



EJW

ECON JOURNAL WATCH
Scholarly Comments on
Academic Economics

Econ Journal Watch

Scholarly Comments on Academic Economics

Volume 15, Issue 3, September 2018

COMMENTS

- And the IMF Said, Let There Be Data, and There Was Data: Private Capital
Stocks in the Eastern Bloc
Ryan H. Murphy and Colin O'Reilly 290–300

CHARACTER ISSUES

- Hayek's Divorce and Move to Chicago
Lanny Ebenstein 301–321

- Icelandic Liberalism and Its Critics: A Rejoinder to Stefan Olafsson
Hannes H. Gissurarson 322–350

- Foreword to "Adam Smith and His Russian Admirers of the Eighteenth
Century"
Daniel B. Klein 351–353

- Adam Smith and His Russian Admirers of the Eighteenth Century
Michael P. Alekseev 354–364

IDEOLOGICAL PROFILES OF THE ECONOMICS LAUREATES

- Eugene F. Fama
Daniel B. Klein 365–375

- Lars Peter Hansen
Daniel B. Klein 376–381

WATCHPAD

Foreword to “Information for the Hair Dressers in Edinburgh”

Daniel B. Klein

382–386

Information for the Hair Dressers in Edinburgh; Against the Incorporation of
Barbers—The Second Edition

Hew Dalrymple (pseud.?)

387–396



And the IMF Said, Let There Be Data, and There Was Data: Private Capital Stocks in the Eastern Bloc

Ryan H. Murphy¹ and Colin O'Reilly²

[LINK TO ABSTRACT](#)

According to an International Monetary Fund (IMF) dataset, most of the economic investment and resultant capital stock in the Soviet Union circa 1965 was private. Isn't it obvious that there's something wrong with the dataset?

Considering the paucity of data for national accounts when looking back more than a few decades, genuine data for the capital stock for so many countries from over fifty years ago would be quite the achievement. The IMF's new "Investment and Capital Stock Dataset" ([link](#)) claims to provide data for stocks of private and public capital from 1960 to 2015 for 170 countries. The current documentation supporting the dataset (IMF 2017a; b) does not describe, much less justify, the assumptions that we criticize in this paper.

There are many reasons for caution when interpreting measures of public capital (see, e.g., Pritchett 2000). However, the IMF makes an important and unreasonable assumption that sets its dataset apart, even considering the sometimes heroic assumptions made in other datasets. The assumption is left unjustified and remains opaque without close scrutiny of the dataset. If the assumption were to be clear and known, it would be immediately obvious that most of the data is synthetic and that the dataset is not credible. The assumption directly applies to 39 percent of the data points in the dataset, and it indirectly impacts nearly all the data points.

Because measuring capital stocks directly is difficult, if not impossible, estimates tend to use what is known as the perpetual inventory method: In each

1. O'Neil Center for Global Markets and Freedom, Southern Methodist University, Dallas, TX 75275.

2. Creighton University, Omaha, NE 68178.

period, new investment is added to the existing capital stock to capture the accumulation of capital, and a depreciation rate is applied to the existing capital stock to reflect depreciation. The perpetual inventory method can be used to construct a country's total capital stock (Christensen and Jorgenson 1969; Baier et al. 2006; Berlemann and Wesselhoft 2014) or its public capital stock (Ratner 1983; Costa et al. 1987; Aschauer 1989; Lynde and Richmond 1993). The IMF uses many of the assumptions made by Christophe Kamps (2006) and Sanjeev Gupta et al. (2014), who construct datasets which provide estimates for both public and private stocks of capital. Surveys of the literature on public capital stocks indicate that increases in their size have positive but heterogeneous effects on growth (Romp and de Haan 2007; Bom and Ligthart 2014).

Those familiar with national accounts may recall that finding a separate measure of private and public investment is more difficult than finding a measure of total investment. Constructing public and private capital stocks would presumably involve a great deal of historical data on public and private investment. The absence of such historical data did not deter the IMF. They assume, in effect, that *the fraction of investment that was private in the earliest year for which there is historical data was also the fraction for all preceding years*. The IMF thereby applies relatively recent data, often from the mid-1990s, to generate data points as far back as 1960 (and the assumption is applied for one hundred years prior to that, in order to construct the 'initial' capital stock of 1960).

The IMF dataset includes data points corresponding to countries operating behind the Iron Curtain, using the modern-day names of countries and constructing synthetic data for them even if they were part of the Soviet Union. For Ukraine, for example, the assumption takes the proportion of public versus private investment as measured in the 1990s and projects that constant proportion backwards in time. But it stands to reason that the private portion of investment was vastly lower when the territory was under Soviet control.

The dataset states that 86.6 percent of all investment in Russia under communism was *private* investment. As a point of reference, by 1990 employment in state enterprises accounted for 90 percent of employment in the Soviet Union, whereas less than four percent of employment was in the private sector (Fischer 1994). Further, during the run-up to transition toward markets and away from central planning, the proportion of public investment likely underwent substantial change. Given the push to industrialize through the accumulation of public physical capital in the Soviet Union, it is unlikely that in Russia the proportion of public investment was constant at 13.4 percent from 1918 to 1990. More anecdotally, in China during the Great Leap Forward private capital was infamously melted down to produce steel for public investment (Li and Yang 2005), a jarring manifestation of compelled changes in the proportion of public and private investment.

One of us (Murphy) uncovered this issue in the midst of searching for new data on public and private stocks of capital or wealth for the *Economic Freedom of the World* (EFW) index. EFW currently lacks such a measure, so its measures of the size of government pertain only to spending flows (e.g., government investment as a percentage of all investment), not stocks. This leads to the criticism that places such as Hong Kong are overrated because, for instance, the index misses that the Hong Kong government owns the housing stock. The coverage of the IMF dataset appeared to be exactly what would have been needed to serve this purpose. Murphy derived what EFW would have likely used as a variable (public capital divided by public plus private capital) for Hong Kong and became concerned when it did not correspond to how Hong Kong is generally portrayed. He then looked at the ratio of private to public investment across time in various countries and realized that much of the dataset was synthetic, upon finding the private investment proportion to be constant across time.

Detailed exposition

Constructing capital stocks using the perpetual inventory method dates to at least the 1950s (Goldsmith 1951), but its application to public capital stocks is more recent (Ratner 1983; Costa et al. 1987; Aschauer 1989; Lynde and Richmond 1993). Robert Ford and Pierre Poret (1991) and Paul Evans and Georgios Karras (1994) study the productivity of public and private capital using data from the OECD “Flows and Stocks of Fixed Capital 1971–1996” dataset, which offered a panel of private and public capital stocks for 12 countries. But the early effort by the OECD to construct a panel of capital stocks was discontinued 1997 because of differences in how each series was constructed (Strum et al. 1998; Kamps 2006). So the IMF is not alone in relying on heroic assumptions to construct flawed datasets of capital stocks.

The starting point for the IMF dataset is Kamps (2006). He uses the perpetual inventory method to construct the first set of comparable public and private capital stocks for a substantial panel, covering 22 OECD countries from 1960 to 2001. Using the same assumptions and methodology, the IMF constructs a series of public and private capital stocks for 170 countries from 1960 to 2015. The perpetual inventory method measures the capital stock (public or private) in period $t+1$, K_{t+1} , as the sum of the capital stock after depreciation (δ is the annual rate of depreciation of the capital stock) and gross investment, I_t .

$$K_{t+1} = (1 - \delta)K_t + I_t \quad (1)$$

The capital stock in period $t+1$ can be written as a weighted sum of past investment and the depreciated capital stock from period one, K_1 , as described in Equation 2. Therefore, constructing a capital stock series requires a figure for the initial capital stock, a depreciation rate, and an investment series.

$$K_{t+1} = (1 - \delta)^t K_1 + \sum_{i=0}^{t-1} (1 - \delta)^i I_{t-i} \quad (2)$$

To estimate the initial public and private capital stock in 1960, Kamps (2006) and later Gupta et al. (2014) construct an investment series that starts in 1860 and grows at four percent per year, such that that series matches the observed level of investment in 1960. Kamps (2006) and the IMF assume that the capital stock was zero in 1860 and calculate the capital stock for each year from 1861 to 1960 using the investment series that grows at four percent per year to arrive at an estimate of the initial capital stock in 1960. The depreciation rates are assumed to change over time as described by Gupta et al. (2014), and new investment is assumed to be made mid-year. Iterative substitution yields the representation in Equation 3, which is used by Kamps (2006) as well as the IMF. Equation 3 is used to calculate both the public capital stock and the private capital stock, with the type of capital indexed by the superscript j .

$$K_{t+1}^j = (1 - \delta_t^j) K_t^j + \left(1 - \frac{\delta_t^j}{2}\right) I_t^j \quad (3)$$

The rationale found in Kamps (2006) for assuming an annual investment growth rate of four percent from 1860 to 1960 is that four percent matches the total gross investment growth rate in 22 OECD countries from 1960 to 2001. For more than a third of the countries in the IMF dataset, these assumptions are extended to the 1990s, when disaggregated investment data become available. The IMF applies the assumption about investment growth in OECD countries to developing and transition economies,³ a questionable modeling decision given the variance in the efficiency of public sector investment (Pritchett 2000).⁴ Even within OECD countries the positive relationship between public capital and output is

3. Modest changes in the investment growth rate can lead to substantial changes in the initial capital stock. Though an inaccurate estimate of the initial capital stock will diminish over time, even 20 years after the initial period differences can be non-trivial.

4. Pritchett (1996; 2000) emphasizes the efficacy of public sector investment and quality of governance in determining the contribution of public investment to the public capital stock. Moreover, the assumptions made by the methodology and Pritchett's criticisms make the figures of time series relationships reported by the IMF (2017a), without reference to these glaring, known issues, all the more puzzling.

heterogeneous (De Jong et al. 2017). Gupta et al. (2014), for instance, when extending the methodology to 52 countries adjust public investment using a measure of the efficiency of public investment. In the IMF dataset, no adjustment for quality is attempted.

Kamps (2006) justifies the assumption of a constant investment growth rate in OECD countries by noting that even countries that experienced a large shock, such as war, are likely to reaccumulate capital quickly following the shock, such as postwar Japan and Germany (Davis and Weinstein 2002; Brakman et al. 2004). Perhaps the justification is reasonable enough for OECD countries with stable institutions, yet the rapid recoveries in Japan and Germany are the exception (Coyne 2007). Countries with weak or unstable institutions, such as those included in the IMF dataset, may not reaccumulate capital quickly, particularly in countries transitioning from central planning (O'Reilly 2015). But these concerns are not what we wish to emphasize.

In the IMF dataset, total investment is the sum of private and public investment, which are listed in separate columns in the dataset. That the dataset only lists public and private investment separately, without providing the total investment number that is used, contributes to the opaqueness of the dataset's assumptions.

Here, to our understanding, is how the IMF creates the dataset in question: The IMF first identifies the earliest year for which total investment data is available. For years prior to those for which historical data is available, the total investment data is constructed by shrinking the level of investment each year such that it corresponds to a four percent growth rate. Then, the earliest year where actual data for the private-public distinction is available is used to calculate a percentage of investment that is public and a percentage private for all previous years. For some years, that percentage may be applied to the observed total investment number. For others, the percentage may be applied to the total investment number corresponding to an investment growth rate of four percent. The assumption of a constant backward-looking public and private investment breakdown is our core criticism. The IMF applies this assumption to 39 percent of the data points in the dataset. We would characterize any of these estimations as being purely 'synthetic,' in contrast to the genuine observations in the dataset.⁵

For example, the earliest year where the public/private breakdown is available in Russia is 1994, a point in time in which private investment made up 86.6 percent of the total investment. For all previous periods, the percentage of investment that was private is assumed by the IMF to be 86.6 percent. An overall

5. We do not characterize post-1960 data points constructed using the assumption of a four-percent investment growth rate as synthetic unless those data points were constructed with additional assumption about the proportion of public and private investment.

investment figure—without public/private breakdown—is available for Russia back to 1989. As for years prior to 1989, no investment figures were had. Overall investment was assumed to grow at four percent such that it achieves the actual investment total in Russia in 1989, and 86.6 percent of the investment each year being private investment. Both investment series are then fed into the perpetual inventory methodology to yield public and private capital stocks by year. The dataset thereby reports synthetic figures for both public investment and private investment for every year going back to 1960.

To assume that the breakdown between private and public investment in Russia was roughly constant over the period 1960 to 1994 is surely systematically wrong, as this is literally to assume that 86.6 percent of investment under communism was private. Public investment as percentage of all investment for all members of the Eastern Bloc, and the year that percentage actually corresponds to, are given in Table 1. The same issue applies to other countries which experienced communism, or socialism, besides members of the Eastern Bloc—conservatively, such as Vietnam, Laos, and Angola⁶—but we limit the list to the Eastern Bloc for the sake of simplification and exposition.

The post-transition proportions of private investment in Table 1 likely overstate the true proportion of private investment under central planning. Most of the genuine data points for the Eastern Bloc, from which the synthetic data points are derived, come from the early 1990s, with all besides Bulgaria beginning in 1989 or later. Georgia's is the latest, and corresponds to 2002. Macedonia and Turkmenistan are not in the dataset, but if the IMF's methodology were applied consistently, an even more recent data point may be used for them were they included in the future. A few of these figures (including those of Bulgaria) are somewhat believable for the more liberal eras and regions of the Eastern Bloc, such as they were, but nearly all of the synthetic data points seem to have no correspondence whatsoever with the histories of the countries or regions.

To our knowledge, the IMF has not made explicit any justification for the choices it made in generating the dataset. The IMF could argue that the years under communism have little weight for the most recent cross-sections, since the capital has been depreciated to essentially zero (whether it would have low weight is contingent on the depreciation rate). Second, much of the public capital stock was, somewhat infamously, privatized following the breakup of the Soviet Union.

6. It is difficult to be certain which countries actually attempted to impose the collectivization of the means of production. Many of the countries that were nominally communist or socialist states were failed states that did not have the capacity to impose socialism (cf. Murphy 2018). It is even possible that high levels of 'private investment' for these countries is plausible if the informal economy is included. Two non-Eastern Bloc countries where data does peer back before communism was rolled back, Mongolia and China, do show very low levels of private investment, consistent with a state-run economy.

Suppose the private-public breakdown from 1994 roughly corresponds to the breakdown between factories (private capital) and bridges (public capital) after privatization. If so, the 1994 breakdown may very crudely function as a proxy, but why use this crude proxy in place of a single rough estimate of public and private investment for all formerly communist countries? The 1994 capital stock could then be used as an extremely rough starting point for the capital stock today, just as the earlier assumption of four percent investment growth functions as such.

TABLE 1. Private investment as a percentage of total investment assumed by the IMF for Eastern Bloc countries during their communist years, and year to which the actual data corresponds (present-day country names used)

Country	'Private investment'	Year
Albania	65.44%	1989
Armenia	71.49%	1994
Azerbaijan	90.52%	1992
Belarus	88.95%	1989
Bosnia	55.73%	1997
Bulgaria	64.45%	1982
Croatia	70.74%	1991
Czech Republic	85.81%	1994
Estonia	85.58%	1999
Georgia	78.36%	2002
Hungary	89.47%	1994
Kazakhstan	91.75%	1993
Kyrgyzstan	68.20%	1993
Latvia	89.55%	1994
Lithuania	84.79%	1992
Moldova	85.15%	1993
Montenegro	83.28%	1999
Poland	70.87%	1994
Romania	51.24%	1989
Russia	86.57%	1994
Serbia	95.69%	2001
Slovakia	86.29%	1992
Slovenia	84.57%	1994
Tajikistan	46.47%	1997
Ukraine	87.71%	1993
Uzbekistan	66.31%	1993

Lastly, one might argue for a conception whereby 'public capital' includes infrastructure and government buildings, while 'private capital' is only some more narrowly conceived means of production. Using the most recent data for 'public'

and 'private' investment would then be a crude proxy for that alternative conception of such variables. But such conceptions are not supported by any statement by the IMF in connection with this project. Moreover, the alternative conception fails to consider that various pieces of infrastructure in the developed world, including railways and airports, are now in the private sector and spending on them falls in the private investment portion of national accounts. That is to say, there are both factories that properly belong in 'public capital' and airports that belong in 'private capital.' Therefore, we do not find this interpretation to be useful, though perhaps something like it is what the IMF was thinking, if only inchoately.

The way the dataset is currently constructed gives the impression that there is genuine data specific to each country and year. But the data provided do not meaningfully constitute a 'panel' going back for any but a very select set of countries with rich data breaking down public and private investment extensively. The countries in question correspond to, more or less, what Kamps (2006) previously found. The degree to which Kamps (2006) could be further extended has seemingly already been explored by Florence Arestoff and Christophe Hurlin (2006) and Gupta et al. (2014); other recent literature such as De Jong et al. (2017) and Serkan Arslanalp et al. (2010) similarly employ the Kamps (2006) methodology with only a modest number of countries. Though the issues raised here have been framed in terms of post-communist countries, and the Eastern Bloc specifically, dramatic institutional change occurred throughout the world, as many countries either dabbled in socialism or, even if not, often nationalized entire industries. Without more research attempting to construct national accounts data for years and countries where historically it does not exist in its complete state, little can be gained by extending the methodology to countries not found in the analysis of Gupta et al. (2014). If such a high proportion of the data points that are unique to the IMF dataset are simply synthetic, the dataset as a whole may add negative value.

For countries in which it can be shown that the lack of early data for the breakdown between public/private investment does not materially matter, constructing a cross-section or short panel of disaggregated capital stock estimates may be useful. A cross-section corresponding to a recent year may in fact allow several former communist countries to reasonably appear in the dataset if the communist years have sufficiently low weight in the perpetual inventory method. But doing so would call for the project to dial back its ambitions. In any case, the IMF should know better than to produce datasets showing that most of the capital stock in the Soviet Union was private circa 1965.

References

- Arestoff, Florence, and Christophe Hurlin.** 2006. Estimates of Government Net Capital Stocks for 26 Developing Countries, 1970–2002. *World Bank Policy Research Working Paper* 3858. World Bank (Washington, D.C.). [Link](#)
- Arslanalp, Serkan, Fabian Bornhorst, Sanjeev Gupta, and Elsa Sze.** 2010. Public Capital and Growth. *IMF Working Paper* WP/10/175. International Monetary Fund (Washington, D.C.). [Link](#)
- Aschauer, David Alan.** 1989. Is Public Expenditure Productive? *Journal of Monetary Economics* 23(2): 177–200.
- Baier, Scott L., Gerald P. Dwyer, and Robert Tamura.** 2006. How Important Are Capital and Total Factor Productivity for Economic Growth? *Economic Inquiry* 44(1): 23–49.
- Berlemann, Michael, and Jan-Erik Wesselhoft.** 2014. Estimating Aggregate Stocks Using the Perpetual Inventory Method. *Review of Economics* 65(1): 1–34.
- Bom, Pedro R. D., and Jenny E. Ligthart.** 2014. What Have We Learned From Three Decades of Research on the Productivity of Public Capital? *Journal of Economic Surveys* 28(5): 889–916.
- Brakman, Steven, Harry Garretsen, and Marc Schramm.** 2004. The Strategic Bombing of German Cities During World War II and Its Impact on City Growth. *Journal of Economic Geography* 4(2): 201–218.
- Christensen, Laurits R., and Dale W. Jorgenson.** 1969. The Measurement of U.S. Real Capital Input, 1929–1967. *Review of Income and Wealth* 15(4): 293–320.
- Costa, José da Silva, Richard W. Ellson, and Randolph C. Martin.** 1987. Public Capital, Regional Output, and Development: Some Empirical Evidence. *Journal of Regional Science* 27(3): 419–437.
- Coyne, Christopher J.** 2007. *After War: The Political Economy of Exporting Democracy*. Stanford, Calif.: Stanford University Press.
- Davis, Donald R., and David E. Weinstein.** 2002. Bones, Bombs, and Break Points: The Geography of Economic Activity. *American Economic Review* 92(5): 1269–1289.
- De Jong, Jasper, Marien Ferdinandusse, and Josip Funda.** 2017. Public Capital in the 21st Century: As Productive as Ever? *DNB Working Paper* 542. De Nederlandsche Bank (Amsterdam). [Link](#)
- Evans, Paul, and Georgios Karras.** 1994. Is Government Capital Productive? Evidence from a Panel of Seven Countries. *Journal of Macroeconomics* 16(2): 271–279.
- Fischer, Stanley.** 1994. Russia and the Soviet Union Then and Now. In *The Transition in Eastern Europe*, eds. Olivier Jean Blanchard, Kenneth A. Froot, and Jeffrey D. Sachs, 221–252. Chicago: University of Chicago Press.
- Ford, Robert, and Pierre Poret.** 1991. Infrastructure and Private-Sector Productivity. *OECD Economic Studies* 17(Autumn): 63–89. [Link](#)
- Goldsmith, Raymond W.** 1951. A Perpetual Inventory of National Wealth. In *Studies in Income and Wealth*, vol. 14, eds. Martin R. Gainsbrugh and Elwyn T. Bonnell, 5–73.

- Cambridge, Mass.: National Bureau of Economic Research. [Link](#)
- Gupta, Sanjeev, Alvar Kangur, Chris Papageorgiou, and Abdoul Wane.** 2014. Efficiency-Adjusted Public Capital and Growth. *World Development* 57(May): 164–178.
- International Monetary Fund.** 2017a. Estimating the Stock of Public Capital in 170 Countries. January. International Monetary Fund (Washington, D.C.). [Link](#)
- International Monetary Fund.** 2017b. FAD Investment and Capital Stock Database 2017: Manual & FAQ—Estimating Public, Private, and PPP Capital Stocks. International Monetary Fund (Washington, D.C.). [Link](#)
- Kamps, Christophe.** 2006. New Estimates of Government Net Capital Stocks for 22 OECD Countries, 1960–2001. *IMF Staff Papers* 53(1): 120–150.
- Li, Wei, and Dennis Tao Yang.** 2005. The Great Leap Forward: Anatomy of a Central Planning Disaster. *Journal of Political Economy* 113(4): 840–877.
- Lynde, Catherine, and J. Richmond.** 1993. Public Capital and Total Factor Productivity. *International Economic Review* 34(2): 401–414.
- Murphy, Ryan H.** 2018. The Best Cases of “Actually Existing Socialism.” *Independent Review* 23(2). [Link](#)
- O’Reilly, Colin.** 2015. Firm Investment Decisions in the Post-Conflict Context. *Economics of Transition* 23(4): 717–751.
- Pritchett, Lant.** 1996. Mind Your P’s and Q’s: The Cost of Public Investment Is Not the Value of Public Capital. *Policy Research Working Paper* 1660. World Bank (Washington, D.C.). [Link](#)
- Pritchett, Lant.** 2000. The Tyranny of Concepts: CUDIE (Cumulated, Depreciated, Investment Effort) Is Not Capital. *Journal of Economic Growth* 5(4): 361–384.
- Ratner, Jonathan B.** 1983. Government Capital and the Production Function for U.S. Private Output. *Economics Letters* 13(2–3): 213–217.
- Romp, Ward, and Jakob de Haan.** 2007. Public Capital and Economic Growth: A Critical Survey. *Perspektiven der Wirtschaftspolitik* 8(S1): 6–52.
- Sturm, Jan-Egbert, Gerald H. Kuper, and Jakob de Haan.** 1998. Modelling Government Investment and Economic Growth on a Macro Level: A Review. In *Market Behaviour and Macroeconomic Modelling*, eds. Steven Brakman, Hans van Ees, and Simon K. Kuipers, 359–406. London: Macmillan.

About the Authors



Ryan H. Murphy is a research assistant professor at the O'Neil Center for Global Markets and Freedom at SMU Cox School of Business. He received his B.A. in economics from Boston College and his Ph.D. in economics from Suffolk University in 2013, and he works closely with the *Economic Freedom of the World* index, where he will be added as an author beginning with the 2018 edition. His research has been published in *American Journal of Agricultural Economics*, *Public Choice*, *Public Health*, *Journal of Institutional Economics*, and *Contemporary Economic Policy*. His email address is rhmurphy@smu.edu.



Colin O'Reilly is an Assistant Professor of Economics in the Heider College of Business at Creighton University. He is also a scholar at the Institute for Economic Inquiry and the director of the Business Research Fellows program. In 2014 he received his Ph.D. in economics from Suffolk University where he studied economic development and capital accumulation following violent conflict. His research has been published in *Economics of Transition*, *World Development*, *European Journal of Political Economy*, and *Public Choice*. His email address is ColinOReilly@creighton.edu.

[Go to archive of Comments section](#)
[Go to September 2018 issue](#)



Discuss this article at Journaltalk:
<https://journaltalk.net/articles/5971>



Hayek's Divorce and Move to Chicago

Lanny Ebenstein¹

[LINK TO ABSTRACT](#)

The personal life of a great intellectual is not always highly pertinent. Although Friedrich Hayek may have been, in his son's words, "the great philosopher with feet of clay" (L. Hayek 1994–1997), his clay feet would not necessarily detract from his scholarly contributions. But since Hayek was a moral philosopher—his title at the University of Chicago was Professor of Social and Moral Science—his personal life may be more relevant than would be the case for intellectuals in other fields.

The history of Hayek's personal life has not always, to this point, been accurately told. The story of his divorce and move to Chicago has often been presented as one in which he discovered after World War II on a visit to Vienna to see his mother and other family members that a distant cousin of his, Helene Bitterlich, with whom he had a relationship as a young man, felt free to marry him. After Helene's husband died, she and Hayek decided to marry, requiring Hayek to divorce his first wife, the former Hella Fritsch. At the same time, it has been suggested, he began to feel out of place in England in the immediate postwar era as a result of the policies of the first Labour Party government. He relocated to America, having first sought a post in the Economics Department at the University of Chicago and then, after being turned down by it as a result of *The Road to Serfdom* (1944), having been offered a position in the Committee on Social Thought. But almost no aspect of this presentation is entirely correct, much of it is factually inaccurate, and much else is omitted.

During the 26 years since he died in 1992, considerable information has be-

1. University of California, Santa Barbara, Santa Barbara, CA 93106.

come available about Hayek's personal life. This includes material on his divorce, second marriage, relocation from the London School of Economics to the Committee on Social Thought, and relationship with the Chicago Economics Department. The purpose of this article is to present much of this information—building largely on extensive archival research by a number of scholars and the memoir of Hayek's last and longtime secretary, Charlotte Cubitt (2006), which is essential reading for anyone interested in the life of Hayek. Together with information this writer has collected, it is now possible to portray Hayek's divorce and move to Chicago more accurately than has previously been the case.

Hayek was born in 1899 in Vienna, then capital of the far-flung and ramshackle Austro-Hungarian Empire. His immediate family was progressive and tolerant. His father was a medical doctor and botanist. Though his family was nominally Catholic, Hayek was discouraged at a young age from becoming too interested in religion. At one point in high school, he got in trouble with the school authorities for reading socialist literature during a divinity lesson. From when he was a teenager onward, he was a lifelong agnostic.

There is nothing in his work to suggest Hayek was a puritan or a prude. In *The Constitution of Liberty*, he advocated legalization of homosexual acts (Hayek 1960, 451). He wrote in *The Fatal Conceit*: “I believe that new factual knowledge has in some measure deprived traditional rules of sexual morality of some of their foundation, and that it seems likely that in this area substantial changes are bound to occur” (Hayek 1988, 51).

The best work to date on Hayek's divorce and second marriage is by Kenneth Hoover (2003). As Hoover traced, Hayek and his second wife had had a long-standing relationship while both were married to their first spouses. This is also indicated in a 1950 letter from Hayek to Karl Popper, where he said: “This is a story which goes fifteen or rather thirty years back. We ought to have married then... For a long time we tried to stick it out. But it is now nearly fifteen years that I first tried to persuade my wife to give me a divorce” (quoted in Howson 2011, 705). Hayek thus asked for a divorce as early as 1935. Hoover wrote that in 1934 Hayek “traveled alone to Carinthia and visited his first love, Helene Bitterlich Warhanek. They stayed up long into the night talking of their feelings for each other and...decided then to seek a way of being together for the rest of their lives. Up until the outbreak of the war, they saw each other three or four times a year” (Hoover 2003, 107). “Hayek had fallen in love with his cousin Helene Bitterlich prior to leaving for America” in 1923, Hoover also wrote, “and had wished to marry her. Apparently misunderstanding his intentions, she accepted the proposal of Herr [Hans] Warhanek, a rival suitor favored by her family who had become

involved with her during Hayek's absence in America" (ibid., 74).

Helene's own depiction of her early relationships was communicated to Cubitt, who presents it as follows:

She had never been in love with her first husband. She had married him solely to have children, but had learnt to love him in time. She had got to know him because he had frequently been admitted to their home, and she had been carried away by his ardent wooing. She should not have allowed him to do what he did, so she had to marry him, and while she was still suckling her first child Hayek had reproached her for marrying too quickly, and had urged her to seek a divorce. From that moment on she had been the victim of constant ups and downs, believing at one time that divorce was possible, and at other times that it was not. (Cubitt 2006, 211)

Cubitt remembers Helene, Hayek's second wife, as an attractive woman and describes a photo of her as a young woman: "Helene Bitterlich, as she was then, was dressed in the kind of costume I associated with the Edwardian age and looked perfectly stunning. It was small wonder Hayek had fallen in love with her and could never forget her" (ibid., 65).

Hayek returned to Vienna in 1924 from his postgraduate sojourn in the United States. On August 4, 1926, he married Hella Fritsch, a secretary in the office in which he was employed. He later recalled that she was a "very good wife to me, but I wasn't happy in that marriage" (quoted in Ebenstein 2001, 169). He and Hella had two children, Christine born in 1929 and Laurence born in 1934. In 1931, the family moved from Austria to England when Hayek received a professorship at the London School of Economics (LSE). Helene and Hans Warhanek also had two children, Max born in 1924 and Hans born in 1926.

Hayek and Helene's decision in 1934 that they must be together was delayed by the chaotic European political scene in the second half of the 1930s and then by World War II, which commenced in Europe in September 1939. Hayek later recollected that he visited Helene in Austria as late as the summer of 1939, "even though it was likely that war might break out at any moment" (Hayek 1994, 137). As a result of the Soviet Union's occupation of Vienna following the war, it was not possible for him to visit Helene again until the winter of 1946–47. Hoover said of this trip that Hayek was "reunited once again with his first love, Helene Warhanek... The experience of their reunion moved him deeply. Hayek and Frau Warhanek decided to seek divorces" (2003, 188).

It was not possible for Hayek to effectuate a divorce and then marry Helene without a larger income than he received from LSE. He would simultaneously have to provide both for Helene and his first family. He accordingly began to look for a position in the United States. He later wrote that he "should never have wished to

leave England,” as a result of the close cultural and intellectual affinity he had come to feel for it, had it not been in the “first instance solely that it offered the financial possibility of that divorce and remarriage which I had long desired and which the war had forced me to postpone for many years” (1994, 126). Notwithstanding the success of *The Road to Serfdom*, he was never rich, or even especially well-off, until late in life.

Helene’s husband acceded to a divorce, but Hayek’s wife did not. Hella had, from her perspective, done everything required of a wife. She had dutifully moved to England when the LSE offered Hayek a professorship in 1931. At the beginning of 1947, their children Christine and Laurence were 17 and 12 years old. They were thoroughly Anglicized, especially as a result of experiencing World War II in England together with no trips to Austria during the war period. They were never going to move to Austria to live.

