

Notes on Hayek's Epistemic Basis for Political Competition

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Abstract: In this work I read Hayek's writings on epistemology as a basis for a theory of political competition. I first address his views on the object and method of the social studies and on the consideration of human knowledge as related to that object. I then proceed to comment on the relation that competitive processes theoretically bear to those epistemic bases. In section two I analyze Hayek's idea of democracy as a competitive process of forming opinion and I put forward one institutional implication that derives from it, namely, the need to enhance the competitive elements in government by adopting competing devices in decision-making instances.

Section I. Hayek on Epistemology

I.1. Social sciences and human cognition

Social studies aim at explaining the nature and results of human interaction in society as displayed in a multiplicity of aspects such as economic exchange or political activities. As in any other field of study, social theories provide a conjectural link between data (individual actions guided by ideas and beliefs) and outcomes or results (institutional and non-institutional). In Hayek's words, "All we can require of theories is that, after an input of relevant data, conclusions can be derived from them that can be checked against reality" (1968/2002). More specifically, for him social theories deal with explanations of the structure or patterns of social relations, which are built upon epistemic and philosophical data. In other words, theories deal with hypothesis about social relations that are based, among other things, upon certain permanent features of human knowledge and upon the pursuit of individual objectives. Whether it is stated explicitly or tacitly, all theories assume some epistemic claim and derive from it some philosophical insight, which in turn manifest in the specific institutional design that some of those theories propose or describe.

I will try to interpret and summarize what I think constitutes the core of Hayek's theory on the relation between the nature of human knowledge and the social order. Hayek takes the former as "datum" or "fact", as the first element to incorporate in the study of social orders. For him, the facts in social sciences are the individual opinions as reflected in actions and words, opinions which are based on dispersed, incomplete and inconsistent knowledge: "the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess" (1945/80).

The imperfection of individual knowledge is shown by our "inevitable ignorance" of many particular factors needed to achieve our ends and welfare (1960/78:29).¹ Hayek states that the philosophical basis of individualism is not selfishness but our limited

¹ See also (1952/79:73) where he compares the object of the natural and social sciences and writes that the number of variables in social phenomena is too large for any human mind to manipulate. He restates the idea of basic ignorance in (1960/78:22) where he endorses the Socratic maxim of the recognition of ignorance as the beginning of wisdom.

"powers of imagination" to take into account the dispersed, different and inconsistent individual values (1944/94:66). The fragmentation and limitation of personal knowledge requires institutions and rules by which individuals may successfully cooperate in their task of applying knowledge to the achievement of ends (1973/83:13-14). Hayek put it clearly when he wrote that "all institutions of freedom are adaptations to this fundamental fact of ignorance" (1960/78:30).

In the realm of economics, Hayek explains the relation between institutions and knowledge when indicating that the market organization or the system of economic competition "induces the emergence of what we shall want when we see it" and it then allows us to select alternative ways of action subject to trial and error (1960/78:29,37). By providing a wider range of options of production and consumption, markets allow us to acquire knowledge about our objectives and the means to achieve them.

Furthermore, the choice of courses of action by the individual is guided by the knowledge of particular conditions related to that choice, and by the possibility of pursuing the selected actions without third-party interference. For this latter reason, prior to action the individual needs to know "how far he will be protected against interference from others, or whether the state is in a position to frustrate individual efforts" (1944/94:89). Hence the importance of the Rule of law, of the principles laid down in advance as "rules of the game" (1944/94:92) meant to facilitate knowledge and foresight.

When the institutions of freedom successfully accomplish their task, we are in the presence of "civilization" (to use Hayek's term, which he preferred to "progress" since it conveys a non-teleological connotation). For him, civilization as the adoption of successful institutions and practices is an evolutionary process (1960/78:29; 1973/83:23) in which the intergenerational efforts of human beings allow them to discover how to put the spatially-temporally-dispersed knowledge at the service of the pursuits of their ends.

It is important to emphasize that for Hayek the evolutionary adaptation is preeminently a process of learning about what went wrong (1960/78:41): "All that we know is that the ultimate decision about what is good or bad will be made not by individual human wisdom but by the decline of groups that have adhered to the 'wrong' beliefs." (1960/78:36) In the human strife for survival, past errors teach us to avoid following certain paths, and invite us to look for alternative courses of action. It is here where the social scientist can provide a helpful contribution, by constructing "hypothetical models of possible worlds which might exist if some of the *alterable* conditions were made different" (1973/83:17, my italics). The implication is that scientists must also take into account what is *inalterable*, namely, the fact of imperfect knowledge, lest they incur in the rationalist pretence of assuming that they can change this fact.

