

## THE FATAL CONCEIT

*Traditional Morals Fail to Meet Rational Requirements*

The four requirements just listed – that whatever is not scientifically proven, or is not fully understood, or lacks a fully specified purpose, or has some unknown effects, is unreasonable – are particularly well suited to constructivist rationalism and to socialist thought. These two approaches themselves flow from a mechanistic or physicalist interpretation of the extended order of human cooperation, that is, from conceiving ordering as the sort of arranging and controlling one could do with a group if one had access to all the facts known to its members. But the extended order is not, and could not be, such an order.

Hence I wish to concede forthwith that most tenets, institutions, and practices of traditional morality and of capitalism do *not* meet the requirements or criteria stated and are – *from the perspective of this theory of reason and science* – ‘unreasonable’ and ‘unscientific’. Moreover, since, as we have also admitted, those who continue to follow traditional practices do not themselves usually understand how these practices were formed or how they endure, it is hardly surprising that alternative ‘justifications’, so-called, that traditionalists sometimes offer for their practices are often rather naive (and hence have provided fair game for our intellectuals), and have no connection with the real reasons for their success. Many traditionalists do not even bother with justifications that could not be provided anyway (thus allowing intellectuals to denounce them as anti-intellectual or dogmatic), but go on following their practices out of habit or religious faith. Nor is this in any way ‘news’. After all, it was over 250 years ago that Hume observed that ‘the rules of morality are not the conclusions of our reason’. Yet Hume’s claim has not sufficed to deter most modern rationalists from continuing to believe – curiously enough often quoting Hume in their support – that something not derived from reason must be either nonsense or a matter for arbitrary preference, and, accordingly, to continue to demand rational justifications.

Not only the traditional tenets of religion, such as the belief in God, and much traditional morality concerning sex and the family (matters

## THE FATAL CONCEIT

with which I am not concerned in this book), fail to meet these requirements, but also the specific moral traditions that do concern me here, such as private property, saving, exchange, honesty, truthfulness, contract.

The situation may look even worse if one considers that the traditions, institutions and beliefs mentioned not only fail to meet the logical, methodological, and epistemological requirements stated, but that they are also often rejected by socialists on other grounds too. For example, they are seen, as by Chisholm and Keynes, as a ‘crippling burden’, and also, as by Wells and Forster, as closely associated with despicable trade and commerce (see chapter six). And they also may be seen, as is especially fashionable today, as sources of alienation and oppression, and of ‘social injustice’.

After such objections, the conclusion is reached that there is an urgent need to construct a new, rationally revised and justified morality which does meet these requirements, and which is, for that matter, one which will *not* be a crippling burden, be alienating, oppressive, or ‘unjust’, or be associated with trade. Moreover, this is only part of the great task that these new lawgivers – socialists such as Einstein, Monod and Russell, and self-proclaimed ‘immoralists’ such as Keynes – set for themselves: A new rational language and law must be constructed too, for existing language and law also fail to meet these requirements, and for what turn out to be the same reasons. (For that matter, even the laws of *science* do not meet these requirements (Hume, 1739/1951; and see Popper, 1934/59).) This awesome task may seem the more urgent to them in that they themselves no longer believe in any supernatural sanction for morality (let alone for language, law, and science) and yet remain convinced that *some* justification is necessary.

So, priding itself on having built its world as if it had designed it, and blaming itself for not having designed it better, humankind is now to set out to do just that. The aim of socialism is no less than to effect a complete redesigning of our traditional morals, law, and language, and on this basis to stamp out the old order and the supposedly inexorable, unjustifiable conditions that prevent the institution of reason, fulfillment, true freedom, and justice.

*Justification and Revision of Traditional Morals*

The rationalist standards on which this whole argument, indeed this whole programme, rest, are however at best counsels of perfection and at worst the discredited rules of an ancient methodology which may have been incorporated into some of what is thought of as science, but which has nothing to do with real investigation. A highly evolved,

rather sophisticated moral system exists side by side, in our extended order, with the primitive theory of rationality and of science sponsored by constructivism, scientism, positivism, hedonism, and socialism. This does not speak against reason and science but against these theories of rationality and science, and some of the practice thereof. All this begins to become evident when it is realised that *nothing* is justifiable in the way demanded. Not only is this so of morals, but also of language and law and even science itself.

That what I have just written applies to science too may be unfamiliar to some who are not informed of current advances and controversies within the philosophy of science. But it is indeed true not only that our current scientific laws are not justified or justifiable in the way that constructivist methodologists demand, but that we have reason to suppose that we shall eventually learn that many of our present scientific conjectures are untrue. Any conception that guides us more successfully than what we hitherto believed may, moreover, although a great advance, be in substance as mistaken as its predecessor. As we have learnt from Karl Popper (1934/1959), our aim must be to make our successive mistakes as quickly as possible. If we were meanwhile to abandon all present conjectures that we cannot prove to be true, we would soon be back at the level of the savage who trusts only his instincts. Yet this is what all versions of scientism have advised – from Cartesian rationalism to modern positivism.

Moreover, while it is true that *traditional* morals, etc., are not rationally justifiable, this is also true of *any possible moral code, including any that socialists might ever be able to come up with*. Hence no matter what rules we follow, we will not be able to justify them as demanded; so no argument about morals – or science, or law, or language – can legitimately turn on the issue of justification (see Bartley, 1962/1984; 1964, 1982). If we stopped doing everything for which we do not know the reason, or for which we cannot provide a justification in the sense demanded, we would probably very soon be dead.

The issue of justification is indeed a red herring, owing in part to mistaken, and inconsistent, assumptions arising within our main epistemological and methodological tradition which in some cases go back to antiquity. Confusion about justification also stems, particularly so far as the issues that mainly occupy us are concerned, from Auguste Comte, who supposed that we were capable of remaking our moral system as a whole, and replacing it by a completely constructed and justified (or as Comte himself said, 'demonstrated') body of rules.