Hella felt obligated to remain in England, because this was where her children were going to live. She had done nothing wrong, as, indeed, Hayek later acknowledged. She had no independent means of financial support. In an era when divorce was uncommon and frowned upon, her life would be shattered, especially given the circumstances of a double divorce to be followed immediately by Hayek’s marriage to Helene. Lionel Robbins, who would correspond to Hayek on Hella’s behalf during the final stages of their divorce, wrote at that time: “To grow old alone in a land which is not one’s own by birth is not a cheerful prospect” (quoted in Howson 2011, 704).

Hayek and Helene were nevertheless determined to marry. He made several attempts to be appointed to an academic position in the United States after his winter 1946–47 trip to Vienna. Prior to this time, he had not sought a post in America. He visited Helene in Vienna a number of times in the late 1940s after his initial postwar trip, spending part of the summer of 1948 at the University of Vienna.

Following his return from the first conference of the Mont Pelerin Society in April 1947, he actively sought an academic position in the United States. Though this was largely for financial reasons, he may also have realized that his circumstances in England would be different after the successful completion of his and Helene’s plan. A double divorce, especially if his first wife opposed it, would have been somewhat notorious and sensational (Cubitt 2006, 66, 67). He was a public figure in England. In addition to publishing *The Road to Serfdom* and being a prominent economist, he was a figure in the 1945 first postwar Parliamentary election in which Winston Churchill was defeated. Churchill alluded to Hayek’s ideas in his first campaign radio address, on June 4: “My friends, I must tell you that a socialist policy is abhorrent to the British ideas of freedom. . . . No socialist system can be established without a political police. . . . They would have to fall back on

some form of Gestapo” (Churchill 1974, 7171–7172).

This speech backfired, especially Churchill’s reference to the Gestapo, which became the most referenced part of the address. He seemed to equate his former partners in the wartime coalition government—including the Labour Party’s Clement Attlee, who had been Deputy Prime Minister and who was now running against him—with the Nazis right as the worst news about Germany during the war was coming out: the concentration camps and genocide practiced against Jews. Attlee pounced. In his own nationwide radio speech the next night, June 5, Attlee said that Churchill’s position was the “second-hand version of the academic views of an Austrian professor, Friedrich August von Hayek” (quoted in Morgan 1985, 39). The following day, the *Manchester Guardian* headlined a front-page story “Second-Hand Ideas from an Austrian Professor,” citing Hayek. All the major papers reported the story, and some published excerpts from *The Road to Serfdom*. On June 17, the *Sunday Graphic* reported that the book had become the “nation’s number one talking point.”

In addition, it may be that Helene favored a move to America. Her relations with Hayek’s first family, long after Hella died, were always ice-cold at best and hostile at worst. In the same way that Hayek’s situation would be difficult in England, so Helene’s could have been in Vienna. Going to the United States might have been the best personal, as well as financial, course for both of them. According to Cubitt in summarizing a conversation with Helene: “The idea of going to the United States in order to enforce a divorce had come from her” (Cubitt 2006, 211). Further, it is an open question whether Helene would have liked to live in England, especially soon after World War II.

Hayek’s first attempts for a position in the United States were made mostly during the second half of 1947 and first half of 1948 at the Institute of Advanced Studies in Princeton and then at Princeton University itself, but neither bore fruit. Then, as he was casting about for a position elsewhere, an opportunity in the Committee on Social Thought at the University of Chicago emerged. The independent chair of the Committee, John Nef, was a great admirer of Hayek, and the chancellor at Chicago, Robert Maynard Hutchins, might look with favor on the conservative Volker Fund, which was Hayek’s chief financial sponsor in the United States, providing the financial resources necessary for an appointment.

In a May 9, 1948, letter from Hayek to Volker Fund director Harold Luhnnow, Hayek was very clear that he required a large salary in order to finance his personal circumstances (Hoover 2003, 190–191). The figure he mentioned was \$15,000 per year, which would have been a top academic salary at the time (*ibid.*). During the remainder of 1948 and early 1949, negotiations for a post on the Committee on Social Thought were successful. Hayek hoped he would be able to start at Chicago in the fall of 1949, but Hella was adamant in refusing to give him a divorce.

At this point, according to Hoover, Hayek's "situation at home had now become a full-blown crisis.... [Hella] informed him in the fall of 1948...that she had taken legal advice and would resist the divorce and had been ensured that he could not get a divorce without her cooperation. She refused henceforth to discuss the matter... she averred that she would take action to annul a divorce" (2003, 192). What was Hayek to do?

Hayek and Helene's intention to obtain divorces and marry each other was not known to his friends and colleagues, with the partial exception of Robbins. The Robbinses and Hayeks were very close personally. They lived near each other in the Hampstead Garden suburb of London, along with other members of the Economics Department. Robbins played the major role in Hayek coming to LSE in 1931, they co-taught the major seminar in economics at the school, and Robbins was a charter member of the Mont Pelerin Society and played a significant role at the first meeting in 1947. Hayek later remembered that the Robbinses "became our closest friends" (Hayek 1994, 78) in London, and that he and Robbins had "the sort of informal friendship that one just walked into each other's houses at any time of day or evening" (quoted in Ebenstein 2001, 82). Hella Hayek and Iris Robbins, Lionel's wife, were close friends. Following the evacuation of children from London during the war, Hella and the Hayek children lived with Iris and the Robbins children for some months in Buckinghamshire. Robbins was godfather to Laurence Hayek.

During 1949, Hayek and Hella became even more entrenched in their positions. She wrote unsuccessfully to Nef in Chicago discouraging an appointment for Hayek, and Hayek developed a plan that did not require her approval or participation (Hoover 2003, 192–193). He would go to the Committee on Social Thought at Chicago for the winter quarter of 1950 on a temporary basis, four months later than he initially intended. He would then proceed to Arkansas for the spring quarter of 1950, as Arkansas at that time had among the most permissive divorce laws in the United States. Following a divorce in Arkansas, he would marry Helene in Vienna during the summer and they would thereafter journey to Chicago to begin their new life together. This is what they then proceeded to do.

As previously in the postwar period, 1949 was a year of travel for Hayek, with multiple trips to Vienna and elsewhere. From July 3 to 9, 1949, the Mont Pelerin Society held its second conference in Seelisberg, Switzerland. On December 27, 1949, he left his family home in London, never to return. He headed first to the American Economic Association conference in New York and then to the University of Chicago and his temporary winter 1950 post with the Committee on Social Thought. Since he would thereafter establish residence in Arkansas in order to petition for a divorce, and had to attest to residency in Arkansas, his permanent appointment on the Committee could not commence until the fall of 1950.

In February 1950, having arrived in Chicago and establishing that circumstances were satisfactory there and it would be possible to effectuate his divorce in America, he resigned his position at the London School of Economics. This took Robbins and others in London by surprise. They had thought he was taking another of his extended visits abroad as he had several times since 1945. When Hayek left England at the end of 1949 for a temporary appointment with the Committee on Social Thought, he did not inform his LSE colleagues that he did not intend to return. Now, in a letter to Robbins on February 16, 1950, he acknowledged that his resignation would be “a great shock” (quoted in Howson 2011, 704). He asked Robbins and his wife, in Susan Howson’s words summarizing this correspondence, to “help his wife as they would if he had died” (2011, 704).

Robbins acted appropriately in supporting Hella after Hayek left her. Robbins was a sophisticated man with high standards and a strong sense of what is right. Ludwig von Mises described him as someone “whom I and all people respect for his righteousness and fairness as well as for his keen judgment” (Mises 1947). Robbins could not have been expected to take Hayek’s side in the divorce. Hella was devastated and alone in England: she had no one to turn to but the Robbinses. It also bears mentioning that when in February 1950 Hayek sent his letter of resignation to LSE, he asked for a sabbatical leave and hence salary for the summer of 1950, though he would not be returning to the school. As recorded in the minutes of the LSE Standing Committee: “Professor Robbins said that the circumstances were unusual. Professor Hayek’s resignation was unexpected and would be a grief to his colleagues. If he had applied for sabbatical leave at an earlier point, it would have been felt that...he deserved it, and he personally would like to wind up Professor Hayek’s association with the School on good terms” (quoted in Howson 2011, 704). Though the sabbatical was not granted, LSE would now pay his salary through June, even though he was away.

Robbins corresponded with Hayek on behalf of Hella in the late winter and spring of 1950, when Hayek was at the University of Chicago and then at the University of Arkansas at Fayetteville. Robbins’s primary concern for Hella was not the divorce per se, but that Hayek had not made specific financial provisions for her. In addition, he was concerned personally (though not, as we have seen, professionally) with Hayek’s deception toward him and others regarding the purpose of his travel to America in January 1950 and with Hayek’s intention to seek a divorce in Arkansas which would not require Hella’s assent.

Following an acrimonious correspondence with Robbins, Hayek agreed to a divorce settlement in which he would pay Hella \$1,540 annually plus an additional amount to cover taxes on this payment. He also agreed to pay \$280 per year for each of their children until they were 21 years of age or had completed their education, again with an additional amount to cover taxes. He paid off the mortgage on the

family home in London (about \$3,500) and deeded the property to her, and he also made an annual payment to her of about \$470 for life insurance policies (*Hayek v. Hayek* 1950, Book 42, 193–196).

Hayek and Hella experienced great personal trauma during their divorce. But the greatest misfortune of Hayek's and Helene's originally planned double divorce and second marriage was that Helene's first husband died of a heart attack in the late spring of 1950, shortly before his and Helene's divorce had been finalized. According to Cubitt, Helene, "believing that her insisting on a separation had driven him to his early death, had a nervous breakdown" (2006, 141).

The 1950s were productive years in Hayek's extraordinarily fecund career. Four books followed in short order after his relocation to the Committee on Social Thought: *John Stuart Mill and Harriet Taylor: Their Friendship and Subsequent Marriage* (1951), *The Counter-Revolution of Science: Studies on the Abuse of Reason* (1952), *The Sensory Order: An Inquiry into the Foundations of Theoretical Psychology* (1952), and, as editor, *Capitalism and the Historians* (1954). In 1955, he and Helene traveled to Egypt where he gave the lectures that would form the basis of his great Chicago work, *The Constitution of Liberty*, in 1960.

He did not see his children much while his first wife was alive. His daughter remembers traveling with him in Italy and France once or so during the 1950s, and his son also remembered traveling a small amount with his father. Christine and Laurence did not visit him in the United States while he was at the University of Chicago. Hella died at age 58 in 1960. Soon thereafter, Robbins reconciled with Hayek. He penned a warm review of *The Constitution of Liberty* weeks after she died: "I have written as I should talk if we were having a friendly discussion in the staff seminar here, as we have done so often in the past," remarking on "Professor Hayek's luminous exposition" and concluding that the book was a "work which surely no one with even a bare minimum of magnanimity and sense of what is fine can read without gratitude and admiration" (Robbins 1961, 67, 69–70). The two men reconciled in person at the wedding of Hayek's son in 1961.

An old friend of Hayek's from Vienna, Fritz Machlup, said of Hayek's divorce and second marriage that he "married the woman he loved" (Cubitt 2006, 119). According to Cubitt, Helene said "they had done no wrong except for what she called the 'de facto' situation, namely that of being in love" (*ibid.*, 126).

Hayek was asked in a 1978 interview: "All of us in our lifetime have faced problems where we have said, 'Here is a moral standard, and I want to break it.' . . . You must have had some. Would you be willing to maybe indicate what some of those were?"

I know I've done wrong in enforcing divorce. Well, it's a curious story. I married on the rebound when the girl I had loved, a cousin, married somebody

else. She is now my present wife. But for 25 years I was married to the girl whom I married on the rebound, who was a very good wife to me, but I wasn't happy in that marriage. She refused to give me a divorce, and finally I enforced it. I'm sure that was wrong, and yet I have done it. It was just an inner need to do it. (quoted in Ebenstein 2003, 125)

In the video of this interview, Hayek appears to consider making a more detailed statement about his marital circumstances before backing off and making more general, less revealing comments. When asked as a follow-up question, "You'd do it again, probably," he responded after obvious agitation, discomfort, deliberation, and reluctance to answer, "I would probably do it again" (*ibid.*).

Hayek's family has remained very reticent to discuss his divorce and second marriage, as has Helene's (Warhanek 1999). In a 1999 letter, Laurence Hayek wrote of his father's divorce and second marriage that "the whole story was an episode of his life of which he was not proud" (L. Hayek 1999). Concerning his father's and Helene's relationship before they married, Laurence, who was loyal to both his father and his mother, once remarked, "I think it's pretty obvious what was going on" (L. Hayek 1994–1997). This writer had one contact with Helene Hayek, who died in 1996. She commented in declining an interview in 1995 that she was "very much alone without my husband" (quoted in Ebenstein 2003, 126). I was permitted to visit the Hayek apartment in Freiburg and look at his library and other rooms there. On his desk was the photo of Helene as a beautiful young woman in Vienna, so many years before.

Hayek was European in outlook and had intended to remain in England for the rest of his life. In a May 1945 letter, he wrote that he would remain in England because the "decisive struggle of ideas will have to be fought in Europe" (quoted in Hoover 2003, 187). He said in the 1944 paper "Historians and the Future of Europe," which was the genesis of the Mont Pelerin Society, that "whether we shall be able to rebuild something like a common European civilization after this war will be decided mainly by what happens in the years immediately following it"; "the future of England is tied up with the future of Europe" (Hayek 1967/1944, 135). He also felt obligated to help rebuild the program at LSE in the immediate postwar period (Hoover 2003, 187). Before 1945, the only time he had been in the United States was during his postgraduate stay in New York in 1923 and 1924.

From April 1 to 10, 1947, he presided at the first meeting of the Mont Pelerin Society, which took up much of his time in the run-up to the conference and immediately following it. On June 3, 1947, he wrote to Jacob Viner (formerly at the University of Chicago and then at Princeton) asking whether he would participate in Mont Pelerin Society activities. He added as a postscript that if Viner heard

of an opening at the Institute of Advanced Studies in Princeton, whose faculty included Albert Einstein, he would be very interested (Hayek 1947a). This was less than five months after returning from Vienna and less than two months after the first meeting of the Mont Pelerin Society. Viner replied promptly, declining membership in the Society and saying he would check into opportunities for Hayek (Hoover 2003, 190).

The next month, Hayek wrote Viner again. Now the focus of his correspondence was employment. He wrote of his circumstances that most “teaching positions in the States are financially not attractive enough to compensate for the personal complications and extra financial burdens which a move to the States would in my case involve” (quoted in Van Horn and Mirowski 2015, 164), though he did not say what these complications and burdens were. He also mentioned, though he did not emphasize, the possibility that he might be able to obtain private funding for a position and indicated that part of his attraction to the Institute was that he would not have teaching responsibilities (Hayek 1947b).

In the coming year, his efforts to obtain a position in the United States intensified. In the late spring of 1948, Harold Luhnow of the Volker Fund and others renewed efforts to obtain a position for him at the Institute of Advanced Studies, but these were unsuccessful. Robert Oppenheimer, director of the Institute, wrote: “In the past, the Institute has not accepted, and in the future it probably cannot properly accept, funds as specifically allocated by the donors as would be implied by your offer” (quoted in Van Horn and Mirowski 2015, 164). Kenneth Hoover commented: “The principle was fundamental to academic freedom. University professorships should not be controlled by outside interests who wished to borrow academic credibility for the advocacy of their positions” (2003, 190).

Hayek wrote to Viner again, on June 11, 1948, expressing interest in a research professorship at Princeton University itself, independent of the Institute. Hayek had no hesitation at this point to “accept a position at an academic institution out of means provided by [the Volker] fund” (quoted in Hoover 2003, 191). Viner wrote back that other Princeton authorities, too, found a Volker-funded, permanent appointment “impossible to accept.” “I think you are going to run into the same situation,” Viner added, “at any of the respectable institutions; they will be reluctant to appoint to their staffs anyone...proposed to them from outside.... [W]ould it not be a possible solution if your contract were with the sponsoring foundation and that the only relationship of the university to you and the foundation would be that they would agree to accept you as, say, a ‘guest professor’ with no duties and with the privileges of a guest only?” (Viner 1948). This was not, however, acceptable to Hayek. Interest on Hayek’s part at Yale and Columbia was also unfruitful.

As his attempts to be appointed at Princeton were winding down, there

emerged a new opportunity at the University of Chicago. Recall that in his May 9, 1948, letter to Luhnnow, Hayek was very clear that he required a truly significant salary at the time, \$15,000, to finance his coming to America, and a position that would be guaranteed for an extended period (Hoover 2003, 190–191). As Viner wrote Hayek, these circumstances—an outside funding source perceived as ideological and a long-term, regular (as distinct from guest) position—were a barrier at most leading academic institutions. The Volker Fund was, at this time, among the main charitable donors to conservative causes (Hoplin and Robinson 2008). In addition to its support of Hayek, it provided funding for Mises at New York University and to the Foundation for Economic Education. David Grene, a classicist colleague of Hayek's on the Committee on Social Thought, said that when Hayek arrived on the Committee, he was considered a “stock rightwing man” with a “stock rightwing sponsor” (Grene 1995).

Hayek did not seek to be appointed in the Department of Economics at the University of Chicago. David Mitch, in an essential article on recruiting by the department during that period, is clear on this point: “The negotiations that ended up bringing Hayek to Chicago...always centered on this committee [the Committee on Social Thought] rather than on the Department of Economics” (Mitch 2016, 1728). In July 1948, Aaron Director—Milton Friedman's brother-in-law, a friend of Hayek who had spent time at LSE in the late 1930s, and who had returned to Chicago in 1946 through Volker funding—wrote Hayek. Director reported that the Volker Fund was interested in supporting a suitable position for Hayek at the University of Chicago and Hutchins might support an appointment for Hayek on the Committee on Social Thought (Mitch 2016, online appendix p. 49). Hayek responded that he would welcome such a position (Hoover 2003, 191). In September 1948, John Nef, chairman of the Committee, wrote Hayek that his appointment had been approved by the Committee's members, and he and Hayek engaged in several months of negotiations with respect to terms (*ibid.*, 191–193). Hayek was originally intended to start with the Committee in September 1949, but, as we have seen, his appointment was delayed as a result of his marital difficulties until January 1950 on a temporary basis and until September 1950 on a permanent basis.

There were two occasions when Hayek was briefly considered for a position in the Department of Economics. It is important to be clear about these, as there is significant misunderstanding about them. Mitch (2016) has done the most to clarify the consideration Hayek received for employment at the University of Chicago in the late 1940s—his work is a cornucopia of good information. It is complemented by the work of Rob Van Horn and Philip Mirowski (2015), which merits close attention.

The first consideration of Hayek for a position in the Department of

Economics was in early 1946. The Chicago Economics Department was in a period of flux following the war. Two of the department's biggest guns—Jacob Viner and Simeon Leland, the department chair—would be departing that year. Who would replace them?

In a 1945 memo on postwar department plans, Leland provided several lists of names that various members of the department had suggested. Hayek's name did not appear on Leland's lists of possible new or joint appointments, comprising a total of 28 individuals, including many of the leading and up-and-coming economists in the Anglo-American world. Hayek's name did appear, though, on a list of 37 individuals for possible visiting appointments (Mitch 2016, online appendix pp. 30–33), and he was, in fact, a visitor at Chicago for several weeks in the spring of 1946.

With respect to early 1946 consideration of possible permanent appointments, Hayek's name was apparently raised twice—by John Nef, who was also chair of the Committee on Social Thought, and Henry Simons, who was half-time in Economics and half-time in the Law School. There is no recorded support by any other department members for a permanent, full-time position for Hayek. He did not apply for a position in the Department of Economics in 1946, which was before he reunited with Helene and they decided to go to the United States. Mitch (2015, 215) remarks that the 1946 discussion was “unknown to Hayek.” Hayek later commented that he had been considered for a position in the Department of Economics in 1948, not 1946 (Hayek 1983a).

The faculty in economics at Chicago considered itself to be among the leading departments in the world. Because of the prominence that Chicago economics attained in the popular as well as academic mind during the postwar period, it is sometimes not adequately recognized that the Economics Department at Chicago was great from the founding of the university. Early economists there included James Laurence Laughlin, first and longtime chair of the department; Thorstein Veblen, perhaps the most well-known economist in the United States during the early decades of the 20th century; Wesley Clair Mitchell, who became a dominating influence through the National Bureau of Economic Research; and John Maurice Clark, a leading institutionalist. The second generation of economists at the school included Viner, Frank Knight, Paul Douglas, and Henry Schultz. Viner, Knight, and Douglas were all presidents of the American Economic Association, as were other Chicago faculty. Nef wrote in 1934 that a “very considerable portion of all the men who have made an important mark in economic thought between 1895 and 1930...were connected at one time or another, as members or students, with the [Chicago] Department of Political Economy” (1934, 2).

Chicago's distinction in economics continued to grow, particularly after the Cowles Commission for Research in Economics relocated there in 1939. The

Cowles Commission was the international leader in the emerging field of econometrics and had a bevy of superstars, including Oskar Lange, Jacob Marschak, and Tjalling Koopmans. Lester Telser, who came to Chicago as a research assistant on the Cowles Commission and remains there as professor emeritus of economics, compares those gathered at Chicago in the late 1940s and early 1950s to the Niels Bohr Institute in theoretical physics at the University of Copenhagen before World War II (Telser 2004). Nobel laureate in economics Lawrence Klein, also with Cowles, remembered that a “truly exceptional group of people was assembled at Chicago during the late 1940s. I doubt that such a group could ever be put together again in economics” (2004, 19). At one point, 13 future Nobel laureates in economics and a dozen current and future presidents of the American Economic Association passed through the hallways of the Social Science Research Building, where the Department of Economics and the Cowles Commission were located on the fourth floor.

This, then, was the collection of individuals and institutional background from which employment decisions were made. A number of members of the Cowles Commission had joint appointments in the Department of Economics. Hayek simply did not fit the bill for what Chicago economists were looking for in the late 1940s. Members of the department unanimously considered the top research area for prospective faculty to be economic theory (Mitch 2016, online appendix p. 28). John Hicks was their number-one choice for a position, but he was not available (Mitch 2016, 1720).

Three individuals who have provided recollections of why the Department of Economics was not interested in Hayek are D. Gale Johnson, Milton Friedman, and Arnold Harberger, all of whom are great admirers of Hayek. Johnson began on the faculty in Economics in 1944. When asked why the department was not interested in Hayek, he responded that Hayek had “rendered himself irrelevant” in economics by the postwar era and that Hayek was “certainly not turned down for ideological reasons” (Johnson 1995). Johnson did not recall any significant interest among department members in offering Hayek a position.

Hayek experienced a diminution in his reputation as a technical economist after bursting onto the scene in the early 1930s at the London School of Economics with his strong attacks on Keynes. Interest in his technical work in economics was always greater in England than in the United States. By the time Keynes's *General Theory of Employment, Interest, and Money* was published in 1936, Hayek was no longer on the cutting edge of the discipline. This became even more the case in the succeeding decade. The following table presents the 10 monetary economists and macroeconomists most cited in the *Index of Economic Journals* during the 1930s and early 1940s. As can be seen, there increasingly became less interest in Hayek's work (Deutscher 1990, 190–191, 194).

**TABLE 1. Ten most-cited economists
with number of citations, *Index of Economic Journals***

	1931–1935		1936–1939		1940–1944	
	Keynes	66	Keynes	125	Keynes	59
	Robertson	44	Robertson	48	Hicks	30
	Hayek	33	Hicks	33	Haberler	24
	Fisher	30	Pigou	31	Robertson	22
	Hawtrey	30	Harrod	27	Hawtrey	20
	Cassel	22	Hawtrey	25	Kalecki	18
	Pigou	20	Haberler	24	Schumpeter	18
	Wicksell	17	Hayek	24	Hansen	17
	Hansen	14	Robinson	20	Kaldor	17
	Marshall	13	Clark	18	Kuznets	16
					Lerner	16

Friedman, who started on the faculty at Chicago in September 1946, was apparently unaware of any brief consideration of Hayek earlier in the year. His recollection of consideration of Hayek was in 1948: “I was there at the time, but in a very junior capacity. I was not involved in that decision in any way. But in retrospect, I think they were right.... They didn’t want him, there are two things—number one, they had a very strong feeling that they should choose their own members and not have members appointed from the outside.... But number two, they didn’t agree with his economics. *Prices and Production*, his capital theory—if they had been looking around the world for an economist to add to their staff, their prescription would not have been the author of *Prices and Production*” (quoted in Ebenstein 2015, 214).

Harberger, who was a graduate student at Chicago in the second half of the 1940s and taught there from 1953 to 1991, agrees with this perspective. He remarks that not merely did all economists at Chicago, from both the Cowles and Knight factions, have different theoretical views than Hayek, but all economists at Chicago, both Marshallian and Walrasian, emphasized (in somewhat different ways) empirical testing and validation of theories, which Hayek did not. Harberger observes that Friedman and his group were “deeply empirically oriented” (Harberger 2018).

Such feelings were not unique to Chicago. Robbins wrote of Hayek’s business cycle theory that “as an explanation of what was going on in the early thirties, I now think it was misleading” (Robbins 1971, 154). In 1967, John Hicks said that “Hayek’s economic writings...are almost unknown to the modern student” (Hicks 1967, 203), indicating the black hole into which Hayek’s work in economics fell. Ronald Coase did not believe Hayek’s major scholarly contributions were in technical economic theory (Coase 1995). Additionally, Hayek’s emphasis in history

was not valued by the Chicago, as other, departments for a permanent staff position.

Today, it may seem strange that Hayek—shortly after publishing “The Use of Knowledge in Society” in the *American Economic Review* (1945), in the process of bringing out “The Meaning of Competition” (in Hayek 1948), and later to become an economics Nobel laureate—should have been so devalued as an economist. In 2011 “The Use of Knowledge in Society” was lauded as one of the top 20 articles ever published in the *AER* (Arrow et al. 2011), and as of late August 2018 it had garnered nearly 16,000 Google Scholar citations. But in the late 1940s the kind of philosophical political economy represented by Hayek’s *Individualism and Economic Order* (1948) was not recognized as very important *qua* economics.

It should be noted as well that Hayek had not really considered a position at the University of Chicago before the discussions and negotiations with the Committee on Social Thought as a result of provisions in Chicago employment contracts at that time limiting the amount of earnings apart from teaching that faculty could receive. Hayek had other income opportunities through lecturing and book royalties, and did not want to jeopardize these. During the course of negotiations with Nef, these contractual concerns were alleviated through allowing some extra income opportunities for Hayek and by providing funds to him for travel to Europe (Mitch 2015, 227–228). Nef truly played the decisive role in Hayek coming to the University of Chicago.

Marschak, chair of the Cowles Commission, gave perhaps the key recommendation to the University of Chicago Press for publication of *The Road to Serfdom*. After a “distinctly ambivalent” report on the book by Frank Knight (Caldwell 2007, 17), the Press asked for a second review by Marschak. He wrote: “Hayek’s book may start in this country a more scholarly kind of debate,” and “This book cannot be bypassed” (quoted in Caldwell 2007, 17). Friedman’s view, given in 1995, was that “*The Road to Serfdom* is one of the great books of our time. His writings in [political theory] are magnificent, and I have nothing but great admiration for them. I really believe that he found his right vocation—his right specialization—with *The Road to Serfdom*” (quoted in Ebenstein 2015, 210). Friedman also specifically said with respect to the possibility of the Economics Department not having hired Hayek because of *The Road to Serfdom*: “It played no role at all” (ibid., 214).

It bears emphasis that Hayek’s only apparent supporters in the Department of Economics for a full-time position, Nef and Simons, were not in the mainstream of the department in 1946, and by 1948 Simons was dead and Nef’s primary focus was even more the Committee on Social Thought. Van Horn and Mirowski note that Nef and Simons, as a result of their firm support for the controversial Hutchins, “embroiled themselves in conflict with the Economics Department”

(2015, 144). Aaron Director remembered that Simons was “not liked in the Economics Department” (quoted in Kitch 1983, 176).

Hayek later wrote that, by the postwar period, he had “become somewhat stale as an economist,” and he “felt much out of sympathy with the direction in which economics was moving” (Hayek 1994, 126). His most significant as well as recent work in economic theory, *The Pure Theory of Capital* (1941), attracted little interest. During World War II, he focused on his “Abuse and Decline of Reason” project, from which *The Road to Serfdom* and *The Counter-Revolution of Science* emerged. His main project in the immediate postwar years was his work in psychology, *The Sensory Order*. He felt it a “release” that he would not be required in his position in the Committee on Social Thought to “return to systematic teaching of economic theory” (Hayek 1994, 126). The terms Nef offered him were ideal. Hayek wrote Nef that the invitation to the Committee on Social Thought was a “scholar’s dream and you are well entitled to say that the conditions you offer are more favorable than are available in most great universities of the world. What is even more, it comes at a moment when I need such an environment if I am to hope to complete the program of work which I have mapped out for myself” (quoted in Mitch 2015, 224). It is uncertain whether the Volker Fund would have supported anything for Hayek other than an almost exclusively research position (Van Horn and Mirowski 2015, 165).

According to Mitch, the 1946 mention of Hayek for a position in the Economics Department was “not taken even moderately seriously by most members of the Chicago Department” (Mitch 2015, 215). Mitch also writes that the “archival evidence confirms the central role of his marital and family issues in his move to Chicago; they also indicate that the move corresponded to a clear decision to focus on social philosophy and on research and writing rather than on teaching” (ibid., 225). Hayek commented later of professional opinion of him following World War II: “I never sympathized with either macroeconomics or econometrics.... I was thought to be old-fashioned, with no sympathy for modern ideas, that sort of thing” (Hayek 1983b, 182).

Van Horn and Mirowski emphasize the role that Hayek played practically in launching the postwar Chicago school of economics, and they are correct in this appraisal. Following Simons’s death, Hayek played the key role in persuading Director to return to the University of Chicago. Director, in turn, was vital in initiating interest in a position for Hayek in the Committee on Social Thought. The classical liberal vein at the University of Chicago would have been very different in the postwar era without Director, Hayek, and the colleagues, students, and outlooks they brought.

Pursuant to archival evidence assembled by Mitch, it appears that Nef prepared a motion in the fall of 1948 for the Economics Department to appoint

Hayek a member, without any duties. However, whether this motion was ever made is not known. The only mention of Hayek in the well-kept minutes of the department for 1948 is the following sentence on November 4: "After considerable discussion it was agreed that the chairman of the Department prepare a letter to Mr. Hayek indicating our pleasure at the prospect of his becoming a member of the faculty of the University of Chicago" (Mitch 2016, online appendix p. 50).

There is a hint, though it is just that, that some of Nef's interest in an affiliation for Hayek with the Economics Department might have been that it could then entail some future funding for Hayek's position after the Volker Fund's 10-year commitment for his salary ran out. Friedman commented in the 1995 interview cited above: "They [the department] would have had to assume responsibility after 10 years from their funds" for Hayek (quoted in Ebenstein 2015, 214). Nef and Hayek were in negotiations at the time of the November 1948 Economics Department meeting, including with respect to what would happen after Volker funding expired.

A December 1948 letter from Knight to Hayek provides additional insight into the November 1948 discussion in the department: "The matter of an official relation to the Department of Economics will be...worked out when your wishes in the matter are known; I and those whom I value as scholarly colleagues or friends hope that your wishes and the 'red-tape' will ordain a full voting membership, but with only such academic obligations as you care to assume. You can see that that presents some problems, and the constitution—and—statutes of this university are in such a mess at the moment that nobody can tell what is legal about anything" (quoted in Mitch 2016, online appendix p. 51). This letter suggests that there was support for some appointment for Hayek among the Knight faction of the department, that it was unknown whether Hayek would accept such an appointment, and that there may have been administrative or procedural roadblocks to an appointment. It is, furthermore, not a small matter to confer voting rights on someone in an academic department, particularly at the University of Chicago and especially without departmental responsibilities and irrespective of any possible future funding implications. Moreover, there were strongly divergent views within the Economics Department about its future development.

