

THE FOUNDATIONS OF KNOWLEDGE DECENTRALIZATION – A CONDITION FOR FREEDOM¹

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ABSTRACT. *Within the economic space or within the social space the knowledge is essentially a dispersed one, and through it we must understand a practical knowledge peculiar to individual circumstances. Social knowledge is accumulated in rules and such rules are not consciously articulated, but instead, their obedience is vital for the efficiency of our actions; moreover, such rules are very difficult to remove or modify, even if, in a Cartesian manner, we fail in demonstrating their absolute truth. The fact that social sciences generate tacit knowledge represents a crucial element for the liberal political theory because it questions and ultimately excludes the possibility to plan. In other words, the analysis of the human behavior within the free market is not necessary a rational one, the scale of rationality may be applied only in the case of govern intromission (or of any planning authority) in the (tacit) knowledge flow. The refusal to accept the mosaic structure of the social space represents the direct effect of the attempt to consciously (rationally) coordinate the social process itself under the form of various social and political engineering. Therefore, the decentralized spontaneous processes express a form of rationality impossible to be entirely encompassed in the conceptual language which could justify the mechanisms of a control center. This thesis of human limited knowledge is an empirical reality or contingent regarding the human being, reality which can be modified (altered) through technological evolution. It is more a philosophical thesis concerning the shape in which the knowledge exists in the world and the way in which it becomes accessible to individuals.*

Key words: *knowledge, social knowledge, scientific knowledge, freedom*

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In *Capitalism and Freedom*, Milton Friedman said that: “as Liberals we consider the freedom of the individual, or family, as the highest goal through which we judge social arrangements.” (Friedman 1962: 12) Thus, freedom reaches meaning and becomes value only as an outcome of the interrelations set between the members of a society. Therefore, freedom must be conceptualized through the light of social organization which will reflect the way it is structured and used within society. From a particular perspective, freedom will be associated in Friedrich A. Hayek’s philosophy with the possibility of the *spontaneous order* which represents the “result of the fact that individuals follow certain rules as their answer to the immediate situations of the environment”(Hayek 1973: 43); this doesn’t mean anything else but that the rules which contribute to the molding of the spontaneous order do not originate in the level of rational human construction, but that they appear spontaneously within an (cultural) evolution process.

Therefore, when arguing the dispersed nature of human knowledge, Hayek will not refer to the scientific knowledge (which can be centralized) but to the knowledge which can interpret and understand “the social”. Scientific knowledge (general rule knowledge) represents just a tiny part of the entire human knowledge for there also exists “an area of important knowledge, yet unorganized, which cannot be named scientific in the sense of general rule knowledge: particular time and space circumstances knowledge.” (Hayek 1973: 80)

So, in the economic space or in the social space, knowledge is essentially a dispersed one, and through this we must understand a *practical knowledge* typical to individual circumstances. Social knowledge is stored in rules, and such rules are not consciously articulated, but, in exchange, obeying the rules is vital for the efficiency of our actions; moreover, such rules are extremely difficult to remove or modify, even if, in Cartesian manner, we cannot prove their ultimate validity: “the fact that we don’t have to believe anything from what it has been proven to be false does not mean that we have to believe only in what it has been proven to be valid.”(Hayek 1960: 64) What we can certainly iterate is that this particular type of knowledge takes the shape of *tacit knowledge*: it refers more to the *skill* knowledge than to the *action* knowledge.

The notion of *tacit knowledge* was suggested by Michael Polanyi when in the paper *The Study of Man* he distinguished between *tacit knowledge* and *explicit knowledge*: “what we often describe as knowledge, as formulated in words or representations, or mathematical formulas, is just a particular type of knowledge; on the other hand, the unformulated knowledge, similar to one we have when we want to do something, is another type of knowledge. If we name the first type of knowledge *explicit* and the second *tacit knowledge* then we can say that we always tacitly know that we own a true explicit knowledge.” (Polanyi 1959: 12)

Also, a similar distinction was made by Gilbert Ryle, between *know-how* and *know-that*, considering as Hayek did, the fact that “*knowing-how* cannot be reduced to *knowing-that*, and that the predicates of intelligence are definable in terms of *know-how*” (Ryle 1971: 224), or by Michael Oakeshott when suggesting the notion of *traditional knowledge* (Oakeshott 1995). In this respect, of the fact that ultimately the knowledge is practical, Hayek subscribes to the thesis of the preeminence of the (tacit) practical coordinate in the construction of human knowledge. Yet, this doesn’t mean that Hayek rejects the possibility of theoretic knowledge, but that the theoretic reconstruction of practical knowledge cannot be but an incomplete one, “the theory represents for him only the visible part of tacit knowledge, the largest part of it being beyond our articulation power.” (Oakeshott 1995: 15)

The explicit knowledge or, the theory in general, only represents the form of knowledge which can be expressed throughout words, symbols or the connections between these (the case of scientific knowledge, the knowledge particular to exact science).