I shall not state here all the reasons for the irrelevance of traditional demands for justification. But just to take as an example (one

appropriate also to the argument of the following section) one popular way of attempting to justify morality, it should be noticed that there is no point to assuming, as rationalist and hedonistic theories of ethics do, that our morality is justified just to the extent, say, that it is directed towards the production of, or striving after, some specific goal such as happiness. There is no reason to suppose that the selection by evolution of such habitual practices as enabled men to nourish larger numbers had much if anything to do with the production of happiness, let alone that it was guided by the striving after it. On the contrary, there is much to indicate that those who aimed simply at happiness would have been overwhelmed by those who just wanted to preserve their lives.

While our moral traditions cannot be constructed, justified or demonstrated in the way demanded, their processes of formation can be partially *reconstructed*, and in doing so we can to some degree understand the needs that they serve. To the extent we succeed in this, we are indeed called upon to improve and revise our moral traditions by remedying recognisable defects by piecemeal improvement based on immanent criticism (see Popper, 1945/66, and 1983:29–30), that is, by analysing the compatibility and consistency of their parts, and tinkering with the system accordingly.

As examples of such piecemeal improvement, we have mentioned new contemporary studies of copyright and patents. To take another example, much as we owe to the classical (Roman law) concept of several property as the exclusive right to use or abuse a physical object in any manner we like, it oversimplifies the rules required to maintain an efficient market economy, and a whole new sub-discipline of economics is growing up, devoted to ascertaining how the traditional institution of property can be improved to make the market function better.

What is needed as a preliminary for such analyses includes what is sometimes called a 'rational reconstruction' (using the word 'construction' in a sense very different from 'constructivism') of how the system might have come into being. This is in effect an historical, even natural-historical, investigation, not an attempt to construct, justify, or demonstrate the system itself. It would resemble what followers of Hume used to call 'conjectural history', which tried to make intelligible why some rules rather than others had prevailed (but never overlooked Hume's basic contention, which cannot often enough be repeated, that 'the rules of morality are not the conclusions of our reason'). This is the path taken not only by the Scottish philosophers but by a long chain of students of cultural evolution, from the classical Roman grammarians and linguists, to Bernard Mandeville, through Herder, Giambattista

Vico (who had the profound insight that *homo non intelligendo fit omnia* ('man became all he is without understanding it' (1854: V, 183)), and the German historians of law that we have mentioned, such as von Savigny, and on to Carl Menger. Menger was the only one of these to have come after Darwin, yet all attempted to provide a rational reconstruction, conjectural history, or evolutionary account of the emergence of cultural institutions.

At this point I find myself in the embarrassing position of wanting to claim that it must be the members of my own profession, the economists, specialists who understand the process of formation of extended orders, who are most likely to be able to provide explanations of those moral traditions that made the growth of civilisation possible. Only someone who can account for effects such as those connected with several property can explain why this type of practice enabled those groups following it to outstrip others whose morals were better suited to the achievement of different aims. But my desire to plead for my fellow economists, while partly in order, would perhaps be more appropriate were not so many of them themselves infected with constructivism.

How then do morals arise? What is *our* 'rational reconstruction'? We have already sketched it in the foregoing chapters. Apart from the constructivist contention that an adequate morality can be designed and constructed afresh by reason, there are at least two other possible sources of morality. There is, first, as we saw, the innate morality, so-called, of our instincts (solidarity, altruism, group decision, and such like), the practices flowing from which are not sufficient to sustain our present extended order and its population.

Second, there is the evolved morality (savings, several property, honesty, and so on) that created and sustains the extended order. As we have already seen, this morality stands *between* instinct and reason, a position that has been obscured by the false dichotomy of instinct *versus* reason.

The extended order depends on this morality in the sense that it came into being through the fact that those groups following its underlying rules increased in numbers and in wealth relative to other groups. The paradox of our extended order, and of the market – and a stumbling block for socialists and constructivists – is that, through this process, we are able to sustain more from discoverable resources (and indeed in that very process discover more resources) than would be possible by a personally directed process. And although this morality is not 'justified' by the fact that it enables us to do these things, and thereby to survive, *it does enable us to survive, and there is something perhaps to be said for that.*

*The Limits of Guidance by Factual Knowledge: The Impossibility of Observing the Effects of Our Morality*

False assumptions about the possibility of justification, construction or demonstration are perhaps at the root of scientism. But even if they were to understand this, proponents of scientism would undoubtedly want to fall back on the other requirements of their ancient methodology, which are connected to, but are not strictly dependent on, the demand for justification. For example (to hark back to our list of requirements), it would be objected that one *cannot fully understand* traditional morals and how they work; following them *never produces effects that one can specify fully in advance*; following them *produces effects that are not immediately observable and hence cannot be determined to be beneficial* – and which are in any case *not fully known or foreseen*.

In other words, traditional morals do not conform to the second, third, and fourth requirements. These requirements are, as noted, so closely interrelated that one may, after marking their different emphases, treat them together. Thus, briefly to indicate their interconnections, it would be said that one does not understand what one is doing, or what one's purpose is, unless one knows and can specify fully in advance the observable effects of one's action. Action, it is contended, if it is to be rational, must be deliberate and foresighted.

Unless one were to interpret these requirements in so broad and trivial a manner that they would lose all specific practical meaning – as by saying that the understood purpose of the market order, for example, is to produce the beneficial effect of 'generating wealth' – following traditional practices, such as those that generate the market order, clearly does not meet these requirements. I do not believe that any party to our discussion would wish to consider these requirements in so trivial an interpretation; certainly they are not so intended either by their proponents or their opponents. Consequently we may get a clearer view of the situation in which we actually find ourselves by conceding that, indeed, our traditional institutions are not understood, and do not have their purposes or their effects, beneficial or otherwise, specified in advance. And so much the better for them.

In the marketplace (as in other institutions of our extended order), unintended consequences are paramount: a distribution of resources is effected by an impersonal process in which individuals, acting for their own ends (themselves also often rather vague), literally do not and cannot know what will be the net result of their interactions.