In short, Hayek never sought a full-time teaching position in the Department of Economics at the University of Chicago, he was never really considered for such a position, he probably would not have accepted one, and it is an open question whether one would have been supported by the Volker Fund. The only times he was considered by the Economics Department at all were: (1) in early 1946 before he had decided to come to the United States, when the only interest was from Nef and Simons, and (2) in 1948, when Nef apparently brought him up at one meeting for a joint appointment with the Committee on Social Thought as Hayek was in

negotiations with the Committee for a position financed by the Volker Fund.

Hayek provided his own best description of his move to Chicago in the following answer to an interview question in 1983 at LSE concerning his links with the University of Chicago. Though not without minor inaccuracies, it provides a good summation of this key transition in Hayek's life and career:

That begins with Robbins' admiration for Knight's *Risk, Uncertainty and Profit*, and later Robbins became very intimately interested in the work of Jacob Viner. Both Viner and Knight were very well-known figures among our circle. We came to know them personally and their work—this London/Chicago relation in the '30s.

I finally went to Chicago. It was pretty accidental, it had nothing to do with this original connection.... [T]he reason I went to Chicago was to get a divorce, which I couldn't get here, and at the same time to be able to finance the problem of maintaining two families. I had efforts of my friends in the Chicago Economics Department and they were frustrated I think by the econometricians there. The econometricians didn't want me, and the first attempt to offer me a position at the University of Chicago in '48 broke down.

And then John Nef of the Committee on Social Thought offered me a position on that committee, which in a way was much more attractive. Because, quite frankly, after 20 years at the London School of Economics only among social scientists, and being confined to teach only economics, my ideas had broadened out. The offer to teach anywhere in the field of the relations between the social sciences rather than technical economics, without any firm teaching program...was so tempting that even if I hadn't been anxious to get a better paid position and to establish residence in America to get a divorce, I would probably have moved to America.

But then I was very happy and spent 12 years at the Committee on Social Thought, with very friendly personal relations with the Economics Department. Viner had moved and gone to Princeton, but Knight was still there, and very soon I established a very close relationship with Friedman and Stigler.... I had a very interesting time in Chicago. Just because I wasn't tied to economics in the narrow sense, my interests were broadening out. (Hayek 1983a)

As Hayek remarked elsewhere: "Practically all my contacts that led to later visits and finally made my move to Chicago possible were made" during his 1945 trip to the United States to promote *The Road to Serfdom* (Hayek 1994, 103). This certainly was the case concerning his contacts with the Volker Fund, which developed from a talk he gave on this trip. Far from it having been the case that Hayek would have received a position in the Department of Economics at Chicago but for *The Road to Serfdom*, much of the reason he received a position on the Committee on Social Thought was because of *The Road to Serfdom* and other related work in philosophy, politics, and economics.

References

- Arrow, Kenneth J., B. Douglas Bernheim, Martin S. Feldstein, Daniel L. McFadden, James M. Poterba, and Robert M. Solow.** 2011. 100 Years of the American Economic Review: The Top 20 Articles. *American Economic Review* 101(1): 1–8. [Link](#)
- Caldwell, Bruce.** 2007. Introduction to *The Road to Serfdom: Texts and Documents—The Definitive Edition (The Collected Works of F. A. Hayek, vol. 2)*, by Friedrich A. Hayek, ed. Bruce Caldwell. Chicago: University of Chicago Press.
- Churchill, Winston S.** 1974. *His Complete Speeches, 1897–1963: 1943–1949* (vol. 7), ed. Robert Rhodes James. New York: Chelsea House.
- Coase, Ronald H.** 1995. Interview by the author, January 13.
- Cubitt, Charlotte E.** 2006. *A Life of Friedrich August von Hayek*. Bedfordshire, UK: Authors OnLine.
- Deutscher, Patrick.** 1990. *R. G. Hawtrey and the Development of Macroeconomics*. London: Macmillan.
- Ebenstein, Lanny.** 2001. *Friedrich Hayek: A Biography*. New York: St. Martin's Press.
- Ebenstein, Lanny.** 2003. *Hayek's Journey: The Mind of Friedrich Hayek*. New York: Palgrave Macmillan.
- Ebenstein, Lanny.** 2015. *Chicagonomics: The Evolution of Chicago Free Market Economics*. New York: St. Martin's Press.
- Greene, David.** 1995. Interview by the author, January 16.
- Harberger, Arnold.** 2018. Interview by the author, July 12.
- Hayek, Friedrich A.** 1944. *The Road to Serfdom*. Chicago: University of Chicago Press.
- Hayek, Friedrich A.** 1947a. Letter to Jacob Viner, June 3. Jacob Viner papers, Box 13, Folder 26, Seeley G. Mudd Manuscript Library, Princeton University, Princeton, N.J.
- Hayek, Friedrich A.** 1947b. Letter to Jacob Viner, July 13. Jacob Viner papers, Box 13, Folder 26, Seeley G. Mudd Manuscript Library, Princeton University, Princeton, N.J.
- Hayek, Friedrich A.** 1960. *The Constitution of Liberty*. Chicago: University of Chicago Press.
- Hayek, Friedrich A.** 1967 [1944]. The Historians and the Future of Europe. In *Studies in Philosophy, Politics and Economics*, 135–147. Chicago: University of Chicago Press.
- Hayek, Friedrich A.** 1983a. Interview by Nadim Shehadi. LSE Oral History, London School of Economics (London).
- Hayek, Friedrich A.** 1983b. Interview of Friedrich A. Von Hayek. Oral History Collection, UCLA Center for Oral History Research, University of California at Los Angeles (Los Angeles, Calif.). [Link](#)
- Hayek, Friedrich A.** 1988. *The Fatal Conceit: The Errors of Socialism*. Chicago: University of Chicago Press.
- Hayek, Friedrich A.** 1994. *Hayek on Hayek*. Chicago: University of Chicago Press.
- Hayek, Laurence.** 1994–1997. In discussion with the author.
- Hayek, Laurence.** 1999. Letter to the author, June 4.
- Hicks, John.** 1967. *Critical Essays in Monetary Theory*. Oxford: Clarendon Press.
- Hoover, Kenneth R.** 2003. *Economics as Ideology: Keynes, Laski, Hayek, and the Creation of*

- Contemporary Politics*. Lanham, Md.: Rowman & Littlefield.
- Hoplin, Nicole, and Ron Robinson.** 2008. *Funding Fathers: The Unsung Heroes of the Conservative Movement*. Washington, D.C.: Regnery.
- Howson, Susan.** 2011. *Lionel Robbins*. Cambridge, UK: Cambridge University Press.
- Johnson, D. Gale.** 1995. Interview by the author, January 13.
- Kitch, Edmund W.,** ed. 1983. The Fire of Truth: A Remembrance of Law and Economics at Chicago, 1932–1970. *Journal of Law & Economics* 26(1): 163–234.
- Klein, Lawrence R.** 2004. Lawrence R. Klein. In *Lives of the Laureates: Eighteen Nobel Economists*, 4th ed., eds. William Breit and Barry T. Hirsch, 17–34. Cambridge, Mass.: MIT Press.
- Mises, Ludwig von.** 1947. Letter to Lionel Robbins, November 12. Hayek Archive, Hoover Institution, Stanford University, Stanford, Calif.
- Mitch, David.** 2015. Morality Versus Money: Hayek’s Move to the University of Chicago. In *Hayek: A Collaborative Biography—Part IV, England, the Ordinal Revolution and the Road to Serfdom, 1931–50*, ed. Robert Leeson, 215–255. New York: Palgrave Macmillan.
- Mitch, David.** 2016. A Year of Transition: Faculty Recruiting at Chicago in 1946. *Journal of Political Economy* 124(6): 1714–1734.
- Morgan, Kenneth O.** 1985. *Labour in Power, 1945–1951*. Oxford: Oxford University Press.
- Nef, John U.** 1934. James Laurence Laughlin (1850–1933). *Journal of Political Economy* 42(February): 1–5.
- Robbins, Lionel.** 1961. Hayek on Liberty. *Economica* 28(109): 66–81.
- Robbins, Lionel.** 1971. *Autobiography of an Economist*. London: Macmillan.
- Telser, Lester.** 2004. Interview by the author, June 10.
- Van Horn, Rob, and Philip Mirowski.** 2015. The Rise of the Chicago School of Economics and the Birth of Neoliberalism. In *The Road from Mont Pèlerin: The Making of the Neoliberal Thought Collective*, eds. Philip Mirowski and Dieter Plehwe, 139–178. Cambridge, Mass.: Harvard University Press.
- Viner, Jacob.** 1948. Letter to Friedrich A. Hayek, July 30. Jacob Viner papers, Box 13, Folder 26, Seeley G. Mudd Manuscript Library, Princeton University, Princeton, N.J.
- Warhanek, Hans.** 1999. Letter to the author, June 7.

Case Cited

- Hayek, Friedrich August von, v. Hayek, Helen Berta Maria von Fritsch von*, Divorce Decree 12166 (Chancery Court of Washington County, Ark., July 13, 1950).

About the Author



Lanny Ebenstein received his Ph.D. from the London School of Economics and Political Science, and teaches the history of economic thought and economic history at the University of California, Santa Barbara. He is the author of the first biographies of Friedrich Hayek and Milton Friedman, and is the editor of a collection of Friedman's essays. His 2015 book *Chicagonomics: The Evolution of Chicago Free Market Economics* was an "Editor's Choice" selection in the *New York Times Book*

Review. Dr. Ebenstein is currently at work on a book on progressive taxation. His email address is ebenstein@econ.ucsb.edu.

[Go to archive of Character Issues section](#)
[Go to September 2018 issue](#)



Discuss this article at Journaltalk:
<https://journaltalk.net/articles/5973>



EJW

ECON JOURNAL WATCH
Scholarly Comments on
Academic Economics

ECON JOURNAL WATCH 15(3)
September 2018: 322–350

Icelandic Liberalism and Its Critics: A Rejoinder to Stefan Olafsson

Hannes H. Gissurarson¹

[LINK TO ABSTRACT](#)

In 2017, I published a paper on Icelandic liberalism in this journal. It was in two parts, the first one describing Iceland's liberal heritage of the 19th and 20th centuries (Gissurarson 2017a), while the second one was on the extensive liberal reforms of 1991–2004 and their critics, and the 2008 Icelandic bank collapse and anti-liberal narratives about it (Gissurarson 2017b). The journal invited Professor Stefan Olafsson to respond, as he had been mentioned in my paper as a leading critic of the liberal reforms and a proponent of (what seems to me to be) an anti-liberal narrative on the bank collapse. His lengthy composition (Olafsson 2017) stands in need of some corrections and comments.²

The 2003 election campaign

In his response to my paper, Professor Olafsson makes some implausible or inaccurate claims. He says, for instance, that he, unlike me, has “never been active in any political-party advocacy” (Olafsson 2017, 400). This is not correct. Olafsson was active in, and on the Board of, the Social Democratic Alliance (Bandalag jafnadarmanna) which was founded before the 1983 parliamentary election and merged with the Social Democratic Party in 1986 (Althydubladid 1983). He was

1. University of Iceland, 101 Reykjavik, Iceland.

2. I shall not be discussing Olafsson's personal attacks on me.

also an Alternate Member of the Board of the Socialist Debating Club (Malfundafelag felagshyggjufolks) which was founded in 1985 (Thjodviljinn 1985), operating for a few years with the aim of uniting Icelandic left-wing parties against the centre-right Independence Party. Olafsson's services to socialism were deservedly recognised in 2007, when he became, with Professor Thorvaldur Gylfason, the first recipient of the "Socialist Award" given by the Youth Wing of the Social Democrats (Morgunbladid 2007).³ It is true however that in Iceland Olafsson has taken a position less as an advocate of any one political party than as a critic in general of what he calls "neo-liberalism" or "libertarianism" but what I call simply "liberalism."⁴

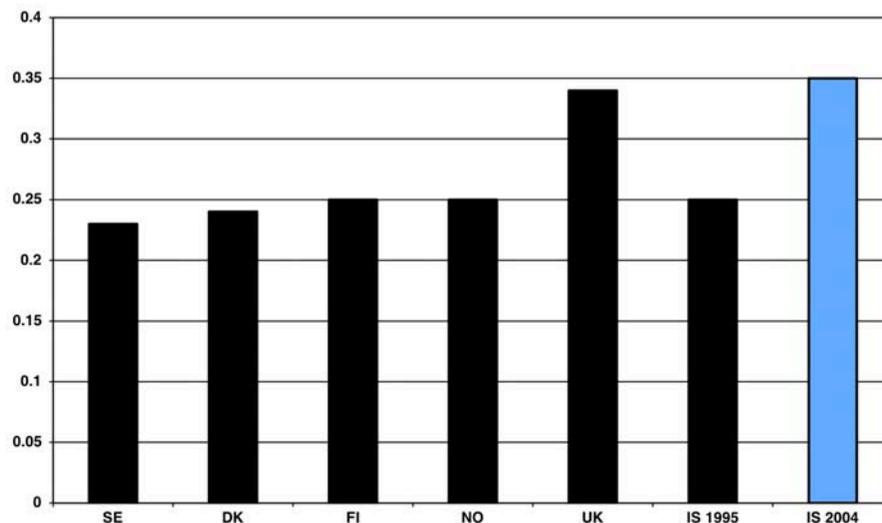
It was as a critic of neoliberalism that Olafsson played a prominent role in the parliamentary election campaigns of 2003 and 2007 as I briefly mentioned in my second paper (Gissurarson 2017b, 374–375). In 2003, he was the director of a research institute at the University of Iceland. This institute was to a large extent funded by the City of Reykjavik, then controlled by a coalition of left-wing parties under the leadership of Social Democrat Ingibjorg S. Gisladdottir, the mayor. A month before the election, the institute published a report purporting to show that poverty was much more extensive in Iceland than previously thought, with 7–10 percent of the population below the poverty line (Njals 2003). Gisladdottir, now a parliamentary candidate, devoted a major speech to the report, also quoting Olafsson's studies of poverty in Iceland (Gisladdottir 2003). When the report was criticised, analytically and empirically, Olafsson wrote a newspaper article defending it (Olafsson 2003), asserting that his own earlier studies suggested the same general conclusion as the report's author: that poverty was more widespread in Iceland than in the other Nordic countries, those countries long having served as a standard for the Icelanders.

3. The name of the award was "felagshyggjuverdlaun." While *felagshyggja* is a traditional translation of the English word *socialism*, in all fairness it should be pointed out that it may have a wider meaning, signifying general left-wing sympathies rather than a call for central economic planning. The word apparently was constructed by Jon Duason and intended to be the direct equivalent of 'socialism' (Duason 1917). The main ideologue of the Social Democrats, Economics Professor Gylfi Gislason, used 'felagshyggja' as a translation of 'socialism' (Gislason 1977).

4. Needless to say, 'liberalism' has taken on a different meaning in the United States than in Europe or Latin America. A European or Latin American liberal stands squarely in the tradition of Adam Smith and John Locke, whereas in the United States the name is mostly used as a general term about people of the left, for example economist John Kenneth Galbraith. It is also true that some intellectuals such as John Stuart Mill and John Maynard Keynes occupy a somewhat ambivalent position, being liberal in some ways, but rejecting or at least not accepting fully economic liberalism. It should be recalled, though, that Mill for example was wary of the concentration of power in the hands of government (Mill 1977/1859, 306) and that he thought that socialism might spontaneously and gradually replace capitalism because workers' cooperatives might become more efficient than privately owned companies (Mill 1967/1879). If Olafsson wants to call himself a liberal, I can only say that imitation is the sincerest form of flattery.

Olafsson is therefore not technically wrong when he says that his own data on poverty in Iceland were derived from an earlier period (Olafsson 2017, 419). But the 2003 report on poverty, written as a master's thesis under his supervision and published by his institute a month before the parliamentary election, certainly was used as ammunition for the left-wing parties running against the then coalition government of the Independence Party and the Progressives. Olafsson has himself disclosed that after the election some prominent professors at the University of Iceland requested a meeting with the University's rector, expressing concern over the role played by Olafsson's institute in the election campaign.⁵ Two years later, in 2005, the institute was dissolved.

Figure 1. Olafsson's Gini coefficients for 1995 and 2004



Source: Olafsson 2006b.

As I pointed out in my paper (2017b, 374–375), in early 2007 a comprehensive survey of poverty, social exclusion and income distribution in Europe showed that in the very year, 2003, in which the debate had raged about poverty in Iceland, a smaller proportion of Icelanders, 5.4 percent, were below the poverty line than in any other country in Europe except Sweden. This certainly was a significantly

5. Olafsson mentioned this in at least two interviews, one on the short-lived television station NFS in September 2006 (Magnusson 2006) and the other on internet magazine *Pressan* in February 2010 (Gissurarson 2010). Unfortunately, neither interview is available online. In the latter interview Olafsson accused me of having orchestrated the visit of those professors to the rector. No, distinguished university professors are not at my command.

lower figure than the 7–10 percent in the much touted report published in 2003 by Olafsson’s institute. In the European survey, poverty was defined as having income below half of median income (Eurostat 2007; Statice 2007)—it was therefore relative, rather than absolute, poverty. In his response to me, Olafsson emphasises that his own data stemmed from 1985–1997. But if the findings of the European survey are accepted, then apparently only two possibilities exist: (1) If Olafsson’s earlier data were correct, revealing more poverty in Iceland than in the other Nordic countries, then in the period from 1998 to 2003 poverty had been rapidly reduced to a lower level than in three out of the four other Nordic countries. If this was the case, then the heated discussion in the 2003 election campaign on poverty in Iceland, instigated by Olafsson, was somewhat misguided. (2) Olafsson’s earlier data were not correct, and even in those earlier years poverty was no more extensive in Iceland than in the other Nordic countries. Neither possibility would seem to enhance Olafsson’s reputation as an expert on poverty in Iceland.

The 2007 election campaign

For many Icelanders, Professor Olafsson’s findings on poverty were counterintuitive. Rightly or wrongly, there was, and is, a common perception among them that in their country poverty is less of a problem than almost anywhere else. It was therefore perhaps not surprising that as the years passed Olafsson was to change his emphasis, targeting income distribution rather than poverty. In the autumn of 2006, less than eight months before the 2007 parliamentary election, Olafsson publicly claimed that in the period from 1995 to 2004 income distribution in Iceland had become much more unequal than in the other Nordic countries.⁶ In support of his claim, he quoted data from various sources, where the most recent ones were said to be from Eurostat, the EU Bureau of Statistics. In a newspaper article, Olafsson published a graph purporting to show income distribution as measured by the Gini coefficient. In 2004, it was supposed to be 0.35 for Iceland, in terms of individual disposable income. The most relevant parts of the graph are reproduced here in Figure 1. Olafsson added that the new Eurostat

6. Olafsson, in his public pronouncements before the 2007 parliamentary election and in his response to me in this journal, uses data from 1995 onwards, not from 1991 when the liberal reforms I discussed (in Gissurarson 2017b) started under David Oddsson as Prime Minister. A possible explanation is that in 1991–1995 the Social Democrats were in a coalition with the Independence Party and Olafsson, being close to them, did not want to criticise them. But in fact, the period from 1995 to 2004 is an appropriate frame of reference, for two reasons that are quite distinct from such a political consideration: In 1995, the economy had recovered from a previous recession, and after 2004 the bubble economy created by extensive debt accumulation abroad started.

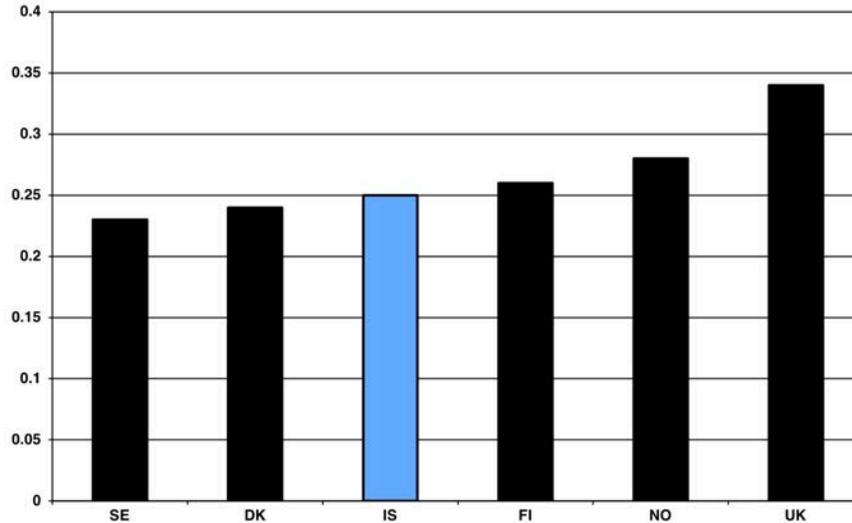
data corresponded well with data quoted by Professor Thorvaldur Gylfason on income distribution in Iceland (Olafsson 2006b).

As I pointed out at the time (Gissurarson 2007a; b) and later (2017b, 375), there was a problem with those data: Whereas Eurostat had calculated Gini coefficients for other countries excluding capital gains from stocks, it had mistakenly included them in the Gini coefficient calculated for Iceland. The comparison between Iceland and other countries was therefore invalid. This mistake was almost immediately corrected by Eurostat and the data removed from its website. Undaunted however, Olafsson gave a newspaper interview in late October 2006, no longer quoting any data from Eurostat but vaguely mentioning other sources, such as the OECD and the World Bank, asserting that in Iceland inequality had increased more rapidly than in the US under Reagan, in the UK under Thatcher and, probably, in Chile under Pinochet (Olafsson 2006c).

In early 2007, Eurostat published its aforementioned survey of poverty, social exclusion and income distribution in European countries, using data from 2003–2004 (Eurostat 2007; Stalice 2007, 11–12). The 2004 Gini coefficient in terms of individual disposable income calculated for Iceland turned out to be 0.25, and not 0.35, as Olafsson had claimed earlier, quoting Eurostat as his source. In Figure 2, Gini coefficients for selected countries are reproduced. Soon thereafter, Olafsson published a newspaper article (Olafsson 2007) in which he did not directly withdraw his earlier assertions, but mentioned the Eurostat survey and expressed surprise that the exclusion of capital gains from stocks could make such a difference that the Gini coefficient for Iceland would go down from 0.35 to 0.25.⁷

The original error—on which Olafsson based his statements in the autumn of 2006—was made by Eurostat, not by Olafsson. But he took it up, asserting that it corresponded well with recent data from other sources, and after the error was corrected, he just dropped his reference to Eurostat and repeated that income inequality had increased more rapidly in Iceland than in most other countries, as a result of deliberate policies pursued since 1995 by the coalition government of the Independence Party and the Progressives (Olafsson 2007). What is really important is that after the initial error had been corrected, the data confirmed the intuition of many Icelanders that there was less poverty in Iceland than in almost any other country of the world, and that in the period from 1995 to 2004 income distribution, as traditionally measured, had not become less equal in Iceland than the other Nordic countries, broadly speaking.

7. It is indeed surprising. I asked a person from Statistics Iceland about it, and he replied that the sample from tax returns which was used to calculate data about income distribution in Iceland had included individuals who had gained immense amounts of money from selling stocks.

Figure 2. Eurostat's Gini coefficients for 2004

Source: Eurostat 2007; Statice (2007, 11–12).

In the ensuing discussion I repeatedly made the point that for a liberal in the classical sense, income distribution is not necessarily a problem, unlike poverty: The gap between, say, the richest 10 percent of the population and the poorest (or the least rich) 10 percent did not matter as much as the set of opportunities for all income groups to increase their income and improve their living standards by their own initiative, ingenuity and hard work. In the year 2004, our main point of reference in the discussion, there was practically no unemployment in Iceland; the set of opportunities facing the Icelanders was probably as adequate as could be found in any other country in the world. Also, as a result of Iceland being a homogeneous, relatively tolerant society with no dialects or other great barriers between classes, races or regions, social exclusion was less serious than in most other countries, while social mobility was high (Gissurarson 2007a; b; 2009).

One does not need to agree on everything with American philosopher John Rawls (1971) to see that his approach is important: How fares the worst-off group in society? There is little doubt that in 2004 the living standards of that group, say the 10 percent of the population with the lowest income, would have been better in Iceland than in most or even almost all other countries, given her prosperity, low level of relative poverty—and thus an even lower level of absolute poverty—and less social exclusion than in most other countries.

Taxation and inequality

A part of Professor Olafsson's critique of the 1991–2004 liberal reforms was that increased income inequality was the result of deliberate policies, especially on taxation, pursued by the coalition government of the Independence Party and the Progressives, in power from 1995. He asserted that while pretending to cut taxes, the government had in fact increased the tax burden. The government also had, Olafsson maintained, shifted the tax burden from the rich to the poor and from corporations to families by not raising the tax-free income allowance in line with increases in wages or prices. Indeed, Olafsson made the sarcastic remark that David Oddsson, Prime Minister from 1991 to 2004, should be regarded as a "Taxation King" (Olafsson 2006a).

The assertions are misleading or plainly wrong in many respects. First, from the vantage point of 2006–2007 there did not seem to be any significant or unusual increase in income inequality, as traditionally measured, in the period from 1995 to 2004: The Gini coefficient was 0.25 in 1995 according to Olafsson's own estimate (Olafsson 2006b), and it was again 0.25 in 2004 (Eurostat 2007; Statice 2007). The increase in this kind of inequality seems to have taken place mostly in the period from 2004 to 2007 and it was, as Olafsson states, non-negligible. Its cause was, as Olafsson recognises, the bubble economy based on enormous debt accumulation by the banks. Later, apparently, Gini coefficients have been calculated backwards for 1995 and the following years, and they have turned out to be lower than Olafsson had estimated in his newspaper articles of 2006–2007 (Olafsson 2017, 416, Figure 3).⁸ But in my paper I was giving a historical account of the debate on inequality before the 2007 parliamentary election. By introducing such more recent data, Olafsson is by no means correcting what I said in early 2007: He is correcting himself, rejecting his own earlier estimate, albeit without explicitly mentioning it.

Second, the tax burden imposed by central government did not become heavier in any meaningful sense in the period from 1995 to 2004: Total tax revenue of central government amounted to 31.1 percent of Gross Domestic Production, GDP, in 1995 and to 31.9 percent in 2004 (Statice 2018). The increase only became non-negligible by including tax revenue by municipalities, the most important of

8. The Gini coefficients Olafsson quotes since 2003 are derived from Icelandic Statistics and Eurostat and easily available online. However, I have not been able to find the source for the Gini coefficients that Olafsson provides for the years prior to 2003 (Olafsson 2017, 416, Figure 3). He refers to the Icelandic Tax Authority (Ríkisskattstjóri), but no historical data on Gini coefficients are to be found on the website of the Authority and when I contacted members of the staff they did not know of any such calculations made and published by the Authority.

which was the City of Reykjavik, controlled by a coalition of left-wing parties since 1994: Total tax revenue at both levels, the municipalities and central government, increased from 39.6 percent in 1995 to 42.6 percent in 2004 (*ibid.*).⁹ However, this was not a great increase. Be that as it may, it seems somewhat unfair to accuse the 1995–2004 Oddsson governments of an increase in the tax revenue of Icelandic municipalities and to make sarcastic remarks about Oddsson being a “Taxation King.”

Third, Olafsson’s assertion is an example of how unintended outcomes are interpreted as the results of deliberate policies. The grain of truth in it is that despite extensive tax cuts, the total tax revenue of central government as a proportion of GDP did not go down: it slightly increased, ever so little. But as Olafsson himself acknowledges, in Iceland the years from 1991 to 1995 were marked by economic difficulties, whereas the period from 1995 to 2004 saw rapid economic growth. In a tax system with tax-free income allowances there is an inbuilt tendency for the level of taxation to move in the opposite direction to the business cycle. During a downturn, a higher proportion of total income ends up below the tax-free allowance limit, so the level of taxation, as a proportion of Gross Domestic Production, GDP, goes down. The reverse happens during an upswing. Then incomes of most economic agents rise, so a higher proportion of total income ends up above the tax-free allowance limit and the level of taxation as a proportion of GDP consequently goes up, other things being equal. This is precisely what happened in 1995–2004, offsetting various tax cuts. The tax burden was not intentionally made heavier; rather, a higher proportion of income became liable to taxation. Again, even if corporations did not enjoy any tax-free allowances like individuals, during the upswing a higher proportion of them registered net profit and thus paid income tax.

Olafsson actually makes this very point when he criticises my emphasis on the fact that in Iceland, total revenue from corporate taxes, as a proportion of GDP, increased in 1990–2003 despite a significant reduction in the corporate tax rate, from 50 percent to 18 percent (Olafsson 2017, 415). Of course the economic upswing played a role, but such upswings do not simply happen on their own: the ground has to be prepared for them. In Iceland, the economic upswing of 1995–2004 was encouraged by corporate tax cuts, the elimination of public subsidies to loss-making companies, the facilitation of free trade, and price stability. As I pointed out in my paper, in 1990–2004 the internationally recognised index of

9. It is not clear wherefrom Olafsson derived the figures on tax revenue that he presented in 2006 (Olafsson 2006a). According to him, total tax revenue, of central and local government combined, increased from 33.4 percent of GDP in 1995 to 41.1 percent in 2004, or by 7.7 percentage points. While tax revenue figures on the OECD and World Bank websites are different from those found on the Statistics Iceland website, none of them corresponds with the figures presented by Olafsson in 2006.

economic freedom increased for Iceland from 6.6 to 7.9. In 2004, Iceland had the 9th freest economy in the world and the freest economy in the Nordic countries (Gissurarson 2017b, 370–371; Gwartney and Lawson 2006, 20).

Olafsson does not reject the uncontested, and remarkable, fact that in Iceland, total revenue from corporate taxes, as a proportion of GDP, increased in 1990–2003 despite a significant reduction in the corporate tax rate, but he calls the explanation that the tax base had grown considerably “Arthur Laffer’s voodoo economics.” He also insinuates that I stopped in the year 2003 “because the semblance of a relationship is much weaker or nonexistent after that. Reservations are clearly in order regarding this supposed victory of Laffer’s voodoo economics in Iceland” (Olafsson 2017, 415). But there was a simple reason why I chose 2003 as the end point: It was that the credit bubble began in 2004. Indeed, I stressed this in my paper, remarking that this was “before the credit bubble preceding the 2008 bank collapse” (Gissurarson 2017b, 369).

Fourth, Olafsson deals cavalierly with another response of mine (Gissurarson 2017b, 377) to his 2006 critique. He had asserted that the government had intentionally increased the tax burden of low-income people by not raising the tax-free allowance in line with increases in prices or wages (Olafsson 2006a). I had pointed out (Gissurarson 2009, 60) that in this context it should not be ignored that payments into occupational and private pension funds had been exempted from taxation. Indeed, this change more or less made up for the relative fall in the tax-free allowance. But now Olafsson (2017, 413) invokes the fact that contributions to occupational pensions funds were never left out in figures on the tax burden. But that is not to my point. His original accusation, made in a series of newspaper articles before the 2007 parliamentary election (e.g., Olafsson 2006a), was that because the government had not raised the tax-free allowance in line with increases in prices or wages, it had intentionally increased the real tax burden. I drew attention to the fact that this was wrong because of the tax exemption of pension fund payments. That was all. I also commented that I personally did not see any special need to link the tax-free allowance to the price level. It is in my opinion not healthy that a sizeable segment of the population does not pay any income tax. The income-tax-free allowance is much higher in Iceland than in most other countries. It would be even more misguided to link that allowance to the real wage level: It would mean that irrespective of the development of wages, groups which could well afford to pay income tax because their wages had risen, would be permanently exempted from it (Gissurarson 2007a; b; 2009). In my opinion it is bad policy to engineer a sizeable segment of the population with no skin in the income-tax game.

