

Chapter 6

Spontaneous Order

How can it be, that institutions which serve the common welfare and are extremely significant for its development come into being without a common will directed toward establishing them?

—Carl Menger (1883), *Investigations into the Method of the Social Sciences*: 146.

Overnight, snow falls on a college campus. As students make their way to class the next morning, they seek the shortest path possible to avoid getting wet and cold. The first student cuts across the grass, leaving a set of footprints in the snow. A second student follows the first, taking advantage of flattened snow left by the first student. As subsequent students follow suit, a well-defined path quickly appears. This is an example of a spontaneous order, an outcome that is the result of purposive action but not design. No single person or group of people consciously planned the path, yet the path appeared as each person pursued the goal of getting to class in a way that minimized their chances of getting wet and cold. The idea of spontaneous order is one of the most important concepts in the social sciences and is prevalent throughout the work of Austrian economists.

The systematic development of thinking about spontaneous order was achieved during the eighteenth century by scholars of the Scottish Enlightenment. Thinkers like Adam Ferguson, David Hume, and Adam Smith appreciated the idea that mechanisms existed to solve complicated problems and generate complex orders absent design or control by an individual or group of individuals. Moreover, given the nuance and complexity of these orders they could not be designed using human reason because they extended beyond what the human mind could grasp. A crucial feature of the theory of spontaneous order

is that its operation does not depend on an ideal model of people. For example, it does not require that people are benevolent, other-regarding, or that they possess extraordinary intelligence. Instead, the theory of spontaneous order takes people as they are, and demonstrates how individuals, each pursuing their own plans and purposes, can contribute to the emergence of a broader order that benefits others in society.

Following in the footsteps of the Enlightenment thinkers, Carl Menger emphasized that a central question in the social sciences was how institutions that generate benefits to society could emerge absent a central planner designing them. The importance of this question can be seen throughout the work of Austrian economists, who emphasize the importance of emergent orders for understanding numerous aspects of human civilization.

Let's unpack and explore what the concept of spontaneous order entails, beginning with "order." When we use the word "order," we are referring to coordination among people pursuing their own ends. As discussed in the previous chapters, for most people achieving their ends involves coordination with others who are pursuing their ends. In this context, order can be understood as the integration of actions among numerous people. Disorder, in contrast, suggests a lack of coordination as people are unable to align with others in ways necessary to fulfill their plans. There are two types of order.

A planned order is one that is rationally constructed using human reason. Hayek referred to these types of orders as "organizations." Organizations are ends-oriented, meaning that they are designed with a specific intended purpose, or end, in mind. A student club with a written set of rules would be an example of a designed order. The club and its governing rules are designed to achieve a specific purpose. The second type of order is spontaneous. Rather than being designed, a spontaneous order is emergent in that it results, as an unintended consequence, from the interactions of people who are pursuing their own ends. In contrast to an organization, which is ends-driven, a spontaneous order is means-driven. That is, a spontaneous order is the result of people employing means to achieve their diverse individual goals rather than the result of a pre-conceived plan with one defined end.

An example of a spontaneous order would be the market process discussed in the previous chapter. People interact with others to achieve their goals. In doing so, they generate a broader order that was not the intention of their individual actions. The emergent order of the market is not preplanned

and is not implemented by a designer, so it is not ends-oriented. Instead, the order emerges out of people employing the means available to them to achieve their desired individual goals.

Spontaneous orders have five defining characteristics. Let us consider each using the market process to illustrate these characteristics. First, they are the result of human action but not of human design. This means that spontaneous orders are not the result of random behaviour. Instead, they are the unintended result of a multitude of individuals each pursuing their diverse goals to the best of their abilities. In pursuing their own aims, people contribute to a broader order that we observe when we step back and take a birds-eye view of the outcome.

Think about the market process. Individuals interact with others to achieve their goals. These interactions benefit the parties directly but also contribute to a broader order of which the participants are unaware. We can step back and look at the outcome of this process and observe the complex order it produces. For example, when we step back we can see that food is plentiful throughout entire countries without any single entity planning the coordination that makes its supply routine. Or we can step back and consider the order that exists in a supermarket as tens of thousands of products, produced through the actions of millions of people, are made available for general consumption absent a central plan.

Second, a spontaneous order can readily be described as an order, meaning that identifiable patterns emerge from the interactions of those in the system. The operation of the market process allows us to make broad predictions of the patterns that will emerge. For examples, property rights allow for exchange that allows for the emergence of prices. The prices reflect the trade-off, or opportunity costs, of scarce resources. We can also say that resources will continue to be reallocated to their highest-valued uses as people respond to changes in prices and to the feedback provided by profit and loss.

The third characteristic is that spontaneous orders require feedback mechanisms—both positive and negative—to guide people’s behaviours as they seek to coordinate with others. In the context of markets, profit and loss serve this role. Profit and loss provide feedback to entrepreneurs about perceived profit opportunities and the viability of production plans implemented to exploit those opportunities. Hard budget constraints in the form of finite monetary resources prompt people to act on the profit-and-loss feedback and adjust their behaviour accordingly. If they fail to adjust their behaviour in the face of feedback, they will eventually run out of money and go out of business.