Take the requirements that it is unreasonable to follow or do anything blindly (i.e., without understanding) and that the purposes and effects of a proposed action must not only be fully known in advance

but also fully observable and maximally beneficial. Now apply these requirements to the notion of an extended order. When we consider this order in the vast evolutionary frame in which it developed, the absurdity of the demands becomes evident. The decisive effects that led to the creation of the order itself, and to certain practices predominating over others, were exceedingly remote results of what earlier individuals had done, results exerting themselves on groups of which earlier individuals could hardly have been aware, and which effects, had earlier individuals been able to know them, may *not* have appeared at all beneficial to them, whatever later individuals may think. As for those later individuals, there is no reason why all (or any) of *them* should be endowed with a full knowledge of history, let alone of evolutionary theory, economics, and everything else they would have to know, so as to perceive why the group whose practices they follow should have flourished more than others – although no doubt some persons are always adept at inventing justifications of current or local practice. Many of the evolved rules which secured greater cooperation and prosperity for the extended order may have differed utterly from anything that could have been anticipated, and might even seem repugnant to someone or other, *earlier or later* in the evolution of that order. In the extended order, the *circumstances* determining what each must do to achieve his own ends include, conspicuously, unknown decisions of many other unknown people about what means to use for *their* own purposes. Hence, at no moment in the process could individuals have designed, according to their purposes, the functions of the rules that gradually did form the order; and only later, and imperfectly and retrospectively, have we been able to begin to explain these formations *in principle* (see Hayek, 1967, essays 1 and 2).

There is no ready English or even German word that precisely characterises an extended order, or how its way of functioning contrasts with the rationalists' requirements. The only appropriate word, 'transcendent', has been so misused that I hesitate to use it. In its literal meaning, however, it does concern that which *far surpasses the reach of our understanding, wishes and purposes, and our sense perceptions*, and that which incorporates and generates knowledge which no individual brain, or any single organisation, could possess or invent. This is conspicuously so in its religious meaning, as we see for example in the Lord's Prayer, where it is asked that '*Thy* will [i.e., not *mine*] be done in earth as it is in heaven'; or in the Gospel, where it is declared: 'Ye have not chosen me but I have chosen you, that ye should go and bring forth fruit, and that your fruit should remain' (St. John, 15:26). But a more purely

transcendent ordering, which also happens to be a purely naturalistic ordering (not derived from any supernatural power), as for example in evolution, abandons the animism still present in religion: the idea that a single brain or will (as for example, that of an omniscient God) could control and order.

The rejection of rationalistic requirements on grounds such as these thus also has an important consequence for anthropomorphism and animism of all sorts – and thus for socialism. If market coordination of individual activities, as well as other moral traditions and institutions, results from natural, spontaneous, and self-ordering processes of adaptation to a greater number of particular facts than any one mind can perceive or even conceive, it is evident that demands that these processes be just, or possess other moral attributes (see chapter seven), derive from a naive anthropomorphism. Such demands of course might be appropriately addressed to the directors of a process guided by rational control or to a god attentive to prayers, but are wholly inappropriate to the impersonal self-ordering process actually at work.

In an order so extended as to transcend the comprehension and possible guidance of any single mind, a unified will can indeed hardly determine the welfare of its several members in terms of some particular conception of justice, or according to an agreed scale. Nor is this due merely to the problems of anthropomorphism. It is also because 'welfare ... has no principle, neither for him who receives it, nor for him who distributes it (one places it here, another there); because it depends on the material content of the will, which is dependent on particular facts and therefore is incapable of a general rule' (Kant, 1798:II, 6, note 2). The insight that general rules must prevail for spontaneity to flourish, as reaped by Hume and Kant, has never been refuted, merely neglected or forgotten.

Although 'welfare has no principle' – and hence cannot generate spontaneous order – resistance to those rules of justice that made the extended order possible, and denunciation of them as anti-moral, stem from the belief that welfare *must* have a principle, and from refusal (and here is where anthropomorphism reenters the picture) to accept that the extended order arises out of a competitive process in which success decides, not approval of a great mind, a committee, or a god, or conformity with some understood principle of individual merit. In this order the advance of some is paid for by the failure of equally sincere and even meritorious endeavours of others. Reward is not for merit (e.g., obedience to moral rules, cf. Hayek 1960:94). For instance, we may fulfil the needs of others, regardless of their merit or the reason for our ability to fulfil them. As Kant saw, no common standard of merit can judge between different opportunities open to different individuals with

different information, different abilities, and different desires. This latter situation is indeed the usual one. Discoveries enabling some to prevail are mostly unintended or unforeseen – by those who prevail as well as by those who fail. The value of products resulting from necessary changes of individual activities will rarely seem just since they are made necessary by unforeseen events. Nor can the steps of a process of evolution towards what was previously unknown appear just in the sense of conforming to preconceptions of rightness and wrongness, of 'welfare', or of possibilities open in circumstances *previously* obtaining.

Understandable aversion to such morally blind results, results inseparable from any process of trial-and-error, leads men to want to achieve a contradiction in terms: namely, to wrest control of evolution – i.e., of the procedure of trial and error – and to shape it to their present wishes. But invented moralities resulting from this reaction give rise to irreconcilable claims that no system can satisfy and which thus remain the source of unceasing conflict. The fruitless attempt to *render a situation just* whose outcome, by its nature, cannot be determined by what anyone does or can know, only damages the functioning of the process itself.

Such demands for justice are simply inappropriate to a naturalistic evolutionary process – inappropriate not just to what has happened in the past, but to what is going on at present. For of course this evolutionary process is still at work. Civilisation is not only a product of evolution – it is a process; by establishing a framework of general rules and individual freedom it allows itself to continue to evolve. This evolution cannot be guided by and often will not produce what men demand. Men may find some previously unfulfilled wishes satisfied, but only at the price of disappointing many others. Though by moral conduct an individual may increase his opportunities, the resulting evolution will not gratify all his moral desires. *Evolution cannot be just.*

Indeed, to insist that all future change be just would be to demand that evolution come to a halt. Evolution leads us ahead precisely in bringing about much that we could not intend or foresee, let alone prejudice for its moral properties. One only need ask (particularly in light of the historical account given in chapters two and three) what would have been the effect if, at some earlier date, some magic force had been granted the power to enforce, say, some egalitarian or meritocratic creed. One soon recognises that such an event would have made the evolution of civilisation impossible. A Rawlsian world (Rawls, 1971) could thus never have become civilised: by repressing differentiation due to luck, it would have scotched most discoveries of new possibilities. In such a world we would be deprived of those signals that alone can tell each what, as a result of thousands of changes in the conditions in

which we live, we must now do in order to keep the stream of production flowing and, if possible, increasing.