Inequality not necessarily injustice

In the debate on income inequality, I repeatedly drew attention to the fact that liberals in the classical sense do not necessarily worry about it, whereas they regard poverty as a social evil (Gissurarson 2007a; b; 2009). I stressed that the calculation of Gini coefficients is only one of many ways to try to illuminate the economic situation of different groups in society, and by no means a perfect one (cf. Arnason 2014). Consider the 2008 bank collapse. Professor Olafsson rightly remarks that income distribution then became much more equal: the Gini coefficient for Iceland went down (Olafsson 2017, 417). Those who personally lost the most financially by the collapse were high-income groups. But is such a development really desirable? Would the rest be better off if the best-off group would either lose most of its income or choose to pay taxes in other countries?

In the debate, I also analysed Olafsson's rhetoric. He consistently employed the ancient Icelandic word *ojofnudur* about inequality in income distribution. But this ancient word is better translated as injustice, aggression or violence: In the Icelandic sagas, taking place in the 10th and 11th centuries, an *ojafnadarmadur* was someone trying to set himself above the law. The meaning of the much rarer antonym *jofnudur* would then be equality before the law (not of outcomes), or equity (in the original jurisprudential sense), or fairness and impartiality towards all concerned. Usually, 'ojafnadarmadur' in the Icelandic sagas is translated into English as 'troublemaker,' but also as 'unjust man.'¹⁰ By employing the ancient word 'ojofnudur' about inequality in income distribution instead of using the more accurate expression 'ojofn tekjudreifing,' Olafsson implied that there is something unjust about inequality in income distribution. I then went on to argue that the liberal reforms of 1991–2004 actually may have led to an increase in 'jofnudur' or equality before the law, or equity, because discretionary power to hand out goods had been greatly reduced, with opening up markets, removing barriers to competition, privatising, and cutting taxes (Gissurarson 2007a; b; 2009; 2012).

Olafsson however chooses to misconstrue this argument as if I had claimed that income inequality, as traditionally measured, had not increased in 1991–2004 (Olafsson 2017, 417). It may have increased, and I would be perfectly willing to concede this, on the basis of recent data, although according to Olafsson's own

10. The former translation is found, for example, in *The Saga of the People of Vatnsdal*, Ch. 16; *The Saga of the People of Vopnafjord*, Ch. 12; and *The Saga of the People of Eyri*, Ch. 8 and 57. The latter translation is found in *The Saga of the People of Eyri*, Ch. 12 and 30. In *The Saga of the People of Eyri*, Ch. 25, 'ojofnudur' is translated as injustice and coupled with arrogance (V. Hreinsson, ed., 1997).

estimate of the 1995 Gini coefficient for Iceland, presented before the 2007 parliamentary election, it had indeed not increased: His Gini coefficient for 1995 was 0.25, and Eurostat's coefficient for 2004 was also 0.25. But again, I, like other liberals in the classical sense, would not regard an increase in income inequality as a burning cause for concern, unless it had been brought about by greater coercion and corruption and not by greater individual choice. Assume that at a certain point in time there is in Iceland what Olafsson would consider a just income distribution, D_1 . Then Milton Friedman visits and gives a lecture, charging 50 dollars a ticket. Five hundred people gladly pay the admission fee. The new income distribution, D_2 , has now become more unequal, Friedman being richer by \$25,000 and five hundred Icelanders being poorer, each by \$50. Where is the injustice in the move from D_1 to D_2 ? (Nozick 1974).

The Icelandic welfare state: Nordic or Anglo-Saxon?

Professor Olafsson's main contention about the 1991–2004 liberal reforms was that Iceland was being wilfully transformed from a Nordic welfare state to an Anglo-Saxon one, with more poverty and more inequality than in the Nordic countries and with less generous provisions for the needy (Olafsson 2006b). It is true that the Icelandic welfare state differs in some aspects from the Scandinavian model: Welfare benefits are not regarded as general rights, but rather as provisions solely for the needy; the Icelanders are a young nation compared to the Scandinavians; and the norm in Iceland is not to retire as soon as one can, but rather at 70 years and sometimes even later.

This explains the paradox that outlays per capita on welfare benefits have tended to be lower on average in Iceland than in the Scandinavian countries, while provisions for the needy have been as generous or even more so. In my paper, and in other writings, I took the example of child benefits in 2006 (Gissurarson 2017b, 376). In Sweden, all parents enjoyed the same child benefits regardless of their income, but in Iceland the benefits were means-tested so that single parents in low-income groups received higher payments than in Sweden whereas parents in high-income groups did not receive any child benefits at all. Olafsson cannot but accept this uncontested fact, but he qualifies it by asserting that in Iceland a reduction in the benefits started at a lower income level than he considers appropriate (2017, 423). This may be true, but it is not a refutation of my point that even if outlays per capita on welfare benefits have on average been lower in Iceland than in the other Nordic countries, provisions for the neediest part of the population have been as

generous or even more so. Partly, of course, the lower average outlays are explained by the fact that the Icelanders are on average younger than their Scandinavian cousins. For these two independent reasons, it is seriously misleading to use as an argument against the Icelandic welfare state the fact that it spends less on average on welfare provisions than the Scandinavian countries.

Pensioners in Iceland

In my paper (2017b, 363–364), I emphasised that the Icelandic pension system is one of the strongest in the world. Olafsson ascribes to me the view that David Oddsson “had a large role in reforming the occupational pension funds during his premiership” (Olafsson 2017, 404). Olafsson misconstrues my words. What I wrote was this: “While 1991 was certainly a turning point in Icelandic politics, in many ways the Oddsson governments up to 2004 *continued and reinforced reforms that had already been initiated*. This applied not only in the fisheries, but also to the pension funds which were now however greatly strengthened” (Gissurarson 2017b, 363, italics added). In some fields, as I stressed in the paper, the great achievement of the Oddsson governments was not so much to initiate reforms as to keep them going on an even keel.

Olafsson tries to play down the impact of the 1997–1998 pension reforms. But surely the introduction of private, heritable pension schemes was an important improvement, and, since the occupational pension fund for public employees controls about one-fifth of the total assets of the pension system, it was a great step towards the sustainability of the whole system when this fund was strengthened by replacing, wherever possible, defined-benefit with defined-contribution. I did not say that the system had become sustainable, as Olafsson asserts (2017, 404), but that the aim of the reforms was “to make the system sustainable in the long run” (Gissurarson 2017b, 363). Unsurprisingly, after 2004 the reforms had to continue in order to reach that aim.

Olafsson tries to correct me on a detail: that at the time when the occupational pension funds were established in 1969, a pensioner with no other source of income than the basic pension would receive roughly what amounted to the minimum wage. This was not so, he says: at that time, his or her basic pension was significantly lower than the minimum wage (Olafsson 2017, 405). But nowhere did I say that I was referring to the late 1960s. It was obvious from my paper that I was referring to the situation in the 1990s and the early 2000s when this was true. Incidentally, I based my short description of the Icelandic pension system on a paper by an expert at the Icelandic Ministry of Finance (Jonasdottir 2007).

Olafsson refers to a controversy he had with the Icelandic Ministry of Fi-

nance shortly before the 2007 parliamentary election. Having been proved wrong on inequality by the 2007 Eurostat survey, Olafsson fiercely criticised the Ministry for alleged deceptions about the living standards of pensioners (Arnason, Olafsson, and Olafsson 2007).¹¹ The Ministry had quoted figures from the Nordic Statistics Commission showing that the average payment of statutory retirement pensions in 2004 was higher in Iceland than in the other four Nordic countries (Nososco 2006, 142, Table 7.8). Against this, Olafsson quoted another figure from the same source, retirement pension per pensioner, showing that it was lower than in three of the four other Nordic countries (Nososco 2006, 178, Table 7.23). But there was an obvious explanation for the divergence between the two figures. The former figure was calculated by finding the sum of basic and occupational pensions and dividing it by the number of recipients of basic pensions, which in 2004 amounted to 26,000 individuals. The latter figure was calculated, on the other hand, by dividing total expenditure on pensions by the number of people that had reached retirement age, which in 2004 amounted to 31,000 individuals. In other words, of the 31,000 Icelanders of retirement age in 2004, 5,000 did not take pension, mostly because they had continued working full-time after becoming 67 years old.

This explains the paradox that in 2004, at the same time as total expenditure on pensions was relatively lower in Iceland than in the other Nordic countries, individual pension income was at least as high, if not higher, as the Nordic Statistics Commission recognised: “The low expenditure in Iceland is due to the high employment rate among the elderly compared with the other Nordic countries” (Nososco 2006, 171). It was disingenuous of Olafsson to quote total expenditure on pensions in Iceland as a significant argument for the inadequacy of the Icelandic welfare state. What most people would find more relevant would be the real income of those Icelanders dependent on pensions. Certainly, in 2004, the elderly in Iceland did not face worse prospects than the elderly in the other Nordic countries. Indeed, the aforementioned Eurostat survey showed that in 2004 poverty among the elderly was nowhere at a lower level than in Iceland except in Luxembourg (Eurostat 2007; Statice 2007).

11. Olafsson’s comment on this is however not very clear. “Another spin from Gissurarson is about what he claims is a vindication of my conclusion that some Icelandic pensioners have in the past faced worse living conditions than comparable groups in the other Nordic welfare states” (Olafsson 2017, 421). He must have meant to say ‘refutation’ and not ‘vindication’. I cannot make sense, either, of the following criticism he makes on the same page of data provided by the Nordic Statistical Commission: “These are assessed figures with weak assumptions about compositional proportions of basic and occupational pension expenditures and not direct measures of pensioner incomes at all, as Gissurarson however claims.”

Lessons of history

Professor Olafsson's treatment of historical facts is casual, even careless. He seems to deny, for example, that Jon Sigurdsson, the leader of Iceland's struggle for independence, was an economic liberal, stating that his "concern was mainly to relieve Icelanders of the Danish trading monopoly and to propound that Icelanders should be given the freedom to take care of their own business" (Olafsson 2017, 401). While none of this is wrong in itself, a study of Sigurdsson's writings shows that he was indeed an economic liberal, or a libertarian in Olafsson's preferred terminology. This conclusion is supported by the many direct quotations from Sigurdsson's works provided in my paper. Moreover, this is not only my personal opinion, but the consensus of scholars who have studied Sigurdsson's ideas, such as Economics Professor Olafur Bjornsson (1947) and History Professor Gudmundur Halfdanarson (1997). In a paper in English, Halfdanarson aptly characterises Sigurdsson as a "liberal nationalist" (1999, 111). This is not unsurprising: Sigurdsson was a typical 19th century liberal, and a nationalist and a utilitarian to boot.

Also, Olafsson seems to deny my suggestion that one reason for the high inflation rate in Iceland until the early 1990s was a relatively weak state confronting quite militant labour unions: "The Icelandic state was not weak during the period 1960–1990, as Gissurarson claims" (Olafsson 2017, 406). Olafsson is of course entitled to his opinion, but elsewhere he has written: "In a way the very high inflation rates of the 1960–1990 period can be seen as a sign of the inability of the governments and the institutional structure of the society to handle great fluctuations in the basic economy and social struggles that arose from these fluctuations" (Olafsson 2011, 12).

Again, Olafsson seems to think that he is somehow refuting my suggestion by observing that it was in 1990 that the National Pact between employers and the labour unions, on moderate wage increases in return for government measures to bring down inflation, was made. "The National Pact was indeed implemented one year before Oddsson came to power and he had nothing to do with it. Still Gissurarson allows himself to count the taming of the inflation as an integral part of Oddsson's reform program" (Olafsson 2017, 407). But my claim was not that Oddsson and his political associates made the National Pact, but rather that they fulfilled it. It was the fiscal and monetary restraint shown after 1991 which kept inflation down. In my paper I also pointed out that the comprehensive indexation of financial obligations introduced in 1979 had removed a major incentive for excessive credit creation or money printing, the real cause of inflation (Gissurarson 2017b, 365). In the long run, institutions and incentive structures are more impor-

tant than political personalities, while it is also true that fortune favours the brave, as the Romans observed.

The nature of the Icelandic left

In his response to my paper, Professor Olafsson seems to deny that the Icelandic labour unions were long dominated by radical leftists, receiving advice and financial support from Moscow. “There may possibly have been some interventions from Moscow during the interwar period (that is contested, though), but not at all from the 1960s onwards” (Olafsson 2017, 406). First, it is not contested by any scholar of whom I know that the Icelandic communist movement received both advice and financial support from Moscow in the interwar period. This was uncovered in documents found in Moscow after the collapse of the Soviet Union, mostly in the Comintern files. The evidence is presented in my book on the Icelandic Communist movement (Gissurarson 2011) and in History Professor Thor Whitehead’s book on the same subject (Whitehead 2010) as well as in earlier works by speakers of Russian who had studied the Moscow documents (Hannibalsson 1999; J. Olafsson 1999). Second, the documents showed that the Socialist Party—founded in 1938 when the communists merged with a left-wing faction of the Social Democrats, while retaining full control over the new party—also received substantial financial support, as well as advice, from Moscow. This is even admitted by Kjartan Olafsson, Executive Director of the Socialist Party in 1962–1968, although he claims personally to have been unaware of the donations from Moscow (K. Olafsson 2006). I have tried to calculate how much this support would now be worth, concluding that it would have amounted in total to at least \$3.5 million from 1940 to 1972 (Gissurarson 2015), a sum that should be considered in relation to a population that reached 200,000 as late as 1968.

An important difference between Iceland and the three Scandinavian countries was that in 1942 the Socialists (as the communists now called themselves) replaced the Social Democrats as the dominant force in the labour movement. Militant members of the Socialist Party, some trained in Moscow, controlled some of the most important labour unions, for example the Reykjavik Workers’ Union.¹² While most donations from Moscow were secret and only exposed after the collapse of the Soviet Union, some Soviet support was public. One instance con-

12. Diehard Stalinist Eggert Thorbjarnarson, Executive Director of the Socialist Party in 1943–1957, had been trained in Moscow and worked for almost three years, 1934–1937, in the Comintern headquarters. In the 1940s, he was instrumental in bringing important labour unions under the control of the radical socialists, or communists (Gissurarson 2011).

trary to what Stefan Olafsson asserts is that in 1961 the Reykjavik Workers' Union, fighting a long and bitter strike, accepted £5,000 from the "Union of Soviet Construction Workers" which was of course a cover for the Kremlin masters (Morgunbladid 1961). In 1968, the Socialist Party was dissolved and replaced by a more broadly-based party, the People's Alliance, which cut all formal ties to the Soviet Union after the invasion of Czechoslovakia. But a few individuals active in the People's Alliance and some Icelandic labour unions maintained contact with the Communist Bloc much longer (Gissurarson 2011).

The common financial framework of the EEA

Olafsson repeatedly has tried to blame the bank collapse on the liberalisation of the Icelandic economy by the Oddsson governments of 1991–2004 (Olafsson 2017, 409–410). But as I pointed out in my paper (Gissurarson 2017b, 384) this is implausible for several reasons. One is that in 2007, the year before the collapse, Iceland had the 24th-freest economy in the world which means that 23 economies were freer (Gwartney and Lawson 2009, 10). If economic freedom was the problem, then why did the banking sectors in those 23 economies not collapse? Another reason is that the enormous debt accumulation of the banks occurred in 2004–2008, after the liberal reforms had taken place and after Oddsson had left politics to become one of the three governors of the Central Bank of Iceland (CBI). A third, and crucial, reason is that Iceland, as a member state of EEA, the European Economic Area, had introduced the same legal and regulatory framework for the banking sector as other member states—the EU countries, Norway, and Liechtenstein.

Olafsson (2017, 409) says that on Oddsson's "watch the country was drowned in foreign debt." It should be emphasised that this was debt accumulated by the commercial banks, fully private since 2003, and that it takes two parties to create such debt: the creditor and the debtor. The reason the Icelandic banks could accumulate debt was that they found many institutions and individuals abroad willing to lend to them, not least because of the good reputation Iceland has acquired during Oddsson's tenure as Prime Minister in 1991–2004. Again, the CBI did not have the authority or the information to stop the debt accumulation. It was the Icelandic Financial Supervisory Authority (IFSA) which regulated the banks and could request information about them. The CBI, on the other hand, could only warn the bank managers and leading politicians against the debt accumulation. Publicly, the CBI governors had to be cautious, but nevertheless Governor Oddsson remarked in a speech in November 2007:

For a while, cheap capital was readily available, and some were bold enough to grab the opportunity. But the flip side of expansion, and the side that cannot be ignored, is that Iceland is becoming uncomfortably beleaguered by foreign debt. At a time when the Icelandic government has rapidly reduced its debt and the Central Bank's foreign and domestic assets have increased dramatically, other foreign commitments have increased so much that the first two pale into insignificance in comparison. All can still go well, but we are surely at the outer limits of what we can sustain for the long term. (Oddsson 2007)

In his perceptive and balanced report on the bank collapse written at the initiative of the International Monetary Fund, Kaarlo Jännäri, former Director of the Finnish Financial Supervisory Authority, pointed out that in Iceland, as in the other Nordic countries, there was a strong legal tradition of strict authority: "Iceland, like the other Nordic countries, is a nation where the actions of the authorities must be based on law. Discretionary powers are strictly limited. In retrospect, it is easy to assert that the Icelandic banks' expansion abroad should have been restricted, but in the European Single Market framework and with the European Passport, this was simply not something that could be readily accomplished within the existing legal environment" (Jännäri 2009, 16).

The bank collapse certainly was monumental, in Icelandic terms, yet still Olafsson tends to exaggerate it. He says that the Icelandic banks "accumulated foreign debts amounting to between 8 and 9 times the Icelandic GDP" and that taken together the banks "made up the third-largest bankruptcy in world history" (Olafsson 2017, 408). Apparently, Olafsson mistakes the total debt of the banking sector for being their total foreign debt, while he casually throws out an inaccurate figure for the total debt without referring to any source. In fact, the total assets (or liabilities) of the Icelandic banks amounted to 7.4 times GDP in 2007, whereas figures from 2008 do not reflect the economic reality adequately: they fluctuated as GDP grew very little and the currency plummeted (Benediktsdottir et al. 2011, 191). It is also somewhat disingenuous to add together three different private companies in order to create "the third-largest bankruptcy in world history."

Were the CBI governors negligent?

In his response to my paper, Professor Olafsson (2017, 409) writes: "The independent investigative committee that thoroughly studied the collapse of the banks concluded that the three governors of the Central Bank and the governors of the Financial Surveillance Authority had seriously neglected their duties." There is a minor lapse here because there was only one IFSA Director, not many "governors." A more important inaccuracy is that Olafsson writes as if the Special

Investigation Commission (SIC) on the bank collapse had concluded that the three governors of the CBI had “seriously” neglected their duties. This is not what the SIC Report says. It says there that the governors “showed negligence” in certain matters (Hreinsson et al. 2010, ch. 21 pp. 155, 159–160).¹³ This is not the only time Olafsson has misquoted the conclusions of the SIC Report. In a book chapter on the Icelandic bank collapse he wrote about the CBI and IFSA: “In fact, the governors of these institutions (including David Oddsson, the most influential neoliberal politician) were found guilty of gross negligence by the Committee. The same applied to the government ministers who had duties in the relevant areas” (Olafsson 2016). There is a difference between “serious” or “gross” negligence on the one hand and negligence without any such amplifying adjectives on the other hand.

It has to be noted in what it was, precisely, that the SIC found the CBI governors negligent. First, it was when the governors rejected a request by Landsbanki in August 2008 for a credit facilitation to enable the bank to meet certain liquidity demands by the UK Financial Services Authority (FSA). As the governors pointed out, they rejected the request because the operation would have been very risky: Landsbanki wanted it to be secret which probably would have been illegal, while such a facilitation would probably have been tantamount to a loan of last resort on which certain rules applied. The SIC did not criticise the CBI’s decision to reject Landsbanki’s request, as the SIC acknowledged that the operation would have been very risky. The SIC however argued that the CBI governors, before they made their final decision, should have investigated Landsbanki’s financial position at the time and the grounds on which the FSA based its demands. The CBI governors responded that it was self-evident that they had to reject Landsbanki’s request so that more paperwork was not necessary, especially since there were more urgent matters with which to deal in the midst of the credit crunch. They added that they had not had authority to investigate Landsbanki’s financial position, the IFSA being the only government agency with such authority (Oddsson 2010; Gudnason 2010; Fridriksson 2010).

Second, the SIC found the CBI governors to have shown negligence when they rejected a request by Glitnir in September 2008 for a loan of €500 million so that the bank could meet certain upcoming obligations. Instead, the CBI advised the government to inject capital amounting to €500 million into Glitnir. Again, the SIC did not take issue with the CBI’s decision to reject Glitnir’s request, noting that there was no guarantee that the bank would be rescued by such a loan. The SIC however argued that the CBI governors, before they made their final decision,

13. There is a misprint in the latter part of the conclusion on the CBI governors, “showed negligent” instead of “showed negligence.”

should have investigated Glitnir's financial position at the time. The CBI governors responded that the issue had to be resolved over a weekend, from the point in time when Glitnir's request was first made Thursday 26 September to the point in time markets opened in the morning of Monday 29 September and that there had therefore not been any opportunity for extensive consultations or investigations, adding that they had not had legal authority to investigate Glitnir's financial position (Oddsson 2010; Gudnason 2010; Fridriksson 2010).

Both admonitions were essentially not about the important decisions which the CBI governors had made, rejecting the requests by Landsbanki in August of a credit facilitation and by Glitnir in September of an emergency loan. These decisions were deemed by the SIC to be prudent and reasonable in themselves. The criticisms were about the lack of paperwork concerning them. These admonitions by the SIC seem however extraordinary when decision-making in other countries during the financial crisis is analysed. For example, U.S. Secretary of the Treasury Hank Paulson was making many and much larger decisions about the life and death of financial firms in a matter of a few hours, even minutes, over the phone, without any paperwork, simply because in the desperate situation in which he found himself decisions had to be made quickly (Paulson 2010). It took the Federal Reserve Bank of New York only a few hours to decide on extending \$30 billion in credit facilities to Bear Stearns, so that it could be taken over by JP Morgan Chase, which initially had offered \$2 a share for it and then suddenly, to reduce controversy, raised its offer to \$10 a share (Geithner 2014, 155–158). On the same weekend as the decision was made about Glitnir, the British government was dealing with Bradford & Bingley; Chancellor Alistair Darling gave himself forty-eight hours to resolve the matter (Darling 2011, 134). When the U.S. investment banks Goldman Sachs and Morgan Stanley decided to transform themselves into commercial banks in order to obtain assistance from the Federal Reserve Board, they did so overnight: The requirement of a 30-day waiting period for such applications was simply waived (Bernanke 2015, 311).

Reading the admonitions by the SIC, one cannot but recall the well-known witticism that a memorandum is written not to inform the reader but to protect the writer. Moreover, it should be pointed out that the negligence which the SIC found, was according to the 2008 Act on the SIC, passed after the collapse, in other words according to a rule applied retroactively to events before the collapse.

Warnings and proposals by the CBI governors

Professor Olafsson (2017, 409) tries to play down the fact that David Oddsson and his two colleagues at the CBI several times warned leading government

ministers as well as the bank managers against the rapid and indeed enormous debt accumulation of the banks and their main customers. While there is no written record of many of these warnings, some are well-documented. The first time Governor Oddsson seems to have mentioned a possible collapse of the bank system was in a meeting with the leaders of the then coalition government, Geir H. Haarde of the Independence Party and Halldor Asgrimsson of the Progressives, in November 2005, shortly after he had been appointed to the CBI (Gunnarsson 2009, 72). Again, Oddsson warned three government ministers, Prime Minister Haarde, Finance Minister Arni M. Mathiesen and Education Minister Thorgerdur K. Gunnarsdottir, against the vulnerability of the banks in late 2007 (Oddsson 2017; Haarde 2017). In 2008, at many meetings Oddsson uttered warnings: on 13 January (Hreinsson et al. 2010, ch. 19 pp. 102–103), on 7 February (*ibid.*, ch. 19 p. 120), on 1 April (ch. 18 p. 11, ch. 21 p. 57), on 16 April (ch. 19 pp. 163–164), on 7 May (ch. 18 p. 12), on 8 July (ch. 21 p. 73) and on 30 September 2008 (ch. 20 pp. 68–78).¹⁴

The SIC noted that Oddsson's warnings were particularly forceful at the meeting 7 February 2008, attended by his two CBI colleagues and the leaders of the then coalition government, Haarde of the Independence Party and Ingibjorg Gisladottir of the Social Democrats, and by Finance Minister Mathiesen, as well as by high officials. Indeed, the SIC found that Haarde showed negligence by not resolutely reacting to these warnings (Hreinsson et al. 2010, ch. 21, pp. 129, 132, 147). A case against Haarde before a specially convened Impeachment Court was mostly based on this conclusion by the SIC. However, the Court acquitted Haarde of most charges, finding him guilty only of violating a formal constitutional stipulation that important matters should be put on the agenda of cabinet meetings (*Althingi v. Haarde* 2012). At Haarde's trial, one witness after another testified that there was very little, if anything, that he as Prime Minister could have done in 2008 to avert the collapse. The basic problem was that already in 2005—the year Oddsson became a CBI governor—the banks had grown too big for the CBI and the Icelandic Treasury to be able to rescue them in the case of a severe liquidity crisis.

It should be pointed out, nevertheless, that it was Governor Oddsson who personally stopped the planned acquisition by Kaupthing of a Dutch bank, announced in the autumn of 2007: This would have expanded significantly the already over-extended Icelandic banking sector (Hreinsson et al. 2010, ch. 19 pp. 102, 110–111).¹⁵ Moreover, at confidential meetings the CBI governors suggested sev-

14. Four chapters of the SIC Report (Hreinsson et al. 2010) are available in English, Chapters 2, 17, 18 and 21. In citations of those chapters page numbers of the English version are given.

15. Formally, it was the IFSA which withheld permission for the acquisition. But it was at the initiative of

eral measures that the banks could take to reduce their size relative to the Icelandic economy: for Kaupthing to move its headquarters to another country, such as Denmark or the UK (*ibid.*, ch. 19 pp. 198, 122, 124, 256–257); for Landsbanki to transfer deposits in its branches abroad to subsidiaries abroad which would have meant that they were insured by the host country’s deposit insurance schemes (ch. 18 pp. 17–18, 20, ch. 19 pp. 124, 209); and for Glitnir to sell its Norwegian bank which was regarded as financially sound (ch. 19 pp. 256–257). But the bankers envisaged great difficulties in implementing such measures, not least because of the credit crunch. As Jännäri points out in his aforementioned report, “many of the covenants in the Icelandic banks’ funding arrangements would have been breached had the banks retrenched rapidly. Breach of covenants would have led to early redemption demands for an important part of the banks’ funding; thus the banks were faced with a kind of Catch-22 situation” (Jännäri 2009, 16). Whereas Oddsson’s many warnings were taken seriously by Prime Minister Haarde and Finance Minister Mathiesen, they were received with scepticism by the Social Democrats, their leader Gísladóttir dismissing his warning 7 February 2008 as “one man’s venting” (Hreinsson et al. 2010, ch. 21 p. 97). Indeed, Gísladóttir as late as early September 2008 urged the banks to continue collecting deposits abroad (Gísladóttir 2008).

It is therefore unfair of Olafsson to assert that Governor Oddsson and his CBI colleagues “did nothing” (Olafsson 2017, 410). Moreover, Oddsson was the first person in authority to recognise the imminent collapse of the banks, as his request to attend a cabinet meeting Tuesday 30 September 2008 showed: On that occasion, he said that the banks were about to fall and that what was needed was to ring-fence Iceland, divide up the bank assets and liabilities into a domestic and a foreign part, with government stepping in to save the domestic one (Hreinsson et al. 2010, ch. 20 p. 70). The details of such a ring-fencing were prepared by a Special Liquidity Crisis Task Force at the CBI over the next few days, with the help of a Bank of England expert that Oddsson asked for from Governor Mervyn King. But the proposed ring-fencing met with great resistance from the Social Democrats in the government. Finally, the CBI governors, in a last-ditch effort, sent a private jet for three experts from JP Morgan who in the wee hours of Monday 6 November managed to convince the Social Democrats of the inevitability of ring-fencing (*ibid.*, ch. 20 pp. 102–103). Subsequently, in the evening of the same day Parliament passed an Emergency Act which gave priority to the claims of depositors over those of other creditors on the estates of the banks—all three of which fell in the course of the next three days. By the Emergency Act, the Icelandic Treasury

Oddsson who told the IFSA Chairman of the Board (Jon Sigurdsson) that he would take all responsibility for the decision (Oddsson 2017).

avoided a government guarantee of deposits which in the circumstances might have entailed enormous difficulties. The Emergency Act is now widely regarded as having been a prudent and sensible measure. Thus, not only were Oddsson and his CBI colleagues among the persons of authority who were uttering warnings about the impending collapse and suggesting ways of reducing the over-extending banking sector: they also led the crucial first steps towards reconstruction, against resistance from the Social Democrats.

The Icelandic blame game

I believe that the three SIC members strove to be fair. But they were not operating in a vacuum. The Icelandic nation, unused to adversity, was in a shock over the bank collapse, and there was strong demand for finding someone to blame and thus to make the collapse intelligible to laymen. Perhaps the SIC had the unconscious agenda of trying to disperse blame widely among the previous powers to be, not exempting anyone. Oddsson, of course, had occupied a prominent position before the collapse, both as Prime Minister and CBI governor, and his confidential warnings and proposals in the latter office were not generally known. The media machine of business tycoon Jon Asgeir Johannesson also turned on him after the collapse, casting him as the chief culprit. It is however noteworthy that the SIC, with a generous budget, unrestricted access to documents, many full-time experts at its disposal, and powers to require every person of authority to testify, having dug hard for a year and a half could only find two instances (again, in connection with a credit facilitation to Landsbanki in August 2008 and an emergency loan to Glitnir in September 2008) of what it presented as negligence of the CBI governors, both instances essentially being about lack of paperwork supporting important decisions.

Olafsson (2017, 410) alleges that I only blame “one of the business moguls for everything that went wrong during the height of the bubble years.” There is no basis for this allegation. Of course Jon Asgeir Johannesson, to whom he refers, was not alone in his recklessness. He just went further than the others. As I observed, he “was not only Iceland’s greatest business mogul and her only real media magnate,” but also “with his group, by far the biggest debtor of the Icelandic banks” (Gissurarson 2017, 380). In its Report, the SIC expressed the opinion that the concentrated risk of the Icelandic banks had been dangerously high for some time before their collapse. The SIC went on: “The clearest example is Baugur Group and affiliated companies [controlled by Johannesson]. In all three banks, as well as in Straumur-Burðaras, Baugur Group had become too large a risk exposure” (Hreinsson et al. 2010, ch. 21 p. 15). Perhaps Olafsson should direct his ire at the

SIC rather than at me.

