable decision. But then, of course, there were, I suppose, a majority of Americans. The society always found it easier to recruit Americans who had the interest, and also had the great commitment to constitutional

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freedom. They also had cash to travel around a bit more easily, so English was the lingua franca. And here they were in this rather traditional old-fashioned hotel, comfortable sofas and all that, just holding their little discussions entirely among themselves, almost as a secret society, in a matter of speaking.

INTERVIEWER: It being just after the war, how easy was it to get here?

LORD RALPH HARRIS: I can't [quite] answer that. [But] I'll tell you what interests me: At one stage when Renault, who has written about these early days, said he spent a lot of time seeing that the sole German who took part in that first meeting got his travel documents in order, you suddenly realize that he would need not just a passport, but he would need a travel document to move from Germany, and he would need foreign exchange to come to Switzerland. And all of that brought home to the people what a strange world of regulation, of control, of lack of freedom that prevailed outside. But here there was this little church, and they understood what the objective was.

INTERVIEWER: Now back in '47, freedom must have seemed very much under threat. What was the political atmosphere in which this was taking place?

LORD RALPH HARRIS: Looking back, you could say, well, these chaps took themselves too seriously in coming together and discussing the routes and origins and prospects for freedom. But the whole world was shadowed by the Iron Curtain, the Russian threat, by the failure to establish democracies in the Eastern European countries, and by the prevalence everywhere intellectually of these ideas of collectivism arising from the war. The great battle cry that I remember—well, the battle cry of Churchill versus Attlee in those days, 1945—the great cry was "We planned to win the war; we now therefore have to plan to win the peace," and the notion that controlled the rationing and direction of labor were part of a systematic centralized efficient economic system. It's laughable to think about that now, but the atmosphere rendered that a totally acceptable position. And there were very few explicit critics. One interesting man who was there at that first meeting was called Professor John Dukes. He was at Manchester and came to Oxford, and he wrote a book—I think it was 1947 or 1948—picking up on *The Road to Serfdom* way. And you see he was execrated. People mocked him, not just left-wing people, but conservative people said, "This is an old crank, this anti-planning mania."

And yet if you go back and look at that book, it's a joy to read, exposing the absurdities even in war of trying to control the allocation of materials to produce airplanes, and how much was wasted and mislaid.

INTERVIEWER: Right from the start, the dominant characters at Mont Pelerin were, of course, Hayek and Milton Friedman. Talk about the differing characters of Friedman and Hayek and their different philosophies.

LORD RALPH HARRIS: I look back to some of those early days, and I keep asking myself from watching politicians at work and falling out constantly—not just between them, between the parties but within the parties, within the Cabinet—how did this thing keep on the road? And what kept it together? There were two explanations, and one is that in Hayek and Friedman you had an absolutely marvelous cast—two people, one very bouncy and saucy and cheeky and outspoken, vigorous. This is Friedman. He was always bouncing out with ideas; sometimes they were a bit farfetched. Then you had Hayek, this very correct and rather serious, portly, gracious, slow, rather ponderous-speaking, sometimes thinking what his next sentence is going to be. And they were men unruled by any ambition, not trying to create a party, to get elected, to win votes—any of that. It was an amazing success of upright men of integrity, intellectual brilliance, not flashy, but very impressive to watch them performing over a wide range of topics. And next to that, you had in Hayek a man who was philosophical, historical, [had] legal training going back to Vienna, Austria, and the First World War and who represented what used to be called political economy—the wide range of considerations to do with administration, politics, history and law, and even psychology and sociology, all of that—a rather polymath mind. And in Friedman you had a microeconomist, very logical, very particular, very exact in his formulations and very confident in the outcomes of market and so forth. And these two were always together, and when at one stage there was a great crisis in the society, and there was really possible termination enforced, dismemberment in a way that you had Hayek and Friedman absolutely together, no rivalry, no factions, committed to understanding and extending the free economy.

Central Planning and the "Struggle Ahead"

INTERVIEWER: At the time of Mont Pelerin, what was the general direction the world was heading in?

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LORD RALPH HARRIS: If you go back to 1947, I was at Cambridge, and we were lucky to have two or three survivors of the old, wide, broad liberal philosophy then: Dennis Robertson; Stanley Dennison, one of the founders here, was on the staff of Cambridge. But it was overwhelmingly a collectivist environment. Forgive me—I have said somewhere that war is the real example of a socialist economy. It's a wartime system, and, you see, we were still rationed in England. We were being rationed until early the 1950s. So we had ration books for meat and sugar and tea, and travel restrictions. You still had direction of labor in important industries, granted access to labor and raw materials. So the whole of the practical world was a kind of serfdom. You did as you were told. And that, in those days, it didn't cause riots on the streets and protests—"give us back our freedom." It's rather worrying that people had been inured by the war to accept [that] perhaps this is what the modern world is like.

So that for these chaps in 1947 to come together representing an older view, more expansive view, and to state their idea was the survival of freedom. It wasn't a theoretical thing; it was an active thing, that drive for democracy, for freedom. The argument always was that democracy is impossible without a free economy. [That] you need a free economy was a necessary though not a sufficient condition of democracy. But if you don't have a free economy with dispersed initiative and dispersed sources of income, patronage, then you can't have a democratic balanced system. So it was to them a life-and-death struggle. All of those who were known to me personally were extremely peaceful chaps. They weren't all militant. You couldn't imagine them rousing up crowds of people. They were very thoughtful, serious people.

INTERVIEWER: At Mont Pelerin, Hayek made what I would have thought a very prophetic little talk in which he said there was a long struggle ahead of them. It could take 20 years or more for their ideas to win acceptance, but they would win in the end. Can you talk about this?

LORD RALPH HARRIS: Yes. In those early days—I came into the Mont Pelerin Society in 1960—I was then young and idealistic. And I was rather worried that some of the older, wiser academic chaps thought we were too optimistic and too headstrong. Whether we would win—that was the question. It really wasn't to say, "Well, it will take another 10 or 20 years." I mean, there was a lot of anxiety that the Keynesian world—"We're all Keynesians now," that was widespread, all over the place—that actually we never really established the full spread of

economic freedom that we were aiming for; that it was an endless struggle. I don't recall that we thought, "Well, it'll take until the end of the century," though, as I say, the younger group were full of determination and expectation that were always there. There were constant hopes of early triumph.