Intellectuals may of course claim to have invented new and better 'social' morals that will accomplish just this, but these 'new' rules represent a recidivism to the morals of the primitive micro-order, and can hardly maintain the life and health of the billions supported by the macro-order.

It is easy to understand anthropomorphism, even though we must reject it for its mistakes. And this brings us back to the positive and sympathetic aspect of the standpoint of the intellectuals whose views we have contested. Man's inventiveness contributed so much to the formation of super-individual structures within which individuals found great opportunities that people came to imagine that they could deliberately design the whole as well as some of its parts, and that the mere existence of such extended structures shows that they can be deliberately designed. Although this is an error, it is a noble one, one that is, in Mises's words, 'grandiose . . . ambitious . . . magnificent . . . daring'.

*Unspecified Purposes: In the Extended Order Most Ends of Action Are Not Conscious or Deliberate*

There are a number of distinct points and questions, mostly elaborations of what has just been stated, that help make clearer how these matters work together.

First, there is the question of *how our knowledge really does arise*. Most knowledge – and I confess it took me some time to recognise this – is obtained not from immediate experience or observation, but in the continuous process of sifting a learnt tradition, which requires individual recognition and following of moral traditions that are not justifiable in terms of the canons of traditional theories of rationality. The tradition is the product of a process of selection from among irrational, or, rather, 'unjustified' beliefs which, without anyone's knowing or intending it, assisted the proliferation of those who followed them (with no necessary relationship to the reasons – as for example religious reasons – for which they were followed). The process of selection that shaped customs and morality could take account of more factual circumstances than individuals could perceive, and in consequence tradition is in some respects superior to, or 'wiser' than, human reason (see chapter one above). This decisive insight is one that only a *very* critical rationalist could recognise.

Second, and closely related to this, there is the question raised earlier of what, in the evolutionary selection of rules of conduct, is really decisive. The immediately perceived effects of actions that humans tend to concentrate on are fairly unimportant to this selection; rather, selection is made according to the consequences of the decisions guided by the rules of conduct in the long run – the same long run sneered at by Keynes (1971, *C.M.*:IV, 65). These consequences depend – as argued above and discussed again below – chiefly on rules of property and contract securing the personal domain of the individual. Hume had already noticed this, writing that these rules ‘are not derived from any utility or advantage which either the *particular* person or the public may reap from his enjoyment of any *particular* good’ (1739/1886:II, 273). Men did not foresee the benefits of rules before adopting them, though some people gradually have become aware of what they owe to the whole system.

Our earlier claim, that acquired traditions serve as ‘adaptations to the unknown’, must then be taken literally. Adaptation to the unknown is the key in all evolution, and the totality of events to which the modern market order constantly adapts itself is indeed unknown to anybody. The information that individuals or organisations can use to adapt to the unknown is necessarily partial, and is conveyed by signals (e.g., prices) through long chains of individuals, each person passing on in modified form a combination of streams of abstract market signals. Nonetheless, *the whole structure of activities tends to adapt, through these partial and fragmentary signals, to conditions foreseen by and known to no individual, even if this adaptation is never perfect. That is why this structure survives, and why those who use it also survive and prosper.*

There can be no deliberately planned substitutes for such a self-ordering process of adaptation to the unknown. Neither his reason nor his innate ‘natural goodness’ leads man this way, only the bitter necessity of submitting to rules he does not like in order to maintain himself against competing groups that had already begun to expand because they stumbled upon such rules earlier.

If we had deliberately built, or were consciously shaping, the structure of human action, we would merely have to ask individuals why they had interacted with any particular structure. Whereas, in fact, specialised students, even after generations of effort, find it exceedingly difficult to explain such matters, and cannot agree on what are the causes or what will be the effects of particular events. The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design.

To the naive mind that can conceive of order only as the product of

deliberate arrangement, it may seem absurd that in complex conditions order, and adaptation to the unknown, can be achieved more effectively by decentralising decisions, and that a division of authority will actually extend the possibility of overall order. Yet that decentralisation actually leads to more information being taken into account. This is the main reason for rejecting the requirements of constructivist rationalism. For the same reason, only the alterable division of the power of disposal over particular resources among many individuals actually able to decide on their use – a division obtained through individual freedom and several property – makes the fullest exploitation of dispersed knowledge possible.

Much of the particular information which any individual possesses can be used only to the extent to which he himself can use it in his own decisions. Nobody can communicate to another all that he knows, because much of the information he can make use of he himself will elicit only in the process of making plans for action. Such information will be evoked as he works upon the particular task he has undertaken in the conditions in which he finds himself, such as the relative scarcity of various materials to which he has access. Only thus can the individual find out what to look for, and what helps him to do this in the market is the responses others make to what they find in their own environments. The overall problem is not merely to make use of given knowledge, but to discover as much information as is worth searching for in prevailing conditions.

It is often objected that the institution of property is selfish in that it benefits only those who own some, and that it was indeed ‘invented’ by some persons who, having acquired some individual possessions, wished for their exclusive benefit to protect these from others. Such notions, which of course underlie Rousseau’s resentment, and his allegation that our ‘shackles’ have been imposed by selfish and exploitative interests, fail to take into account that the size of our overall product is so large only because we can, through market exchange of severally owned property, use widely dispersed knowledge of particular facts to allocate severally owned resources. The market is the only known method of providing information enabling individuals to judge comparative advantages of different uses of resources of which they have immediate knowledge and through whose use, whether they so intend or not, they serve the needs of distant unknown individuals. This dispersed knowledge is *essentially* dispersed, and cannot possibly be gathered together and conveyed to an authority charged with the task of deliberately creating order.