Olafsson (2017, 402) also says that I claimed he and another critic of the 1991–2004 liberal reforms, Professor Thorvaldur Gylfason, were “some special envoys of one of the prominent businessmen of the bubble economy years, Jon Asgeir Johannesson.” This is not what I wrote. I said that both “professors had connections to Johannesson: Gylfason was a columnist for Johannesson’s newspaper *Frettabladid*, and Olafsson’s wife was and is the anchorwoman of the evening news on Johannesson’s television station.” Few people would not recognise the difference between asserting that two individuals *were special envoys* of a media mogul and noting that they *had connections* to him. Moreover, Olafsson correctly points out that for a while I wrote regular columns for the same newspaper as Gylfason, *Frettabladid*. But after I repeatedly had criticised the owner, Johannesson (e.g., Gissurarson 2005; 2008), the contract with me was cancelled. However, unlike me, Gylfason strongly supported Johannesson, arguing against a law proposal intended to reduce media concentration (Gylfason 2004a; b). Such a law would have greatly limited Johannesson’s domination of the media market. Gylfason also alleged that a police investigation of Johannesson’s activities was politically motivated (Gylfason 2005), even if it eventually led to Johannesson’s conviction for bookkeeping irregularities, and later for tax fraud.

What caused the bank collapse?

The general conclusion of the Special Investigation Commission (SIC) into the bank collapse was that “Explanations for the collapse of the banks Glitnir, Kaupthing Bank and Landsbanki are first and foremost to be found in the rapid growth of their balance sheet, and hence their size at the collapse” (Hreinsson et al. 2010, ch. 21 p. 1). But the relative size of the banks is not a sufficient explanation. It is like explaining broken glass by its breakability. Something had to happen to the banks, and there is little doubt what this something was, as I pointed out in my paper: (1) Hedge funds targeted the Icelandic banks in a relentless effort to bring them down. (2) European central banks refused to help the CBI to provide liquidity to the banks, even if Iceland was, through her membership in the EEA, supposed to be a full participant in the European internal market. (3) The U.S. Federal Reserve Board refused to extend the same help in the form of dollar swap deals to the CBI as it gave to the three Scandinavian central banks. (4) The British Labour government closed down the two British banks owned by Icelanders, at the same time as it offered a £500 billion rescue package to all other British banks; the close-down of Kaupthing’s subsidiary KSF brought about the fall of the parent company, for a few days the only survivor of the crisis. (5) The British Labour

government invoked the 2001 Anti-Terrorism Act against not only Landsbanki but also, however briefly, the CBI and the IFSA. On the Treasury's website, Landsbanki was listed alongside the Taliban, Al-Qaida, and the governments of Iran and North Korea. This extraordinary and brutal measure made rescue attempts virtually impossible (Gissurarson 2017b; c).

Professor Olafsson writes however as if the banks deserved their fate. "The three largest banks as well as most saving banks were of course seriously sick and then went into bankruptcy" (Olafsson 2017, 410). It is true that the Icelandic banks behaved recklessly, and in some cases illegally, although such cases were mostly about desperate last-minute attempts to keep them going. But as Finance Professors Asgeir Jonsson and Hersir Sigurgeirsson—quoted with apparent respect by Olafsson elsewhere (2017, 210)—point out in a well-researched book, there is no reason to believe that the assets of the Icelandic banks were on average worse, or better, than those of banks in other countries (Jonsson and Sigurgeirsson 2016, 18). Danske Bank in Denmark, UBS in Switzerland, and RBS in Scotland would all have collapsed if they had not been rescued, crucially by the U.S. Federal Reserve Board. The use of the Anti-Terrorism Act against Icelandic authorities and companies is also ironic considering that many rescued banks have since been exposed for money laundering and other violations of the law (Gissurarson 2017c). In my paper, I offer several explanations that I am not going to repeat here of the fact that the Icelandic banks were not rescued alongside banks in other countries (see Gissurarson 2017b, 384–389). Certainly one explanation may be, as Olafsson holds, that central bankers and other authorities abroad sincerely believed that the Icelandic banks had worse assets than other banks. But Olafsson is surely wrong that this would be the only explanation for their leaving Iceland out in the cold. In particular, the crucial decisions by the U.S. Federal Reserve Board and the British Labour government on the Icelandic banks cannot be explained solely by such a belief.

In his discussion of the Icelandic banks, Olafsson (2017, 408) repeats his earlier assertion that the 2002 privatisation of a large share in Landsbanki was an example of "favouritism and cronyism," and chooses to ignore the crucial fact which I pointed out in my paper about the three main buyers: that they were in no way connected to the Independence Party leadership at the time. The only one of them who previously had been active in the Independence Party had, in fact, managed the campaign of David Oddsson's main rival in the Party primaries before the 1982 municipal election. Another one was apolitical, at least according to himself, and the third one was a member of the Progressive Party (Bjorgolfsson 2014, 100). Olafsson also ignores another relevant fact, that in response to criticisms of the privatisation of Landsbanki, two reports were commissioned from the National Audit Office which found no significant flaw in the process (National

Audit Office 2002; 2003). The reason the offer by the eventual buyers of Landsbanki was accepted was simply that most thought it was overall the most advantageous one, especially since they would be bringing into the Icelandic economy money that they had made abroad. In my opinion, it would not have made a difference if Landsbanki had been sold to others.

Concluding remarks

Several of Professor Olafsson's contentions expressed during and after the time of the 1991–2004 liberal reforms in Iceland turned out to be wrong: The liberal reforms did not bring about a fundamental change in the Icelandic welfare state; they did not increase relative poverty; if income inequality increased, then it did not do so at a faster rate than in the other Nordic countries; and welfare provisions were no less generous for the needy than in the other Nordic countries. The dispute over how to interpret the 1991–2004 liberal reforms in Iceland has become bitter and invidious—and perhaps amusing to observers of our tiny country. I maintain that these reforms were very successful, producing a healthy, vibrant economy, without in any way reducing welfare provisions or lowering the safety net. The ultimate argument for their success is indeed how quickly the Icelandic economy recovered after the 2008 bank collapse.

References

- Althydubladid.** 1983. Bandalag jafnadamanna stofnad um helgina [Social Democratic Alliance Founded Next Weekend]. *Althydubladid*, January 18: 1–2. [Link](#)
- Arnason, Einar, Stefan Olafsson, and Olafur Olafsson.** 2007. Rangfaerslur raduneyta um hag aldradra [Deceptions by Government Ministries on the Living Standards of the Elderly]. *Morgunbladid*, March 20: 28. [Link](#)
- Arnason, Ragnar.** 2014. Aevitekjur og tekjudreifing [Income over Life and Income Distribution]. In *Tekjudreifing og skattar [Income Distribution and Taxes]*, eds. Ragnar Arnason and Birgir Thor Runolfsson, 25–44. Reykjavik: Almenna bokafelagid.
- Benediktsdottir, Sigridur, Jon Danielsson, and Gylfi Zoega.** 2011. Lessons from a Collapse of a Financial System. *Economic Policy* 26(66): 183–235.
- Bernanke, Ben.** 2015. *The Courage to Act: A Memoir of a Crisis and Its Aftermath*. New York: W. W. Norton & Co.
- Bjorgolfsson, Thor.** 2014. *From Billions to Bust—And Back*. London: Profile Books.
- Bjornsson, Olafur.** 1947. Jon Sigurdsson og stefnur i verslunarmalum [Jon Sigurdsson and Trade Policies]. *Skirnir* 121: 60–73.
- Darling, Alastair.** 2011. *Back from the Brink*. London: Atlantic Books.

- Duason, Jon.** 1917. Felagshyggjan [Socialism]. *Timarit íslenskra samvinnufelaga* 11(1–2): 21–30. [Link](#)
- Eurostat.** 2007. Poverty and Social Exclusion in Europe. Statistical Office of the European Communities (Luxembourg).
- Fridriksson, Ingimundur.** 2010. Correspondence with SIC. SIC Report, Add. 11. Althingi (Reykjavik). [Link](#)
- Geithner, Timothy F.** 2014. *Stress Test: Reflections on Financial Crises*. London: Random House Business Books.
- Gisladottir, Ingibjörg S.** 2003. Speech at Borgarnes, April 15. (Extract in *Morgunblaðið*, April 17: 10.) [Link](#)
- Gisladottir, Ingibjörg S.** 2008. Unnid a thrithaettum vanda [Solving Three Kinds of Problems], *Frettablaðið*, September 4: 30. [Link](#)
- Gislason, Gylfi Th.** 1977. *Jafnadarstefnan [Social Democracy]*. Reykjavik: Almenna bokafelagid.
- Gissurarson, Hannes H.** 2005. Faranlegar samsæriskenningar [Absurd Conspiracy Theories]. *Frettablaðið*, August 19: 22. [Link](#)
- Gissurarson, Hannes H.** 2007a. Talnabrellur um tekjuskiptingu [Statistical Tricks about Income Distribution]. *Morgunblaðið*, February 28: 27. [Link](#)
- Gissurarson, Hannes H.** 2007b. The Icelandic Model: Neither Scandinavian nor Anglo-Saxon. In *Cutting Taxes to Increase Prosperity*, eds. Hannes H. Gissurarson and Tryggvi Th. Herbertsson, 139–154. Reykjavik: RSE.
- Gissurarson, Hannes H.** 2008. Jafnvaegid raskadist [Imbalance in Society]. *Frettablaðið*, October 31: 18. [Link](#)
- Gissurarson, Hannes H.** 2009. *Abrif skattabaekkana a bagvaxt og lifskjor [The Impact of Tax Increases on Economic Growth and Living Standards]*. Reykjavik: Bokafelagid.
- Gissurarson, Hannes H.** 2010. Hvað stendur eftir? [What Has Been Brought Out?]. hannesgi.blog.is, February 25. [Link](#)
- Gissurarson, Hannes H.** 2011. *Íslenskir kommúnistar 1918–1998*. Reykjavik: Almenna bokafelagid.
- Gissurarson, Hannes H.** 2012. Jofnudur a Íslandi 1991–2007 [Equality in Iceland 1991–2007]. *Icelandic Review of Politics and Administration* 8(2): 571–578. [Link](#)
- Gissurarson, Hannes H.** 2015. Hvers virði var Russagullid? [How Much Was the Russian Gold Worth?]. *Vísinding* 33(29): 3–4. [Link](#)
- Gissurarson, Hannes H.** 2017a. Liberalism in Iceland in the Nineteenth and Twentieth Centuries. *Econ Journal Watch* 14(2): 241–273. [Link](#)
- Gissurarson, Hannes H.** 2017b. Anti-Liberal Narratives About Iceland, 1991–2017. *Econ Journal Watch* 14(3): 362–398. [Link](#)
- Gissurarson, Hannes H.** 2017c. *Lessons for Europe from the 2008 Icelandic Bank Collapse*. Brussels: New Direction.
- Gudnason, Eiríkur.** 2010. Correspondence with SIC. SIC Report, Add. 11. Althingi (Reykjavik). [Link](#)
- Gunnarsson, Styrmir.** 2009. *Umsatrid: fall Íslands og endurreisn*. Reykjavik: Verold.
- Gwartney, James, and Robert Lawson.** 2006. *Economic Freedom of the World: 2006 Annual Report*. Vancouver: Fraser Institute. [Link](#)
- Gwartney, James, and Robert Lawson.** 2009. *Economic Freedom of the World: 2009 Annual*

- Report*. Vancouver: Fraser Institute. [Link](#)
- Gylfason, Thorvaldur**. 2004a. Veldi Baugs [The Baugur Empire]. *Frettabladid*, May 6: 22. [Link](#)
- Gylfason, Thorvaldur**. 2004b. Hvað gera audmenn? [How Do Business Tycoons Behave?]. *Frettabladid*, May 13: 22. [Link](#)
- Gylfason, Thorvaldur**. 2005. Kannski tuttugu manns [Possibly Twenty People]. *Frettabladid*, December 8: 38. [Link](#)
- Haarde, Geir H.** 2017. Interview by the author, November 8.
- Halfdanarson, Gudmundur**. 1997. Thjodhetjan Jon Sigurdsson [Jon Sigurdsson as National Hero]. *Andvari* 122: 40–62. [Link](#)
- Halfdanarson, Gudmundur**. 1999. Defining the Modern Citizen: Debates on Civil and Political Elements of Citizenship in Nineteenth-Century Iceland. *Scandinavian Journal of History* 24(1): 103–116.
- Hannibalsson, Arnor**. 1999. *Moskrulinan: Kommúnistaflokkur Íslands og Komintern* [Moscow in Command: The Communist Party of Iceland and Comintern]. Reykjavik: Nyja bokafélagid.
- Hreinsson, Pall, Tryggvi Gunnarsson, and Sigridur Benediktsdóttir**. 2010. *Antecedents and Causes of the Collapse of the Icelandic Banks in 2008 and Related Events*. Reykjavik: Althingi. [Link](#)
- Hreinsson, Vidar**, ed. 1997. *Complete Sagas of Icelanders*. Reykjavik: Leifur Eiríksson Publishing.
- Jännäri, Kaarlo**. 2009. Report on Banking Regulation and Supervision in Iceland: Past, Present and Future. March 30. Prime Minister's Office (Reykjavik). [Link](#)
- Jonasdóttir, Marianna**. 2007. *The Icelandic Pension System*. Reykjavik: Ministry of Finance.
- Jonsson, Asgeir, and Hersir Sigurgeirsson**. 2016. *The Icelandic Financial Crisis: A Study into the World's Smallest Currency Area and Its Recovery from Total Banking Collapse*. Basingstoke, UK: Palgrave Macmillan.
- Magnússon, Andres**. 2006. Klípt og skorid [Cutting and Cropping]. *Bladid*, September 5: 18. [Link](#)
- Mill, John Stuart**. 1967 [1879]. *Chapters on Socialism*. In *The Collected Works of John Stuart Mill*, vol. 5, ed. J. M. Robson, 703–753. Toronto: University of Toronto Press.
- Mill, John Stuart**. 1977 [1859]. *On Liberty*. In *The Collected Works of John Stuart Mill*, vol. 18, ed. J. M. Robson, 213–310. Toronto: University of Toronto Press.
- Morgunbladid**. 1961. Dagsbrun fær ½ millj. kr. frá Russum [Dagsbrun Receives ½ Million Crowns from Russia]. *Morgunbladid*, July 16: 2. [Link](#)
- Morgunbladid**. 2007. Félagshyggjuverðlaun ungra jafnadmanna [The Socialist Prize from Young Social Democrats]. *Morgunbladid*, March 18: 65. [Link](#)
- National Audit Office**. 2002. Greinargerð um útbod á fjordungshlut ríkisins í Landsbanka Íslands hf. [Investigation of the Tender for One-Fourth of the Government Share in Landsbanki]. National Audit Office (Reykjavik). [Link](#)
- National Audit Office**. 2003. Einkavaeding helstu ríkisfyrirtækja árin 1998–2003 [Privatization of Main Government Companies 1998–2003]. Ríkisendurskodun (Reykjavik). [Link](#)
- Njals, Harpa**. 2003. *Fataekt á Íslandi við upphaf nýrrar aldar: Hin dulda félagsgærd borgarasamfélagsins*. Reykjavik: Borgarfræðisetur.

- Nososco.** 2006. *Social Protection in the Nordic Countries, 2004*. Copenhagen: Nordic Social-Statistical Committee. [Link](#)
- Nozick, Robert.** 1974. *Anarchy, State, and Utopia*. Oxford: Blackwell.
- Oddsson, David.** 2007. Speech to the Iceland Chamber of Commerce (Reykjavik), November 6. English translation. [Link](#)
- Oddsson, David.** 2010. Correspondence with SIC. SIC Report, Add. 11. Althingi (Reykjavik). [Link](#)
- Oddsson, David.** 2017. Interview by the author, October 5.
- Olafsson, Jon.** 1999. *Kaeru felagar: Íslenskir sosialistar og Sovétríkin 1920–1960* [*Dear Comrades: Icelandic Socialists and the Soviet Union 1920–1960*]. Reykjavik: Mal og menning.
- Olafsson, Kjartan.** 2006. Hvað varð um peningana frá Moskvu? [What Became of the Money from Moscow?]. *Morgunblaðid*, November 3: 36–37. [Link](#)
- Olafsson, Stefan.** 2003. Athugasemd vegna umraedu um fataekt [Comments on the Poverty Debate]. *Morgunblaðid*, May 7: 47. [Link](#)
- Olafsson, Stefan.** 2006a. Heimsmet i haekkun skatta [World Record in Tax Increases]. *Morgunblaðid*, February 24: 26–27. [Link](#)
- Olafsson, Stefan.** 2006b. Aukning ojfagnar a Íslandi [Increased Inequality in Iceland]. *Morgunblaðid*, August 31: 28–29. [Link](#)
- Olafsson, Stefan.** 2006c. Ojofnudurinn orari en i Chile Pinochets [Inequality Greater than in Pinochet’s Chile] [interview]. *Frettablaðid*, October 30: 14. [Link](#)
- Olafsson, Stefan.** 2007. Ojofn kaupmattaraukning [Unequal Increase in Purchasing Power]. *Morgunblaðid*, February 26: 21. [Link](#)
- Olafsson, Stefan.** 2011. Icelandic Capitalism—From Statism to Neoliberalism and Financial Collapse. In *The Nordic Varieties of Capitalism*, ed. Lars Mjøset, 1–52. Bingley, UK: Emerald Group Publishing.
- Olafsson, Stefan.** 2016. The Political Economy of Iceland’s Boom and Bust. In *Iceland’s Financial Crisis: The Politics of Blame, Protest, and Reconstruction*, eds. Valur Ingimundarson, Philippe Urfalino, and Irma Erlingsdottir, 57–78. Abingdon, UK: Routledge.
- Olafsson, Stefan.** 2017. From Political Advocacy to ‘Alternative Facts’: A Comment on Hannes Gissurarson’s Method. *Econ Journal Watch* 14(3): 399–429. [Link](#)
- Paulson, Hank.** 2010. *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System*. New York: Business Plus.
- Rawls, John.** 1971. *A Theory of Justice*. Oxford: Clarendon Press.
- Stattice.** 2007. Risk of Poverty and Income Distribution 2003–2004. February 2. Statistics Iceland (Reykjavik). [Link](#)
- Stattice.** 2018. Central Government Total Revenue and Expenditure, % of GDP. Statistics Iceland (Reykjavik). [Link](#)
- Thjodviljinn.** 1985. Felagshyggja: Malfundafelag stofnad [Socialism: A Debating Club Founded]. *Thjodviljinn*, February 8: 2. [Link](#)
- Whitehead, Thor.** 2010. *Sovet-Ísland, Oskalandid* [*Soviet Iceland, the Country of Our Dreams*]. Reykjavik: Ugly.

Case Cited

Althingi v. Geir Hilmar Haarde, Case 3/2011 (Landsdomur, 2012). [Link](#)

About the Author



Hannes H. Gissurarson, born in 1953, holds a B.A. in philosophy and history and a cand. mag. [M.A.] in history from the University of Iceland, and a D.Phil. in politics from the University of Oxford. The author of more than fifteen books on politics, history and current affairs, in English, Swedish, and Icelandic, he has been professor of politics at the Department of Politics at the University of Iceland since 1988. He has been a Visiting Scholar at the Hoover Institution, Stanford University, at UCLA, at LUISS in Rome, and at several other universities. In 1998–2004 he served on the board of the Mont Pelerin Society and in 2001–2009 on the board of overseers of the Central Bank of Iceland. He is director of academic studies at an Icelandic think tank, [RNH](#), Rannsóknarsetur um nyskopun og hagvoxt (Research Centre on Innovation and Economic Growth). His email address is hannesgi@hi.is.

[Go to archive of Character Issues section](#)
[Go to September 2018 issue](#)



Discuss this article at Journaltalk:
<https://journaltalk.net/articles/5972>



Foreword to “Adam Smith and His Russian Admirers of the Eighteenth Century”

Daniel B. Klein¹

The humane intelligence of British liberalism found a fountainhead in Adam Smith, winning admirers in country after country. Ten countries are treated in the splendid *Adam Smith Across Nations: Translations and Receptions of The Wealth of Nations*, edited by Cheng-chung Lai (2000). One is Russia, discussed by several papers, the first originally appearing in 1937 and now reproduced again here.

The 1937 paper introduces us to Adam Smith’s early Russian admirers. It was written by Michael P. (Mikhail Pavlovich) Alekseev, who, by the time of his passing in 1981, was “recognized as the most eminent living Russian specialist on comparative literature” (Edgerton 1982, 200). Alekseev’s text radiates his own admiration for Smith and his Russian liberal progeny, which makes one wonder how Alekseev rose to scholarly eminence all the while in Soviet Russia.

In the eighteenth century, for many countries, Smith’s political economy was being received years prior to *The Wealth of Nations*, in Glasgow classrooms, by first-hand auditors from abroad. Among the Glasgow students who became enamored of Smith were two from Russia, Semyon Efimovich Desnitsky (1740–1789) and Ivan Andreevich Tretyakov (1735–1776). They must have heard Smith’s course in jurisprudence, including the lectures on domestic policy recently reproduced in this journal ([link](#)), as well as courses by John Millar. Alekseev tells how they imported Smith into Russia and advanced his thinking. Also told of are the Russian Smithians N. S. Mordinov (1754–1845), Ekaterina Romanovna Dashkova (1744–1810), Alexander Romanovich Vorontsov (1741–1805), Semyon Romanovich Vorontsov (1744–1832), Christian von Schlözer (1774–1831), Heinrich Friedrich von Storch (1766–1835), M. A. Balugiansky (1769–1847), Nikolay Turgenev (1789–1871), and the great author Alexander Pushkin (1799–1837). Alekseev writes: “After the war of 1812 Adam Smith became extremely popular among the liberal

1. George Mason University, Fairfax, VA 22030.

youth of Russia who were organizing secret circles. In endowing the hero of his novel *Eugene Onegin* with a taste for economic problems and by making him read Adam Smith, Pushkin merely reproduced the actual feature of the time, the writer himself having had the same taste.”

Alekseev’s essay originally appeared as an appendix in Scott (1937, 424–431) and was reproduced in Lai (2000, 239–247). We have preserved the original text without changes, except for moving one clearly misplaced quotation mark, and we have constructed the references section. Sometimes Alekseev’s transliteration or spellings (of names, publications, etc.) are different from spellings commonly seen today, and in the references section as well as above we have opted to use the latter. Immediately below we provide several topical references in English. Brief biographical information about Alekseev appears following his essay.

References

* indicates that the piece is also reproduced in Lai (2000)

- Alexandrin, Glen.** 1977. Reception of Adam Smith’s “The Wealth of Nations” in Early Russia. *Social Science Forum* 1(1): 1–13.*
- Anikin, Andrei.** 1993. Adam Smith in Russia. In *Adam Smith: International Perspectives*, eds. H. Mizuta and C. Sugiyama, 251–260. London: Macmillan.
- Artemieva, Tatiana V.** 2016. Adam Smith in Russian Translation. In *A Critical Bibliography of Adam Smith*, eds. Keith Tribe and Hiroshi Mizuta, 153–167. London: Routledge.
- Barnett, Vincent.** 2005. *A History of Russian Economic Thought*. Abingdon, UK: Routledge.
- Barnett, Vincent, and Joachim Zweynert,** eds. 2008. *Economics in Russia: Studies in Intellectual History*. Burlington, Vt.: Ashgate.
- Boss, Valentin.** 1984. Alekseev and Anglo-Russian Studies. *Russian Review* 43(4): 393–404.
- Brown, A.** 1974. S. E. Desnitski, Adam Smith, and the “Nakaz” of Catherine II. *Oxford Slavonic Papers* 7(1): 42–59.*
- Brown, A.** 1975. Adam Smith’s First Russian Followers. In *Essays on Adam Smith*, eds. A. S. Skinner and T. Wilson, 247–273. Oxford: Oxford University Press.
- Clendenning, P. H.** 1972. Eighteenth Century Russian Translations of Western Economic Works. *Journal of European Economic History* 1: 745–753.
- Dmytryshyn, Basil.** 1971. Admiral Nikolai S. Mordvinov: Russia’s Forgotten Liberal. *Russian Review* 30(1): 54–63.
- Edgerton, William B.** 1982. News of the Profession [obituary of Mikhail Pavlovich Alekseev]. *Slavic Review* 41(1): 200–201.
- Lai, Cheng-chung,** ed. 2000. *Adam Smith Across Nations: Translations and Receptions of “The Wealth of Nations.”* Oxford: Oxford University Press.
- Letiche, John M.** 1964. *A History of Russian Economic Thought: Ninth Through Eighteenth Centuries*. Berkeley, Calif.: University of California Press.

FOREWORD TO “ADAM SMITH AND HIS RUSSIAN ADMIRERS”

- McGrew, Roderick.** 1976. Dilemmas of Development: Baron Heinrich Friedrich Storch (1766–1835) on the Growth of Imperial Russia. *Jahrbücher für Geschichte Osteuropas* 24(1): 31–71.*
- Scott, William R.** 1937. *Adam Smith as Student and Professor*. Glasgow: Jackson, Son, & Co.
- Taylor, N. W.** 1967. Adam Smith’s First Russian Disciple. *Slavic and East European Review* 45(105): 425–438.*

Adam Smith and His Russian Admirers of the Eighteenth Century¹

Michael P. Alekseev

[LINK TO ABSTRACT](#)

The once widely prevalent view advanced by Alexey Vesselovsky that the study of Adam Smith's teachings "had been delayed in Russia by a period of over 40 years"² may be regarded at present as having been finally renounced. Though the first Russian translation of the *Inquiry into the Nature and Causes of the Wealth of Nations*, made by N. Poltkovsky,³ was not published until 1802–1806 (in 4 parts) in Petersburg, a fairly large circle of Russian readers had been well acquainted with the ideas contained in this famous book for a long time past; moreover, the first signs of Russian "Smithianism" had even preceded by several years the publication of the English original of this work.

In the sixties of the eighteenth century the custom of sending young men abroad to get their university education became widely prevalent in Russia. At the time cases of Russians being sent to England or Scotland were not infrequent. For instance, in 1761 two Russian students, Simon Jefimovich Desnitsky and Ivan Andreevich Tretiakov, were sent to Glasgow University by order of the Curator of the Moscow University, Prince I. I. Shuvalov. Both of them, having taken their degree in philosophy and law at the Glasgow University, returned to Moscow

1. This paper originally appeared as an appendix (pp. 424–431) in William Robert Scott, *Adam Smith as Student and Professor* (Glasgow: Jackson, Son, and Co., 1937). It was also reproduced (pp. 239–247) in Cheng-chung Lai (ed.), *Adam Smith Across Nations: Translations and Receptions of The Wealth of Nations* (Oxford: Oxford University Press).

2. A. Vesselovsky, *Western Influences in Modern Russian Literature*, Moscow, 1916, pp. 174–5. It is of interest to note that the same writer in mentioning in this book the name of an original Russian philosopher of the early eighteenth century, *i.e.* Ivan Pososhkov (1670–1726), and his peculiar views on a people's welfare and economic reforms, states that the work of the latter writer, *A Book on Scantiness and Wealth*, even at that early date "foretold the theories of Adam Smith" (*ibid.*, p. 44).

3. V. S. Sopikov, *An Essay on Russian Bibliography*, St. Petersburg, 1904, iii, N. 4511. The translator of this work received 5000 roubles from the Russian Government for its publication. See A. N. Pypin, "The Relations of Bentham with Russia," *Westnic Evropy*, February, 1869.

and played a prominent part in the history of Russian legislative science.⁴ Indeed, precisely these two people should be regarded as the first promoters of Adam Smith's teachings from the Russian University Chair. However, both these Russian students had enjoyed the benefit of Adam Smith's guidance but for a relatively short time, having arrived in Glasgow in 1761, while in January 1764 A. Smith left Glasgow on his way to France. And yet the lectures delivered by A. Smith and attended by them could not fail to leave an impress on them. The less gifted of the two students, Tretiakov, returned to Moscow, having completed his course of studies at Glasgow University and taken his LL.D. degree on the presentation of his dissertation "Disputatio Juridica de in jus vocando" (Glasgow, 1767). The very next year he was appointed professor at the Moscow University where he began delivering his course of lectures. However, his pedagogical career was short-lived, lasting only to 1776. In the year 1779 he died at a relatively early age.⁵ His literary works were likewise small in number; the only literary inheritance he left us consists of three inaugurals delivered by him on Speech Days of the Moscow University. One of these is of particular interest to us, for it is clearly based on the lectures read by Adam Smith. The inaugural in question was delivered by Tretiakov on the Speech Day of the Moscow University held on 30th June, 1772, and bore the following title: "Discussion on the Causes of Abundance and the Slowly Progressing Enrichment of States, Both Among Ancient and Modern Peoples."⁶ It is of interest to note that *The Wealth of Nations* was first published four years later (1776) and yet in the above-mentioned speech Tretiakov had not merely laid down in brief the essential theses of Smith's treatise but in some cases had used the same illustrating examples as are given by Smith. Such were, for instance, the examples which served to confirm the theory of the division of labour.⁷ This similarity should, of course, be attributed to the fact that Tretiakov had carefully followed the ideas advanced by Smith in the course of lecturing at Glasgow University and that his teacher had then been engaged in working out the separate parts of his future work. Indeed, Adam Smith is known to have expounded the essential theses of his economical teachings in his lectures on Jurisprudence read as early as in the fifties

4. Both matriculated under Anderson, Professor of Natural Philosophy, in 1761. Desnitsky graduated M.A. in 1765 and LL.D. (by examination) in 1767. Tretiakov obtained the same degrees in the same years; *cf.* above, p. 158 note 3.

5. For references to I. A. Tretiakov see *Biographical Dictionary of Professors and Teachers at the Imp. Moscow University*, Moscow, 1855, ii, pp. 505–507.

6. See *Speeches Delivered at the Official Meetings of the Imperial Moscow University by the Russian Professors thereof, Containing Their Short Curricula Vitae*. Published by the Association of the Lovers of Russian Letters, Moscow, 1819.

7. For instance, Tretiakov writes: "If a watchmaker or the manufacturer of the most trifling article, such as a needle, were to produce by himself everything necessary for the completion of these objects or the like of them, he would hardly be able to manufacture one watch a year or one needle a day"—*cf.* above, p. 328.

of the eighteenth century.⁸ Unfortunately, Tretiakov has not left us any literary evidence of his sympathies with Adam Smith's ideas. In the year that *The Wealth of Nations* was first published Tretiakov resigned from his post at the Moscow University and never published anything during the last three years of his life, while all his papers have failed to reach us.

Tretiakov's friend and fellow student of the Glasgow University, S. J. Desnitsky, was a more important personality. The range of problems he was interested in was considerably wider; he took up the study of problems connected with the origin of statecraft, the history of the development of marriage and of family relations, of property and, lastly, the problem of capital punishment from the point of view of criminal law. "All these are not the problems whose scientific study is indissolubly connected with the name of Adam Smith," his biographer states. "In the choice of the subjects of his investigation Desnitsky was apparently entirely independent. But the lines along which he worked out these problems had been undoubtedly borrowed by him from Adam Smith."⁹ And indeed, it can be shown that Desnitsky was extremely susceptible to the new ideas which had been revealed to him by Adam Smith's lectures. Desnitsky's works constantly reveal obvious traces of the influence of his Scotch professor. However, there is no reason to believe that these were merely clever interpretations of the ideas he had heard advanced in the lecture room of Glasgow University, as was the case with his friend and companion, Tretiakov. In Desnitsky we have a mature and original thinker whose literary talent and vast knowledge made him one of the most influential professors of the Moscow University in the late eighteenth century and provided him a Chair in the Russian Academy (1783).¹⁰

On his return to Russia in 1767, after he had taken his degree at the University of Glasgow, Desnitsky was appointed in 1768 to the Chair of Roman Law and Russian Jurisprudence at the Moscow University, a post which he held for twenty years. In 1787 he retired, and in 1789 he died, thus preceding Adam Smith by a year.