The Road to Serfdom: Influence and Ostracism

INTERVIEWER: Let me just step back a little bit to 1945. I'd like to ask you briefly about Hayek's book, *The Road to Serfdom*. In 1944 it seems that he takes a step beyond being just a thinker. He starts to actually try to do something to change the world he lives in. Tell me briefly about the book and its central message.

LORD RALPH HARRIS: One of the problems of Hayek's *The Road to Serfdom* was that he was really worried about communism; that was what he was worried about. He couldn't talk about that because the Russians were our allies—we'd just come through a triumphant war with the Russians—and so he had to pretend that he was talking about Germany and the Gestapo. He was talking about Russia and the [Cheka], the secret police. And he was clear that since 1917, when they had a revolution there, there was no question of things getting better, or at the temporary exercise of power it was a deepening, intensifying control over individual lives, individual thoughts, individual actions, and so on. He'd seen the collapse of the Austro-Hungarian Empire. To him it was all a tragic story, the whole of this thing. And here he was, during the war at Cambridge, and he had some time to reflect, and he cooked up *The Road to Serfdom* and dedicated it to socialists of all parties.

INTERVIEWER: Meaning?

LORD RALPH HARRIS: He wasn't talking about [only] the Labor Party. He was talking about the Tory Party, the Liberal Party in Britain. They had all become totally trapped in this collectivist, centralist view. So his main purpose was to alert academics and the ordinary public. It was meant to be for popular consumption; it was to alert them to the truth as he saw it, that once we embarked upon the collectivist road, then you have to go on further and further and further. The problems lead to further excuses for extension of government. And that doesn't work, so then we need to do even more, and government spending should increase. So he saw it as an intensifying process, and he gave examples like exchange control,

which seemed to be important in war. You had to consider foreign currency. But he explained that exchange control was actually a grip on the throat of a free society because you could no longer travel; you could no longer buy books [or] other products from other countries. And so [collectivism] gave the government this enormous power over investment [and] spending. So the road to serfdom he took as generally as being a descent into the Dark Ages.

INTERVIEWER: Now, Hayek and the book had some influence on Churchill during the 1945 election, did they not?

LORD RALPH HARRIS: I'm sure that Churchill was not deep in his library reading *The Road to Serfdom*. It was brought to his attention, this book, and it fitted completely with his own category. Historically he'd been liberal, served as a Liberal, so that he didn't need much prompting that freedom was what we'd fought the war for if it was under threat. But he got carried away with this thing, saying that a socialist society would not be possible without some form of Gestapo, however you administer it in the first instance. And this of course was carrying things into absurdity, Gestapo. He rather overdid it, and I don't think that helped Churchill in his quest. He couldn't have prevailed against the whole of this tidal wave of socialist aspirations and hopes.

INTERVIEWER: You said it didn't help Churchill, but it didn't help Hayek either, did it? Attlee dragged his name into the election, didn't he?

LORD RALPH HARRIS: Yes, Attlee did, in fact, uncharacteristically, I think, because he was a decent, amiable man, but he actually went out of his way to refer to this foreign professor, Friedrich August von Hayek, all spelled out in full, so that other people could see that this was some foreign crank who was saying these things about [England].

That little episode caused the depth of hatred that was focused on Hayek. Hayek went through a period in the '50s and '60s [when] he was hated, execrated. Academics on the left, who were by no means unpleasant individuals, would not meet him. I had occasions when a professor of philosophy at Oxford didn't want to meet that man, absolutely emphatic—not even for a free lunch, not with this man. It was a deep hatred.

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INTERVIEWER: Can you explain why?

LORD RALPH HARRIS: We've all got all kinds of rather unworthy explanations. A lot of people who hated him were going to make quite a good living out of a mildly socialist collectivist system, that intellectuals on the whole grow fat on the back of collectivism ... so that self-interest might divert some academics away from the genuine belief in competition. But there was something of a religious war about it, that to criticize this noble ideal of socialism, of fairness, of equality, was to desecrate something that was fine and that all men should admire. It was a glint in the eye with many quite ordinary people who thought that socialism not merely was bound to come, but was the ultimate fulfillment of a civilized society.

INTERVIEWER: Of a Christian society?

LORD RALPH HARRIS: Well, of course. Now we're back to the bishops, the Christian scientists, the Christian socialists. It's absolutely true.

INTERVIEWER: Friedman was hated. I can remember Friedman being hated.

LORD RALPH HARRIS: Hated?

INTERVIEWER: Hated.

LORD RALPH HARRIS: Well, yes, I suppose hatred for Hayek or Friedman was a tribute to their effectiveness. You don't hate a person who is putting up weak arguments and silly points of view. The hatred was because potentially Friedman and Hayek had lethal arguments, devastating, pointed, persistent arguments that required academic, analytical responses. You didn't get that [before then]. You got catchphrases about inequality, or about imperfect competition—that was a great phrase that was published—or was it perfect. But you never got a real engagement with Friedman and Hayek.

INTERVIEWER: We've talked about the most hated figures in a way to personalize the issue. One has to remember that their ideas for 20, almost 30 years were completely marginalized, weren't they? They were often extreme, considered almost eccentric.

LORD RALPH HARRIS: Yes, yes. It's difficult to see why intellectuals [and] academics, who live by reflecting, arguing, contemplating, testing hypotheses, should be so vicious. One of the problems was that they never met Hayek, and it's easy to represent Hayek, this foreign chap with a slightly German accent, as being [an] alien from out of space, coming along [and] telling us how it should be done, how we should behave. If you met him, he would really, totally disarm all of those [suppositions]. He was quite a cuddly man, but he was an extremely attractive and vulnerable and gentle and shy figure, shrinking sometimes from too much attention. You couldn't imagine him as a dictator. And yet that's how some people saw him, as a Hitlerian, counter-Hitler authoritarian figure. It's absurd. Actually, it's the reverse of his nature, his argument, and his message.

INTERVIEWER: You knew Hayek personally. Did he ever despair about his ideas winning out?

LORD RALPH HARRIS: Yes, he went through a stage of intense depression. It may have been connected with personal matters with his own family, I don't know, but certainly we got very worried about Hayek. If you take the 1960s... He was born in 1899. When Hayek began to show signs of disorientation and lack concentration and disinterest in the '60s, he was a man of 60. He'd led an active and vigorous and contentious existence. At the same time there was some kind of health [problem], which I've never fathomed, and he was induced to stop smoking. I think it was a very false step for him to take.