I take it that Hayek's warning against the rationalist pretence is the hallmark of his epistemic claims. As he remarked upon receiving the Nobel Prize in 1974, his claim is directed not only to scientists, but to those engaged in improving the social order: "To act on the belief that we possess the knowledge and the power which enable us to shape the processes of society entirely to our liking, knowledge which in fact we do not possess, is likely to make us do much harm... If man is not to do more harm than good in his efforts to improve the social order, he will have to learn that in this, as in all other fields where essential complexity of an organized kind prevails, he cannot acquire the full knowledge which would make mastery of the events possible. He will therefore have to use what knowledge he can achieve, not to shape the results as the craftsman shapes his

handiwork, but rather to cultivate a growth by providing the appropriate environment, in the manner in which the gardener does this for his plants." (1974/1992)

The application of knowledge is as serious a problem as the recognition of its imperfection. In describing the aspects of formal modern education as a mechanism for the transmission of knowledge, Hayek distinguished between two types of minds, one moved by the ambition to control all variables, the other interested in the integral growth of the human mind (1952/79:181). His professional career pivoted around the task of falsifying the propositions of the first type and advancing the views of the second. As continuers of Hayek's intellectual tradition, I will posit that social theorists concerned about freedom should continue to explore new hypothesis about how to check the ambition to know and control all variables of the social order. I will next elaborate on the notion of political competition as a mechanism that may contribute better than other political mechanisms to check the political ambition to do so.

I.2. Political Competition and Knowledge

I have stated so far that for Hayek a competitive economic system allows for a better use of dispersed knowledge to serve people's ends. But could we affirm the same about political competition? In which ways can it provide for dispersed knowledge to be used as a check for political ambition to know and control all variables?

In order to answer this question I will first have to compare political competition with economic competition. I understand by political competition a democracy where political agents (all individuals acting in the realm of politics) may compete periodically for the free vote of the people so as to be elected to office and/or see their policy proposals adopted. I understand by economic competition is the market system which allows for voluntary individual exchanges. Needless to say, both democracy and markets require the legal protection of individual rights and of institutional procedures to function properly.

Hayek's epistemic views offer original insights for the analogy between the market and democracy. First, in regard to the problem of fragmented knowledge, he says it is "by no means peculiar to economics but arises in connection with nearly all truly social phenomena, with language and with most of our cultural inheritance, and constitutes really the central theoretical problem of all social science" (1945/80). This problem is how to best coordinate fragmented knowledge; the answer is by means of competition. The coordination of the actions of individuals by means of competitive systems is based on a variety of channels of verbal and non-verbal communication. Among the latter, in a market system prices make possible "that combination of decentralization of decisions and mutual adjustment of these decisions which we find in a competitive system" (1952/79:177). Among the former, democracy entails the freedom of expression that makes possible the emergence of new opinions, which can challenge prevailing opinions (1960/78:209).

Secondly, in regard to the functioning of competitive institutions, Hayek acknowledges the crucial role of entrepreneurs to search and discover "unexploited opportunities that can also be taken advantage of by others." (1968/2002). In the same way that economic entrepreneurs look for their competitors' omissions in order to obtain a profit and benefit consumers, political entrepreneurs look for governmental omissions and errors in order to access power or influence policy-making (Wohlgemuth, 2001:262-263). The extent to which both types of entrepreneurs pursue innovative and knowledge-enhancing projects is in great part dependant on the degree of openness or competition of the system in which they move. This means that in a very

competitive system more "imaginative effort" is required from entrepreneurs (so that they outdo their competitors), while providing consumers and voters with more options and with the need to acquire information about those options.²

Last but not less important, in regard to the method applied to the evaluation of social institutions, Hayek writes that "...it is unfair to judge the performance of the market in a certain sense "from the top down," namely by comparing it with an ideal standard that we are unable to attain in any known way". Instead, for him we ought to "judge the market's performance "from the bottom up" (which seems to be the only permissible way), i.e., by comparison with what we could attain by means of any other method available to us, and in particular by comparison with what would be produced if competition were prevented..." (1968/2002).³ In the political realm, I would like to rephrase the last sentence to suggest yet another way of evaluating social institutions, *by comparison with what would be produced if competition were enhanced*. In this light, any given market and democratic device should be compared with potentially more competitive alternative devices. The crucial task becomes then how much more competitive can markets and democracy be in order to better fulfil their roles. I will address this issue as related to politics later on.

Before moving to the next section, three caveats are in order in regard to important differences between markets and democracy that we cannot overlook. I shall mention three market features identified by Hayek that are not found in a democracy:

- markets operate upon innumerable individual decisions without the need for any official authority issuing directives on what those decisions should be,
- markets serve "the particular objectives of all its participants in all their diversity and polarity" (1968/2002),
- for the market system to work individuals need only interpret the signals of prices, thus using a minimum of resources in looking up for information.