In one of his inaugurals, delivered on a Speech Day of the Moscow University, Desnitsky developed the idea that the power of some people over others was based on (1) their superiority in bodily qualities (such as corpulency, plumpness), (2) their superiority in mental qualities (cunning, shrewdness, sagacity), (3) their

8. Zeyss, *Adam Smith und der Eigennutz*, 1889, S. 14–16. The student's notes on the "Lectures on Justice, Police, Revenue and Arms, delivered at the University of Glasgow by Adam Smith," published by Professor Cannan (Oxford, 1896), give us a clear idea of the extensiveness of the course which was likewise attended by the above-mentioned Russian students. Unfortunately, their own notes on these lectures are not available and are supposed to have been destroyed with their other papers in the Moscow conflagration of 1812—cf. *Economic Journal*, September 1935, pp. 427–38.

9. N. M. Korkunov, *The History of the Philosophy of Law*, St. Petersburg, 1898, p. 295.

10. M. I. Sukhomlinov, *The History of the Russian Academy*, Issue V, St. Petersburg, 1880, pp. 3–8. See also *The Russian Biographical Dictionary*, St. Petersburg, 1905, pp. 331–5.

superiority in riches and the abundance of all things. “But what mostly endows a man with honour, dignity and superiority,” states Desnitsky, “is his superior riches and abundance. This has been so extraordinarily well expounded by the judicious author of a new moral philosophy, Mr. Smith, that it no longer requires any description.”¹¹ In yet another place Desnitsky mentions “Mr. Smith who has published his moral philosophy to the delight of the scientific world.” Generally speaking, Desnitsky repeatedly quotes Smith in his literary works, always mentioning him with the greatest respect. Desnitsky’s paper, published in Moscow in 1781, under the heading “Legal Discussion on the Possession of Property under Various Conditions of Community” seems to coincide more closely than any of his other works with the outlook of Adam Smith and to be imbued with a spirit of Anglophilia so characteristic of Desnitsky. His knowledge of Smith’s ideas can also be seen from the critical notes supplemented to his Russian translations of the works of Blackstone (*Commentaries on British Laws*, 3 volumes, Moscow, 1780–82) and of Thomas Bowden (*A Guidebook on Husbandry*, Moscow, 1780). Many of Desnitsky’s other works also contain lyrical passages imbued with the spirit of his Anglophil tendencies. (For quotations, see M. Sukhomlinov, *op. cit.*, pp. 5–6.) Desnitsky is known to have once said that “the heroes of classical antiquity seem pale and petty if compared with the genius of the men who have been bred by England.” His preface to the Russian translation of Bowden’s works is truly a laudable discourse, written in blank verse in praise of Britain “which is great in her undertakings, successful in her achievements, formidable in her battles, glorious in her victories....”

During the same years that the two Russian pupils of Adam Smith were propagating their teacher’s ideas from the Chair of the Moscow University there were yet other people in Russia who had developed independently an interest in his teachings. Many of them were able even then to become familiar with the famous treatise in the original. In 1774 N. S. Mordvinov (1754–1845), a future admiral of the Russian Fleet and one of the most prominent personalities among the Russian high officials of the time, was sent to England with the view of completing his education in marine sciences. He spent three years in England and in the course of that time seemed to have developed a profound admiration for Britain’s literature, science and government institutions. To quote his biographer: “Adam Smith’s treatise *The Wealth of Nations* was published while Mordvinov was in England, impressing him for life, so that even in his later views he generally appears to have been an ardent adherent of Smith’s teachings.”¹² This statement seems fully con-

11. He was also indebted to the lectures of John Millar, Professor of Law—*cf. Observations concerning Distinction of Ranks in Society*, 1771.

12. V. S. Iconnikov, *Count N. S. Mordvinov*, St. Petersburg, 1873, pp. 4–5. See also A. M. Gnjevushev, “The

firmed by facts; beginning with the seventies of the eighteenth century Mordvinov always continued an ardent admirer of Adam Smith, as well as a tireless promoter of his ideas in Russia. His infatuation with Smith's teachings never weakened as he grew more advanced in years, and even seemed to increase. In his letter addressed to J. Bentham's brother and dating from 1806, Mordvinov calls Smith "one of the greatest geniuses" among those "who have done most towards benefiting mankind" and ranks him together with Bacon and Newton.¹³ The influence of the treatise *The Wealth of Nations* is clearly seen in many of the pages of Mordvinov's *Discussion on the Benefits which may follow from the Institution of Private Banks in Governments* (St. Petersburg, 1811). Smith's name is also frequently quoted in the numerous notes, considerations and suggestions which Mordvinov used to hand in to the Russian Government in the course of his long-lasting and incessant activity.¹⁴

Another Russian traveller, Princess E. R. Dashkova (1744–1810) visited England and Scotland a few years later than Count N. S. Mordvinov. Princess Dashkova stayed in Edinburgh from 1776 to 1779, hardly ever leaving the city, for her son was studying at the University there. Later she always spoke of that period as the merriest time of her life—she frequented there among people she liked, and often entertained at her place the best teachers of Edinburgh University. In her *Mémoires*, Princess Dashkova casually mentions that "l'immortel Robertson, Blair, Smith et Ferguson venaient dîner et passer journée chez moi deux fois par semaine."¹⁵ Unfortunately, we lack any other information concerning these meetings. On the other hand, it is a well-known fact how keen an interest in Smith was felt by another family of Russian aristocrats, the Princes Vorontsov, who were famous in the late eighteenth century for their Anglophil sympathies. The eldest of the brothers, Alexander Romanovich Vorontsov (1741–1805) developed a strong attachment to everything English in spite of his having stayed in England but for a short time. Later, when living at his country seat in Russia, Alexander Vorontsov never lost his interest in Britain, keeping in close touch with English literature through the agency of his brother, Simon Vorontsov (1744–1832), who for twenty consecutive years (1785–1806) held the post of Russian Ambassador in London and supplied his brother's excellent library with the most important literary works published in England and France. Late in 1786 Simon Vorontsov enclosed among the other books he was sending to his brother the recent edition of *The Wealth of Nations*, begging him to make note of all the chapters and passages which might

Political and Economic Ideas of Count N. S. Mordvinov," *The University Review*, Kiev, 1907, N 2, pp. 6–7, 13, 19, 50–52.

13. *The Europe Herald* (Vestnik Evropy), February 1869, p. 816.

14. See *The Archives of the Counts Mordvinov*, published in ten volumes by V. A. Bilbasov.

15. Princesse Dashkova, *Mémoires*. Quotations have been taken from the best edition, reproducing the original manuscript (written in French)—*Archives des Princes Woronzow*, xxi (Moscow, 1881, p. 171).

contain ideas contrary to his own views. The letter which Alexander Romanovich wrote in answer to his brother's request has never reached us, but it is reasonable to assume that he, too, was greatly impressed by Adam Smith's work; at all events he is known to have sent several years later *The Wealth of Nations*—together with Condorcet's *Commentaries*—to Alexander Radistchev (1749–1802), a famous Russian publicist of the time, who was then in exile in Siberia.¹⁶ With respect to Simon Romanovich Vorontsov it may be stated that his admiration of Adam Smith has been repeatedly proved. In his letters Simon Romanovich constantly mentioned Smith's "immortel ouvrage"; thus, in writing to Prince Chartoryisky, who was one of the high officials in the earlier years of Emperor Alexander the First's reign, Vorontsov said, "In the science of commerce Adam Smith has laid foundations which are as indisputable as those laid by Euclid in geometry";¹⁷ while in a letter to Emperor Alexander (1801) Vorontsov calls Smith "l'auteur le plus classique qui ait jamais existé sur le commerce, les manufactures, les finances des états."¹⁸ In the Scheme he drew up for the institution of a Diplomatic College which was to be under the auspices of the Russian Foreign Office (1802), Simon Romanovich wrote that in the seventh or the eighth year of studies "on leur ferait lire en original le traité d'Adam Smith sur la richesse des nations."¹⁹ Having learnt from the newspaper that a new tariff was being worked out in St. Petersburg, Vorontsov suggested that the Emperor should order those engaged in the working out of the new law "to read and re-read A. Smith's book on the wealth of nations so as to know it by heart."²⁰ In one of his letters Simon Romanovich writes of "principes aussi sûrs que lumineux de l'immortel Adam Smith que le comte Roumanzew croit avoir été réfutés sans savoir et pouvoir nommer quand, par qui et comment."²¹ Lastly, from his letter to Prince A. B. Kurakin—which bears no date but apparently refers to 1798—we learn of Simon Romanovich having personally known and met Adam Smith. "This view was held in the last years of his life by the world-famous Adam Smith, whom I used to know," says Vorontsov in some chance connection and then adds, "and the now famous Arthur Young is of the same opinion."²²

Such were the Russian admirers of Smith in the eighteenth century. For many

16. V. N. Alexandrenko, *Russian Diplomatic Agents in London in the XVIII Century*, Warsaw 1897, i, pp. 387–388.

17. V. Alexandrenko, *op. cit.*, pp. 391–92.

18. *Archives de Pr. Woronzow*, x, p. 303. In another letter to the Emperor (dated 18th May, 1801), Vorontsov wrote: "Les gens instruits dans les matières de finances et de commerce, savaient depuis longtemps, mais Adam Smith l'a prouvé indisputablement dans son immortel ouvrage sur la richesse des nations que le commerce ne se fait qu'avec des capitaux, qu'il demande liberté et sûreté," etc. (*Arch.*, x, p. 360).

19. *Arch.*, xv, p. 438.

20. *Arch.*, x, p. 88.

21. *Arch.*, x, p. 179.

22. *Arch.*, xxx, p. 490.

reasons the teachings of the great Scotch philosopher failed to become known to larger circles at the time; most of his admirers were people who knew English, who felt an interest in England's intellectual life or had visited the country. However, before long *The Wealth of Nations* found its way to the writing desk of every government official and spread a strong influence over the wider circles of readers. The new interest in political sciences and national economy which became particularly keen within the first two decades of the nineteenth century was to a great extent due to the spreading of Adam Smith's teachings. Following the publication of the Russian translation of *The Wealth of Nations* the number of Russian "Smithianists" showed a rapid increase. Smith's teachings were propagated both from University Chairs and by the press.

After the death of S. Desnitsky the popularization of Smith's ideas was taken up at the Moscow University by Christian Schlözer (1774–1831), who, having completed his education in Göttingen, returned to Russia in 1796 and was first appointed professor at Dorpat and later to the newly instituted chair of political economy at the Moscow University, a post which he held for twenty-five years (1801–1826). Christian Schlözer was also the author of *The Elementary Foundations of State Economy* (1805, 2nd Ed., 1821), a book which was simultaneously published in Russian (Moscow) and in French and German (Riga), and was completely imbued with Adam Smith's ideas.²³

At the same period (from 1789 on) the post of teacher at the cadet corps (military training school) in Petersburg was held by another Russian of German extraction, Heinrich Storch (1766–1835), who was elected as a member of the Petersburg Academy of Sciences in 1796 and soon after appointed teacher of political economy to the Grand Dukes Nicholas (the future Emperor Nicholas I) and Michael. As a philosopher and economist Storch at once declared himself to be an ardent adherent of Adam Smith. The lectures he delivered to the Grand Dukes were the foundation of his comprehensive work *Cours d'économie politique ou exposition des principes qui déterminent la prospérité des nations* (1819).²⁴ The book served to popularize the teachings of Adam Smith and gave rise to some polemics between the writer and J. B. Say.

The Russian translation of Storch's course could not be published at once for considerations of censorship, and therefore the work first appeared in French. However, extracts from Adam Smith's treatise, together with passages from the works of Ferguson and Bentham, were allowed to appear at the time in the official

23. *Biographical Dictionary of Professors and Teachers at the Moscow University*, Moscow, 1855, ii, p. 628.

24. In spite of the fact that many pages of Storch's course almost literally repeat certain passages of Adam Smith's treatise, the St. Petersburg economist should not be denied a certain originality in the working out of economical doctrines or in his independent criticism of some of the theses advanced by Smith, as, for instance, the definition of productive labour, the question of thriftiness, etc.

organ *The St. Petersburg Journal*, which was issued by the Foreign Office. Another Petersburg periodical, *The Journal of Statistics* (1808, v. ii, part 2) was also allowed to publish the work of yet another Russian “Smithianist,” G. Baludiansky, *On the Distribution and the Turnover of Wealth*, which actually repeated some of the ideas laid forth in *The Wealth of Nations*.²⁵ After the war of 1812 Adam Smith became extremely popular among the liberal youth of Russia who were organizing secret circles. In endowing the hero of his novel *Eugene Onegin* with a taste for economic problems and by making him read Adam Smith, Pushkin merely reproduced the actual feature of the time, the writer himself having had the same taste. In the Lyceum the great Russian poet studied political economy with Professor Kunitsin, who taught him the essential theses advanced by Adam Smith. The study of Smith’s work greatly influenced the outlook of N. I. Turgenev and this influence made itself clearly felt in his book, *An Essay on the Theory of Taxes* (1818, 2nd Ed., 1819). Pushkin knew N. Turgenev personally, and, of course, must have read his book. The period from 1818 to 1825 being the time when Adam Smith’s popularity in Russia was at its highest caused Pushkin to make Eugene Onegin “a profound economist,” arguing on the subject as to “why a state needs no gold when it has the natural product.”²⁶ In another decade, at the time of governmental reaction, Adam Smith’s popularity in Russia was considerably shaken. In one of his uncompleted stories (*Extracts from a Novel in Letters*, 1831) Pushkin jestingly mentions that in 1818 everyone in the Petersburg high society tried to look thoughtful and to discuss gravely Adam Smith—“at the time the severity of regulations and political economy were in vogue; we arrived at balls wearing our swords; we thought it unfit to dance and had no time to spare on ladies. . . . All this has changed. French quadrille has now taken the place of Adam Smith.”

References

- Aleksandrenko, V. N.** 1897. *Russkije diplomatičeskije agenty v Londone v XVIII v* [*Russian Diplomatic Agents in London in the XVIII Century*]. Warsaw: Tipographiia Varshavskago Uchenbnago Okruga.
- Balugiansky, Mikhail Andreevich.** 1808. O razdelenii i oborote bogatstva [On the Distribution and the Turnover of Wealth]. *Statističeskom žurnale* (Saint Petersburg) 2(2): 1–76.
- Bartenev, Petr,** ed. 1870–1895 (*Arch.*). *Arkhiv kniazja Vorontsova* [*Archive of Prince Vorontsov*], 40 vols. Moscow.

25. To establish the connection between this work and the theories of Adam Smith and of his school, see V. M. Stein, *The Development of Economic Thought*, Leningrad, 1924, i, p. 126.

26. N. L. Brodsky, *Commentary to Eugene Onegin*, Moscow, 1932, pp. 13–16.

- Bilbasov, V. A.**, ed. 1901–1903. *Arkhiv grafov Mordvinovykh* [*The Archives of the Counts Mordvinov*]. Saint Petersburg: Tip. N. N. Skorokhodova.
- Blackstone, William.** 1780–1782. *Istolkovaniya aglinskiikh zakonov g. Blakstona* [*Commentaries on British Laws*], 3 vols., trans. S. E. Desnitsky and A. M. Bryantseva. Moscow: Universitetskaya Tipografiya.
- Bowden, Thomas.** 1780. *Nastavnik zemledel'cheskiy* [*A Guidebook on Husbandry*], trans. S. E. Desnitsky. Moscow: Universitetskaya Tipografiya.
- Brodsky, N. L.** 1932. *Kommentariy k romanu A. S. Pushkina "Yevgeniy Onegin"* [*Commentary to "Eugene Onegin"*]. Moscow: Mir.
- Dashkova, E. R.** 1881. *Mémoires de la Princesse Dashkav.* In *Arkhiv kniazia Vorontsova* [*Archive of Prince Vorontsov*], vol. 21, ed. Petr Bartenev. Moscow: Universitetskaya Tipografiya.
- Desnitsky, S. E.** 1952 [1781]. Yuridicheskoye rassuzhdeniye o raznykh ponyatiyakh, kakiye imeyut narody o sobstvennosti imeniya v razlichnykh sostoyaniyakh obshchezhitel'stva [Legal Discussion on the Possession of Property Under Various Conditions of Community]. In *Izbrannyye proizvedeniya russkiikh mysliteley vtoroy poloviny XVIII-go veka*, vol. 1. Leningrad: Gosudarstvennoye Izdatel'stvo Politicheskoy Literatury.
- Gnevushev, A. M.** 1904. *Politiko-ekonomicheskiye vzglyady gr. N. S. Mordvinova* [*Political and Economic Ideas of N. S. Mordvinov*]. Kiev: Tip. Imperatorskogo Universiteta sv. Vladimira.
- Ikonnikov, V. S.** 1873. *Graf N. S. Mordvinov.* Saint Petersburg: D. E. Kozhanchikov.
- Kalmikov, V.** 1905. Desnitsky, Semyon Efimovich. In *Russkiy biograficheskiy slovar': Dabelov-Dyadkovskiy* [*Russian Biographical Dictionary: Dabelov-Dyadkovskiy*], ed. A. A. Polovtsov, 331–335. Saint Petersburg: Imperatorskim Russkim Istoricheskim Obshchestvom.
- [Link](#)
- Korkunov, N. M.** 1898. *Istoriya filosofii prava* [*The History of the Philosophy of Law*], 2nd ed. Saint Petersburg: Tipografia M. M. Stasûleviça.
- Millar, John.** 1771. *Observations Concerning the Distinction of Ranks in Society.* Dublin: T. Ewing.
- Mordvinov, N. S.** 1902 [1816]. Razzuzhdeniye o mogushchikh posledovat' pol'zakh ot uchrezhdeniia chastnykh po guberniiam bankov [Discussion on the Benefits Which May Follow from the Institution of Private Banks in Governments]. In *Arkhiv grafov Mordvinovykh* [*The Archives of the Counts Mordvinov*], vol. 5, ed. V. A. Bilbasov, 236–288. Saint Petersburg: Tip. N. N. Skorokhodova.
- Pososhkov, Ivan T.** 1911 [1724]. *Kniga o skudosti i bogatstve* [*A Book on Scantiness and Wealth*]. Moscow: Izd. N. N. Klochkova.
- Pushkin, Alexander.** 1837. *Yevgeniy Onegin*, 3rd ed. Saint Petersburg: Tipografiu Ekspeditsii Zagotovleniya Gosudarstvennykh Bumag.
- Pushkin, Alexander.** 1857. Roman v pis'makh [A Novel in Letters]. In *Sochineniya*, vol. 7, ed. Pavel Annenkov. Saint Petersburg.
- Pypin, A. N.** 1869. Russkiya otnosheniya Bentama [The Relations of Bentham with Russia]. *Vestnik Evropy*, February: 784–819. [Link](#)
- Schlözer, Christian von.** 1805–1807. *Anfangsgründe der Staatswirtschaft* [*The Elementary Foundations of State Economy*], 2 vols. Riga, Latvia: C. J. G. Hartmann.
- Scott, William R.** 1935. The Manuscript of an Early Draft of Part of the Wealth of Nations. *Economic Journal* 45(179): 427–438.

- Shevryyov, S.** 1855. *Biograficheskiy slovar' professorov i prepodavateley Imp. Moskovskogo Universiteta 1755–1855* [*Biographical Dictionary of Professors and Teachers at the Imp. Moscow University*]. Moscow.
- Smith, Adam.** 1802–1806. *Issledovanie svoystva i prichin bogatstva narodov* [*Inquiry into the Nature and Causes of the Wealth of Nations*], trans. N. R. Politkovsky. Saint Petersburg: Tip. Gosudarstvennoi Meditsinskoi Kollegii.
- Smith, Adam.** 1896. *Lectures on Justice, Police, Revenue and Arms*, ed. Edwin Cannan. Oxford: Clarendon Press.
- Sopikov, V. S.** 1904–1908 [1813–1821]. *Opyt rossiiskoi bibliografii* [*An Essay on Russian Bibliography*]. Saint Petersburg: Suvorina.
- Stein, V. M.** 1924. *Razvitiye ekonomicheskoy mysli* [*The Development of Economic Thought*]. Leningrad: Seyatel'.
- Storch, Heinrich Friedrich von.** 1815. *Cours d'économie politique ou exposition des principes qui déterminent la prospérité des nations*, 6 vols. Saint Petersburg: A. Pluchart.
- Sukhomlinov, M. I.** 1880. *Istoriya rossiyskoy akademii* [*The History of the Russian Academy*], vol. 5. Saint Petersburg.
- Tretyakov, Ivan Andreevich.** 1767. *Disputatio juridica de in jus vocando*. LL.D. dissertation, University of Glasgow.
- Tretyakov, Ivan Andreevich.** 1952 [1772]. Rassuzhdenie o prichinakh izobilii i medlitel'nogo obogashcheniia gosudarstv, kak u drevnikh, tak i u nyneshnikh narodov [Discussion on the Causes of Abundance and the Slowly Progressing Enrichment of States, Both Among Ancient and Modern Peoples]. In *Izbrannyye proizvedeniya russkikh mysliteley vtoroy poloviny XVIII-go veka*, vol. 1. Leningrad: Gosudarstvennoye Izdatel'stvo Politicheskoy Literatury.
- Turgenev, N. I.** 1818. *Opyt teorii nalogov* [*An Essay on the Theory of Taxes*]. Saint Petersburg: N. Grecha.
- Veselovsky, Alexander N.** 1916. *Zapadnoe vliianie v novoi russkoi literature* [*Western Influences in Modern Russian Literature*], 5th ed. Moscow: I. N. Kushnerev.
- Zeys, Richard.** 1889. *Adam Smith und der Eigennutz*. Tübingen, Germany: H. Lauppchen.

About the Author



Mikhail Pavlovich Alekseev (1896–1981) was, at the time of his passing, “generally recognized as the most eminent living Russian specialist on comparative literature” (Edgerton 1982, 200), working primarily in comparisons with English, French, and Spanish literature. “In Russian literature, Alekseev’s name is especially prominent in scholarship on Pushkin and Turgenev” (ibid.). He was born and first educated in Kiev, then Odessa, “completing his thesis on Addison and Steele” (Boss 1984, 394), then taught at Irkutsk, and then Leningrad University, where he re-

ALEKSEEV

remained for the rest of his life. Major published coauthored works included *History of English Literature* (1945) and *History of West-European Literatures* (1947). “After the Twentieth Party Congress, thanks to Khrushchev’s de-Stalinization campaign, ... in 1956 Alekseev was allowed to set up a group under the auspices of the Institute of Russian Literature” of the Soviet Academy of Sciences (Boss 1984, 395). William Edgerton (1982, 201) wrote: “Mikhail Pavlovich’s human warmth and generosity of spirit will long be remembered by grateful students now scattered all over the world and by literary scholars at home and abroad whose work he encouraged in innumerable ways.”

[Go to archive of Character Issues section](#)
[Go to September 2018 issue](#)



Discuss this article at Journaltalk:
<https://journaltalk.net/articles/5974>



Eugene F. Fama

Daniel B. Klein¹

[LINK TO ABSTRACT](#)

Eugene Fama, a third generation Italian-American, was born in Massachusetts and raised in a suburb of Boston to a working class family. He attended a Catholic high school before entering Tufts University in 1956, where he won honors in athletics and Romance languages (Schwert 2015). At Tufts he discovered economics. He proceeded in 1960 to study at the Graduate School of Business at the University of Chicago, where his Ph.D. advisors would be Merton Miller and Harry Roberts.

In 2013 Fama shared the Nobel Prize in Economics with Lars Peter Hansen and Robert Shiller for their “empirical analysis of asset prices.” Fama’s contributions are in the study of capital market efficiency, asset pricing models, the behavior of interest rates, exchange rates, futures prices, and inflation rates, as well as agency problems, capital structure, and banking (for overviews of Fama’s research see Fama 2011; Schwert 2015; Cochrane 2013; Henderson 2013). Fama is associated with extreme skepticism about beating the market or operationalizing the idea of a bubble, but many of his papers lie elsewhere, and with astounding citation counts.² In his long career at Chicago, he has advised more than 100 students (Schwert and Stulz 2017). A warm and inspiring description of Fama as advisor and colleague is provided by John Cochrane and Toby Moskowitz (2017).

1. George Mason University, Fairfax, VA 22030. I thank Ryan Daza and Andrew Humphries for assistance.

2. The Google Scholar page for Fama shows 257,486 citations (September 24, 2018). That for Friedrich Hayek shows 112,126, and that for Ronald Coase 100,767, so Fama has more than those two combined, although perhaps about 60 percent of Fama’s most-cited works are coauthored with one other author. Still, even after discounting for coauthorship, Fama’s tally markedly exceeds that of either Hayek or Coase. Fama’s ten most-cited papers are: Fama and Jensen 1983a; Fama 1970; Fama and French 1992; Fama 1965 (which is his dissertation work); Fama and MacBeth 1973; Fama and French 1993; Fama 1980; Fama 1991; Fama and French 1996; Fama and Jensen 1983b. His most-cited book is Fama 1976.

Cochrane and Moskowitz (2017, 813) report that every day, even Saturday and Sunday, Fama arrives to his University of Chicago office at 8 a.m. Fama has described his routine: “I work every day, but I never work a full day. I get up at five o’clock in the morning and I work basically all morning until maybe one o’clock, two o’clock, and then I go play golf. I go windsurfing. I play tennis. And that’s it” (Fama 2007, 22).

In early 2018, I sent Professor Fama EJW’s questionnaire about ideological character and migration,³ and he graciously replied:

1. When you were growing up, what sort of political or ideological views were present in your family and household? Did you have views as a youngster, say at age 18? If so, kindly describe them for us.

Hardcore Democrat and JFK admirer.

2. How about at age 25 or so? Had they changed at all by then?

Well on the way to being a libertarian.

3. And how about age 35 or 40? Please describe any changes undergone since your early twenties.

Hardcore libertarian.

4. And now please bring it down to the present. Have your views changed since your late thirties? How so? How would you describe your present political sensibilities or outlook?

Haven’t changed.

5. Overall, would you say your views have changed, and, if so, have they changed in a way that can be summarized as changes of a particular nature or character? Did your thinking “move” in a particular “direction” (using the notion of ideological space)?

Seeing Government as the problem, not the solution.

6. If your views did undergo changes, what caused the changes? Was it reading, thinking, experience of some kind, or the influence of particular people, including intellectual figures? All of the above? Something else? We will be very grateful if you try to explain why your views changed, to whatever extent they did.

Observing the failure of well-intentioned Government policies and programs, with Johnson’s “Great Society” at the forefront. (Fama 2018)

Fama has on a number of occasions freely described himself as “libertarian.” It seems clear that his libertarianism is of the practical, down-to-earth sort—Milton Friedman combined with Armen Alchian—as opposed to the more philosophical sort drawn from reading moral or political theory. The famous *Journal of Law and Economics* papers by Fama and Michael Jensen on ownership, risk-bearing, residual

3. Previous laureates’ responses to the questionnaire are collected in EJW 2013.

claimancy, monitoring, and agency characterize the private-sector organization as a nexus of voluntary contracts, competing against other organizations by correcting its internal functioning and initiating improvements (Fama and Jensen 1983a; b; see also Fama 1980). Specialization often recommends functional separation, for example between those who initiate and implement decisions, those who ratify and monitor those decisions, and those who bear risks. Organizations that most profitably handle such problems will tend to be selected for within a free-enterprise system. At the start of each paper, Fama and Jensen (1983a; b) note that the work stems from a single earlier manuscript titled “The Survival of Organizations.” Neither paper contains any mathematics.

In his responses to the questionnaire, Fama (2018) indicates a Democratic upbringing and youth, and he cites “observing the failure” of “Great Society” programs as influential to the formation of his libertarian views; those programs commenced in 1964 and 1965. Fama was 26 years old in 1965, and presumably “failure” was not observed immediately, so it would seem that he was still evolving into at least his late twenties. But he also reports that by age 25 he was “well on the way to being a libertarian,” so it seems that his first really mature viewpoint (by age 30, say) was one that evolved pretty directly toward his later libertarian outlook. In terms of the ideological migration categories used to classify the laureates in the present research project (Klein 2013, 219), Fama could perhaps be placed in the “a bit more” category of those migrating in the classical liberal direction during his or her mature years—indeed, we have seen that a number of the Chicago classical-liberal economists firmed up in that way throughout the 1960s and 1970s.

Fama differs from several other famous free-market Chicago economists in that he has not much addressed popular audiences, and on such occasions he has stuck close to his research expertise, particularly during and right after the 2008 crisis, especially in panel discussions and interviews. He has published only very few popular articles or op-eds, no popular books, and he has participated little in organizations with political or ideological purpose. But in his public appearances he is, albeit reserved, affably open about his libertarian outlook in politics. And he has lent his name to several petitions:

1. 2001 (Milton Friedman), opposing the estate tax ([link](#))
2. 2006 (Independent Institute), favoring immigration liberalization⁴
3. 2007 (Club for Growth), opposing protectionism
4. 2007 (National Taxpayers Union), opposing “windfall” taxation
5. 2009 (Cato Institute), opposing the Federal Recovery Act
6. 2009 (Atlas Foundation), opposing “green” protectionism

4. Petitions 2 through 7 are covered by Hedengren et al. (2010, 317), linking to data and petition text.

7. 2009 (Wall Street Journal), favoring Federal Reserve Bank independence
8. 2012, supporting Mitt Romney for President ([link](#))
9. 2013 (Larry Kotlikoff), supporting the Intergenerational Financial Obligations Reform Act ([link](#))
10. 2016, opposing Hillary Clinton for President ([link](#))

In 2006 Fama and Kenneth French published an op-ed in the *Wall Street Journal* calling for a tax-code change to make it that holders of ordinary mutual funds (as opposed to exchange traded funds, or ETFs) would face capital gains taxes only when redeeming shares of the ordinary mutual fund—a convenience that ETFs achieve by virtue of their doing untaxed exchanges in kind, which are not possible for ordinary mutual funds. The proposed reform would “level the playing field for ETFs and ordinary funds” (Fama and French 2006). Meanwhile, since the op-ed, no reform has been made.

During the financial crisis and recession, journalists and others turned to Fama, and he answered the call. I draw on material appearing 2009 to 2013, quoting at length.

Robert Litterman conducted an interview with Fama in 2012:

Litterman: What do you think caused the global financial crisis?

Fama: I think the global crisis was first a problem of political pressure to encourage the financing of subprime mortgages. Then, a huge recession came along and the house of cards came tumbling down. It’s hard to believe that without a pretty significant recession, the financial system would have come crashing down like it did. Subprime was basically a U.S. phenomenon, yet the crisis spread around the world. Financial institutions in other countries were certainly holding subprime debt, but in the past, financial institutions have gone bust because they made dumb decisions without triggering widespread crisis. I don’t think the crisis was a problem with markets. The big recession was the trigger. The worst thing to come out of that experience, in my view, is the concept of “too big to fail.”

Litterman: I totally agree. Can you elaborate on that?