We all argued that the Nobel Prize he got in 1974 was the making of him. He would never accept that; he half argued there shouldn't be a Nobel Prize for economics, and most of the people who got Nobel Prizes, he would name them, didn't even understand economics, and it was no big deal, though there was some money—quite a lot of money, actually, [and] it was tax-free in those days. So he took on a new lease of life in the 1970s. But in that time that he was more broody and [had] less spring in his step. But certainly [with] the Nobel Prize and the coming of Thatcher, there's no doubt that really smartened him up. He was really uplifted by seeing this movement in the stuffy old Conservative Party in a radical redirection of policy along the lines that he had charted, although not in detail, or in his complete effect.

INTERVIEWER: So he finally believed that maybe his ideas were going to win.

LORD RALPH HARRIS: Yes. When we had lunches, and businessmen would come and we were in the depths of inflation or depression and unemployment, and all these terrible things in the '60s and '70s, and say, "Do you see any future?" And he would begin to say in the '70s and before Thatcher that if the politicians don't block the world, then I believe that we'll come through and see the acceptance of much of our thinking. But he didn't put a firm date on that in his lifetime.

Thatcher and Hayek: A Meeting of Minds

INTERVIEWER: Around about 1944 or '45, a young Oxford undergraduate called Margaret Roberts picks up *The Road to Serfdom* and apparently remembers it the whole of her life. Can you tell us that story?

LORD RALPH HARRIS: It's quite fashionable nowadays for people to say, "Of course I saw through socialism" or "I never really voted Labor, not seriously" and so forth, and they rewrite the past. It's very difficult to know how they can recall the exact circumstances. I would be surprised whether a student of science at Oxford would have had on her reading list *The Road to Serfdom* by Hayek. It wasn't widely available; it wasn't widely reviewed. It was [only] in certain intellectual papers. The *Reader's Digest* did a summary of it, but it surprised me [that] it wasn't widely talked about in Cambridge. I was doing economics in Cambridge, and I got onto it because my supervisor was one of the founders of this society. It happened that Stanley Dennison was here in 1947, [and] as one of his students he told me of *The Road to Serfdom* and gave me lots of Hayek's writing. I never quite knew whether students at Oxford, of all places, would have come across *The Road to Serfdom*.

But what came to me recently was that she became the president of the Federation of Conservative Students at Oxford. Now, that was an amazing thing to happen for a lady in those days. There weren't many ladies, female undergraduates, in either Oxford or Cambridge. I would guess one in 10; they didn't play a prominent part in these mostly male gatherings. But she became president, and it may be that she, like the conscientious head prefect that she is, she was reading all this, and reading *The Road to Serfdom*. Certainly she would have gone on to it soon after because he became controversial—the Churchill episode probably helped that.

It would be difficult for anybody to read that without pondering where they stood in relation to individual freedom. You see, the whole book has such a powerful appeal. There's one chapter in *The Road to Serfdom* which is called "Why the Worst Get on Top." For an academic chap to say [that] something attracts the worst kind of people—very good, idealistic people come into the socialist movement, but increasingly they're replaced by people for whom power over others, power to impose their vision, their view [is the goal], and they [the idealistic] get sidelined, eaten up, shot. So "Why the Worst Get on Top," that may have upset some academics.

INTERVIEWER: Did Thatcher ever meet Hayek?

LORD RALPH HARRIS: Yes, she did, on a number of occasions. I introduced them, I believe, for the first time. When the Mont Pelerin Society started, Hayek was at the London School of Economics. Then around 1950 he went to America and became the guru in Chicago, along with Friedman and Stigler and many others. [In] the '60s he went back to Germany. And then every year he came twice, in the spring and the autumn, to England for two weeks. It was like clockwork. He went to see his family in the west country, and had a week in London. I would deal with him, I would run his program, I knew his movements and so forth, and I'd arrange meetings during the day and lunch or dinner in the evening. We tried not to overtire him, but he was very generous with his time and all his writings, extensive writings, half a dozen papers and more, never a penny, not even expenses or anything, it was all the cause. I would run the lunches and usually got the press to meet him and we had a good show. I call this networking. I didn't realize at the time, [but] I was a networker with all his press and policymakers who wanted to see Hayek and so forth.

One time when he was with us for the day Thatcher's office came on and said, "When is the great man about?" Could she come and drop in to see him? And so she called by, and sat down at the desk, and the unkind quip I make is that there was a period of unaccustomed silence from Margaret Thatcher as she sat there, intense, attending to the master's words, not her usual dominating conversation. And he actually thought she was beautiful. He thought the queen was too, by the way. When he got his medal of honor, he thought the queen was also extremely beautiful. Quite right, too. So that, I believe, was the first meeting. I certainly introduced them as I did with strangers.

"In the Long Run It's Ideas": Theories of Hayek and Keynes

INTERVIEWER: Hayek believed that ideas could actually make an impact. In his view, how can that be made to work?

LORD RALPH HARRIS: Hayek set this down in a marvelous essay called "Socialism and Intellectuals," in which he paid enormous tribute to the socialist intellectuals. He said that the whole of the direction of policy in the end depended upon a battle of ideas in a stratospheric bank of high intellectuals, refining their concepts and engaging in argument, and the fallout of all that is among the voters and the politicians and journalists who will be guided by the outcome. He argued that the great strength of the socialists is that they had the courage to be idealistic, to have a theory, to have a project and a vision, and to go on working towards that, through thick and thin, and not to deviate, whereas the non-socialists, Conservatives and so on, were pragmatic people who were always involved in bits of compromise and what was practical and how to accommodate the existing opinion. Ignore existing opinion, Hayek said, because in the long run it's ideas. But Keynes said the same in *The General Theory*. Keynes said it's ideas that rule the world. And people, said Keynes, who think they're exempt from any intellectual interest are usually the slaves of some defunct economist. That was Keynes—who became in turn a defunct economist, incidentally. So this notion [was] that we were the high command, the military terms of high command and high strategy. Don't look for immediate successes, but keep on driving towards this vision of a free society, of individual responsibility, self-help as a foundation of an individual fulfillment, and then of wealth creation, innovation, investment, and all the great things that follow from it.

INTERVIEWER: Hayek referred to the illusion of planning the economy as a fatal concept. Common sense tells you it must make better sense to plan things rather than just let them happen.

LORD RALPH HARRIS: The planning which Hayek [feared] was central planning; it was planning by a government. It was planning in an advanced economy, a very intricate and elaborate and complex economy—an extended order, he called it, which was not just national but international in its ramifications. He said that to use logic to plan the outcomes, the allocation of materials and sources and manpower and so forth, would require comprehensive knowledge. You would have to know all of the alternatives. You would have to know the

capability of all the resources, the particular qualities of individual skills. [If] you went for comprehensive planning, you would unmistakably need to know a range of information that is not available to you, and if it were available, [it] would soon become out of date because of changes, developments, and innovations. So he said it is a complete conceit to suppose that any central committee or extensive board of directors coming together could assemble the knowledge that would be necessary to decide priorities.