The fact that spontaneous social science generates tacit knowledge represents a vital element for the Liberal political theory because questions and ultimately excludes the possibility of planning. Also, we must underline that a large part of social knowledge is ephemeral especially due to the unpredictability of human nature of which its outcome is. Therefore, the only possibility which would facilitate *rational design plan* would be that “human action, defined in terms of options or choices, to be a predictable one; only in this case the social «streets» could be mechanically reproduced.” (Barry 1987: 31) This, obviously, does not exclude certain regularities in human nature “individual tendency to maximize pecuniary interest, facilitating economy as science but, being insufficient to formulate precise quantitative predictions in social science.” (Barry 1987: 31)

In other words, market analysis, the analysis of human behavior within the free market is not necessary a *rational* one; the rationality scale can be applied only in the case of government intermission (or of any planning authority) in the demand and offer mechanism, in the flow of tacit knowledge. So, “the price and income politics, affecting the market mechanism do not allow an efficient allocation of resources and reduce the productivity of an exchange economy.” (Barry 1987: 31) Therefore, the “decentralized” spontaneous processes express a type of “rationality” impossible to fully encompass in the conceptual language, which would justify the mechanisms of a control center: “in the absence of the market it is impossible for a planner to exist and know the individual demands.” (Barry 1987: 32)

The capitalization of this formula in social science, beyond the theoretical determinations, but without excluding them, doesn’t mean anything else but the fact that if the largest amount of used knowledge is unarticulated and

impossible to articulate, the individuals “will always know more than will ever be able to express.” (Gray 1984:15) Thus Hayek, as he also showed in *Constitution of Liberty*, will be able to extract one of the main arguments in the favor of freedom from the human ignorance – “a free (Liberal) regime allows the use of knowledge in an unknown manner to us today (and ever): any centralized regime which relies only on explicit knowledge will explore only a small part of the available knowledge – that tiny part expressible in different reasoning and sentences.” (Gary 1984:15) Only such a type of regime allows the use of the total amount of knowledge available in society and, throughout it, it becomes the only one capable to offer the necessary premises to set-up freedom.

Generally, “knowledge exists only in the form of individual knowledge. It’s not more than a metaphor to speak about society knowledge as a whole. The sum of all individuals’ knowledge does not exist anywhere as a whole.” (Hayek 1960: 24-25) Therefore, economic knowledge (as part of social knowledge) will never be able to exist as an organized coherent corpus, but only as an incomplete and dispersed form among all the members of a society. According to this view, the economic knowledge can’t be concentrated at the level of one intellect (or institution) and this makes any attempt to centralize it impossible and absurd.

This thesis of limited human knowledge is not an empirical or contingent reality concerning human nature, reality which can be modified (altered) by theological evolution. It is more “a philosophical thesis concerning the form in which knowledge exists in the world and the way in which it becomes available to individuals.” (Barry 1979: 10)

In this epistemological context, if an economy wishes to be successful it has to be able to handle knowledge division and fragmentation; features particular to contemporary societies. The issue the social space confronts with refers not only to: “ the modality of «given» resources allocation – if «given» refers to the meaning given by each individual who, deliberately, offers an answer to the issues caused by this set of «given» resources. It is more an issue of the modality in which we can ensure the best use of the resources known by all the members of the society in order to reach goals of which relative importance is known only by these individuals. Or, in short, it is an issue of knowledge use which is not entirely given to someone.” (Hayek 1952: 77-78)

The modern correspondent of the *invisible hand* of Adam Smith is discovered by Hayek under the form of spontaneous order, which in the economic field is expressed in the form of *catallaxy*, which is “the order induced by the mutual adjustments between different particular economies. Catallaxy is thus a special type of spontaneous order, produced by the market throughout individuals who act obeying the laws of property, civil laws and agreements”.

