

The Foundations of Political Disarray: Lessons from Professor Hayek

by Richard B. McKenzie

The late Friedrich Hayek, who spent his career explaining why centrally directed economies are bound to fail, started one of his philosophical essays with a profound Socratic maxim, “[T]he recognition of our ignorance is the beginning of wisdom.”¹ The wisdom in those words was a cornerstone of Professor Hayek’s classic work, *The Road to Serfdom*, which, perhaps more than any other volume, explains the collapse of Communism.² In 1994, we celebrated the fiftieth anniversary of that book’s publication.

As Professor Hayek elaborated, civilization as we know it is founded on the use of much more knowledge than any one individual is aware of, or even can be aware of. Most of what is done in civilized society requires the employment of far more knowledge than any single person could possibly absorb. The trick (and marvel) of civilized order has been the coordination of the use of total societal knowledge without any one person knowing all there is to know, which means without centralized direction.

Centralized direction of the economy in-

variably means reliance on the limited knowledge of those who give the directions. “If we are to understand how society works,” the good professor added, “we must attempt to define the general nature and range of our ignorance concerning it. Though we cannot see in the dark, we must be able to trace the limits of the dark area” (of what we don’t and cannot know).³ The limits are defined by our considerable but restricted intelligence.

The content of the “dark area” is what the multitude of other people will do with their knowledge and how we and they will react to one another in a succession of evolving rounds of adjustments to our plans, given what we learn as we proceed into the future. If we could somehow know how all of the adjustments would play out, it is unlikely that the future would be nearly as complex or prosperous as it would otherwise be, simply because the future would then be what we, with our limited knowledge, could absorb and deduce, which, in the cosmic scope of things, isn’t very much.

Politics and the “Usual Approach”

Instead of acknowledging the vastness of the “dark area,” which can only be known

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F. A. Hayek, circa 1945

as people freely interact, too many modern political leaders—the president and past presidents included—start with a radically different premise. They presume that, with enough hard work and a sufficient number of very bright colleagues, they can impose their acquired wisdom on the rest of the country to marvelous effect. They do not understand that it is their own “constitutional ignorance” (to use another of Hayek’s epigrams) that forms the foundation of political disarray.

We have been cursed with the types of leaders Hayek had in mind when he wrote in the 1950s about the misleading consequences of the “usual approach,” which stresses how much people *do* in fact know, not the far greater amount of what they *don’t* know. The “usual approach” often leads, mistakenly, to the conclusion that the fundamental institutions of society were deliberately created and can, therefore, be deliberately changed productively by administrative pronouncements. The problem is that most institutions became what they are—more complex and sophisticated—as people were able to tap into the knowledge

held by more and more other people and reacted to one another in a multitude of unpredictable ways.

Activist politicians who reveal their political predispositions acknowledge that government has worked poorly in the past for the relief of social ills. Their solution: extend the reach of government in virtually all directions, into the management of industrial (technology) policy, the control and direction of cyberspace and the electronic superhighway, and the administration of international trade at the industry level. At the same time, they intend to give detailed direction on the “educational” content of children’s television programs, as well as reform of the dreary performance of the nation’s school system, from the bureaucracies of Washington.

These programs are only a sample of the thousand and one things politicians and bureaucrats want to accomplish by taxing the nonpoor and imposing extensive regulations on employers. They don’t seem to realize that their proposed guidance will not be imposed on a system that is already without direction. Their directives will simply replace—because of the taxes and mandates involved—the innumerable directives given by others.

More pointedly, recent leaders and their henchmen have rightfully and astutely surmised that the new world economic order is a highly sophisticated, complex, messy place that will not be safe for those workers who refuse to continually reinvent their human skills. They have, however, taken it upon themselves to be responsible (in words at least) for the skills of all quarter billion Americans. The current president has repeatedly claimed that what will distinguish his administration from its predecessors is that he will go to bed each night worrying about solutions for the employment problems of *all* Americans. Now, understandably, he wants to take credit for every job created in the country (all five million of them) since he took office. On his June 1994 trip to Europe, he extended his policy sights, proposing to set aside tens of millions of taxpayer dollars to make American tax-

payers the engine for job creation in Eastern Europe, most notably Poland.