INTERVIEWER: I thought the central message of Keynesianism is that you regard the economy as a great big machine, and if you collect enough statistics and understand it well enough, you push this button, pull that lever, and you can make a difference. It certainly worked with FDR, and Hitler made it work quite well in the '30s. It's a big assertion [that it is] impossible to know—surely an economy is a fairly quantifiable thing.

LORD RALPH HARRIS: The concept of the economy as a machine giving rise to engineering-type solutions is misconceived, because the economy is itself a more organic living whole and yet [is] subdivided into millions of individual operations and calculations and exchanges. In order to have enough data to impart a single direction—of particular objectives, exports, full employment, capital growth—would be impossible. What Hayek said was that the market is a discovery procedure. Through the market, people have to acquire such knowledge they need for their own particular task. And all kinds of individual specialists are working away and finding what the parameters of achievement may be. As in Olympic games, [where] you find out how fast a mile can be run or how high people can jump, in a competitive economy you find out by doing it, by experimentation, but all dispersed, all individual. To direct all that, even to direct scientific research, is a vain ambition.

INTERVIEWER: You said it's not like a machine—you can't make it just stop and go, or direct it. But is there another way of looking at it? If Keynesians regarded [the economy] as a kind of machine you can operate, is Hayek's view more organic?

LORD RALPH HARRIS: As in his knowledge of society, Hayek's fascination with the press system was that it was a way of using knowledge. Knowledge is widely dispersed. You always have to think [that] an economy is not static or [moving in] slow-motion. It is dynamic, evolving, uncertain, and the knowledge that you would need even to develop the car industry

is not given to any group of individuals. You have different ideas to prove conception. The only way to find the best method is through letting the reins go loose and letting people move in their own direction at their own speed. He argued the market was a system of generating, assembling, dispersing, and using knowledge, facts, [and] information. In my own country, in England, it is a fantastic conceit for Mr. [John] Prescott [deputy prime minister] to suppose that he knows the future of the motor car industry or transport industry. It is preposterous. He knows how much roads are necessary, how many trains are necessary, and all that will be looked back upon in 10 or 20 years time as a hallucination. But when you have some direction you have to lay down the law and exclude certain possibilities and put your money where your mouth is, and you're going to be wrong. That's important.

What Is the Role of Government in a Free Market?

INTERVIEWER: In the Hayekian view, what is the role of government? What's the limit to government power, appropriate government supervision?

LORD RALPH HARRIS: The question of the role of government in a free society was a perennial issue at the Mont Pelerin Society. What's the framework that's necessary to set limits to competition? If it becomes so intense and so dominant that you might have uncertain developments, not very good. One of the constant questions that came up in the Mont Pelerin Society was the framework of law and institutions within which a competitive market economy would best operate. Because the market unleashes powerful forces and ambition and enrichment, you need a cast-iron framework to stop those powerful forces [from] getting out of hand and challenging the quest of the government with their taking over, the sort of Marxist nightmare.

The framework was best set out by Hayek's *The Constitution of Liberty*. In 1960 he wrote this formidable tome, largely written on the mountains, in which he tried to settle out the law and institutions and framework of a competitive economy. The key issues that come to political controversy is, does the government have a duty to regulate the distribution of incomes in our society? No, says Hayek. The idea of governments being able to impose relative valuations of human effort is a tyranny. But does it have the responsibility to set a floor, a minimum income? Yes, Hayek conceded, you had to have a minimum guarantee to fall back on, the safety net, which Churchill used to argue. But the great thing was the safety net must not

become a hammock, which gave too much comfort and prevented people from stirring and doing for themselves. So that was an unfinished business, constantly in the Mont Pelerin Society. What is the proper view about welfare, with the welfare state a total block to the competitive market, with rewards being determined by competition? But how harsh should governments go, under the pressure [of] vote-getting and political competition to keep government payments up [and] the counter-pressure on government to keep taxes down? The danger that the conflict between keeping taxes down and government spending up would lead to inflation by printing money, so those ideas [are] an unsettled story. There's no fix. There's no boundary at all times that you can specify as a guide to politicians.

INTERVIEWER: According to free marketers, inflation sounds like a moral issue, the eighth deadly sin. Why is inflation seen as such a terrible thing?

LORD RALPH HARRIS: Inflation is, above all, a moral issue because inflation is a way in which governments can draw on public resources without imposing taxation. The government issues money. If it over-issues money, [in the form of] bank accounts and paper money, you can spend that on public services, on things that voters like. It can win popularity and success and it's a very pleasant arrangement and prices rise a little bit and that's quite nice. It's like a little bit of laughing gas. It keeps you cheerful, but it doesn't stop. Inflation essentially is a progressive matter.

Hayek wrote a marvelous paper in which it shows that the only stimulus that inflation imparts to an economy is increasing spending and activity, and that stimulus can only be maintained by increasing the dose. It's exactly, as Friedman used to say, like a drug addiction. You can't maintain a steady 1 percent or 2 percent except with the most exceptional difficulty—it would go on. And so Hayek predicted that inflation would rise and so would unemployment. Printing money and increasing the demand of the economy on the Keynes line would not achieve a sustainable level of employment. It would have to go on increasing inflation to get the stimulus that you needed all the time. So it is a moral issue because it undermines people's spending. It is actually theft, in a big way. Inflation is a way in which people work for a pound and they have a pound and they save a pound, but then, five years later, it's worth 50 pence. That is an outrage, it is the most awful outrage when you know that the politicians do it to get votes and to take themselves into comfort and power. It is above all a moral issue.

But it's [also] an economic issue because a market economy depends on volume and stable environment so that contracts are entered into and fulfilled—a pound is a pound. If you start undermining that, and expectations race ahead, you constantly build it into your thoughts that costs will rise. That is in itself a self-fulfilling prophecy as you have these expectations and there's no limit with them. One of the great strengths of the Mont Pelerin Society, which I've only realized looking back, is that the prime movers came from countries in Europe where inflation had gone off the register. There's just inflation and [there's inflation] multiplied by a thousandfold, a millionfold, a million millionfold in Germany at one [point], so that to them, inflation was a moral issue. It was the inflation in Germany that undermined the middle classes and the savings and put people in the hands of the state. People say inflation led to Hitler. In a manner of speaking, you could argue that. Inflation's a moral issue.