“The confusion made due to the ambiguity of the economic term is so profound that it becomes necessary to limit its utilization to its

original meaning of describing a complex of actions deliberately coordinated, serving a single set of goals and to adopt another term to describe the numerous interrelated economies system which constitutes the market order. As the name of «catallactics» has been long before suggested for the science concerning the market order, and has recently been revitalized, it is normal to adopt a corresponding term for the market order itself. The term «catallactics» derives from the *Katallatein* (or *Katallasein*) Greek verb which, significantly, means not only «to change» but also «to accept within community» and «to change from enemy into friend». Thus, the adjective «catallactic» derived in order to substitute «economic» describing the type of phenomena the catallactics science refers to. Ancient Greeks didn't know this term nor the corresponding substantive; but, if there existed one back then, it would have been *katallaxia*. From this we can form the English term *catallaxy* which we will use to describe the order which flows from the mutual adjustments of individual economies within the market. (A) *Catallaxy* is therefore, that special type of spontaneous order produced by the market throughout individuals who act within the norms of property law, of civil law and agreement. ” (Hayek 1976: 108-109)

The term *economy* cannot and must not be used because it implies the hierarchy and *design*, being moreover specific to the type of internal organization of economical actors. Therefore, the “confusion between «catallaxy» and «economy» ultimately derives from the inability to understand that the order which is the outcome of the conscious coordination – the order of the managerial hierarchy within a corporation – is depends itself on a more comprehensive spontaneous. The claim that the realm of human exchanges (the economy) is the subject of planification, is basically the claim to rebuilt the social life after the pattern of a factory, of an army or of a corporation or, in other words, after the pattern of an authoritarian organization.” (Gray 1984: 35-36)

In a similar manner with the market economy of Adam Smith, Hayek's *catallaxy* produces the collective welfare by following and accomplishing individual goals; similarly to Smith, Hayek argues that no mechanism – besides the market *laissez-faire* system – created by the society can accomplish, more impartially and efficiently, this goal. The impartiality of *catallaxy* is of a fundamental importance for Friedrich A. Hayek as the product of the market order offers a fair allocations of resources, as the objectives of the market can't be ranked or planned: “the task of every economic activity is to reconcile the competing objectives deciding for which of them to be allocated the limited existing resources. The market order reconciles the demand of various non-economic objectives using the only process from which everyone benefits from – yet, without ensuring that the most important demands will represent priorities in

regard with the less important due to the fact that within such a system there cannot exist only a single order for needs.” (Hayek 1976: 113) Thus, the market offers the best solution for the economic issues of the society, because only this type of spontaneous order can provide information on the manner in which “it can be ensured the best use of resources available to the members of society, to accomplish objectives of which relative importance is known only by these individuals.” (Hayek 1952: 80)

Within the free market, unlike planned (command) economies (economic plan being itself absurdity) information, knowledge is directly transmitted and coordinated using the price mechanisms in an unbounded competition process. So, the fundamental epistemic function of the market is captured by Hayek when he considers competition as “the procedure used to discover such acts (realities) which, otherwise could not be known or used.” (Hayek 1978:191) Therefore, this type of knowledge is “locally and temporally fragmented”. Moreover, as already demonstrated, the knowledge which balances the economic space allowing the cohabitation of various personal levels, is not a theoretical knowledge but a practical one, impossible to centralize; is a knowledge “of individuals, of (real) local conditions and of (distinct) particular circumstances”. Thus, the knowledge division, fragmentation issue becomes “the core issue of the economy as social science.” (Hayek 1952: 50)

Conclusions

The refusal to accept the mosaic structure of knowledge particular to the social space represents the direct effect of the attempt to consciously (rationally) coordinate the social process itself under the form of different social and political engineering culminating under the form of what Saint-Simon named “ scientific Socialism”. What the social (political) engineer lacks is, first, the total control of the information, which he should manage and, second, placing himself within a (scientific) theoretical diagram he refuses that particular type of knowledge about which Hayek says that “is almost entirely a type of knowledge of the particular circumstances of time and space or, maybe, a technique to discover these circumstances in a given environment.” (Hayek 1995: 174-175) Therefore, the place of the (social or political) engineer is taken, both in Hayek’s and the entire *New Right* Liberal tradition’ cases, by the entrepreneur and the institution of entrepreneurship.

The impossibility to plan derives from the impossibility to centralize tacit knowledge, from the fact that human actions are ultimately governed by unconsciously obeyed and impossible to verbally define rules – “ as long as individuals act according to rules it is not necessary for them to be aware of these rules. It is enough for them to *know how* to act according to the rules, without *knowing that* the rules, in articulated terms, are so and so.” (Hayek 1973: 99)

These rules of the tacit knowledge allow the individual to be able to adapt an environment of which complexity goes beyond the rational human capacity of understanding and formalization. Consequently, “following such rules individuals are able to use a huge amount of knowledge which would otherwise be inaccessible to them under the shape of individual manner” (Petsoulas 2001: 23) (these rules comprise the accumulated and transmitted experience from one generation to the other while organizations – the constructed order – are exclusively limited to the knowledge which can be consciously controlled).

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