Fama: Basically, the institutions that are considered to be too big to fail have their debt priced as if it’s riskless, which gives them a low cost of capital and makes it very easy for them to expand and become an even bigger problem. Plus, everybody now accepts the assertion that they are too big to fail, which creates a terrible moral hazard for the management of these financial institutions. Business leaders won’t consciously tank their companies, but too big to fail will push them toward taking more risk, whether they realize it or not. I don’t think Dodd-Frank (the Dodd-Frank Wall Street Reform and Consumer Protection Act) cures that moral hazard problem. Even if law-

makers could devise the perfect regulation for such a cure, the chance that it will be implemented by the regulators in the way designed is pretty close to zero. The simplest solution would be to raise the capital requirements of banks. A nice place to start would be a 25% equity capital ratio, and if that doesn't work, raise it more. The equity capital ratio needs to be high enough that a too-big-to-fail financial institution's debt is riskless, not because of what is essentially a government guarantee but because the equity ratio is very high. (Fama and Litterman 2012, 16)

The following comes from an interview of Fama by Jeff Sommer, appearing in the *New York Times* in 2013:

Sommer: Now let me ask you, have you ever testified before Congress or given policy advice to political figures?

Fama: No, I'm too unpredictable. I don't give advice like that. I don't believe anyone wants to hear what I have to say.

Sommer: Why's that?

Fama: Well, I'm an extreme libertarian, but I realize we're in a democracy, and in a democracy people can have views of all stripes and there's no reason to argue about it.

Sommer: Well, you're a Nobel laureate now and people are curious about your views. For example, whenever we talk you always seem to be re-reading "The Road to Serfdom," by Friedrich Hayek. That's an important book for you, isn't it?

Fama: Yes, it's a great book. It's a philosophy, of course; it's not empirical. What Hayek is basically saying is that to the extent you let government take over economic activity you're basically giving up freedom, and I think that's a point Milton Friedman made quite emphatically throughout his lifetime.

I consider myself closer to Milton in my thinking than to anybody else. And Milton was also an enthusiastic libertarian.

Sommer: Do you accept the basic teachings of John Maynard Keynes, which tell us that government should spend more to counter the effects of a recession?

Fama: No, I don't think there's a lot of empirical evidence that Keynesian spending really helps.

Sommer: Despite his advocacy of smaller government, Hayek believed in a social safety net. Do you?

Fama: Yes, he did, and I have a similar view. I think we need Social Security, things like that. ...

Sommer: Do you believe in financial regulation?

Fama: Of course, some regulation, yes. You need a level playing field, you need the government to step in sometimes. But I think we've gone too far with Dodd-Frank.

Sommer: In the financial crisis, do you think the government should have bailed out the big banks?

Fama: No, I don't. I would've favored nationalizing the banks, not bailing them out.

Sommer: Really? That's not very libertarian, is it?

Fama: Well, we're talking about realistic alternatives. It's not credible that in a financial crisis, the government will do nothing. It never has. There are going to be demands for it to do something. So you've got two choices now. Nationalize them or bail them out. Bailing them out gives them terrible disincentives; it encourages them to take risks because they'll be bailed out. So I'd nationalize them—and clean them up and then reprivatize them.

Sommer: So would you have favored that the government do nothing at all?

Fama: I said at the time that it would be an interesting experiment. But what people argue is that it would be quite destructive, that it would create long-term problems. We don't know that that's true, but I think it's kind of moot because it's not an experiment that's ever going to be run. (Fama 2013)

In April 2009 Fama participated in a lengthy panel discussion at the University of Chicago that was recorded by C-SPAN. Fama's remarks throughout are steadily libertarian, though often moderate and pragmatic. Here are some of his spoken remarks, transcribed:

I would prefer that the government stays out of the way and lets failed firms fail. ... What happens is that the FDIC in principle comes in and draws a line on the liabilities side of the balance sheet and says everything below the line is gone. And now we can go out and raise some new equity capital and start the bank over again. What we're seeing at the moment is: for whatever reason the FDIC has applied this power in a somewhat random way. So Wachovia got shut down. Washington Mutual got shut down. IndyMac got shut down. Countrywide got shut down. These are really big banks. They were not... Under the current bad terminology they would be termed too big to fail, but they were allowed to fail. It wasn't a big deal. Once you knock out the debt overhang problem, once you get rid of the low-value debt, it turns out there are lots of people that want the deposits of these banks. It's a cheap way of expanding your deposits. There's nothing like deposits as a way of financing your activities. In all of these cases, these firms were simply reorganized and taken...either sold off in pieces or taken in entirely by other banks. Now, this is kind of seamless because a bank is nothing but an accounting system. That's all it is. And you can merge these accounting systems pretty easily. Even your account number doesn't change when your bank gets acquired by another bank. Everything stays the same. It's all just accounting. So I would really prefer—and I think going forward the sector would be much more efficient if—we simply let failed firms fail. (Fama 2009, 11:20–13:35)

Citibank would have been a great company to shut down. Everything in Citibank is profitable except for its trading desk and its proprietary portfolio. This is true of all of these institutions by the way. All of these investment banks were incredibly profitable until they became corporations. When they became corporations what happened was they could raise capital from the outside public. This would allow them to get into proprietary trading and proprietary asset holdings that they had never done before. So all of their classic investment banking activities were and remain profitable. It's their trading desks and their proprietary portfolios that brought them all down. So I think that was a big mistake on their part. It ultimately killed them, but be that as it may, we're kind of stuck with it. I think the current bailout mentality really is a disaster for the country, not just for the financial industry. The moral hazards that are sitting in the background that are created by a bailout mentality are just horrendous because basically now you're playing with other people's money and that's not the way markets are supposed to work. (Fama 2009, 14:55–16:15)

What typically happens in a recession is that uncertainty goes way up. And the more severe the recession, the more uncertainty goes up. So if you look back at all the previous recessions, what you'll see is that asset returns become much more variable around recessions. And we've observed that with this one as well. Now the last thing you want the government to do in that circumstance is to kick variance into the process. You don't want them to do that. You don't want them to do things that *increase* uncertainty. But that's precisely what the government's been doing. It bounces back and forth between policies, can't quite decide what it wants to do. So what do people do rationally in that circumstance? They step back and wait... I think we should have a moratorium on government action. What happens if the legislature doesn't meet for a year? Are we better off or worse off at the end? So an example is the state of Texas. The legislature only meets every other year, and they don't seem to be in such a terrible state. They have no income tax. They're well-funded. They're not having the same problems as other states. But basically I think the problem with government intervention is that each politician has a short horizon, and they're very risk-averse, and they don't want to be accused of doing nothing in the face of what looks like a crisis. So they tend to do things that make things worse. Everybody adores Franklin Roosevelt, but it's really easy to make a strong case that the Depression wouldn't have lasted so long if he hadn't been so intrusive. (Fama 2009, 16:45–18:55)

Perhaps the single best interview was that with John Cassidy appearing in the *New Yorker* in 2010. Here are some highlights:

Cassidy: Is it not true that in the credit markets people were getting loans, especially home loans, which they shouldn't have been getting?

Fama: That was government policy; that was not a failure of the market. The government decided that it wanted to expand home ownership. Fannie Mae and Freddie Mac were instructed to buy lower-grade mortgages.

Cassidy: But Fannie and Freddie's purchases of subprime mortgages were pretty small compared to the market as a whole, perhaps twenty or thirty per cent.

Fama: (laughs) Well, what does it take? . . .

Cassidy: Some people might say one of the big lessons of the crisis is that the Modigliani-Miller theory doesn't hold. In this case, the way that things were financed did matter. People and firms had too much debt.

Fama: Well, in the Modigliani-Miller world there are zero transaction costs. But big bankruptcies have big transaction costs, whereas if you've got a less levered capital structure you don't go into bankruptcy. Leverage is a problem. . . .

The experiment we never ran is: Suppose the government stepped aside and let these institutions fail. How long would it have taken to have unscrambled everything and figured everything out? My guess is that we are talking a week or two. But the problems that were generated by the government stepping in—those are going to be with us for the foreseeable future. Now, maybe it would have been horrendous if the government didn't step in, but we'll never know. I think we could have figured it out in a week or two.

Cassidy: So you would have just let them. . . .

Fama: Let them all fail. (laughs) We let Lehman fail. We let Washington Mutual fail. These were big financial institutions. Some we didn't let fail. To me, it looks like there was not much rhyme or reason to it.

Cassidy: What about Ben Bernanke and Hank Paulson's argument that if they hadn't taken action to save the banks the whole financial system would have come crashing down?

Fama: Maybe it would have—for a week or two. But it pretty much stopped for a week or two anyway. The credit markets stopped for more than a week or two. But I think that was really a function of increased uncertainty about the future.

Cassidy: Did you think this at the time—that the government should let the banks fail?

Fama: Yeah—let 'em, let 'em. Because the failures of, like, Washington Mutual and Wachovia—other banks came swooping in to pick up their deposits and their other good assets. Of, course, they didn't want their bad assets, but that's the nature of bankruptcy. The activities that these banks were engaged in would have continued.

Cassidy: Why do you think the government didn't just step back and let it happen? Was the government in hock to Wall Street, as many have claimed?

Fama: No. I think the government, Bernanke. . . . Bob Lucas, I shouldn't quote Bob Lucas, but what he says is "not on my watch." That, basically, there is just a high degree of risk aversion on the part of people currently in

government. They don't want to be blamed for bad outcomes, so they are willing to do bad things to avoid them. I think Bernanke has been the best of the performers. ...

Cassidy: What is your view on regulating Wall Street? Do we need more of it?

Fama: I think it is inevitable, if you accept the view that the government will bail out the biggest firms if they get into trouble. But I don't think it will work. Private companies are very good at inventing ways around the regulations. They will find ways to do things that are in the letter of the regulations but not in the spirit. You are not going to be able to attract the best people to be regulators.

Cassidy: That sounds like an old-fashioned Chicago argument—skepticism about regulation.

Fama: Yes. We have Ragu (Rajan), Doug Diamond—they are as good banking people as there are in the world. I have been listening to them for six months, and I would not trust them to write the regulations. In the end, there is so much uncertainty, and so much depends on how people will react to certain things that nobody knows what good regulation would be at this point. That is what is scary about government bailouts of big institutions.

Cassidy: So what should we do? If the President called you tomorrow and said, "Gene, I don't think our way is working. What should we do?" How would you respond?

Fama: I don't know if these are even the big issues of the time. I think that what is going on in health care could end up being more important. I don't think we are going down the right road there. Insurance is not the solution: it's the problem. Making the problem more widespread is not going to solve it.

When all this (the financial crisis) started, I joined the debate. Then I stepped back and said, I'm really not comfortable with my insights into what the best way of proceeding is. Let me sit back and listen to people. So I listened to all the experts, local and otherwise. After a while, I came to the conclusion that I don't know what the best thing to do is, and I don't think they do either. (laughs) I don't think there is a good prescription. So I went back and started doing my own research.

Cassidy: Couldn't we just ban further bailouts, passing a constitutional amendment if necessary? That would be in line with your views, wouldn't it?

Fama: Right, but is that credible? It's very difficult to explain how A.I.G. issued all the credit default swaps it issued if people didn't think the government was going to step in and bail them out. Government pledges, in any case, have little credibility. ...

Cassidy: Do you and Dick Thaler discuss this stuff when you are playing golf?

Fama: Sure. We don't want to discuss his golf game, that's for sure. (Fama 2010)

References

- Cochrane, John H.** 2013. The Work Behind the Prize: Video and Text. johnhcochrane.blogspot.com, November 6. [Link](#)
- Cochrane, John H., and Toby J. Moskowitz.** 2017. Our Colleague. In *The Fama Portfolio: Selected Papers of Eugene F. Fama*, by Eugene F. Fama, eds. John H. Cochrane and Toby J. Moskowitz, 809–814. Chicago: University of Chicago Press. [Link](#)
- Econ Journal Watch (EJW).** 2013. Economics Laureates' Responses to Questionnaire on Ideological Migration. *Econ Journal Watch* 10(3): A1–A19. [Link](#)
- Fama, Eugene F.** 1965. The Behavior of Stock Market Prices. *Journal of Business* 38(1): 34–105.
- Fama, Eugene F.** 1970. Efficient Capital Markets: A Review of Theory and Empirical Work. *Journal of Finance* 25(2, Papers and Proceedings): 383–417.
- Fama, Eugene F.** 1976. *Foundations of Finance*. New York: Basic Books.
- Fama, Eugene F.** 1980. Agency Problems and the Theory of the Firm. *Journal of Political Economy* 88(2): 288–307.
- Fama, Eugene F.** 1991. Efficient Capital Markets: II. *Journal of Finance* 46(5): 1575–1617.
- Fama, Eugene F.** 2007. Interview by Douglas Clement. *The Region* (Federal Reserve Bank of Minneapolis), December. [Link](#)
- Fama, Eugene F.** 2009. Economic Theories for a Global Recovery [panel discussion]. C-SPAN, April 10. [Link](#)
- Fama, Eugene F.** 2010. Interview by John Cassidy. *New Yorker*, January 13. [Link](#)
- Fama, Eugene F.** 2011. My Career in Finance. *Annual Review of Financial Economics* 3: 1–15. [Link](#)
- Fama, Eugene F.** 2013. Eugene Fama, King of Predictable Markets [interview by Jeff Sommer]. *New York Times*, October 27: BU6. [Link](#)
- Fama, Eugene F.** 2018. Email correspondence with the author, February 5.
- Fama, Eugene F., and Kenneth R. French.** 1992. The Cross-Section of Expected Stock Returns. *Journal of Finance* 47(2): 427–465.
- Fama, Eugene F., and Kenneth R. French.** 1993. Common Risk Factors in the Returns on Stocks and Bonds. *Journal of Financial Economics* 33(1): 3–56.
- Fama, Eugene F., and Kenneth R. French.** 1996. Multifactor Explanations of Asset Pricing Anomalies. *Journal of Finance* 51(1): 55–85.
- Fama, Eugene F., and Kenneth R. French.** 2006. Keep It Simple. *Wall Street Journal*, February 25: A10.
- Fama, Eugene F., and Michael C. Jensen.** 1983a. Separation of Ownership and Control. *Journal of Law and Economics* 26(2): 301–325.
- Fama, Eugene F., and Michael C. Jensen.** 1983b. Agency Problems and Residual Claims. *Journal of Law and Economics* 26(2): 327–349.
- Fama, Eugene F., and Robert Litterman.** 2012. An Experienced View on Markets and Investing. *Financial Analysts Journal* 68(6): 15–19. [Link](#)
- Fama, Eugene F., and James D. MacBeth.** 1973. Risk, Return, and Equilibrium: Em-

pirical Tests. *Journal of Political Economy* 81(3): 607–636.

Hedengren, David, Daniel B. Klein, and Carrie Milton. 2010. Economist Petitions: Ideology Revealed. *Econ Journal Watch* 7(3): 288–319. [Link](#)

Henderson, David R. 2013. Eugene Fama (1939–). In *The Concise Encyclopedia of Economics*, ed. David R. Henderson. Liberty Fund (Indianapolis). [Link](#)

Klein, Daniel B. 2013. The Ideological Migration of the Economics Laureates: Introduction and Overview. *Econ Journal Watch* 10(3): 218–239. [Link](#)

Schwert, G. William. 2015. Fama, Eugene F. (1939–). In *The New Palgrave Dictionary of Economics*, online ed. London: Palgrave Macmillan.

Schwert, G. William, and René M. Stulz. 2017. Gene Fama’s Impact: A Quantitative Analysis. In *The Fama Portfolio: Selected Papers of Eugene F. Fama*, by Eugene F. Fama, eds. John H. Cochrane and Toby J. Moskowitz, 30–52. Chicago: University of Chicago Press.

About the Author



Daniel Klein is the editor of *Econ Journal Watch*, a professor of economics at George Mason University (where he leads a program in Adam Smith), the JIN Chair at the Mercatus Center at GMU, a fellow of the Ratio Institute in Stockholm, the author of *Knowledge and Coordination: A Liberal Interpretation* (Oxford University Press, 2012), and an exponent of **liberalism 1.0**. His email address is dklein@gmu.edu.

[Go to archive of Character Issues section](#)

[Go to September 2018 issue](#)



Discuss this article at Journaltalk:
<https://journaltalk.net/articles/5975>



Lars Peter Hansen

Daniel B. Klein¹

[LINK TO ABSTRACT](#)

Lars Peter Hansen is an American economist born in Urbana, Illinois in 1952, of parents with Mormon background. Hansen considered himself to be a late bloomer but then “shifted into a higher gear in college,” Utah State, where he started in chemistry but discovered mathematics, political science, and economics. At the University of Minnesota, Hansen studied with two eventual Nobel laureates, Thomas Sargent and Christopher Sims, his “intellectual mentors.” “I learned to think of macroeconomic models as restrictions on stochastic processes, random processes that evolve over time” (Hansen 2014a). In 1978 he gained a position at Carnegie Mellon University, and in 1981 at the University of Chicago, where he has since remained. Along with Eugene Fama and Robert J. Shiller, Hansen received the 2013 Nobel Prize in Economics for “their empirical analysis of asset prices.”

Writing in the *New Palgrave Dictionary of Economics*, Esther-Mirjam Sent (2014) discusses Hansen’s scientific contributions under five headings: “Generalised Method of Moments Estimators,”² “Stochastic Discount Factor Models,” “Econometric Evaluation of Asset Prices,” “Expansion Empirical Analysis of Macroeconomics–Finance Relationship,” and “Rational Agents Guarding Against Model Misspecification.”

Hansen was the founding director of the Milton Friedman Institute at the University of Chicago, which, in 2011 after a merging of units, became the Becker Friedman Institute for Research in Economics, with Hansen serving in a leadership capacity to 2018. Hansen’s scientific work is highly technical, and seems not to express or promote an ideological proclivity. As for popular discourse, Hansen

1. George Mason University, Fairfax, VA 22030. I thank Ryan Daza and Andrew Humphries for assistance.

2. Tabarrok (2013) and Leek (2013), prompted by Hansen’s prize, introduce the layperson to the Generalized Method of Moments.

abstains. When asked about ideology, he is not forthcoming. “I view it as inappropriate for people to go inside of classrooms and spout their political views. That’s not how you do good economics, and I think for the most part that’s not how it’s done” (Hansen 2013a).

The evidence is consistent with a broadly pro-market classical liberal perspective. When asked in an interview “Have you provided advice to governments or politicians? Do you have strong political views?,” Hansen replied: “No, I haven’t, and, no, I don’t like to identify strongly with a political party. I’d say I’m fiscally conservative but the truth is I have a hard time figuring out these days which political party that’s attached to. And I’m certainly socially liberal” (Hansen 2013b). I speculate that Hansen grew up familiar with a Mormon outlook, and in college and graduate school gravitated toward an image of rigorous science, among ‘freshwater’ economics research communities very skeptical of the governmentalization of social affairs. He has dedicated himself to community efforts, serving as advisor to sixty students (Hansen 2014a).

Hansen has often said that it is important that policy rules be simple, transparent, and certain:

A long time ago in a rather different monetary policy environment than we have today, Milton Friedman argued that we need to have simple policy rules because there are long and variable lags in the transmission mechanism through which changes in monetary policy influence the macroeconomy.

I would interpret that as saying, “We don’t really understand the details of the transmission mechanism, and maybe there are dangers in pretending we know too much. Instead, maybe we ought to be doing something simple, to avoid taking too literally the complexities that a given model might have.” Once I start looking across models and recognizing potential differences or similarities across models, I might well be led to do something relatively simple that works across the models rather than embracing some particular, more complicated approach based on taking this *one* model literally. . . .

The more complex the environment, the harder it is for us to understand all those complexities, and the more we have to deal with some form of uncertainty as we think about the environment. It can be problematic when policy complexity itself adds to the underlying uncertainty in the economic environment and opens the door further to regulatory discretion. (Hansen 2015; see also Hansen 2014b, 6:30ff.; Hansen 2018, 2:30ff.)

When asked in 2013 about regulatory developments in light of the financial crisis, Hansen replied:

Right now all these government departments are rushing together to put together quick fixes because that’s their charge; they’ve got to figure out how to

do financial oversight in sensible ways. But the models we had leading up to the financial crisis were not particularly well suited to it. And so what they're doing is to put a bunch of Band-Aids on existing models to try to repair them in order to get quick insight. . . .

So-called systemic risk had of course been the buzzword for financial regulation and financial oversight. People were talking about measurements without even having yet really commonly agreed upon models of what the term was.

I'm very concerned. Because if you really have knowledge gaps and you really try to do a lot of fine-tuning on things like this based on incomplete knowledge, you can do more damage than good. I really think in many of these cases, simplicity is far more important than trying to devise complicated solutions to things. (Hansen 2013b)

The interviewer asked "Would you be concrete, in terms of what you would prefer?," and Hansen replied: "I would rather have simple capital requirements for banks, for example. Given that we are going to be in this position of bailing out financial institutions, there has to be some form of financial oversight" (Hansen 2013b).

On the matter of climate change, Hansen has remarked:

Another policy concern that should be almost dominated by uncertainty is climate change. The truth is our knowledge of climate change impacts remains rather sparse. That doesn't mean we shouldn't act. It may be prudent to act now because it'll be more costly to act later, but it's critical to recognize that we're designing policies based on limited knowledge. In political debates that's often stuck in the background. (Hansen 2013a)

Despite Hansen's ideological reticence, he agreed to be a guest on Russ Roberts's deep-dive podcast *EconTalk*, which is openly classical liberal (Hansen 2014c). Roberts tries to draw Hansen out, or even 'lead' the witness. Hansen remains rather reserved, but there is little in what he says that really pushes against Roberts's classical liberal drift. Here are some transcriptions of Hansen (2014c):

We need to think about when can financial regulation lead to harmful effects, versus when does it seem to be necessary. So I do think that we've learned stuff; and I think we are going to learn more coming out of the financial crisis. But we've got a long ways to go.

Fiscal policy, as it's been implemented, it's conceived of or implemented, there's no obviously big gains to be had there. And I personally think that for really going forward that fiscal challenges, long-term fiscal challenges are contributing to uncertainty in ways which we ought to be addressing. There

is always this notion that, well, let's go and do a bunch of fiscal stimulus now and worry about long-term budgetary consequences later. And there's this other component to that is the fact that—I think this is like, a quote of Milton Friedman's or somebody said, 'There's nothing more durable than a short-term increase in a government program.' Or, once you start these things they are hard to stop. I actually would have thought, or to me a more sensible approach to thinking about fiscal stimulus, would have been the following. Suppose that government has in place a set of projects, infrastructure projects that they've done cost-benefit analysis and that they think are really important to be done eventually. There's some flexibility in the timing and the like. Well, maybe in a time of economic downturn there's enough that that's a good time to be making these infrastructure investments, maybe if labor costs are down and the like, and then do sensible things. Now, this is premised on the fact that if the government would have had in place so-called 'shovel-ready projects' that you can document were of great importance and finish at the time. That's a different kind of perspective than people pushing for standard fiscal stimulus—let's just get the economy going by putting money out there. That lever, I agree, can be quite flimsy.

I'm always nervous when people say, 'Let's not worry about budgetary consequences now; we can always fix them later.' It's always later.

There is this concern that [as a politician or a policymaker] you're in the hot seat right now, and it's difficult often for them to have all the right incentives for long-term consideration. You're going to be sitting in the seat and watch things go bad, and so if you can push off the possibilities of bad things into the future, there's a temptation to do that. But let me pick up on another part of your story that I think is quite important, as well. Part of coming out of Dodd-Frank is that we now are going to be in the business of designating systemically important financial institutions. And I'm very concerned that this is going to become some type of politicalization. And as soon as these financial firms get designated as being systemically important, associated with that is some type of political government guarantees to not let bad things happen to them. And the incentive effects of that look to me to be quite problematic. And I know some of the systemically important firms that have been declared so far would have much preferred not to have that status, even though there may be some benefits attached to it. And when there's a suggestion that firms like Fidelity are going to become systemically important, and the like, I'm very, very nervous that the designation is going to be applied in a very, very broad way. Part of the ways to get enterprises to behave better is to at least let them *think* about the risk of failure. And that can be a very important market disciplining device. So, the real challenge is, how can we let these financial firms fail, without having so much fear attached to that. And I think there's also a concern that if we make this systemically important financial institution

designation politicized, I'm just really concerned about that having bad consequences.

I do think this idea, which I'm no expert in whatsoever, of working out very, very fast and efficient resolutions of financial institutions in ways that we don't have a fear of their consequences—the counterpart to bankruptcy, but done in a super-quick, fast way is quite important to going forward.

There *could* be very big consequences [of climate change]. So maybe it's sensible to start doing things now just because of the possibility that there could be very dramatic consequences. I find that personally of some appeal, but would I love to quantify that or make it more of a systematic, formal statement.

Hansen has lent his name to a few petitions:

1. 2007 (Club for Growth), opposing protectionism³
2. 2008 (John Cochrane), raising concerns about government bailout of mortgages
3. 2013 (Larry Kotlikoff), supporting the Intergenerational Financial Obligations Reform Act ([link](#))
4. 2017 (New American Economy), affirming the value of immigration ([link](#))

Hansen writes in his autobiographical essay:

Shortly after moving to Chicago [in 1981], I met my future wife Grace Tsiang, a graduate student in economics at the time... Grace's influence in my life is far-reaching. We introduced Grace's parents to the scenery and wildlife of Yellowstone and Grand Teton National Parks on a summer driving tour. While we were walking by Old Faithful, we passed other tourists on the narrow wooden walkways who recognized my father-in-law. A young couple from Taiwan had seen news stories there in which Grace's father, Sho-Chieh Tsiang, discussed his economic policy recommendations. While I was initially surprised, in retrospect I should not have been. Grace's father, along with Ta-Chung Liu, both Cornell University economists, were key economic advisors to the Taiwanese government in advance and during the "Taiwan Miracle," a time period of rapid economic growth. This set quite an example for how to use economic analysis in the policy sphere. (Hansen 2014a)

3. Petitions 1 and 2 are covered by Hedengren et al. (2010, 317), linking to data and petition text.

References

- Hansen, Lars Peter.** 2013a. Nobel-Prize Winner Lars Peter Hansen on How Economics Has Helped You [interview by Christopher Matthews]. *Time*, October 23. [Link](#)
- Hansen, Lars Peter.** 2013b. A Talk with Lars Peter Hansen, Nobel Laureate [interview by Jeff Sommer]. *Economics, New York Times*, November 16. [Link](#)
- Hansen, Lars Peter.** 2014a. Lars Peter Hansen—Biographical. In *The Nobel Prizes 2013*, ed. Karl Grandin. Sagamore Beach, Mass.: Science History Press. [Link](#)
- Hansen, Lars Peter.** 2014b. Consequences of Uncertainty. Presented at the University of Chicago Booth School of Business Europe Campus (London), April 1. [Link](#)
- Hansen, Lars Peter.** 2014c. Hansen on Risk, Ambiguity, and Measurement [interview by Russ Roberts]. *EconTalk, Library of Economics and Liberty* (Liberty Fund, Indianapolis), June 30. [Link](#)
- Hansen, Lars Peter.** 2015. Interview with Lars Peter Hansen [by Douglas Clement]. *The Region* (Federal Reserve Bank of Minneapolis), December. [Link](#)
- Hansen, Lars Peter.** 2018. Discussion Section with Kevin Murphy, Featuring Lars Peter Hansen: Unpacking Policy Consequences [interview]. April 11. Becker Friedman Institute for Economics at the University of Chicago (Chicago, Ill.). [Link](#)
- Hedengren, David, Daniel B. Klein, and Carrie Milton.** 2010. Economist Petitions: Ideology Revealed. *Econ Journal Watch* 7(3): 288–319. [Link](#)
- Leek, Jeff.** 2013. A General Audience Friendly Explanation for why Lars Peter Hansen won the Nobel Prize. *SimplyStatistics.org*, October 14. [Link](#)
- Sent, Esther-Mirjam.** 2014. Hansen, Lars Peter (Born 1952). In *The New Palgrave Dictionary of Economics*, online ed. London: Palgrave Macmillan.
- Tabarrok, Alexander T.** 2013. Lars Peter Hansen Nobelist. *MarginalRevolution.com*, October 14. [Link](#)

About the Author



Daniel Klein is the editor of *Econ Journal Watch*, a professor of economics at George Mason University (where he leads a program in Adam Smith), the JIN Chair at the Mercatus Center at GMU, a fellow of the Ratio Institute in Stockholm, the author of *Knowledge and Coordination: A Liberal Interpretation* (Oxford University Press, 2012), and an exponent of [liberalism 1.0](#). His email address is dklein@gmu.edu.

[Go to archive of Character Issues section](#)
[Go to September 2018 issue](#)



Discuss this article at Journaltalk:
<https://journaltalk.net/articles/5976>



Foreword to “Information for the Hair Dressers in Edinburgh”

Daniel B. Klein¹

[LINK TO ABSTRACT](#)

Searching for something in Eighteenth Century Collections Online ([link](#)), I stumbled upon a 1758 pamphlet whose last page purports authorship of “Hew Dalrymple.” The British Library deems that a pseudonym and the pamphlet itself a “squib” or spoof.

The pamphlet seems to have passed directly into oblivion; as of September 2018 it had just two Google Scholar citations, both ancillary (Festa 2005, 65; Markiewicz 2014, 151, 208).² Yet the pamphlet is a wonderful liberal criticism of what we term occupational licensing.

The pamphlet favors freedom in an Edinburgh turf battle. The “hair dressers” and “wig-makers” seek liberty to cut hair. The “barbers,” in rent-seeking fashion, assert an exclusive privilege to cut hair. Historically, barbers were principally concerned with shaving auxiliary to surgery, surgery often calling for shaving of hair. Barbers also pulled teeth, let blood, stitched up minor wounds, etc., as well as cut hair, and of course gave shaves.

“Industry needs no other Spur than the Profit and Honour attending her,” says the pamphlet author. The barbers’ claimed exclusive privileges are “a Restriction of natural Freedom” and “a Reproach to the Constitution.” The author asks the judges of Edinburgh, in interpreting the law, to “give a free and uninterrupted Course to the Bent and Genius of the People.” The author highlights that the hairdressers seek merely the freedom to practice, not a privilege of their own against other cutters of hair.

1. George Mason University, Fairfax, VA 22030. I am very grateful to Professor John W. Cairns for his generous help, to the librarians alluded to in a footnote below, and to Stephen Delli Priscoli for typing up the pamphlet.

2. Another ancillary citation, not captured by Google Scholar, is Williams (2016, 56 n.9)

The author teaches key insights against occupational licensing: The privileges reduce quality, supply, convenience and availability, and innovation. Consumer-protection rationales are fraudulent, and, at any rate, rationales go obsolete. The privileges are inevitably rather arbitrary, a source of social “Rancour” and hypocrisy. They are used opportunistically to seek rents.

The pamphlet highlights the expertise required by the original 1505 charter (“Seal of Cause”) of surgeons and barbers, including that the candidate “know perfectly” how to “make *Phlebotomia* in due time; and also, that he know in [which] Member the Sign has Domination for the Time.” Thus, entrance required “being acquainted with astrology in order to be able to bleed and operate satisfactorily” (Scott-Moncrieff 1912, 253).