The Roots of the Institute for Economic Affairs (IEA)

INTERVIEWER: What was Hayek's influence in the forming of the IEA, and why he was taking that kind of trouble?

LORD RALPH HARRIS: I don't think Hayek was a very practical man. He had a very good secretary for much of his life, who looked after him and kept his papers in order and the publishers happy. I can't imagine, if I may say so, Hayek running a picnic. He wasn't a practical, active man; he just had these ideas and was absorbed in argument. [He] didn't treat people offhandedly if they weren't very much up to speed. He would be patient and he would say, "That's an interesting question," perhaps nonsense often, and he would bring them along into his terms of reference so that he inspired other people to do things.

He inspired a man called Anthony Fisher, who was a very simple, uncomplicated farmer, to invite me to start an institute. The chain is rather tenuous, and yet an institute was established. In 1957, 10 years after the Mont Pelerin Society, which became the vehicle by Hayek and Friedman and all of these great economists and philosophers so that he himself wouldn't have been capable of assembling this gathering at Mont Pelerin. Renault, who treated Hayek as a god, got busy on all the details; Hayek wouldn't have had any idea how to run a conference—not about getting people's transport arrangements, about allocating bedrooms. He would have had no thought of any of that. He wasn't above it; [it] just wasn't his kind of country. So people did things on the inspiration of Hayek, but the idea that he would have had

any control over my institute [is unlikely]. My little institute in 1957 was three or four people. He never offered any suggestions about what we should do, or who we should invite. He would have an idea about a writer who might be helpful to us in America or in Germany, and he would give us suggestions of that kind. But the idea of how you would actually raise the money to run an institute or Mont Pelerin Society?

In 1945, he made a speech in Cambridge and talked about the need for an international academy. And he then suddenly—this is an academic in Cambridge; this is Hayek during the war—he said, "What I think we probably need is something like \$500,000 in order to establish [such an institution]." Well, \$500,000 in those days multiplied by 30, it's \$15 million. Fifteen million—he hadn't got a bean, anything, and [he] didn't know any businessmen. "Just \$15 million, then we can have an academy with people around the world who research." It's crazy. The thing would have come to a halt if he tried to run the battle on the ground.

INTERVIEWER: ... What was [the IEA's] basic long-term objective? Was it to try and spread these ideas to influence the political process?

LORD RALPH HARRIS: Yes. The Institute started in 1957, the direct result of the Mont Pelerin Society, of *The Road to Serfdom*, of Hayek's meeting with my friend Anthony Fisher. Its purpose was to bring together likeminded individuals to explore alternative policies, and that depended upon analysis and theory before prescription and policy. It was very modest, because we didn't have a handful of beans; we hadn't money initially. Anthony Fisher put up £5,000—that's a long way short of the \$500,000 Hayek was talking about. There weren't many people we knew who had these strange ideas of freedom and competitive enterprise.

INTERVIEWER: But you were hoping to change society?

LORD RALPH HARRIS: We would have thought that a little pretentious. We were out to have a little fun. We were [out] to stir it up—that was part of the game. We were lads of 30 [who wanted to] put a firework down and see what happens. And there was no encouragement to believe that you were on the path of having a lasting, even long-term effect. But what I think is important to understand is that once you've got the idea of market economy, the free society, evolving, drawing the past and drawing all this knowledge, once you've got that you

understand there is no other way to preserve the substance of individual freedom except through dispersed property ownership, property contract, and dispersed decision-making. Once you've got that, you can say it's almost like a religious belief.

I'm often sympathetic to people who talk about the theology of the market, the theology of monetary policy, because once you've mastered the basic notions of competition and all the intricate mechanisms, and interconnectedness of market operations around the world with [the] Internet and everything else, once you've mastered that you see there is no other way to keep order and dynamism among scattered individuals and tribes except through an open market system, law of contracts, strong laws and enforcement of competition and of contracts and monetary stability. Once you've got that, it's a dominant religion, almost. I have said—and it's offended some of my other Christian friends, they have said this is awful, sacrilege—I have said that the market is almost god-ordained. The laws of competition, the ordinary laws of supply and demand are the nearest you have in the social sciences to the laws of motion and the laws of gravity in the natural sciences. [Because] there's competition and markets you can tell that [if] you act in a certain way, you will blow up the currency. We knew that inflation was going to happen not [by] listening to what politicians said, but watching their hands, when their hands moved towards the till, and [we] could see that 18 months or two years before monetary expansion led to inflation. Friedman lay all this down in very clear and emphatic terms.

Going back to the Mont Pelerin Society or the IEA, there is no doubt that we were completely clear in our own minds that we had the solution to society's problems. In a manner of speaking, I still believe that: There is no alternative but to find some way of making a market economy, a competitive system, operate. There's no other way to preserve freedom and innovation and dynamism and peace, harmony. The market creates harmony by providing an alternative to war and an alternative to invasion. Why not trade with these people, why not send them some stuff, and they send you some stuff, rather than armies, you see? There was a great Liberal adage that if goods don't pass frontiers, then armies will. It was a 19th-century adage. I hated Japan after the war. I hated Japan. I used to tell people, free-trader though I am, "Don't buy these Japanese cameras, Honda motorbikes." Our chaps riding around on Japanese motorbikes—I hated them because of what had happened in the war. Fifteen years later I've got a Japanese camera, Japanese electronic diary, and all of that. Trade has made

friends. The Japanese are quite useful chaps. And it's truthful: Free trade is the greatest force for peace that you can imagine because it provides alternatives. In fact, the competitive economy is an alternative to fighting. It actually is. Instead of stealing money from somebody you find out what they want in order to get them to part with their money and then you try and provide it. It is a peaceful system.

Keith Joseph

INTERVIEWER: During the 1970s things start to roll your way. The Heath government collapses in ignominy. Is it true that Keith Joseph comes to you and asks for a reading list?