“The More Men Know . . .”

Such policy claims and proposals should be recognized for what they are, pure political balderdash, given that our sophisticated, complex, and messy world imposes strict limits on what any administration can do to good effect. As Professor Hayek notes, “The more men know, the smaller the share of all that knowledge becomes that any one mind can absorb. The more civilized we become, the more relatively ignorant must each individual be of the facts on which the workings of civilization depends. The very division of knowledge increases the necessary ignorance of the individual of most of this knowledge.”⁴

A number of years ago, the late Leonard Read, founder and president of the Foundation for Economic Education, wrote “I, Pencil,” an article in which he observed that, ironically, no one on earth knows how to make a product as simple as a pencil.⁵ No one knows enough—and cannot know enough—to make all the components of a pencil (or make all the components that go into the equipment required to produce a pencil). Yet, pencils are made by the tens of millions, if not billions, annually.

Just think if Mr. Read were to rewrite his article today using an ordinary computer as his example. His central point would have double the force, especially now that computer components are made in various places around the globe. Computers, as well as a host of other products, are made nowhere; then again, they are made everywhere.

Nevertheless, the politics of good intentions persists, aiming to end welfare as it has been known, to orchestrate a foreign policy that will cover the globe, to win the endless war against drugs, to save the environment, and to revitalize the nation’s metropolitan police forces. And, last but hardly least, to mount a hostile takeover of the nation’s health-care system, another one-seventh of the national economy.

Simply stated, it is humanly impossible for any mortal—even the brightest leader with the best of intentions and clearest of visions—to know how to accomplish what he has set as his agenda. There are not enough hours in the day for one individual to learn even the rudiments of what he needs to know to press for a more centralized course for the national economy without serious, possibly debilitating, errors in policies.

[T]he knowledge which any individual mind consciously manipulates is only a small part of the knowledge which at any one time contributes to the success of his actions. When we reflect on how much knowledge possessed by other people is an essential condition for the successful pursuit of our individual aims, the magnitude of our ignorance of the circumstances on which the results of our action depend appears simply staggering. Knowledge exists only as the knowledge of individuals. It is not much more than a metaphor to speak of knowledge of society as a whole. *The sum of knowledge of all the individuals exists nowhere as an integrated whole.* The great problem is how we can profit from this knowledge, which exists only dispersed as the separate, partial, and sometimes conflicting beliefs of all men [emphasis added].⁶

Those fundamental points are applicable to all mortals, independent of the shapes of their offices. So it is that we see the executive branch thrashing about in virtual administrative chaos, flitting from one policy agenda to the next, setting and then reversing one foreign policy strategy (and miscue) after another, and always covering its efforts in the rhetoric of what Hayek eloquently tagged as the “pretense of knowledge” about what Americans need and want.

Individual Differences

We have been led to believe that any new expansive government agenda should be imposed on the American people with precious little conflict, supposedly because

people will all seek their common purpose. However, as much as leaders would like to simplify their planning and management problem, and assume that people want and need the same thing (supposedly, what is decided by the political process in Washington), people are different! They have different tastes and needs and are willing to make different tradeoffs, facts that are beyond the purview of the people in power. When so much is at stake—when government becomes deeply involved in the division of the income (or health-care) pie—we should not be at all surprised that Washington begins to look and feel like, to use economist Dwight Lee's turn of words, "malice in plunderland."⁷

When the president sounds off about needed reforms in the nation's health-care industry (or any other industry), I always wonder just how much he really knows—even can know—about what my daughter, who lives in Six Mile, really wants in the way of health care. I suspect that he does not know where Six Mile is, much less the details of the circumstances under which she lives. He certainly knows little to nothing about the trade-offs she is willing to make.