In contrast, democracy deals with processes such as deliberation and voting about coercive decisions issued by a single governmental authority. Also, political decisions are meant to serve the *common* objectives of the individuals, as defined by a certain number of political agents. Last, contrary to market participants who need only know about prices to be able to act efficiently, political participants need to know "which policies will promote their preferences and how candidates stand in relation to them" (Somin 1998:440). Political issues are thus more complex, though the relevant question seems to be not how knowledgeable voters are of that complexity, but in which system their [scant] knowledge will be put to its best use.

The existence of an official authority, the definition of common objectives by only some of the individuals affected by those decisions and the epistemic complexity tied to democracy pose serious challenges to those social theorists concerned with the protection of freedom against the ambition to control the social order. The separation of powers, federalism and decentralization have been traditional institutional recipes to

² It is not the place here to assess or compare the cognitive capacities of consumers and voters; we will assume that in an evolutionary context they develop methods to detect which competitors possess more credible credentials to provide what they want. Of course that people may fail to choose the right provider, but then again this is part of the process of trial and error that Hayek was so keen to defend.

³ Demuth (2004) emphasizes the advantages of looking at "the production side of competitive arrangements" not because of the increase in the alternatives supplied but for the "tendency to regulate conflict, to strengthen and discipline institutions, and to channel human ambition so as to promote the public good."

cope with those challenges. All of them share a common feature: competition of functions, of jurisdictions and of decision-making processes. I will next elaborate on other institutional implications of these ideas as derived from Hayek's epistemic basis.

II. Some Institutional Implications of Political Competition

Hayek's early contribution to the theory of political competition –one drawn from his epistemic theory- was to emphasize that *democracy is a process of competition of ideas* about what should be done and achieved by means of political arrangements. Among the three arguments that in his view justify democracy - that it allows for peaceful social change, it can be a safeguard of individual liberty and that it is a process of forming opinion (1960/78:107-109)- the latter is for him the more important.

In my view, the fact that behind competing ideas we may find competing self-serving interests or competing public-spirited projects does not refute the assertion that what we end up doing in democracy is publicly deliberating and voting about opinions or ideas to justify the diverse and often conflictive individual motives. The competition of ideas should not be necessarily read as the clash of ideas, since competition within a legal framework is mainly about merging efforts, seeking agreement and promoting cooperation. To the contrary, absent an agreement about the rules for competition, or in the presence of a recurrent infringement of those rules, the process of competition turns into anarchy.⁴ In this context, opinions yield to force and competition to legal privileges.

In Hayek's view, in the workings of modern democracies politicians have moved away from the original idea of democracy as the representation of the opinion of the majority towards a system based in the prevalence of special interests. His diagnosis is categorical: "A majority of the representative of the people based on bargaining over group demands can never represent the opinion of the majority of the people (...) The democracy we know [prey of special interests] is in conflict with the ideal that the opinion of the majority should rule; it means the oppression of the people and it is in conflict with the constitutional limitation of governmental power and irreconcilable with the ideal of a society of free men." (1979:134-135).

Tracing the possible causes of this phenomenon, Hayek focuses on the inherently defective design of a single omni-competent legislature and develops a model constitution as a proposal for political reform, in which the legislative body is split into two assemblies so as to restrain the current legislative capacity that has overextended its own powers. I will not address here more competitive elements in the structure of government. Drawing from Hayek's position, I highlight the idea of inserting additional institutional devices to acknowledge the fact of dispersed information and the need to coordinate it in order to avoid social control by any single body (governmental or not).

It follows from Hayek's understanding of democracy as a process of forming opinion that, the larger the number of people participating in the process, the greater the possibility of benefiting from the dispersion of knowledge, and, in particular, the greater

⁴ In this sense, competition within rules must be differentiated from the Hobbesian or predatory competition. See Buchanan (1975/2000:16,29,66) for an analysis of the Hobbesian anarchy, which, interestingly, may arise from the absence of government or the abuse of its powers as well.

the possibility for the emergence of different, alternative views to oppose the prevailing views. Hence the need to move towards a democracy in which all political agents has more opportunities and incentives to give their opinion and to make them effective (Wohlgemuth 2001).

Taking this premise further, ample participation of the many ought not to be limited to the sphere of opinion but should be incorporated in an institutional design with mechanisms that allow for these competing opinions to become competing votes in decision-making instances. Along this line, suggestions have been made to adopt direct democracy devices together with competing jurisdictions in order to enhance political competition so that citizens can contribute with the political agenda and increase the existing political options, respectively (Wohlgemuth 2001: 286, Buchanan 2000).⁵

I will conclude then by positing that the insertion of direct democracy devices in current democracies is a logical extension of the theory of political competition, both because of its epistemic-enhancing capacity and its operative contribution to the objective of checking the political ambition to know and control all social variables.

⁵ Hayek himself admits that, at least for the purpose of restraining government, "judicial review requires as its complement the normal use of something like a referendum", (1960/78:192).

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