LORD RALPH HARRIS: My life with Keith Joseph takes a little bit of ice water. The IEA, like the Mont Pelerin Society, [held to the] most important principle: Keep clear of politics. Politics is bad for you. It leads to compromise and deals and confusion and vote-getting and lying and cheating and all these, in the end. The IEA and the Mont Pelerin Society needed no prompting to keep clear of politics. In 1964 this very handsome, very impressive stylish man entered our office, Sir Keith Joseph, baronet, and he got his nose in our publication. [He] said, "We gather that the Tories have just lost the election to Mr. [Harold] Wilson." He gathered that over the last few years the IEA had been producing some interesting papers, pamphlets he said—pamphlets—and what could we tell him. So we laid our pamphlets out. The upshot was he became addicted to our Hobart papers, they were called, because they were on all the topics that he wanted to know about: the future of the energy market, incomes policy, trade union reform, monetary control of inflation. We had all these papers even in the early 1960s. We had papers on the future of the health service in 1962, predicting that it would never succeed as a monopoly, politicized institution. So he carried away these papers and he became a great pal.

Of course, he then got into government in 1970 under Heath, and that was a complete shambles. It was a total disappointment, great hopes about the new direction after the Labor Party. In 1974, exactly 10 years later, he came to see me now in a different office, and said, "Look, you may think you're wasting your time and I shouldn't bother you. Ten years ago I came to see you, and now it's all been hopeless and wasted. I want to start again on this and I'm going to start up another institute. I hope we're not getting in your way," he says. "We're not competing." I said, "We welcome competition." Seriously, we welcome competition

because we'll get say on some things, and [on] what other people do and we'll play to a bigger market with the rival product. He said, "Mine is to be for politics. I want to get parliamentary candidates, young MPs and journalists and students, conservative students. I'm going to storm the universities. I'm setting up this Center for Policy Studies, CPS, and I've got [Alfred] Sherman and we're going to do all these things. We'll use many of your authors, if you don't mind." And I said no; it was extremely nice, gentle competition, in a manner of speaking. And so he went off with the CPS, and he and Keith Joseph and Margaret Thatcher were the first directors in 1974. It was the second innings of Harold Wilson, and admittedly I saw a lot of our authors being drawn into their thing, [but that was] fine. That didn't upset us.

INTERVIEWER: In concrete terms, what did Joseph do? What was he doing in the mid-70s?

LORD RALPH HARRIS: I wouldn't have liked to have said this when he was around, because I have almost a veneration for him as an outright marvelous example of a chap in politics genuinely out to advance the greater good—no vote-getting and unworthy stuff, really a fine noble mind. And he in '74 felt so guilty for the failure of the Conservative government. [He] let them down, let everyone down; the country's finished up with the three-day week. And he decided, although he was in a way a rather shy man, in a way much happier in private conversation, he decided to go on the rampage at universities. He deliberately chose topics like "Up with Inequality"—we need more millionaires, he would argue. This is a sign of success and progress, and he went out of his way to dramatize the arguments about the market system, competition, monetary policy, and he used to be smuggled in the back door. It was awful. It was so completely alien to him, of all souls. He wasn't offended in the sense of rather pompously being offended by the mob. He was genuinely hurt that the students had reacted to this penetrating argument by chucking flour bombs at him, that they lay in wait in for him. He did I don't know how many, but dozens of speeches often leading to publications, but they were meant to be provocative.

[Alfred Sherman, who wrote many of the speeches], was a very important influence. He was important. I've been present when Sherman, who's a rough character, would upbraid Keith. "You've got no backbone, Keith; that's the trouble"—this to Keith Joseph, and that was because Sherman had the idea that you should go further and bring in issues like immigration or eugenics. Keith lost the leadership over Sherman.

Joseph and Thatcher: A Most Unlikely Pair

INTERVIEWER: Tell me how Joseph's political career stalled. What happened?

LORD RALPH HARRIS: It's all mixed up with Enoch Powell, oddly enough. Keith Joseph was a public schoolboy. He was a baronet at an early age, and everyone called him Sir Keith. He was totally unponpous, but he was born with a couple of golden teaspoons in his mouth. And he was low-profile—he worked away. He had a position under Macmillan, a junior minister. Keith Joseph was an old Harrovian. He was from a fine family, was a fellow of All Souls [College]. He was a most unlikely man to find in politics. And in those days Jewish conservatives were very rare. There were many members of the Labor Party who were active Zionists, but not on the Tory side. There was suspicion of anti-Semitism in the earlier days about the Tory Party.

So here was Keith entering the party like his father, who had been in Jewish charities and so on as public service. There was no question that he wasn't a natural performer in politics, hoi polloi and all that kind of thing. But he was so shattered by the failure of the Heath government, and he was a great admirer of Enoch Powell. Powell, before he got sidetracked into the race, the immigration issue was a great exponent for market system. The market was a computer into which was fed information and out of which came all this data. Keith Joseph was very impressed by Enoch Powell, and after 1974 he was going to make up for all of his backsliding and failure and come out. Powell was now silent because he'd been drummed out of active politics, so he wanted to develop these arguments, this logic, this platform. [Keith] really got cracking on this and would have been the contender to oppose Heath as the leader for the Conservative Party, and then in 1975 he made a speech that went down rather badly.

In 1975 Heath was a failed leader, the Conservative Party was to come up for reelection, and the favored candidate by the rebels of the Tory Party had been Keith Joseph. He had raised his standard with his being honest and large speeches, and the course was set there for the challenge, though he didn't expect to win. But he made some ill-judged speech on the problem of the multiplication of offspring for families on welfare, and stepped down [from the race]. Absolute hell broke loose, and he saw he could not do more than apologize—always ready to apologize, Mr. Keith Joseph. "I was wrong about that."

So Margaret Thatcher, totally unexpected and completely coming in from the back. A lady as leader of the Conservative Party—it seemed implausible, and yet [there] she stood. She didn't beat Heath, but she ran a close second, and Heath threw in the towel. It was an amazing episode, and she became head of the Conservative Party. Absolutely astonishing. She had not been remarkable until then. I could see nothing in her public background that would encourage anyone to suppose she was a radical liberal reformer. She had been secretary of state of education; she had pursued the education system. She'd close up grammar schools—that was what the department had told her predecessors and then told her the same—and she hadn't stood out. Suddenly she emerged this way. As Churchill in 1940 said, "The whole of my life has been preparation for this hour," when he became prime minister. And Thatcher in 1975, the whole of her background had been a preparation for this hour. She had read the texts under Keith Joseph's prompting. He had told her, "Read this, Margaret; look at this," and she would dutifully read them.

INTERVIEWER: She also had something that Keith Joseph didn't have. He might have had the brains and the intellect, but she had the guts and the instincts.

LORD RALPH HARRIS: Yes, yes. I can't imagine Keith Joseph surviving a week, really, as prime minister with the fractious Cabinet that she had. He was a man who did really try to seek agreement and tried to have an intellectual solution rather than a real tough deal that was done and signed. That she was the right person, it was quite amazing. That she should have emerged and supplanted a man who would not have been as good, though he was an able intellectual character.