Policymakers need to appreciate the fact that their charted policy course jeopardizes the country's future economic prosperity precisely because they seek, with unrelenting pressure, to restrict our future to what *they* can imagine it will be. They need to acknowledge that successful social and economic systems are not just created or recreated or reinvented at the shake of a presidential finger. If social and economic systems were invented by political leaders, the systems might not be messy, but they would certainly be limited in sophistication and complexity to that which the leaders and their few advisers—who know little or nothing about making pencils, or computers,

much less productive and efficient health-care systems—could construct. And their productivity would be somewhere between dismal and nothing.

Contrary to widely held belief, the case for giving power to private individuals through markets (as distinct from giving political power to their leaders) is not founded on a disdain for "government" *per se*. Governments can do some very important things right—if they restrict themselves in the range of what they are allowed to do. Rather, the case against government empowerment is grounded in the observed limitations of the human mind *to know*, that is, in our necessary individual ignorance. The wealth of nations is dependent upon our drawing on the limited intelligence of the multitudes in the hinterlands, not just the intelligence of the few leaders and their supporting staffs in the country's political center. Markets are communication systems with prices being prime signals for sending messages. The people doing the communicating—each of whom knows some things, but, at the same time, is consumed in a sea of ignorance—are, however, able to coordinate their activities to mutually beneficial and ever more complex effect.

Recognition of that fact would be, as it has always been, the cornerstone of wisdom for our political leaders, the kind that the venerable Professor Hayek would recommend. □

1. F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 22.

2. Friedrich A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944).

3. *The Constitution of Liberty*, p. 23.

4. *Ibid.*, p. 26.

5. Leonard E. Read, "I, Pencil," reprinted in *Imprimus* (Hillsdale, Mich.: Hillsdale College, June 1992).

6. Hayek, *The Constitution of Liberty*, p. 24.

7. See Dwight R. Lee, *The Political Economy of Social Conflict, or Malice in Plunderland* (Los Angeles: International Institute for Economic Research, February 1982).



The Power to Tax

Two-thirds of Americans think the current federal income tax system is “unfair.” A majority—51 percent—favor a “complete overhaul” of the system. Former IRS Commissioner Shirley Peterson has said, “we should repeal the Internal Revenue Code and start over.”

It's not as though Americans weren't given fair warning. Guess who made these remarkably radical statements about the very idea of a federal income tax more than one hundred years ago:

1. “[It] is an abhorrent and calamitous monstrosity. . . . It punishes everyone who rises above the rank of mediocrity. The fewer additional yokes put around the necks of the people, the better.”

2. “[It is] a vicious, inequitable, unpopular, impolitic, and socialistic act. . . . the most unreasoning and un-American movement in the politics of the last quarter-century.”

3. “[It] can only be collected by prying into the private affairs of the people by arbitrary methods hateful to the citizens of the republic.”

Those were the words of the *Washington Post*, the *New York Times*, and the *Chicago Tribune* respectively, commenting in 1894 on the first income tax to be passed by

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Congress. This vitriolic criticism was aimed at a proposal that was to levy a mere 2 percent tax on income in excess of \$4,000—which would be at least \$65,000 in today's dollars. Because of that large \$4,000 exemption, 98 percent of Americans were completely exempt from income taxation. One year later the Supreme Court ruled this tax to be unconstitutional, and so ended America's first peacetime experiment with an income tax. It would take a constitutional amendment—the 16th—to give Congress the legal power to shackle us with an income tax.

In 1909, when the 16th Amendment was being debated, the *New York Times* criticized it, saying, “When men get in the habit of helping themselves to the property of others, they cannot be easily cured of it.” History has proven that prediction to be correct, though I doubt that it bothers the *New York Times* as much today as it did in 1909.

After the 16th Amendment was ratified, an income tax was imposed starting in 1913 with rates ranging from 1 percent to 7 percent, and the top rate applying only to incomes in excess of \$500,000. By 1916 that top rate had risen to 15 percent, on income in excess of \$2,000,000. The top rate exceeded 90 percent at its peak in the early 1950s.

The first 1040 form—instructions and all—took up only four pages. Today, there are some 4,000 pages of tax forms and instructions. American workers and busi-