Thus the institution of several property is not selfish, nor was it, nor could it have been, ‘invented’ to impose the will of property-owners upon the rest. Rather, it is generally beneficial in that it transfers the

guidance of production from the hands of a few individuals who, whatever they may pretend, have limited knowledge, to a process, the extended order, that makes maximum use of the knowledge of all, thereby benefiting those who do not own property nearly as much as those who do.

Nor does freedom of all under the law require that *all* be able to own individual property but that *many* people do so. I myself should certainly prefer to be without property in a land in which many others own something, than to have to live where all property is 'collectively owned' and assigned by authority to particular uses.

But this argument too is challenged, even ridiculed, as the selfish excuse of privileged classes. Intellectuals, thinking in terms of limited causal processes they had learnt to interpret in areas such as physics, found it easy to persuade manual workers that selfish decisions of individual owners of capital – rather than the market process itself – made use of widely dispersed opportunities and constantly changing relevant facts. The whole process of calculating in terms of market prices was, indeed, sometimes even represented as part of a devious manoeuvre on the part of owners of capital to conceal how they exploited workers. But such retorts quite fail to address the arguments and facts already rehearsed: *some hypothetical body of objective facts is no more available to capitalists for manipulating the whole than it is to the managers that the socialists would like to replace them.* Such objective facts simply do not exist and are unavailable to anyone.

Third, there is a *difference between following rules of conduct, on the one hand, and knowledge about something, on the other* (a difference pointed to by various persons in various ways, for instance by Gilbert Ryle in his distinction between 'knowing how' and 'knowing that' (1945–46:1–16; 1949)). The habit of following rules of conduct is an ability utterly different from the knowledge that one's actions will have certain kinds of effects. This conduct ought to be seen for what it is, the skill to fit oneself into, or align oneself with, a pattern of whose very existence one may barely be aware and of whose ramifications one has scarcely any knowledge. Most people can, after all, recognise and adapt themselves to several different patterns of conduct without being able to explain or describe them. How one responds to perceived events would thus by no means necessarily be determined by knowledge of the effects of one's own actions, for we often do not and cannot have such knowledge. If we cannot have it, there is hardly anything rational about the demand that we *ought* to have it, and indeed we should be the poorer if what we did were guided solely by the limited knowledge that we do have of such effects.

A pre-formation of an order or pattern in a brain or mind is not only *not* a superior but an inferior method of securing an order. For it must always be a small part of the overall system in which some features of that larger system can reflect themselves. As little as it is possible for the human brain ever fully to explain itself (Hayek, 1952:8.66–8.86) is it possible for that brain to account for, or predict, the result of the interaction of a large number of human brains.

Fourth, there is the important point that *an order arising from the separate decisions of many individuals on the basis of different information cannot be determined by a common scale of the relative importance of different ends.* This brings us close to the issue of marginal utility, an important matter that we shall postpone discussing until chapter six. Here, however, it is appropriate to discuss in a general way the advantages of the differentiation that an extended order makes possible. Freedom involves freedom to be different – to have one's own ends in one's own domain; yet order everywhere, and not only in human affairs, also presupposes differentiation of its elements. Such differentiation might be confined merely to the local or temporal position of its elements, but an order would hardly be of any interest unless the differences were greater than this. Order is desirable not for keeping everything in place but for generating new powers that would otherwise not exist. The degree of orderliness – the new powers that order creates and confers – depends more on the variety of the elements than on their temporal or local position.

Illustrations are everywhere. Consider how genetic evolution favoured the unique extension of the infancy and childhood of humankind because that made possible extremely great diversity, and thereby a great acceleration of cultural evolution and a quickening of the increase of the species *homo*. Though biologically determined differences among individual men are probably smaller than those of some domesticated animals (especially dogs), this long learning period after birth allows individuals more time to adapt themselves to particular environments and to absorb the different streams of tradition into which they are born. The varieties of skills that make division of labour possible, and with it the extended order, are largely due to these different streams of tradition, encouraged by underlying dissimilarities in natural gifts and preferences. The whole of tradition is, moreover, so incomparably more complex than what any individual mind can command that it can be transmitted at all only if there are many different individuals to absorb different portions of it. The advantage of individual differentiation is all the greater in that it makes large groups more efficient.

Thus, differences among individuals increase the power of the collaborating group beyond the sum of individual efforts. Synergistic collaboration brings into play distinctive talents that would have been left unused had their possessors been forced to strive alone for sustenance. Specialisation releases and encourages the development of a few individuals whose distinctive contributions may suffice to provide them a living or even to exceed the contributions others make to the total. Civilisation is, in the famous phrase of Wilhelm von Humboldt which Stuart Mill placed on the title page of his essay *On Liberty*, based on 'human development in its richest diversity'.

The knowledge that plays probably the chief role in this differentiation - far from being the knowledge of any one human being, let alone that of a directing superbrain - arises in a process of experimental interaction of widely dispersed, different and even conflicting beliefs of millions of communicating individuals. The increasing intelligence shown by man is, accordingly, due not so much to increases in the several knowledge of individuals but to procedures for combining different and scattered information which, in turn, generate order and enhance productivity.

Thus the development of variety is an important part of cultural evolution, and a great part of an individual's value to others is due to his differences from them. The importance and value of order will grow with the variety of the elements, while greater order in turn enhances the value of variety, and thus the order of human cooperation becomes indefinitely extensible. If things were otherwise, if for example all men were alike and could not make themselves different from one another, there would be little point in division of labour (except perhaps among people in different localities), little advantage from coordinating efforts, and little prospect of creating order of any power or magnitude.

Thus individuals had to become different before they could be free to combine into complex structures of cooperation. Moreover, they had to combine into entities of a distinct character: not merely a sum but a structure in some manner analogous to, and in some important respects differing from, an organism.