INTERVIEWER: What did she have that was needed?

LORD RALPH HARRIS: I'll tell you a thing I've often thought about Margaret Thatcher. I came from a working-class family in Tottenham, and I believe that was my greatest shield, because people couldn't say, "Oh, you public school boys, you rich characters, you privileged people." Thatcher had come from a humble, not working-class, but a shopkeeping-class family. Thatcher was hardened and steeled to move among Conservatives, on the whole of rather more prosperous and elevated backgrounds. And she had developed a stern, determined, not quite aggressive, but totally clear position of where she stood in defending her ground. She

was also very attractive, a reasonably attractive lady in those days. And that was a kind of armor that she bore in contrast to Keith Joseph, who was [of] a very privileged background, and what turned out was that you had really a lady of steel.

There wasn't a question that on many of these issues the Cabinet were largely against her. And she still persevered with trade union reform. The hottest potato in the kitchen was depriving trade unions of privileges which they had enjoyed for the previous 70 years. Since 1906, trade unions have been untouchable, specialized, privileged institutions that could impose damage on others without any charge against themselves, could cause strikes at a drop of a hat, no notice given. [That] she set up the trade union legislation was the influence of a lady totally, ruthlessly determined to go for the jugular, to attack the enemy in its heartland, the trade union movement. It was amazing that she should have done that. I can't think of any other politician [who would have]. Keith Joseph would not have had the spunk to [do] that and persevere with that. She was very determined and utterly blinkered once she'd got this thing, rather like the Falklands War, with all the people around saying you can't send this army, you can't service them, the ships will be shot to pieces. If it works, it's magnificent, and it worked.

Privatization: Ridding Britain of Its Nationalized Industries

INTERVIEWER: The other thing that's extraordinarily radical is the project of denationalization, privatization.

LORD RALPH HARRIS: Yes, at the Institute—remember, we started in 1957—in the 1960s, early '70s we went through the whole range of government policies, including trade unions and monetary policy and health service and social welfare. Again and again we came back to nationalizing industries to show various things. One is they were monopoly institutions, and according to one great Chicago economist called Henry Simons, monopoly has no use save abuse. If you have monopoly, you abuse your power, or you get fat and lazy, another form of abuse. So you have monopolies in coal and steel and electricity and telephones. What we had done at the IEA was to mount monographs—academic analytical papers—showing the consequences of monopolies, which was they were not strong in innovation, they were very hungry for capital, they needed more and more investment, electricity and coal, always more investment. They were not very efficient. Every monopoly had ahead of them a powerful

group of monopoly unions, exploiting the monopoly of the industry so that subsidies begun to be paid—coal, gas, all of them were subsidized, heavily subsidized. Electricity wasn't, but the others were. We had done all of these studies showing how inefficient they were, [that] they were lacking innovation and so forth. But we were not in politics. We did not think, therefore, "Cut their throats." It was really the burden of the nationalized industries. The subsidies, even in those days, were billions of pounds a year. One of the important consequences of nationalized industries was that they were subsidized by the government because they could not be allowed to fail. A nationalized concern cannot, could not go bankrupt—the government is the underwriter of the whole of the enterprise. When unions understood that, and could see could work with annual wage increases, the government then had to maintain a constant loosening of the monetary/fiscal control to allow prices to rise to cancel out the wage and price increases. They are undermined, in a manner of speaking. The nationalized industries were the weak open door through which all of these adverse pressures of union power, inflation, and so forth were operating. It was an extremely bold measure to say, "We'll start with telephones, denationalize the telephones." And in this remarkable book, *Commanding Heights*, there is this remarkable description of the way that telephone companies made you use their telephones, install their equipment, wait for weeks while you moved house to get a telephone reconnected. Suddenly you privatize it, shares [are spread] widely to the public and to workers employed in the industries. So it was a triumphant success with that.

INTERVIEWER: Where did that idea come from, privatization?

LORD RALPH HARRIS: I've got a feeling that some Tory backbenchers like Nigel Lawson and John Biffen—there was some quite bright young Tory backbenchers, total IEA fans. Nicholas Ridley was another. They were well ahead of us in the way of privatizing and denationalization, the actual firming up of the policies. But the compulsion on government was they were luxuries they couldn't afford, so let's turn them into profitable shows.

INTERVIEWER: Margaret Thatcher and her government get a great deal of credit for privatization, but isn't there a more complicated picture? There's a huge flow of ideas across the Atlantic. So where do these ideas originate? Is it Chicago, or is it London, or is it both?

LORD RALPH HARRIS: In America, there was a marvelous economist in Chicago called George Stigler, who was always a mocking and cheerful figure. The long and the short of everything was Stigler and Friedman. But Stigler had worked away on regulation and the absurdities of regulation, the way that when you have a nationalized industry you have regulators to control prices and profits and so forth. Then the regulators get captured because of various pressures which I won't go into now, but the power holders become the target for all sorts of special interests so that regulation begins to be very soft. It's been fierce, controlling monopoly. It begins to be almost reflecting the wishes, to some degree, of the market.

There's been quite a lot of literature on the weaknesses of regulation, as of the weaknesses of monopoly, so that those ideas were all around. After all, although ideas rule the world, say Hayek and Friedman, also what happens on the ground, the evident failure of industries to serve their consumers, they also had some input into the changes of policy. So in the '70s America was ahead of us. Possibly you had this discontent with the public utilities. In Britain you had a long history of the railways and the trains. What was in *The Commanding Heights*—the trains will be late, or some phrase that encapsulates the whole thing. The trains are not running today. They had disgraced themselves. They had made their own case for being knocked on the head, and Thatcher reveled in it.

INTERVIEWER: Did Britain's policy of denationalizing its major industries have an impact on the rest of the world?

LORD RALPH HARRIS: I can't judge that. I read that it did, but the evidence is very clear. When we had these gatherings [of the Mont Pelerin Society], it was an international society. From its original 36 [members], it came to be almost 500—half [from] America, South America, the other half Asia and Europe. When we met together we would have all these discussions. From 1980, I'd suddenly become Lord Harris from being "dear old Ralph." I was asked constantly about privatization—what's Thatcher up to? And there's no question that there's a contagion that spread—such an obvious idea, by the way. I don't know why anyone should get a peerage out of inventing it or publicizing it. It was an idea whose time had come. But you just needed a demonstration by a practical politician who profited politically. She was returned with a bigger majority after she embarked on this course. It was an invitation for

others to follow in her footsteps. So I have no doubt that the demonstration affected Thatcher, and then the myth rose up about privatization. It develops its own momentum, a good idea.