Here are some pointers on the pamphlet’s language:

- *Defenders* – the hairdressers and wig-makers.
- *Pursuers* – the barbers.
- *Preses* – the president or presiding officer of a meeting or group.
- *Box-master* – treasurer.
- *your Lordships* – the judges, known as Lords of Session, hearing the case.
- *Seal of Cause* – charter.
- *Emulation* – competition.
- *Cujus est finis, ejus sunt media* – he who intends some end should choose the means of achieving it.
- *Laputa* – in *Gulliver’s Travels* (Swift 1726), a floating island, whose male inhabitants relish intellectual and mathematical abstractions, but impractically.
- *quondam* – former.
- *quhilk* – which.
- *Beker* – bowl.
- *Prescription* – a right, privilege, or presumption derived from custom.
- *in foro contradictorio* – where a court decision has been given after litigation by both parties.
- *Curdowers* – those working at a trade within a burgh in which they are not burghers.
- *Mantua-makers* – makers of women’s clothing.
- *taylors entering the mantua-makers* – tailors admitting the makers of women’s clothing to the corporation (and taking specified dues from them).
- *took Pepper in the Nose* – took umbrage.

The status of the document as an official court document (an ‘Information’)

remains highly uncertain; there is no complete inventory of official documents of the kind it pretends to be. Again, librarians have recorded it as a pseudonymous “squib.”³ To explore the matter further, I reached out to Professor John W. Cairns of the University of Edinburgh, an expert in Scots law of the time, who has, on short notice, responded avidly, as he could. The pamphlet assumes the form of a proper ‘Information,’ and it uses names that do appear in decreets on litigation about exclusive barbering privilege in Edinburgh and its suburbs.⁴ From certain sources (e.g., Scott-Moncrieff 1912 and similar antiquarian pieces by G. A. Fothergill and C. H. Creswell), it seems that the pamphlet’s historical information about the law and development of the trades is sound enough.

Cairns and I have a theory, built on curious features of the pamphlet. One of the curious things is that the title page of the pamphlet says “The SECOND EDITION;” no other edition is known to the British Library or elsewhere, which is not surprising; but more important is that Cairns has never before seen a second edition of an ‘Information.’ Other curious features are the ideological pointedness and, especially, the rollicking, over-the-top spirit. Finally, there is the extensive italicization throughout the pamphlet. Our theory is that the pamphlet is a take-off—hence “second edition”—of an official document from goings-on circa 1757, and that italics are used for additions or changes from the original official ‘Information’ (though not only for that). Where that theory would leave the pamphlet’s purported authorship, “Hew Dalrymple,” is unclear. Further investigation may resolve some of the mystery.

The pamphlet appeared when liberal principles were ascendant, and, indeed, when the guild privileges were falling apart. The matter before the judges is particular and circumscribed, but just principles would “throw open the Door to every *Footman*,” the author says, and: “no *Detriment*, but much *Benefit*, would arise to the Nation in general” if “*every Man of every Profession*, had it in his Power to *exercise* the same, when, and where he pleased.”

3. The prominent Hew Dalrymple of the time was Sir Hew Dalrymple (1712–1790), Second Baronet, of North Berwick; perhaps the pamphlet’s author used the name “Hew Dalrymple” as a jest of some sort. A kind librarian of the British Library (Rare Books and Music Reference Team) explained that both “Explore the British Library” ([link](#)) and the “English Short Title Catalogue” ([link](#)) indicate “Hew Dalrymple” to be a pseudonym, though no reason is given; but he advised that he and colleague felt that it made sense to conclude that the pamphlet was not written by the Sir Hew Dalrymple, and a similar assessment was offered by a librarian at the National Library of Scotland (Rare Books, Maps, and Music Collections). I thank these librarians for the fine help on the matter.

4. See Society of Barbers of Edinburgh Archive, Litigation 1722–1829 series, held by the Royal College of Surgeons of Edinburgh Library ([link](#)), notably the January 16, 1750, “Decreet: the Incorporation of Barbers of Edinburgh against Low, Boyd and all wigmakers in Edinburgh” Reference no. SB 7/4 ([link](#)) and the January 7, 1761, “Decreet and precept: the Incorporation of Barbers of Edinburgh against certain wigmakers of the city,” reference no. SB 7/5 ([link](#)).

Adam Smith called for reform “where every man was perfectly free both to chuse what occupation he thought proper, and to change it as often as he thought proper” (WN, 116).⁵ The words of the pamphlet also resemble Smith’s more general avowals—leaving every man “perfectly free to pursue his own interest his own way,” “allowing every man to pursue his own interest his own way”—in propounding, respectively, “the obvious and simple system of natural liberty” (ibid., 687) and “the liberal plan of equality, liberty, and justice” (664).

References

- Festa, Lynn.** 2005. Personal Effects: Wigs and Possessive Individualism in the Long Eighteenth Century. *Eighteenth-Century Life* 29(2): 47–90.
- Kleiner, Morris M.** 2006. *Licensing Occupations: Ensuring Quality or Restricting Competition?* Kalamazoo, Mich.: W. E. Upjohn Institute for Employment Research.
- Kleiner, Morris M.** 2013. *Stages of Occupational Regulation: Analysis of Case Studies.* Kalamazoo, Mich.: W. E. Upjohn Institute for Employment Research.
- Kleiner, Morris M.** 2014. Morris Kleiner on Occupational Licensing [interview by Lawrence H. White]. *EJW Audio, Econ Journal Watch*, July 19. [Link](#)
- Kleiner, Morris M., and Alan B. Krueger.** 2013. Analyzing the Extent and Influence of Occupational Licensing on the Labor Market. *Journal of Labor Economics* 31: S173–S202.
- Kleiner, Morris M., and Evgeny S. Vortnikov.** 2017. Analyzing Occupational Licensing Among the States. *Journal of Regulatory Economics* 52(2): 132–158.
- Markiewicz, Emma.** 2014. *Hair, Wigs, and Wig Wearing in Eighteenth-Century England.* Ph.D. thesis, University of Warwick (Coventry, UK).
- Reinhardt, Uwe E.** 2014. Does Occupational Licensing Deserve Our Approval? A Review of Work by Morris Kleiner. *Econ Journal Watch* 11(3): 318–325. [Link](#)
- Scott-Moncrieff, R.** 1912. Notes on the Corporation of Surgeons and Barbers of the City of Edinburgh. *Proceedings of the Society of Antiquaries of Scotland* 46: 247–257. [Link](#)
- Smith, Adam.** 1976 [1776] (WN). *An Inquiry Into the Nature and Causes of the Wealth of Nations*, eds. D. D. Raphael and A. L. Macfie. Oxford: Oxford University Press.
- Smith, Adam.** 1978 (LJ). *Lectures on Jurisprudence*, eds. R. L. Meek, D. D. Raphael, and P. G. Stein. Oxford: Oxford University Press.
- Smith, Adam.** 1987 (Corr.). *Correspondence of Adam Smith*, eds. Ernest C. Mossner and Ian Simpson Ross. Oxford: Oxford University Press.

5. See Smith on long apprenticeships and labor-market privileges (WN, 116–152)—“a plain violation of this most sacred property” (WN, 138)—and on the “privileges of graduation” (WN, 762, 780; LJ, 84, 363–364, 472, 497–498, 529; *Corr.*, 173–179). Today the leading scholar of occupational licensing is Morris Kleiner (2006; 2013; 2014; Kleiner and Krueger 2013; Kleiner and Vortnikov 2017) and the leading organization battling it in court is the Institute for Justice. *Econ Journal Watch* has published several articles on the topic including Svorny 2004; Stephenson and Wendt 2009; Reinhardt 2014.

KLEIN

- Stephenson, E. Frank, and Erin E. Wendt.** 2009. Occupational Licensing: Scant Treatment in Labor Texts. *Econ Journal Watch* 6(2): 181–194. [Link](#)
- Svorny, Shirley.** 2004. Licensing Doctors: Do Economists Agree? *Econ Journal Watch* 1(2): 279–305. [Link](#)
- Swift, Jonathan.** 1726. *Gulliver's Travels*. London: Benjamin Motte.
- Williams, Seán M.** 2016. E. T. A. Hoffmann and the Hairdresser Around 1800. *Publications of the English Goethe Society* 85(1): 54–66.

Information for the Hair Dressers in Edinburgh; Against the Incorporation of Barbers.

The SECOND EDITION.

7th March 1758.

INFORMATION

FOR

ALEXANDER LOW, WALTER BOYD, JOHN CHINEBOW, and JAMES
MACFARQUHAR, all Wig-makers in *Edinburgh*, Defenders;

AGAINST

The Preses, Box-master, and remanent Members of the Incorporation of
BARBERS of *Edinburgh*, Pursuers.

The Barbers of *Edinburgh*, upon Pretences equally groundless and extravagant, having taken it into their Heads, that the exclusive Privilege, which they have always enjoyed, of clearing the Face from that uncleanly and unbecoming *Excrement*, the *Beard*, gave them also a Right to lop and prune the ornamental Hair of the *Head*, in so far as was necessary for the proper dressing and adorning thereof, did exhibit a Complaint, against the Defenders, before the Magistrates of *Edinburgh*, for alledged Incroachments, made upon this, *their particular Province of the human Body*.

The Magistrates, *always ready*, and *always willing*, to support and extend the *Privileges* and *Pretences* of their Incorporations, did pronounce an Interlocutor, declaratory of the Privileges of the Barbers, and finding that they are in the Possession, and have the sole and exclusive Privilege of trimming and barberising, or, of cutting Hair and taking off Beards, within this City. And, in consequence of that, they thought proper, by a subsequent Interlocutor, to inflict a Fine on the Defenders, for having transgressed against the Incorporation, and incroached upon their Privileges, and to prohibit them from cutting Hair, within the City, in all Time coming, under a Penalty of 6 *l. Scots* for each Fault.

The Defenders advised, that the *Beard* and the *Hair* of the Head, as being ruled by *different Planets*, ought also to be under the Direction of *different sublunary Agents*, brought the Cause, by Advocation, before your Lordships: And the Barbers having consented to the Advocation, the Cause was debated before the Lord

Bankton, Ordinary: And his Lordship, having taken it to report, and ordered Informations upon the *important Question*, the following State of the Case is humbly offered upon the Part of the Defenders.

The Defenders are, all of them, Freemen and Burgesses in the Town of *Edinburgh*; and, as such, are intitled to exercise every lawful Art and Calling, of which no exclusive Privilege has been granted to an Incorporation. The Making Wigs and the Dressing Hair is yielded to them by the Barbers; so that the single Question is, Whether the cutting of the Hair, to render it proper for dressing, is more *germain* to the Profession of a *Hair-dresser*, or to that of a *Beard-shaver*? and whether there is any exclusive Privilege granted to the Barbers, and possessed by them, as to this Particular?

And, in arguing this Question, your Lordships will not fail to consider the Effect of an exclusive Privilege. It is, at any Rate, a Restriction of natural Freedom: It is a great Bar to Industry; and, in a free and trading Nation, almost a Reproach to the Constitution. In the Days of our Ancestors, such was the idle and barbarous Disposition of the People, that every useful Art and Calling would have been totally neglected, unless the Legislature had fallen upon the Expedient of establishing Incorporations, and granting to them Immunities and exclusive Privileges. But although this Remedy prevented the total Destruction of Arts, it had this bad Effect also, to prevent their Increase and Growth to Perfection. It left little or no Room for Emulation: Nay, it checked the very Seeds of that Virtue, and an aspiring Spirit was looked upon as a dangerous Thing. Mediocrity was safe, and none attempted to get above it. For Corporations considered themselves as Republics, in which it is the Interest of the whole, to crush the growing Power or Merit of Individuals.

But the Tables are so far turned, and the World so far sensible of the Error, that, in some of the Arts at least, indeed all the mechanical ones, Industry needs no other Spur than the Profit and Honour attending her. Therefore, the continuing these exclusive Privileges is as absurd, as it would be to continue a Person, in the Vigour of Health, under the Regimen and Medicaments that were necessary when he languished beneath a mortal Disease. And therefore it has been Matter of Speculation, and very well deserves the Attention of the Legislature, whether it would not be proper to beat down all these *Gothick* Inclosures, and give a free and uninterrupted Course to the Bent and Genius of the People.

But, as your Lordships are not possessed of legislative Power, you cannot do this, though you are possessed of an interpretative Power, which enables you to do a great deal. One general Rule you follow, which is, never to extend exclusive Privileges, farther than they are clearly and explicitly founded in the Grant; and where there is any Doubt or Ambiguity, it is a Maxim of universal Law, to give Judgment on the Side of natural Liberty; and surely, if these Maxims can ever be

applied in the utmost Latitude of Interpretation to any Case, they must in the present, where the Demands of Exclusion are so *unreasonable*, and the Request of Freedom so *natural*, and withal so *trifling*.

For all that the Defenders demand is, That, as they have confessedly a Right to dress Hair within the City, they should also have the Liberty of using the *Scissars*, to make it fit for the Operation of dressing, and they claim this upon the Import of that Maxim of natural Equity, *Cujus est finis, ejus sunt media*. On the other hand, the Barbers, who have the same Privilege of dressing with the Defenders, *together with that exclusive one of using the Bason and Suds, and of taking every one of his Majesty's Subjects, even the highest, by the Nose, with Impunity*, are unconscionable enough to demand, that they, and they only, should have the Power of cutting the Hair, which, in Consequence and Effect, would destroy the Defenders Business of dressing altogether: For no body would choose the Trouble and Expence of two different Operators; or, if any one was whimsical enough to have a Barber to cut his Hair, and one of the Defenders to dress it, the Consequence would be, that, *what with cutting to spoil the dressing, and dressing to shame the cutting, the poor Patient would soon be reduced to the Condition of the Man in the Fable, who, to his Misfortune, had both an old Wife and a young; or, at best, would look like one of the mathematical Inhabitants of Laputa, with the Hair on the one Side of his Head three Inches shorter than that on the other.*

Such fatal Consequences from the *Rancour* of contending Powers are to be avoided. And a just Interpretation of the Rights and Privileges established to the Barbers by their Seal of Cause, and the subsequent Act of Council founded on by them, will enable your Lordships to interpose your Authority for that Purpose. The Seal of Cause is granted in the 1505 to the Surgeons and Barbers, as a joint Society; and, it is to be remarked, that although the Barbers would now endeavor to *degrade* themselves to a Level with common *Friseurs*, yet, in their Original, they are of high Rank, *no less than Cadets of the Surgeons*; for Shaving was invented by the Sons of *Machaon*, and was by them used to clear away the Hair from these Parts of the human Body, that had been casually wounded. But, in Process of Time, *when the Degeneracy of Manners brought feminine Beauty into Repute, and transformed the rough Warriour into a whining Lover, then, and not till then, the Chins of Men were brought under the Barbers Yoke; and some Philosophers affirm, that the ignominious Treatment, which all Men must submit to from the Gentlemen of that Profession, was decreed as a Punishment for this Degeneracy, and a proper Badge of the Subjection of our Spirits, which evaporated with our Beards, and was conformable to the Gothic Custom of asserting Dominion over a Vassal, by leading him out of Court by the Nose, which is now become a proverbial Expression. But, be that as it will, the Beards, which had been often tugged in their Country's Cause, were thrown neglected aside, to make Way for the smooth and delicate Touch of a nimble-fingered Lady, upon the Lip and Cheek of her Paramour.*

In this Business were Surgeons first employed. But, as it was entirely me-

chanical, requiring neither Judgment nor Genius, the principal Persons of the Profession neglected it altogether, and it came to be left to the *Underlings*, who acquired the Name of Barbers, from that Operation in which they were only or chiefly employed; but still they retained a Connexion with their *quondam* Profession, and were understood to be in some Degree skilled in the lower Branches of Surgery, and practiced no other than that, and shaving. And therefore it is, that, in the Application to the Magistrates, in consequence of which the Seal of Cause was granted to the Incorporation, after a Demand of a general Prohibition against all Persons, for occupying or using any Part of the Surgery and Barber-crafts, until examined and admitted; the Particulars of the Examination and Profession to be incorporated are as follows:

That the Candidate should know *Anatomia*, Nature and Complexion of every Member of the human Body. And, in like Manner, that he know all the Veins of the samen, that he may make *Phlebotomia* in due time; and also, that he know in quhilk Member the Sign has Domination for the Time: For every Man ought to know the Nature and Substance of every Thing that he works, or else he is negligent.

And it is there expressly declared, “That nae Barber, Master or Servant, haunt, use, nor exerce the Craft of Surgery, without he be expert, and know perfectly the Things above written.” And the Deliverance of the Magistrates upon this Supplication, proceeds on a Narrative,

That they think the same consonant to Reason, and nae Hurt to his Highness the King, nor to any of his Lieges; and therefore they consent, and grant these Privileges to the Crafts of Surgery and Barbers, and in so far as they may, or have Power, confirm, ratify, and approve the said Statutes, Rules and Privileges, in all Points and Articles.

This Seal of Cause is the Charter of the Privileges, both of the Incorporation of Surgeons and Barbers, and, in so far as it goes, they have an exclusive Privilege, but no farther. And from the above Enumeration of Particulars, it is clear that the Privilege now demanded was neither given, nor meant to be given; all the Articles of Skill and Knowledge required, respect the particular Branches of Surgery, which it was necessary Barbers should know; it was superfluous to mention Shaving, because the Name of Barber imported and included that; but further than Shaving, and particular Parts of Surgery, no exclusive Privilege was given.

And it is impossible to suppose, that the Use of the *Scissars* in lopping the Hair of the Head, was meant to be given by the Seal of Cause. For altho’ in its original Institution, the Barber-craft, as being invented by Surgeons, and for a

long Time practiced by them; and a Sort of dangerous Nicety in using the sharp Instrument, a *Razor*, made it proper to confine the Business to those who had some Pretences to Skill in Surgery, yet that can never apply to lopping and trimming the Hair of the Head; for that Operation has no Connexion with the Profession of Surgery; either in Point of *Nicety* or *Danger*; the Instrument, with which it is performed, is a very simple one, the least dangerous of all edged Tools, and so far from being only fit for the Hand of a Surgeon and Barber, that even *our rude Ancestors* have ventured to trust that *terrible Weapon*, a *Pair of Scissars*, in the Hands of every Housewife, and of every Girl who goes to School to learn to *stitch*.

But the Profession of Hair-cutting could not possibly have entered into the Privileges of the Barbers and Surgeons. For, besides that it has no Concern with their Profession, it was no regular Employment, any more than Hair-dressing, at the Time these Privileges were granted. We had no *Essay-writers* in those Days; and therefore it is impossible to know, with Certainty, the precise Time when this useful Art arose into a Profession. And therefore all our Authority is Tradition, supported by what appears to be very weighty Evidence, the *Portraits* of the Times. The tradition goes, *that the Mistress of the Family was Hair-cutter to the whole, to which she had an exclusive Privilege, as being Proprietor of the Scissars; and the Method she took, when the Tresses of any of the Family grew redundant and luxurious, was to clap a Beker upon their Heads, and cut all away under Edges of it.* Accordingly we see, that in all *Portraits*, down to the Time that *Wigs* came in Fashion, the only *Culture* and *Manœuvre* which the Hair received, was *shedding* it in the Middle of the Head with a Comb, and *squaring* it round the *Bottom*, like the modern Method of *Jockeys* with their *Horse Tails*.

But the Introduction of *Wigs* introduced quite a different *System of Hair-cutting*, above the Reach of the *Landlady's Skill*; *Wigs* were first used by those, who, by Disease, or Accident, were deprived of their Hair; and although, at first, it would, no doubt, be attempted to make them resemble the natural Growth of the Hair, yet, when *Wigs* came to be a fashionable Dress, *the poor Hair was tortured and twisted ten thousand Ways, in order to make it resemble a Wig*; thus it was, that the modern Professions of Hair-dressing and Hair-cutting were introduced. The Barbers did not pretend to an exclusive Privilege of making *Wigs*, when *Wigs* came into Fashion, nor yet to dressing Hair in the Form of *Wigs*; but, because *Scissars are sharp*, therefore, they must have a Right to *prune* and *lop* the Hair, to prepare it for that sort of Dressing, than which there can hardly be a more absurd or senseless Pretence.

The Barbers argue, That the Privilege of cutting the Hair comes in Place of shaving the Head, which they had a Right to in the more barbarous Times, before the modern Method of Dressing was invented; but this is a Sort of *Anachronism*; shaving the *Head*, and dressing the *Hair*, being introduced at, or very near, the same Time, and none of them very remote; and of this *Portraits* are a Proof: For no sooner do we observe *Wigs* in *Portraits*, but so soon, there appears a remarkable Difference

in the *Oeconomy* of the *Hair*, and neither of them at a very distant Period; for King *Charles II.* is the first of our Monarchs, *who makes his Appearance in a Bush of borrowed Hair.*

Therefore the Defenders apprehend, that there arises no Argument from the Seal of Cause in Favours of the Exclusion here claimed, for, that there is not the smallest Appearance that such exclusive Privilege was given to the Incorporation, or could be meant to be given, as it had no Sort of Connection with the Profession of *Surgeons* and *Barbers*, as it did not exist at the Time, and when it afterwards came to exist, it was as unconnected with the Occupation of a *Barber*, as that of a *Taylor* with a *Weaver*, or any other Vocation the most opposite.

The Pursuers, the Barbers, laid a great Part of their Argument upon an Act of the Town-council in 1682, recommending it to the Surgeons, to admit a sufficient Number of Persons qualified to *trim* and *barberize*, which Terms are afterwards explained by cutting *Hair*, and *shaving Beards*; and from this they contend, that the cutting of Hair was, and had been always esteemed as the proper Business of the Surgeons and Barbers, and that none could be permitted to exercise the Employment, who was not admitted a Freeman of the Incorporation.

As to which, it is not imagined your Lordships would suppose a Privilege of this Kind granted by Implication, or that a recommendatory Act of Council is any Proof, or would give any Right, which an Incorporation had not before: That they had it not before, is evident from the Seal of Cause, at the Date of which it was not a Profession, and, when it came to be one, it was taken up, and exercised by any Person who had a-mind, that was free of the Town. Just so it was with *Wig-making*; the Barbers never pretended any exclusive Privilege to that, though one should think they have full as good a Right to the one, as to the other.

The Argument taken from this Act of Council, so far as the Defenders see, resolves into Prescription; but the Prescription of an exclusive Privilege of this kind, they apprehend, is not at all a favourable one, and, at best, would require a much stronger Possession than is here founded on. The rather, that the Business pretended to be acquired by Prescription, is quite separate and distinct from that, for which the Incorporation was erected. If any Incorporation should acquire Right, by Possession, to any particular Business intimately connected with its own, the Proof of the Possession would not require to be so clear and strong, as your Lordships would think necessary, if the Right pretended to be acquired was utterly inconnected, and independent of the original Profession of the Incorporation; for the easy Progression in the one Case, in some Measure supplies a trifling Defect in Proof, as in the other, the Reverse makes a convincing Evidence necessary.

And what is the Proof founded on here? In the 1st Place, the Act of Council 1682; but, that being only a Recommendation, can have no Effect, either the one Way or the other; it gives no exclusive Privilege, and proves none; and so far as the

Defenders know, the only Proof that could establish such a Right by Prescription, is the actual prohibiting and preventing all Mortals from using the Privilege claimed, for the Term of Prescription, and that too by judicial Acts, and *in foro contradictorio*.

The Barbers have attempted to prove, that they have been in the Use of excluding others from this Profession by judicial Acts. They first found upon a Decree of your Lordships in the 1722, separating the Surgeons from the Barbers; but that Decision has plainly no Relation to the present Question, only adjusting the different Rights of the Surgeons and Barbers, as a Commonwealth; and the Act of Council proceeding thereon is no broader than the Seal of Cause. It does indeed enact that no Man shall be received to a Participation of the Rights and Privileges of the Society of Barbers, without first being admitted by the Society, and gives the Barbers a Power to curb all Incroachers upon the Privileges established by their Seal of Cause, and your Lordships Decree; but what these Privileges were, is in no Shape mentioned, further than by Reference to the Seal of Cause, which has been above explained to your Lordships.

But, from this Act of Council the Defenders apprehend, that the Argument arises in their Favours; for, the referring the Privileges entirely to the Seal of Cause, plainly shows, that they had acquired Right to no other, than such as were therein granted; and as the cutting of *Hair* neither was, nor could be granted by the Seal of Cause, therefore, it was not acquired by the Barbers: And this is further clear, from the Barbers having neglected to get this new Right ascertained by your Lordships Decree, and the Act of Town-council upon it, which it is impossible to imagine they would have misled, had they not been conscious of the Absurdity of the Pretension.

And, with respect to the Complaints and Decrees obtained before the Magistrates in the 1742, and 1743, these can as little affect the Question; for the Question there, was not between the *Barbers* and *Wig-makers* of *Edinburgh*, but between the Barbers of *Edinburgh* and Barbers of *Canongate*, Unfreemen of *Edinburgh* and Barbers of *Canongate*, Unfreemen of *Edinburgh*, or *Curdowers*; and the Complaints are exhibited against them, not only for shaving and cutting, but also for dressing of *Hair*, and making of *Wigs* within the Town; so that this was properly an Incroachment on the Privileges of the Town, and not solely the Privileges of the Barbers; but that cannot affect the Defenders, who are Burghers, and pay the same publick Taxations that the Barbers do.

But admitting in the Argument, that this exclusive Right to cut Hair had been established by the Seal of Cause, and that the *Barbers* had been in Possession of it, while it remained a *rude* and *barbarous Art*, performed by the Assistance of the *Beker*, in Manner above mentioned; yet upon such a Change of Circumstances, as has now taken Place, in the *Government* and *Oeconomy* of the Hair, your Lordships will consider it as a new Employment, and consequently will not exclude the Defenders

from the Profession of it.

There was a Case lately determined before your Lordships, upon the same Principles, between the *Taylors* and the *Mantua-makers* of *Perth*. The *Taylors*, for some *signal Services* performed to King *William* the *Lion*, had got from him a Grant in the most ample Form, to make all Sorts of *Men* and *Womens Apparel*, and to exclude all others from doing of it within the Town of *Perth*; and this they peaceably and uninterruptedly *enjoyed*, for many Centuries. At last, a *Set of female Adventurers* arose, who called themselves *Mantua-makers*, and bereaved the *Taylors* of the better Half of their *Perquisite*, the *Womens Work*. The *indignant Taylors* complained to your Lordships, and the Plea put in for the *Damsels* was, that the *Taylors* refused to *enter them*, except upon Payment of a *larger Sum*, than they imagined all the *Benefit* the *Taylors* could give them *was worth*; and further, that by the present *Mode of Dress*, used by the *Ladies*, the making of *Mantuas* was too intricate, either for the *Head* or *Hand* of a *bungling Taylor*, although he might have been very proper for *equipping a Woman* in the *Days of Yore*, when a *Blanket* and a *Brotch* was all her *Dress* and *Ornament*.

On the other hand, the *Taylors* defended their Privileges *valiantly*, as became *them*, under the *Intrenchment* of their Seal of Cause, and the *uninterrupted Possession* they had had of *taking Measure of the Ladies*; they complained of the *Mantua-makers*, as being of that Sort of People, who, if give them an *Inch*, will take a *Yard*, for that they had offered to *enter them to the full Enjoyment of all their Rights and Privileges*, for a *smaller Consideration than they had a good Right to demand* by the NATURE OF THEIR FREEHOLD, and the *Value of the BENEFIT* proposed to be *communicated*; and they took *Pepper in the Nose*, at the Charge of *Incapacity* and *Insufficiency* brought against their *Craft*, exclaiming against the *Luxury of the Age*, and *presaging Ruin to that Nation*, where the *Women* could not be satisfied with the *Work of the Men*. But, to remove the *Objection*, these *Knights of the Thimble*, hardily *challenged their Petticoat Party to run a Tilt with YARD and NEEDLE*, or, in other Words, to a *comparative Trial*, in which, if the *Damsels* were *defeated*, they, by the Articles of *Combat*, were to *yield up the Ladies* to the *Will* of the *Taylors*, or to be INCORPORATED with them.

Your Lordships see, that this Plea of the *Mantua-makers* resolved into the same with what the Defenders now make. For, as the *modern Method of Dress*, used by the *Ladies*, occasions a separate and distinct Art in the making of it up, from that which the *Taylors* had received by their Charter, so the dressing of Hair, as it is now practised, is altogether another Profession from that which the Barbers pretend they had by their Seal of Cause: And as your Lordships *sustained* the *Mantua-makers Plea*, upon the *Incapacity* of the *Taylors* to *work Womens Work*; or rather, because you thought the *Mantua-makers* might, and could do it better, all that is incumbent on the Defenders, upon the Principle of that Decision, is, to show, not, that the Barbers are utterly incapable to cut Hair, but that they are improper Persons to be employed in that Business; or at least, that the Defenders are more proper than

they.

And, at first Sight it must occur to your Lordships, that *a greasy Barber*, covered all over with *Suds*, and the *excrementitious Parts of the Beards of nasty Mechanicks*, is no very proper *Utensil* for the *Dressing-room* of a *Gentleman*, and much less of a *Lady*. The *Sight* is enough to some, the *Smell* loathsome to many, and the *Touch* intolerable to all. On the other Hand, the Defenders, who make the cutting and dressing of *Hair*, and making of *Wigs*, their sole Employment, have none of these *nausea* about them: It is their Study and Endeavour to keep themselves *sweet* and *clean*, that they may not prove *offensive* to their *Employers*; and therefore, in Point of Conveniency, they seem to be the properest Persons for that ornamental Business. They do not insist, that the Barbers should be excluded from it altogether, and if any Body chuses a Barber to cut and dress his *Hair*, *much good may it do him*; but they apprehend, that, as they have a Right to dress Hair, and are the properest Persons for that Business, they should also be allowed the Privilege of Cutting, without which the other can be of little Use to them.

The Defenders confess, that the Argument of Conveniency arises from the *Manners* of the present Age, or if the Barbers will have it so, *from the Luxury*; but it is never the worse for that, for the whole Arts and Sciences have no better Foundation, and the *Barbers* themselves are obliged to it for the best Part of their Employment; and if we must be *luxurious* and *effeminate*, it is better so with *Taste* and *effeminate*, it is better so with *Taste* and *Elegance*, than without it. The *Barbers* don't object to the *cutting* or *dressing* of *Hair* altogether; as much of that, and let it be as *nice*ly, and as *expensively* done as possible, provided they, with their *greasy Aprons*, have the doing of it; as if a Person could atone for the greatest Height of *Intemperance*, by taking a *dirty* and *disagreeable* Road to arrive at it. The *Barbers* are precisely like the *patriot Statesmen* of the present Age, who *rail* at the *Manners* of the People, and the *Measures* of the *Government*, when they are out, and *promote* and *encourage* the same *Measures*, whenever they get in.

And whereas it was alledged before the Lord Ordinary, that the Defenders Plea tended to throw open the Door to every *Footman*, who had got the Art of *cutting* and *dressing Hair*, and should be disposed to set up Shop in these Professions; the Defenders do humbly contend, that supporting this were a certain *Consequence*, and that *every* Man of *every* Profession, had it in his Power to *exercise* the same, when, and where he pleased, no *Detriment*, but much *Benefit*, would arise to the Nation in general, from it. But as this is no proper Consideration for your Lordships, so it can have no Place in Fact of the present Question, because the Privileges of the Town exclude all *Unfreemen* from exercising any Employment within it.

Upon the whole, the Defenders are Freemen of *Edinburgh*, their Right to dress Hair is not contraverted, and they humbly submit it to the Court, if they are not the properest Persons to be employed in that, and its Accessary the Cutting:

DALRYMPLE

The Barbers have no Right, by their Seal of Cause, to this; it is a distinct Employment from theirs, neither have they proved such Possession, as will support their Claim of an exclusive Privilege.

IN RESPECT WHEREOF, &C.

HEW DALRYMPLE.

[Go to archive of Watchpad section](#)
[Go to September 2018 issue](#)



Discuss this article at Journaltalk:
<https://journaltalk.net/articles/5977>