Fifth, there is the question *whence then, in the presence of all these difficulties and objections, the demand to restrict one's action to the deliberate pursuit of known and observable beneficial ends arises*. It is in part a remnant of the instinctual, and cautious, micro-ethic of the small band, wherein jointly perceived purposes were directed to the visible needs of personally known comrades (i.e., solidarity and altruism). Earlier I claimed that, within an extended order, solidarity and altruism are possible only in a limited way within some sub-groups, and that to restrict the behaviour of the group at large to such action would work against coordinating the

efforts of its members. Once most of the productive activities of members of a cooperating group transcend the range of the individual's perception, the old impulse to follow inborn altruistic instincts actually hinders the formation of more extensive orders.

In the sense of inculcating conduct that benefits others, all systems of morality of course commend altruistic action; but the question is how to accomplish this. Good intentions will not suffice - we all know what road they pave. Guidance strictly by perceivable favourable effects on particular other persons is insufficient for, and even irreconcilable with, the extended order. The morals of the market do lead us to benefit others, not by our intending to do so, but by making us act in a manner which, nonetheless, will have just that effect. The extended order *circumvents* individual ignorance (and thus also adapts us to the unknown, as discussed above) in a way that good intentions alone cannot do - and thereby does make our efforts altruistic in their effects.

In an order taking advantage of the higher productivity of extensive division of labour, the individual can no longer know whose needs his efforts do or ought to serve, or what will be the effects of his actions on those unknown persons who do consume his products or products to which he has contributed. Directing his productive efforts altruistically thus becomes literally impossible for him. In so far as we can still call his motives altruistic in that they eventually redound to the benefit of others, they will do this not because he aims at or intends to serve the concrete needs of others, but because he observes abstract rules. Our 'altruism', in this new sense, is very different from instinctual altruism. No longer the end pursued but the rules observed make the action good or bad. Observing these rules, while bending most of our efforts towards earning a living, enables us to confer benefits beyond the range of our concrete knowledge (yet at the same time hardly prevents us from using whatever extra we earn also to gratify our instinctive longing to do visible good). All this is obscured by the systematic abuse of the term 'altruistic' by sociobiologists.

Another explanation for the demand that one's actions be restricted to the deliberate pursuit of known beneficial ends may also be mentioned. The demand arises not only from archaic and uninstructed instinct but also from a characteristic peculiar to those intellectuals who champion it - an entirely understandable characteristic which nonetheless remains self-defeating. Intellectuals are especially anxious to know for what ultimate purpose what they themselves call their 'brain children' will be used, and thus passionately concern themselves with the fate of their ideas, and hesitate much more to release thoughts from their control than do manual workers their material products. This reaction often makes such highly educated people reluctant to integrate



themselves into the exchange processes, processes that involve working for unperceivable ends in a situation where the only *identifiable* result of their efforts, if any, may indeed be someone else's profit. The manual worker readily assumes that it is indeed his employer's job to know, if anyone does, what needs that work of his hands will ultimately satisfy. But the place of individual intellectual work in the *product* of many intellectuals interacting in a chain of services or ideas will be less identifiable. That better educated people should be more reluctant to submit to some unintelligible direction – such as the market (despite their talk of the 'marketplace of ideas') – thus has the result (also unintended) that they tend to resist just what (without their understanding it) would increase their usefulness to their fellows.

This reluctance helps further to explain the hostility intellectuals bear towards the market order, and something of their susceptibility to socialism. Perhaps this hostility and susceptibility would diminish if such persons understood better the role that abstract and spontaneous ordering patterns play in all of life, as they no doubt would do if better informed of evolution, biology, and economics. But when confronted by information in these fields, they often are reluctant to listen, or even to consider conceding the existence of complex entities of whose working our minds can have only abstract knowledge. For mere abstract knowledge of the general structure of such entities is insufficient to enable us literally to 'build' them (that is, to put them together from known pieces), or to predict the particular form they will assume. At best, it can indicate under what general conditions many such orders or systems will form themselves, conditions that we may sometimes be able to create. This sort of problem is familiar to the chemist concerned with similarly complex phenomena but usually unfamiliar to the kind of scientist accustomed to explaining everything in terms of simple connections between a few observable events. The result is that such persons are tempted to interpret more complex structures animistically as the result of design, and to suspect some secret and dishonest manipulation – some conspiracy, as of a dominant 'class' – behind 'designs' whose designers are nowhere to be found. This in turn helps to reinforce their initial reluctance to relinquish control of their own products in a market order. For intellectuals generally, the feeling of being mere tools of concealed, even if impersonal, market forces appears almost as a personal humiliation.

It evidently has not occurred to them that the capitalists who are suspected of directing it all are actually also tools of an impersonal process, just as unaware of the ultimate effects and purpose of their actions, but merely concerned with a higher level, and therefore a wider range, of events in the whole structure. Moreover, the idea that the

question whether their own ends are satisfied should depend on the activities of *such men* – men concerned solely with means – is itself an abomination to them.

#### *The Ordering of the Unknown*

The English language unfortunately lacks a popular word available in German: namely, *Machtbarkeit*. I sometimes wonder whether a good cause might not be served by coining an equivalent English term 'makeability' – 'manufacturability' does not quite do (and my own 'constructivism' could hardly be rendered by 'constructible') – to describe the view that we have confronted, examined and contested throughout this chapter and the last: namely, that anything produced by evolution could have been done better by the use of human ingenuity.

This view is untenable. For in fact we are able to bring about an ordering of the unknown *only by causing it to order itself*. In dealing with our physical surroundings we sometimes can indeed achieve our ends by relying on the self-ordering forces of nature, but not by deliberately trying to arrange elements in the order that we wish them to assume. This is for example what we do when we initiate processes that produce crystals or new chemical substances (see previous section and also Appendix C). In chemistry, and even more in biology, we must use self-ordering processes in an increasing measure; we can create the conditions under which they will operate, but we cannot determine what will happen to any particular element. Most synthetic chemical compounds are not 'constructible' in the sense that we can create them by placing the individual elements composing them in the appropriate places. All we can do is to induce their formation.