Hayek's Legacy: Did Mont Pelerin Win?

INTERVIEWER: When you think of Hayek as an economist in an English or Anglo-American sense, it sounds like a narrow, number-crunching business, a dismal science, as it's sometimes called. What kind of a thinker is Hayek? What do we mean if you say he's an economist?

LORD RALPH HARRIS: One of the sad things that's happened to economics is that you've departed from the old tradition of political economy. The early founders, like Adam Smith, talked of political economy, which was a wider range of considerations than just economics and money and wealth. It was concerned with law and philosophy and ethics. Adam Smith had a chair in moral science in Glasgow University. But this narrowing down on economics has subtracted a great deal of the importance that was necessary for a full and balanced judgement.

The strengths of the Mont Pelerin Society is you combine Hayek and Friedman as you had two feet to walk—you had both the political economist [in Hayek] and you had the scientific positive economist in Friedman. I've heard people say, by the way, that one of the best sociologists before Weber and all of that was Adam Smith. Adam Smith was a sociologist, was a historian, was a moral philosopher, and also incidentally an economist. Hayek was in that tradition, and even more marked because he did do economics and law in the University of Vienna just after the first world war. That was very attractive, and members of the [Mont Pelerin] Society in my day would often over coffee and drinks in the evening talk about whether they were more Friedmanite than Hayekian. Some of us would be Hayekian in the mornings and Friedmanite in the evenings, so you had this choice all the time. It was a marvelous combination, a very powerful combination, but I don't think Hayek would have been happy to be described just as an economist.

INTERVIEWER: How important a figure has Hayek been for the last 100 years?

LORD RALPH HARRIS: It's only natural that among the cognoscenti there's always a constant discussion about Hayek and Friedman and their relative contributions. [For] six months of my life I was a journalist, and I sometimes managed to think in headlines and phrases. I have settled on the view that Friedman is a man of the century and Hayek is a man of all times. I think Hayek will rank with Adam Smith. He is a man of the breadth and the depth. [Look at] his full list of publications and articles, particular articles—"Individualism True and False" is marvelous, could not be improved upon; "Knowledge of Society"; "The Meaning of Competition"—marvelous 20-page articles that stand on their own as being seminal, new putting together of ideas. I think Hayek stands as a giant, as in the Swiss mountains.

INTERVIEWER: And how does he stack up against people like Karl Marx, Lenin, for that matter Maynard Keynes?

LORD RALPH HARRIS: You're joking. It's always nice for a humble toiler like myself to come to the same conclusion as Hayek independently. But I had always, as an old Cambridge man, disregarded Keynes with his *General Theory of Employment, Money, and Interest*. I say it was not a general theory—it was a theory in the 1930s of high unemployment. It was a specific theory, and that is precisely what I have read Hayek actually say, that *The General Theory* was a time-limited thing, and so it is proved, that has been worn out. As to Marx, although parts of Marx's *Das Kapital*—people told me who've read it, which I have not—has some very good economic analysis and argument in it, it is totally flawed, it is fundamentally flawed, and could not endure as a practical guide to public policy because it ignores altogether the subject of development of individual choice and freedom and waywardness, which the market allows for.

INTERVIEWER: Hayek was, if you like, the principal voice against Keynes. Is it possible to sum up the essence of his critique of Keynes?

LORD RALPH HARRIS: Before we start answering that, I had written these great books on capital theory and the nature of investment, and they were immensely intricate. I've not met people who've read it through and fully understood them. Indeed, he abandoned that line of development later on, but he had fundamental deep, theoretical, penetrating, theoretical doubts about the whole thing. But I think I can tell you what in summary he said.

Keynes, in his *General Theory*, allocated a decisive role to investment. By increasing investment, you increase demand for labor and for machinery, and that would then create incomes. People [were] employed, and they in turn would spend their increased incomes and [that] would lead to a benign extension of demand and prosperity up to the level of full employment. Hayek thought that to talk of investment as though it were a kind of homogeneous tap you just turn on—a bit more investment, send up some more investment—[was wrong]. What about the director of the investment? What about the profitability of the investment? Who will decide how that will be spent? The government will do that. Well, immediately you begin to involve the government in the whole of that. And how would you stop the increasing incomes, spending, the multiplier effect and so on? How would you stop that short of inflation? Oh, well, we'll deal with that. We'll have to turn tap down a bit and compensate and try to keep a balance of some kind. So [Hayek] had profound skepticism about the theoretical validity of this, and then about the political implications that politicians having the power and the assumed right and duty of increasing spending, which was very congenial to politicians. So they would overdo the increased spending, and you would have inflation. One of the things Hayek said [when] he met Keynes ... on one occasion and said, "Maynard, I'm worried about your approach because of the danger of overdoing the expansion into inflation," to which Keynes replied, "I'll use all my influence on the other side; don't worry about that," the assumption being that words from on high—Keynes, after all, who had been running the economic control of the war—that Keynes would be there to show the green light and hold up his hand and put up a red light. That led American economists like Buchanan to talk about the "Harvey Road [presumptions,]" because Harvey Road was where Keynes had lived in Cambridge, and it was the elevated notion that we would be able to control and regulate what politicians did by stopping the inflation in its tracks by a timely word. Keynes died the year [after] Hayek had talked to him, so there was no further check on this danger.

INTERVIEWER: In 1947, 36 scholars [and] journalists met in this hotel in Switzerland [and] set out to make their ideas prevail in the world. In the end, did Mont Pelerin win?

LORD RALPH HARRIS: The answer is yes. If, in 1947, some super-intelligence had [asked] what we do to change the dominant economic ideas at this age, they could not have done better than what happened spontaneously through Hayek, bringing together lively minded people, independent of politics, to explore against the background of history and national

progress in affairs. They could not have done better. A journalist described the Mont Pelerin Society as comparable to the Communist Third International, which was the Communist effort, the Soviet effort, to spread communism throughout the world. And actually, these 36 men meeting here for 10 days in Switzerland did lay the foundation, as it turned out, to a development which [had ramifications] throughout the world, including into Hong Kong and all of that, and which was based, I now discover, on networking. It was a system of informal contacts between scholars who met rarely, but once a year or every two years, and were then in touch with their writings, Buchanan and Friedman and Hayek and all these new-ish developments. That has been a powerful way of spreading this gospel.