Fourth, general rules of conduct regarding what is appropriate behaviour are followed by those whose actions produce the spontaneous order. These rules, which can be informal or formal, frame interaction among people and influence the specifics of the order that emerges. Markets are grounded in the property rights that facilitate interaction and exchange and allow for the emergence of prices. Beyond property rights, there is a wide range of rules that allow markets to operate. For example, informal norms, such as manners, and formal rules, such as standards set by professional associations, matter a great deal in facilitating interactions among people.

The final characteristic is that spontaneous orders are highly complex and nuanced, which suggests that they cannot be fully understood using human reason. Because of this, people contributing to the order do not need to understand their contribution or the broader order itself. One of the most powerful aspects of markets is that they generate orderly outcomes despite the fact that people do not know, and do not need to know, how they are contributing to the broader pattern of order. In addition, the fact that the details of spontaneous orders are beyond the grasp of human reason means that these orders can extend far beyond what could be achieved using the human mind to intentionally design these orders. There is no way that people could design the complex outcomes of markets, as was made clear by Mises and Hayek in the socialist calculation debate (see chapter 3). In fact, markets are desirable precisely because they allow us to discover what it is that we do not know.

Beyond the market process, the logic of spontaneous order offers insight into a number of other phenomena that we observe in daily life. One example is language. No single individual, or group of individuals, designed language. Instead, language emerges as people interact with one another and attempt to communicate. Language, therefore, is the result of human action but not of human design. Language is governed by a broad set of rules—the rules of grammar—that produce a definable order and facilitates how people communicate. There are also informal rules that govern how people communicate. For instance, in different parts of societies that share a common language, various informal rules govern the use of context-specific phrases and slang that others in the area also use and understand. Beyond language, other social phenomena—such as money, law, moral norms, cities, and group dynamics—can trace their origins to purposeful human action, but not to design. In each case, individuals striving to improve their own situations unintentionally contribute to a broader order with widespread benefits.

An appreciation of spontaneous order demonstrates the flawed thinking behind the widespread belief that order must be the result of human action and design. Predictability and order, it is often assumed, must be the result of policies and plans designed and implemented by experts. From this perspective, the absence of observable control by specific people is associated with chaos. This way of thinking, however, neglects the importance of complex spontaneous orders and the limits on human reason to design and control these orders.

There is an important distinction between simple contexts and complex contexts. Simple contexts are linear in nature, meaning there is a stable and clear cause and effect between inputs and outcomes that can be known and controlled. The term “simple” does not imply easy or simple-minded, but rather refers to the ability of the human mind to grasp the relevant variables and understand how they fit together to achieve the desired goal. The specifics of sending a person to the moon constitutes a simple system that can be solved using human reason and knowledge. So too is the construction of a skyscraper. These are difficult engineering problems, but they can be solved by talented and skilled experts.

A complex situation, in contrast, is one characterized by open-endedness and constant flux. In a complex system, interactions among people generate outcomes that cannot be anticipated or fully grasped by human reason. In complex contexts order is not the result of human design and control. Instead, order emerges out of the interactions among people pursuing their own ends. Contrary to the idea that order is the result of deliberate design and regulation, attempting to plan and control complex systems using human reason is bound to lead to dysfunction at best, and significant harm to people’s well-being at worst.

These undesirable outcomes are the result of inappropriate reliance on human reason to design plans that are suitable for simple contexts, but not for complex systems. Designing a skyscraper is not the same as understanding the best use of scarce resources across millions of potential uses. The former requires the use of scientific knowledge that can be communicated and used in construction. The latter requires economic knowledge that does not pre-exist and that cannot be easily communicated, but instead emerges out of interactions by dispersed actors in the competitive market process.

If our goal is to understand the human world, then we need to focus on how people coordinate with one another to achieve their goals. This understanding includes an appreciation of spontaneous orders and the role that they

play both in social cooperation and as a context for planned orders. This is important both for understanding the world as it is, and for appreciating the limits of human reason as a tool for designing policy. The reality is that the intelligence of even the most well-trained expert is severely limited relative to the complexity of the numerous spontaneous orders that characterize human life. Knowledge of our limited human reason—what F.A. Hayek referred to as “negative knowledge”—is itself an important type of knowledge for guiding our actions and avoiding harmful policies even if they are motivated by the best of intentions.

The spontaneous order framework helps us understand the nuances and complexities of emergent phenomena. In doing so, this framework illustrates how many things that appear chaotic are instead orderly, yet beyond the grasp of human reason. The most important takeaway from the theory of spontaneous order is the appreciation of the constraints imposed by our limited reason on both fully understanding the world and engaging in design so that it aligns with our desires for how the world should look.