A similar procedure must be followed to initiate processes that will coordinate individual actions transcending our observation. In order to induce the self-formation of certain abstract structures of inter-personal relations, we need to secure the assistance of some very general conditions, and then allow each individual element to find its own place within the larger order. The most we can do to assist the process is to admit only such elements as obey the required rules. This limitation of our powers necessarily grows with the complexity of the structure that we wish to bring into being.

An individual who finds himself at some point in an extended order where only his immediate environment is known to him can apply this advice to his own situation. He may need to start by trying continuously to probe beyond the limits of what he can see, in order to establish and maintain the communication that creates and sustains the overall order.

Indeed, maintaining communication within the order requires that dispersed information be utilised by many different individuals, unknown to one another, in a way that allows the different knowledge of millions to form an exosomatic or material pattern. Every individual becomes a link in many chains of transmission through which he receives signals enabling him to adapt his plans to circumstances he does not know. The overall order thus becomes infinitely expandable, spontaneously supplying information about an increasing range of means without exclusively serving particular ends.

Earlier, we considered some important aspects of such processes of communication, including the market with its necessary and continual variation of prices. Here it need only be added and stressed that, beyond regulating current production of commodities and supplies of services, the same traditions and practices also provide for the future; their effects will manifest themselves not only as an interlocal order, but also as an intertemporal one. Actions will be adapted not only to others distant in space but also to events beyond the life expectancies of acting individuals. Only a confessed immoralist could indeed defend measures of policy on the grounds that 'in the long run we are all dead'. For the only groups to have spread and developed are those among whom it became customary to try to provide for children and later descendants whom one might never see.

Some persons are so troubled by some effects of the market order that they overlook how unlikely and even wonderful it is to find such an order prevailing in the greater part of the modern world, a world in which we find thousands of millions of people working in a constantly changing environment, providing means of subsistence for others who are mostly unknown to them, and at the same time finding satisfied their own expectations that they themselves will receive goods and services produced by equally unknown people. Even in the worst of times something like nine out of ten of them will find these expectations confirmed.

Such an order, although far from perfect and often inefficient, can extend farther than any order men could create by deliberately putting countless elements into selected 'appropriate' places. Most defects and inefficiencies of such spontaneous orders result from attempting to interfere with or to prevent their mechanisms from operating, or to improve the details of their results. Such attempts to intervene in spontaneous order rarely result in anything closely corresponding to men's wishes, since these orders are determined by more particular facts than any such intervening agency can know. Yet, while deliberate

intervention to, say, flatten out inequalities in the interest of a random member of the order risks damaging the working of the whole; the self-ordering process will secure for any random member of such a group a better chance over a wider range of opportunities available to all than any rival system could offer.

#### *How What Cannot Be Known Cannot Be Planned*

Where has the discussion of our last two chapters brought us? The doubts Rousseau cast on the institution of several property became the foundation of socialism and have continued to influence some of the greatest thinkers of our century. Even as great a figure as Bertrand Russell defined liberty as the 'absence of obstacles to the realisation of our desires' (1940:251). At least before the obvious economic failure of Eastern European socialism, it was widely thought by such rationalists that a centrally planned economy would deliver not only 'social justice' (see chapter seven below), but also a more efficient use of economic resources. This notion appears eminently sensible at first glance. But it proves to overlook the facts just reviewed: that the totality of resources that one could employ in such a plan is *simply not knowable to anybody*, and therefore can hardly be centrally controlled.

Nonetheless, socialists continue to fail to face the obstacles in the way of fitting separate individual decisions into a common pattern conceived as a 'plan'. The conflict between our instincts, which, since Rousseau, have become identified with 'morality', and the moral traditions that have survived cultural evolution and serve to restrain these instincts, is embodied in the separation now often drawn between certain sorts of ethical and political philosophy on the one hand and economics on the other. The point is not that whatever economists determine to be efficient is therefore 'right', but that economic analysis can elucidate the usefulness of practices heretofore thought to be right – usefulness from the perspective of any philosophy that looks unfavourably on the human suffering and death that would follow the collapse of our civilisation. It is a betrayal of concern for others, then, to theorise about the 'just society' without carefully considering the economic consequences of implementing such views. Yet, after seventy years of experience with socialism, it is safe to say that most intellectuals outside the areas – Eastern Europe and the Third World – where socialism has been tried remain content to brush aside what lessons might lie in economics, unwilling to wonder whether there might not be a *reason* why socialism, as often as it is attempted, never seems to work out as its intellectual leaders *intended*. The intellectuals' vain search for a truly socialist community, which results in the idealisation of, and then disillusion-

ment with, a seemingly endless string of 'utopias' – the Soviet Union, then Cuba, China, Yugoslavia, Vietnam, Tanzania, Nicaragua – should suggest that there might be something about socialism that does not conform to certain facts. But such facts, first explained by economists more than a century ago, remain unexamined by those who pride themselves on their rationalistic rejection of the notion that there could be any facts that transcend historical context or present an insurmountable barrier to human desires.

Meanwhile, among those who, in the tradition of Mandeville, Hume, and Smith, did study economics, there gradually emerged not only an understanding of market processes, but a powerful critique of the possibility of substituting socialism for them. The advantages of these market procedures were so contrary to expectation that they could be explained only retrospectively, through analysing this spontaneous formation itself. When this was done, it was found that decentralised control over resources, control through several property, leads to the generation and use of more information than is possible under central direction. Order and control extending beyond the immediate purview of any central authority could be attained by central direction only if, contrary to fact, those local managers who could gauge visible and potential resources were *also* currently informed of the constantly changing relative importance of such resources, and could then communicate full and accurate details about this to some central planning authority in time for it to tell them what to do in the light of all the other, different, concrete information it had received from other regional or local managers – who of course, in turn, found themselves in similar difficulties in obtaining and delivering any such information.

Once we realise what the task of such a central planning authority would be, it becomes clear that the commands it would have to issue could not be derived from the information the local managers had recognised as important, but could only be determined through direct dealings among individuals or groups controlling clearly delimited aggregates of means. The hypothetical assumption, customarily employed in theoretical descriptions of the market process (descriptions made by people who usually have no intention of supporting socialism), to the effect that all such facts (or 'parameters') can be assumed to be known to the explaining theorist, obscures all this, and consequently produces the curious deceptions that help to sustain various forms of socialist thinking.

The order of the extended economy is, and can be, formed only by a wholly different process – from an evolved method of communication that makes it possible to transmit, not an infinite multiplicity of reports about particular facts, but merely certain abstract properties of several particular conditions, such as competitive prices, which must be

brought into mutual correspondence to achieve overall order. These communicate the different rates of substitution or equivalence that the several parties involved find prevailing between the various goods and services whose use they command. Certain quantities of any such objects may prove to be equivalents or possible substitutes for one another, either for satisfying particular human needs or for producing, directly or indirectly, means to satisfy them. Surprising as it may be that such a process exists at all, let alone that it came into being through evolutionary selection without being deliberately designed, I know of no efforts to refute this contention or discredit the process itself – unless one so regards simple declarations that all such facts can, somehow, be known to some central planning authority. (See also, in this connection, the discussion of economic calculation, in Babbage (1832), Gossen (1854/1889/1927), Pierson (1902/1912), Mises (1922/81), Hayek (1935), Rutland (1985), Roberts (1971).)

Indeed the whole idea of 'central control' is confused. There is not, and never could be, a single directing mind at work; there will always be some council or committee charged with designing a plan of action for some enterprise. Though individual members may occasionally, to convince the others, quote particular pieces of information that have influenced their views, the conclusions of the body will generally not be based on common knowledge but on agreement among several views based on different information. Each bit of knowledge contributed by one person will tend to lead some other to recall yet other facts of whose relevance he has become aware only by his being told of yet other circumstances of which he did not know. Such a process thus remains one of making use of dispersed knowledge (and thus simulates trading, although in a highly inefficient way – a way usually lacking competition and diminished in accountability), rather than unifying the knowledge of a number of persons. The members of the group will be able to communicate to one another few of their distinct reasons; they will communicate chiefly conclusions drawn from their respective individual knowledge of the problem in hand. Moreover, only rarely will circumstances really be the same for different persons contemplating the same situation – at least in so far as this concerns some sector of the extended order and not merely a more or less self-contained group.

Perhaps the best illustration of the impossibility of deliberate 'rational' allocation of resources in an extended economic order without the guidance by prices formed in competitive markets is the problem of allocating the current supply of liquid capital among all the different uses whereby it could increase the final product. The problem is essentially how much of the currently accruing productive resources can be spared to provide for the more distant future as against present needs. Adam Smith was aware of the representative character of this

issue when, referring to the problem faced by an individual owner of such capital, he wrote: 'What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him' (1776/1976).

If we consider the problem of the use of all means available for investment in an extended economic system under a single directing authority, the first difficulty is that no such determinate aggregate quantity of capital available for current use can be known to anyone, although of course this quantity is limited in the sense that the effect of investing either more or less than it must lead to discrepancies between the demand for various kinds of goods and services. Such discrepancies will not be self-correcting but will manifest themselves through some of the instructions given by the directing authority proving to be impossible of execution, either because some of the goods required will not be there or because some materials or instruments provided cannot be used due to the lack of required complementary means (tools, materials, or labour). None of the magnitudes that would have to be taken into account could be ascertained by inspecting or measuring any 'given' objects, but all will depend on possibilities among which other persons will have to choose in the light of knowledge that they possess at the time. An approximate solution of this task will become possible only by the interplay of those who can ascertain particular circumstances which the conditions of the moment show, through their effects on market prices, to be relevant. The 'quantity of capital' available then proves, for example, what happens when the share of current resources used to provide for needs in the more distant future is greater than what people are prepared to spare from current consumption in order to increase provision for that future, i.e., their willingness to save.

Comprehending the role played by the transmission of information (or of factual knowledge) opens the door to understanding the extended order. Yet these issues are highly abstract, and are particularly hard to grasp for those schooled in the mechanistic, scientific, constructivist canons of rationality that dominate our educational systems — and who consequently tend to be ignorant of biology, economics, and evolution. I confess that it took me too a long time from my first breakthrough, in my essay on 'Economics and Knowledge' (1936/48), through the recognition of 'Competition as a Discovery Procedure' (1978:179–190), and my essay on 'The Preience of Knowledge' (1978:23–34), to state my theory of the dispersal of information, from which follows my conclusions about the superiority of spontaneous formations to central direction.

## THE MYSTERIOUS WORLD OF TRADE AND MONEY

### *Disdain for the Commercial*

Not all antipathy to the market order arises from questions of epistemology, methodology, rationality and science. There is a further, darker, dislike. To understand it, we must step behind these relatively rational areas to something more archaic and even arcane: to attitudes and emotions that arise especially powerfully when commercial activity, trade and financial institutions are discussed by socialists — or encountered by primitives.

As we have seen, trade and commerce often depend importantly on confidentiality, as well as on specialised or individual knowledge; and this is even more so of financial institutions. In commercial activities, for example, more is at risk than one's own time and effort, and special information enables individuals to judge their chances, their competitive edge, in particular ventures. Knowledge of special circumstances is only worth striving for if its possession confers some advantage compensating for the cost of acquiring it. If every trader had to make public how and where to obtain better or cheaper wares, so that all his competitors could at once imitate him, it would hardly be worth his while to engage in the process at all — and the benefits accruing from trade would never arise. Moreover, so much knowledge of particular circumstances is unarticulated, and hardly even articulable (for example, an entrepreneur's hunch that a new product might be successful) that it would prove impossible to make it 'public' quite apart from considerations of motivation.

Of course action in accordance with what is not perceived by all and fully specified in advance — what Ernst Mach called the 'observable and tangible' — violates the rationalist requirements discussed earlier. Moreover, what is intangible is also often an object of distrust and even fear. (It may be mentioned in passing that not only socialists fear (if for somewhat different reasons) the circumstances and conditions of trade. Bernard Mandeville 'shuddered' when confronted by 'the most frightful prospect [which] is left behind when we reflect on the toil and hazard that are undergone abroad, the vast seas we are to go over, the different